

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

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

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

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**南海控股有限公司\***

**NAN HAI CORPORATION LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 680)**

**MAJOR TRANSACTION,  
CONNECTED TRANSACTIONS  
AND  
NOTICE OF SPECIAL GENERAL MEETING**

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

**ODYSSEUS**

A letter from the board of directors of Nan Hai Corporation Limited (the “**Company**”) is set out on pages 14 to 49 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 50 to 51 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 52 to 72 of this circular.

A notice convening the special general meeting of the Company to be held at Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 7 December 2012, at 10:45 a.m. is set out on pages 96 to 100 of this circular. A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

\* For identification purpose only

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## DEFINITIONS

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

“Acquired Interests”	the Sale Shares and the Shareholder Loan
“Adjustment Amount”	an amount equal to the difference between the Target Distribution Amount and the Effective Distribution Amount in each Interim Profit Periods after taking into account the Excess Cash
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“business day”	a day, other than a Saturday, Sunday and a day on which a tropical cyclone warning no. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m., on which licensed banks in Hong Kong are open for general banking business throughout their normal business hours
“Bye-Laws”	the bye-laws of the Company as may be amended from time to time
“Call Option”	the option to be granted by the Purchaser to the Vendor requiring the Purchaser to sell the Option Assets to the Vendor pursuant to the Option Agreement
“Call Option Exercise Notice”	a written notice to be issued by the Vendor to the Purchaser in relation to the exercise of the Call Option
“Call Option Exercise Period”	the period commencing on the Commencement Date and expiring on the date falling twenty-four (24) months after the Commencement Date, which shall lapse upon the occurrence of a termination event
“Commencement Date”	the date falling thirty-six (36) months after the Completion Date
“Company”	Nan Hai Corporation Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange
“Completion”	completion of the Disposal in accordance with the Sale and Purchase Agreement
“Completion Date”	14 December 2012 (or such other business day as may be mutually agreed between the Vendor and the Purchaser in writing)

## DEFINITIONS

“connected persons”	has the meaning ascribed to it under Rule 1.01 and as extended by Rule 14A.11 of the Listing Rules
“Connected Transactions”	the entering into of the Letter Agreement and the connected transactions contemplated by the Option Agreement, the Shareholders Agreement and the Deed of Covenant as secured by the Security Documents (other than the Personal Guarantee)
“Consideration”	the aggregate consideration for the Disposal, being US\$160,380,314
“Controlling Shareholder”	has the meaning ascribed to it under the Listing Rules
“Corporate Guarantee”	the guarantee to be granted by the Company in favour of the Purchaser on the Completion Date to secure the Secured Obligations
“Deed of Covenant”	the deed of covenant to be entered into between the Vendor, the Purchaser and Listar on the Completion Date in relation to certain obligations to be undertaken by the Vendor as regards the Listar Group after Completion
“Deferred Sale Price”	together, the Purchase Price and the Murabaha Profit
“Director(s)”	director(s) of the Company
“Disposal”	disposal of the Acquired Interests by the Vendor to the Purchaser pursuant to the Sale and Purchase Agreement
“Dongjing Account Charge”	the account charge dated 22 July 2011 entered into between Honest Link and the Purchaser in relation to the charge on Honest Link’s bank account to secure the LWD MTQ Secured Obligations
“Dongjing Guarantee”	the corporate guarantee dated 22 July 2011 granted by Honest Link in favour of the Purchaser to secure the LWD MTQ Secured Obligations
“Dongjing Security Assignment”	the security assignment in relation to the shareholder’s advances from Honest Link to the Project Company dated 22 July 2011 entered into between Honest Link and the Purchaser to secure the LWD MTQ Secured Obligations
“Dongjing Security Documents”	the Dongjing Account Charge, the Dongjing Guarantee, the Dongjing Security Assignment, the Dongjing Share Mortgage and the Dongjing Subordination Deed

## DEFINITIONS

“Dongjing Share Mortgage”	the share mortgage dated 22 July 2011 entered into between Listar, Honest Link and the Purchaser in relation to the mortgage of the entire issued share capital of Honest Link to secure the LWD MTQ Secured Obligations
“Dongjing Subordination Deed”	the subordination deed dated 22 July 2011 entered into between Honest Link, Listar and the Purchaser in relation to the indebtedness due to Listar from Honest Link
“Effective Distribution Amount”	the Interim Profit payable to the Purchaser on such Distribution Date before application of the Excess Cash
“Excess Cash”	the aggregate of all payments received by the Purchaser from Listar and/or the Vendor in all the previous Interim Profit Periods in excess of the aggregate of: (i) the Interim Profit distribution payable by Listar to the Purchaser; and (ii) the Adjustment Amount (if any) payable by the Vendor to the Purchaser in all the previous Interim Profit Periods
“First Corporate Guarantee”	the guarantee dated 3 August 2009 granted by the Company in favour of the Purchaser to secure the First LWD MTQ Secured Obligations
“First Liu Wan Investment Account Charge”	the account charge dated 3 August 2009 entered into between Liu Wan Investment and the Purchaser in relation to the charge on Liu Wan Investment’s bank account to secure the First LWD MTQ Secured Obligations
“First Liu Wan Investment Security Assignment”	the security assignment in relation to the shareholder’s advances from Liu Wan Investment to Nanhai Yitian dated 3 August 2009 entered into between Liu Wan Investment and the Purchaser to secure the First LWD MTQ Secured Obligations
“First Liu Wan Investment Share Mortgage”	the share mortgage dated 3 August 2009 entered into between LWD, the Purchaser and Liu Wan Investment in relation to the mortgage of the entire issued share capital of Liu Wan Investment to secure the First LWD MTQ Secured Obligations
“First LWD Accounts Charge”	the account charge dated 3 August 2009 entered into between LWD and the Purchaser in relation to the charge on LWD’s bank account to secure the First LWD MTQ Secured Obligations

## DEFINITIONS

“First LWD MTQ Agreement”	the Murabaha-Tawarruq Agreement dated 3 August 2009 entered into between the Purchaser and LWD (as amended and supplemented by a supplemental agreement dated 22 July 2011 and further amended and supplemented by the Letter Agreement) in relation to a financing of up to US\$275,000,000 granted by the Purchaser to LWD
“First LWD MTQ Secured Obligations”	all monies and liabilities, whether actual or contingent, which are now or at any time hereafter may be or may become due or owing by LWD or any other LWD MTQ Obligors to the Purchaser under or pursuant to the First LWD MTQ Agreement or any other relevant LWD MTQ Transaction Documents including but not limited to the Deferred Sale Price (including the Murabaha Profit) and whether or not in connection with the Deferred Sale Price, any and all profit margin, fees, costs, expenses or indemnity amounts
“First LWD Security Assignment”	the security assignment in relation to the shareholder’s advances from LWD to Liu Wan Investment and Nanhai Yitian dated 3 August 2009 entered into between LWD and the Purchaser to secure the First LWD MTQ Secured Obligations
“First LWD Share Mortgage”	the share mortgage dated 3 August 2009 entered into between the Vendor, LWD and the Purchaser in relation to the mortgage of the entire issued share capital of LWD to secure the First LWD MTQ Secured Obligations
“First Personal Guarantee”	the guarantee dated 3 August 2009 granted by Mr. Yu in favour of the Purchaser to secure the First LWD MTQ Secured Obligations
“First Sale Agency Agreement”	the sale agency agreement dated 3 August 2009 entered into between LWD and the Purchaser
“Group”	the Company and its subsidiaries
“Guangzhou Freeman”	廣州自由人男子籃球俱樂部股份有限公司 (Guangzhou Freeman Basketball Club Company Limited), a limited liability company established in the PRC and a wholly-owned subsidiary of the Project Company as at the Latest Practicable Date

## DEFINITIONS

“HLDL Accounts Charge”	the accounts charge to be entered into between Honest Link and the Purchaser on the Completion Date in relation to the charge on Honest Link’s bank accounts to secure the Secured Obligations
“HLDL Share Mortgage”	the share mortgage to be entered into between Listar, Honest Link and the Purchaser on the Completion Date in relation to the mortgage of the entire issued share capital of Honest Link to secure the Secured Obligations
“Honest Link”	Honest Link Development Limited (興漢發展有限公司), a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of Listar as at the Latest Practicable Date
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors established for the purpose of providing recommendations to the Independent Shareholders in respect of the Connected Transactions
“Independent Financial Adviser”	Odysseus Capital Asia Limited, a corporation licensed to conduct type 6 regulated activity under the SFO, which is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Connected Transactions
“Independent Shareholders”	Shareholder(s) other than Mr. Yu, the Purchaser and their respective associates
“Interim Profit Periods”	each successive period commencing on the date of the Deed of Covenant or a Distribution Date (as the case may be) and ending on the next Distribution Date
“Internal Rate of Return”	the discount rate expressed as a percentage per annum which will render the sum of the net present values of each cash flow received or paid by the Purchaser (including the Consideration and all other cash flow received (including proceeds from any disposal of any part of the Acquired Interests) or paid relating to the Acquired Interests) in respect of its investment in the Acquired Interests equal to zero. For this purpose, (i) any future positive cash flow to the Purchaser which has not been received by the Purchaser shall be disregarded; and (ii) any positive cash flow received by the Purchaser on account of settlement of the LWD MTQ Secured Obligations shall be disregarded

## DEFINITIONS

“Jingyitian”	深圳市金益田實業發展有限公司 (Shenzhen City Jingyitian Industrial Development Company Limited), a limited liability company established in the PRC and a wholly-owned subsidiary of Nanhai Yitian as at the Latest Practicable Date
“Latest Practicable Date”	15 November 2012, being the latest practicable date prior to the bulk-printing of this circular for the purpose of ascertaining certain information contained in this circular
“Letter Agreement”	the letter agreement dated 26 October 2012 from the Vendor and LWD to the Purchaser supplementing certain terms of the LWD MTQ Agreements (as further supplemented by another letter agreement between the same parties dated 15 November 2012)
“Listar”	Listar Properties Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Vendor as at the Latest Practicable Date
“Listar Group”	Listar and its subsidiaries
“Listar Security Documents”	the Vendor Account Charge, the HLDL Accounts Charge, the Security Assignment (Vendor Rights), the Security Assignment (Vendor Shareholder Loan), the Security Assignment (Listar Shareholder Loan), the Security Assignment (HLDL Shareholder Loan), the Listar Share Mortgage and the HLDL Share Mortgage
“Listar Share Mortgage”	the share mortgage to be entered into between the Vendor, Listar and the Purchaser on the Completion Date in relation to the mortgage of the Vendor’s interest in the issued share capital of Listar to secure the Secured Obligations
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Liu Wan Investment”	Liu Wan Investment Company Limited (六灣投資有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of LWD as at the Latest Practicable Date
“Liu Wan Investment Account Charge”	an account charge to be entered into between Liu Wan Investment and the Purchaser on the Completion Date in relation to the charge on Liu Wan Investment’s bank account to secure the Secured Obligations



## DEFINITIONS

“Liu Wan Investment Security Assignment”	the security assignment in relation to the shareholder’s advances from Liu Wan Investment to Nanhai Yitian to be entered into between Liu Wan Investment and the Purchaser on the Completion Date to secure the Secured Obligations
“Liu Wan Investment Share Mortgage”	the share mortgage to be entered into between LWD, Liu Wan Investment and the Purchaser on the Completion Date in relation to the mortgage of the entire issued share capital of Liu Wan Investment to secure the Secured Obligations
“Long Stop Date”	31 December 2012 or such later date as is designated by the Purchaser by written notice to the Vendor
“LWD”	Liu Wan Development (BVI) Company Limited (六灣開發(BVI)有限公司), a limited liability company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Vendor as at the Latest Practicable Date
“LWD Accounts Charge”	an accounts charge to be entered into between LWD and the Purchaser on the Completion Date in relation to the charge on LWD’s bank accounts to secure the Secured Obligation
“LWD MTQ Agreements”	the First LWD MTQ Agreement and the Second LWD MTQ Agreement
“LWD MTQ Obligors”	LWD, the Vendor, Liu Wan Investment, the Company, Mr. Yu, Honest Link, Listar and any other person (other than the Purchaser) who is a party to a LWD MTQ Transaction Documents
“LWD MTQ Secured Obligations”	the First LWD MTQ Secured Obligations and the Second LWD MTQ Secured Obligations
“LWD MTQ Security Documents”	the First LWD Share Mortgage, the Second LWD Share Mortgage, the First Liu Wan Investment Share Mortgage, the Second Liu Wan Investment Share Mortgage, the First LWD Accounts Charge, the Second LWD Accounts Charge, the First Liu Wan Investment Account Charge, the Second Liu Wan Investment Account Charge, the First LWD Security Assignment, the Second LWD Security Assignment, the First Liu Wan Investment Security Assignment, the Second Liu Wan Investment Security Assignment, the First Personal Guarantee, the Second Personal Guarantee, the First Corporate Guarantee, the Second Corporate Guarantee and the Dongjing Security Documents

## DEFINITIONS

“LWD MTQ Transaction Documents”	the LWD MTQ Agreements, the LWD MTQ Security Documents, the First Sale Agency Agreement and the Second Sale Agency Agreement
“LWD Security Assignment”	the security assignment in relation to the shareholder’s advances from LWD to Liu Wan Investment and Nanhai Yitian to be entered into between LWD and the Purchaser on the Completion Date to secure the Secured Obligations
“LWD Security Documents”	the LWD Share Mortgage, the Liu Wan Investment Share Mortgage, the LWD Security Assignment, the Liu Wan Investment Security Assignment, the LWD Accounts Charge and the Liu Wan Investment Account Charge
“LWD Share Mortgage”	the share mortgage to be entered into between the Vendor, LWD and the Purchaser on the Completion Date in relation to the mortgage of the entire issued share capital of LWD to secure the Secured Obligations
“Minimum IRR”	an Internal Rate of Return equal to 12% per annum
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers
“Mr. Yu”	Mr. Yu Pun Hoi, the chairman of the Company, an executive Director and the Controlling Shareholder
“Murabaha Profit”	the profit margin agreed by the Purchaser and LWD under the LWD MTQ Agreements
“Nanhai Yitian”	深圳南海益田置業有限公司 (Shenzhen Nanhai Yitian Realty Company Limited), a sino-foreign co-operative joint venture established in the PRC and a subsidiary of Liu Wan Investment as at the Latest Practicable Date
“Obligors”	the Vendor, Listar, the Company, Mr. Yu, Honest Link, LWD (in its capacity as such under the Transaction Documents to which it is a party only, excluding its capacity under the LWD MTQ Transaction Documents), Liu Wan Investment and any other person (other than the Purchaser) who is a party to a Transaction Document
“Option Agreement”	the option agreement to be entered into between the Vendor and the Purchaser upon Completion in relation to the grant of the Put Option and the Call Option
“Option Assets”	the Option Shares and the Option Loan

## DEFINITIONS

“Option Loan”	the outstanding shareholder’s loan due and owing from Listar to the Purchaser as at the Completion Date or in the event of any repayment by Listar or disposal of any part by the Purchaser in accordance with the Shareholders Agreement, the balance thereof from time to time
“Option Shares”	the 6,000,000 shares of US\$1.00 each in the capital of Listar acquired by the Purchaser pursuant to the Sale and Purchase Agreement or, if the Purchaser has disposed of any such shares in accordance with the Shareholders Agreement, the balance thereof
“Personal Guarantee”	the guarantee to be granted by Mr. Yu in favour of the Purchaser on the Completion Date to secure obligations of the Obligors under the Transaction Documents
“PRC”	the People’s Republic of China, exclude Hong Kong, the Macau Administrative Region of the PRC and Taiwan for the purpose of this circular
“Project”	the property development project namely “Free Man Garden” on the Site by the Project Company
“Project Company”	廣州東鏡新城房地產有限公司 (Guangzhou Dongjing Xincheng Properties Co., Ltd.), a sino-foreign co-operative joint venture established in the PRC
“Purchase Price”	the purchase price of the commodities purchased by the Purchaser under the LWD MTQ Agreements
“Purchaser”	Baitak Asian Shenzhen Peninsula Co., Ltd
“Put Option”	the option to be granted by the Vendor to the Purchaser requiring the Vendor to purchase the Option Assets from the Purchaser pursuant to the Option Agreement
“Put Option Exercise Notice”	a written notice to be issued by the Purchaser to the Vendor in relation to the exercise of the Put Option
“Put Option Exercise Period”	the period commencing on (i) the Commencement Date and expiring on the date falling twenty-four (24) months after the Commencement Date; or (ii) in the case of occurrence of any termination event, the date on which such termination event occurs and expiring on the date on which the Put Option would have expired should no such termination event occur

## DEFINITIONS

“Relevant Acquisition”	has the meaning ascribed to the term in the sub-paragraph headed “(a) Relevant Acquisition” under the paragraph headed “(C) The Deed of Covenant” under the section headed “Connected Transactions” of this circular
“Relevant Events”	LWD’s failure to pay instalments of the Deferred Sale Price due on 31 December 2011, 31 March 2012, 30 June 2012 and 30 September 2012 respectively
“Sale and Purchase Agreement”	the sale and purchase agreement dated 31 October 2012 entered into between the Vendor, Listar and the Purchaser in relation to the Disposal
“Sale Shares”	6,000,000 shares of US\$1.00 each in the capital of Listar held by the Vendor as at the Latest Practicable Date
“Second Corporate Guarantee”	the guarantee dated 22 July 2011 granted by the Company in favour of the Purchaser to secure the Second LWD MTQ Secured Obligations
“Second Liu Wan Investment Account Charge”	the account charge dated 22 July 2011 entered into between Liu Wan Investment and the Purchaser in relation to Liu Wan Investment’s bank account to secure the Second LWD MTQ Secured Obligations
“Second Liu Wan Investment Security Assignment”	the security assignment in relation to the shareholder’s advances from Liu Wan Investment to Nanhai Yitian dated 22 July 2011 entered into between Liu Wan Investment and the Purchaser to secure the Second LWD MTQ Secured Obligations
“Second Liu Wan Investment Share Mortgage”	the share mortgage dated 22 July 2011 entered into between LWD, the Purchaser and Liu Wan Investment in relation to the mortgage of the entire issued share capital of Liu Wan Investment to secure the Second LWD MTQ Secured Obligations
“Second LWD Accounts Charge”	the accounts charge dated 22 July 2011 entered into between LWD and the Purchaser in relation to the charge on LWD’s bank accounts to secure the Second LWD MTQ Secured Obligations
“Second LWD MTQ Agreement”	the Murabaha-Tawarruq Agreement dated 22 July 2011 entered into between the Purchaser and LWD (as amended and supplemented by the Letter Agreement) in relation to a financing of up to US\$52,598,000 granted by the Purchaser to LWD

## DEFINITIONS

“Second LWD MTQ Secured Obligations”	all monies and liabilities, whether actual or contingent, which are now or at any time hereafter may be or may become due or owing by LWD or any other LWD MTQ Obligors to the Purchaser under or pursuant to the Second LWD MTQ Agreement or any other relevant LWD MTQ Transaction Documents including but not limited to the Deferred Sale Price (including the Murabaha Profit) and whether or not in connection with the Deferred Sale Price, any and all profit margin, fees, costs, expenses or indemnity amounts
“Second LWD Security Assignment”	the security assignment in relation to the shareholder’s advances from LWD to Liu Wan Investment and Nanhai Yitian dated 22 July 2011 entered into between LWD and the Purchaser to secure the Second LWD MTQ Secured Obligations
“Second LWD Share Mortgage”	the share mortgage dated 22 July 2011 entered into between the Vendor, LWD and the Purchaser in relation to the mortgage of the entire issued share capital of LWD to secure the Second LWD MTQ Secured Obligations
“Second Personal Guarantee”	the guarantee dated 22 July 2011 granted by Mr. Yu in favour of the Purchaser to secure the Second LWD MTQ Secured Obligations
“Second Sale Agency Agreement”	the sale agency agreement dated 22 July 2011 entered into between LWD and the Purchaser
“Secured Obligations”	all present and future indebtedness, obligations and liabilities (whether actual or contingent and whether owed on a joint and several basis), which are or maybe or may become due or owing by the Vendor or any other Obligor (except for Mr. Yu) to the Purchaser under or pursuant to the Sale and Purchase Agreement or any other Transaction Documents (other than the Personal Guarantee)
“Security Assignment (HLDL Shareholder Loan)”	the security assignment to be entered into between Honest Link and the Purchaser on the Completion Date in relation to the shareholder’s loan(s) due and owing to Honest Link from the Project Company in order to secure the Secured Obligations
“Security Assignment (Listar Shareholder Loan)”	the security assignment to be entered into between Listar and the Purchaser on the Completion Date in relation to the shareholder loan(s) due and owing to Listar from Honest Link in order to secure the Secured Obligations

## DEFINITIONS

“Security Assignment (Vendor Rights)”	the security assignment to be entered into between the Vendor and the Purchaser on the Completion Date in relation to the rights and interest of the Vendor in the Sale and Purchase Agreement, the Shareholders Agreement and the Deed of Covenant in order to secure the Secured Obligations
“Security Assignment (Vendor Shareholder Loan)”	the security assignment to be entered into between the Vendor and the Purchaser on the Completion Date in relation to the shareholder’s loan(s) due and owing to the Vendor from Listar in order to secure the Secured Obligations
“Security Documents”	the Corporate Guarantee, the Personal Guarantee, the Listar Security Documents and the LWD Security Documents
“Settlement Agreement”	the settlement agreement to be entered into between the Vendor, LWD and the Purchaser in respect of settlement of certain LWD MTQ Secured Obligations by way of set-off of the Purchaser’s obligations to pay the Consideration at Completion under the Sale and Purchase Agreement
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held for (i) the Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Independent Shareholders to consider, and if thought fit, to approve the Connected Transactions
“Share(s)”	share(s) of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Shareholders Agreement”	the shareholders’ agreement to be entered into between the Vendor, Listar and the Purchaser on the Completion Date in respect of their rights and obligations in Listar
“Shareholder Loan”	30% of the aggregate outstanding amount of shareholder’s loan owing by Listar to the Vendor as at the Completion Date
“Sino-i”	Sino-i Technology Limited, a company incorporated in Hong Kong with limited liability, the ordinary shares of which are listed on the Stock Exchange and as at the Latest Practicable Date, a 62.85% owned subsidiary of the Company

## DEFINITIONS

“Site”	all that piece of land situated at Xinhua County, Huadu District, Guangzhou of the PRC with gross floor area of approximately 1,036,000 sq.m. in aggregate
“sq.m.”	square meter(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Distribution Amount”	the target amount of distribution for the Purchaser on that Distribution Date calculated on the amount of US\$160,380,314 at the profit rate of 12% per annum during the Interim Profit Periods ending on the day immediately preceding to that Distribution Date on the basis of the actual number of days elapsed and a year of 360 days
“Transaction Document(s)”	the Sale and Purchase Agreement, the Option Agreement, the Shareholders Agreement, the Deed of Covenant, the Settlement Agreement and the Security Documents
“US”	the United States of America
“Vendor”	Nan Hai Development Limited (南海發展有限公司), a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Vendor Account Charge”	the account charge to be entered into between the Vendor and the Purchaser on the Completion Date in relation to the charge on the Vendor’s bank account to secure the Secured Obligations
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	US dollar, the lawful currency of the US
“%”	per cent.

*For the purpose of this circular, unless otherwise indicated, the exchange rates of RMB0.820 = HK\$1, US\$1 = HK\$7.758 and RMB6.300 = US\$1 have been used for currency translation, where applicable. Such exchange rates are for the purpose of illustration only and do not constitute a representation that any amounts in HK\$, RMB or US\$ have been, could have been or may be converted at such or any other rates.*



南海控股有限公司\*

NAN HAI CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 680)

*Executive Directors:*

Mr. Yu Pun Hoi (*Chairman*)

Ms. Chen Dan

Ms. Liu Rong

*Non-executive Directors:*

Mr. Wang Gang

Mr. Lam Bing Kwan

*Independent non-executive Directors:*

Mr. Huang Yaowen

Prof. Jiang Ping

Mr. Lau Yip Leung

*Registered office:*

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

*Principal place of business:*

Units 15–18, 36/F

China Merchants Tower

Shun Tak Centre

168–200 Connaught Road Central

Hong Kong

21 November 2012

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION,  
CONNECTED TRANSACTIONS  
AND  
NOTICE OF SPECIAL GENERAL MEETING**

**INTRODUCTION**

On 31 October 2012, the Company announced that the Vendor, a wholly-owned subsidiary of the Company, Listar and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Vendor shall sell and the Purchaser shall purchase the Acquired Interests at the Consideration (being US\$160,380,314), which shall be settled by way of dollar-for-dollar set-off against obligations of LWD to pay the Purchaser under the LWD MTQ Agreements. The Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules.

\* For identification purpose only



## LETTER FROM THE BOARD

The Group entered into the Letter Agreement to set out arrangement as regards repayment in relation to the LWD MTQ Agreements. Upon Completion, the Purchaser shall become a 30% shareholder of Listar and thus regarded as a connected person of the Company. Therefore, the entering into of the Letter Agreement by the Vendor and LWD to the Purchaser constituted a connected transaction of the Company under the Listing Rules. Besides, at Completion, the Vendor shall enter into other Transaction Documents, including the Option Agreement, the Shareholders Agreement and the Deed of Covenant, which will be secured by the Security Documents. The transactions contemplated under these Transaction Documents will constitute connected transactions of the Company under the Listing Rules.

The purposes of this circular are to provide you with further information on the Disposal and the Connected Transactions, financial information relating to the Group, the letter of recommendation from the Independent Board Committee and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Connected Transactions as well as the notice of SGM.

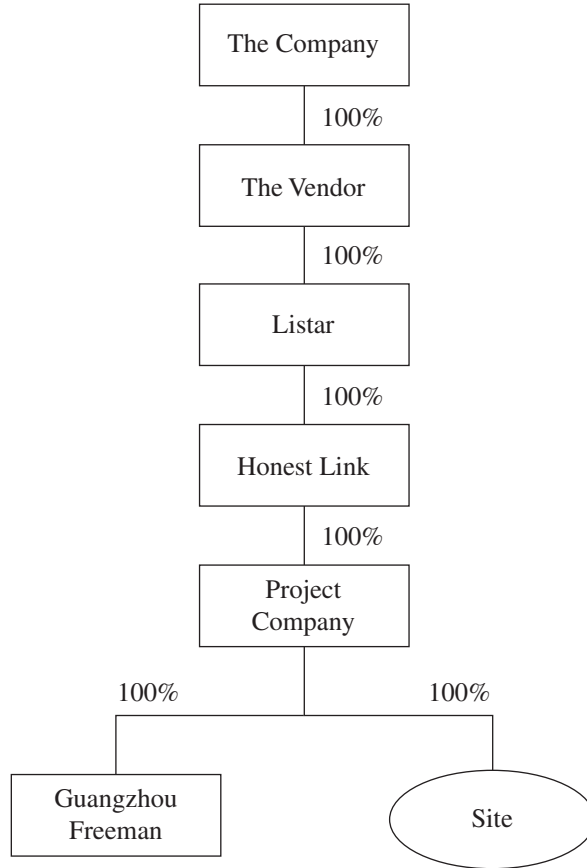
### **BACKGROUND**

On 31 October 2012 after trading hours, the Vendor, a wholly-owned subsidiary of the Company, Listar and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Vendor shall sell and the Purchaser shall acquire the Acquired Interests at the Consideration, being US\$160,380,314.

**LETTER FROM THE BOARD**

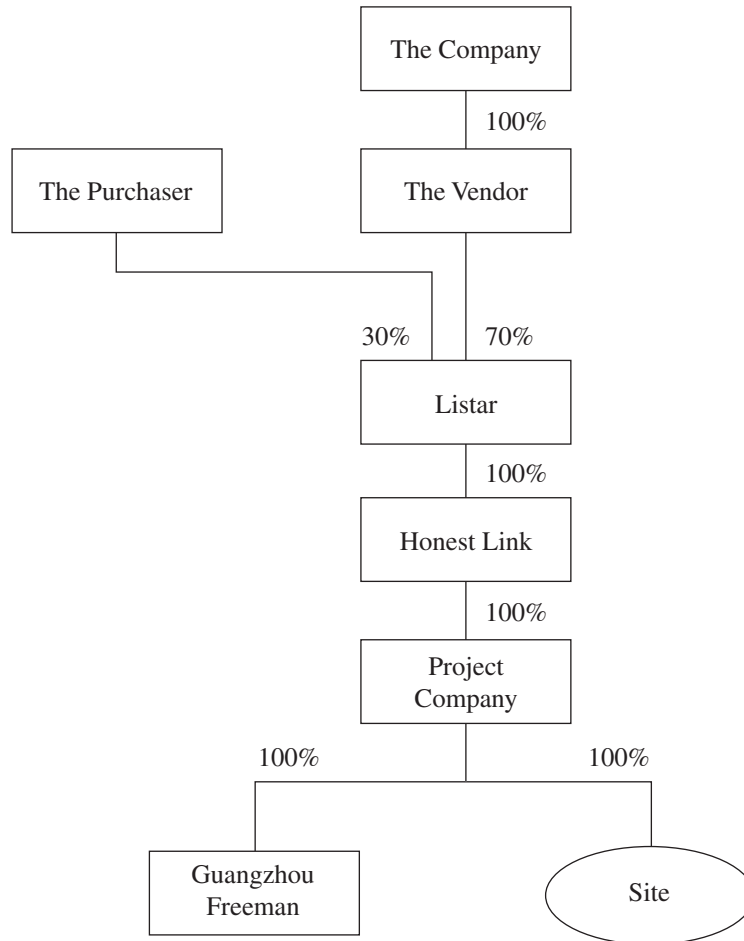
Set out below is the shareholding structure of the Listar Group as at the Latest Practicable Date and immediately upon Completion:

**Shareholding structure of the Listar Group as at the Latest Practicable Date**



## LETTER FROM THE BOARD

### Shareholding structure of the Listar Group immediately upon Completion



Upon Completion, the Purchaser will become a 30% shareholder of Listar. The following documents will be signed upon Completion to regulate the rights and obligations of the Vendor and the Purchaser in respect of their investment in Listar:

- (1) the Option Agreement, whereupon the Vendor will grant the Put Option to the Purchaser and the Purchaser will grant the Call Option to the Vendor in relation to the Option Assets;
- (2) the Shareholders Agreement; and
- (3) the Deed of Covenant, whereupon the Vendor will undertake certain obligations as regards the Listar Group.

Upon Completion, the following Security Documents will also be executed to secure, among others, the obligations of the Obligor under the above documents:

- (1) the Corporate Guarantee;
- (2) the Personal Guarantee;

## LETTER FROM THE BOARD

- (3) the Listar Security Documents; and
- (4) the LWD Security Documents

### THE DISPOSAL

#### The Sale and Purchase Agreement

*Date:* 31 October 2012 (after trading hours)

*Parties:*

- (1) the Vendor;
- (2) Listar; and
- (3) the Purchaser (to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as being party to the LWD MTQ Transaction Documents, the Purchaser and its ultimate beneficial owners are third parties independent of the Group and its connected persons. To the best knowledge of the Directors, the principal activity of the Purchaser is real estate investment conducted in accordance with the relevant Islamic principles)

*Assets to be disposed of*

- (1) the Sale Shares, being 6,000,000 shares of US\$1.00 each in the capital of Listar, representing 30% of the issued share capital of Listar as at the Latest Practicable Date; and
- (2) the Shareholder Loan, being 30% of the aggregate amount of the shareholder's loan owing by Listar to the Vendor as at the Completion Date. As at 30 September 2012, the 100% of the aggregate amount owed by Listar to the Vendor was approximately HK\$950,444,745. Pursuant to the Sale and Purchase Agreement, the Shareholder Loan shall not exceed HK\$955,000,000 as at Completion.

*Consideration*

The Consideration for the Acquired Interests is US\$160,380,314 (the consideration of the Shareholder Loan shall be the face value of the Shareholder Loan on a dollar-for-dollar basis and the balance thereof shall be the consideration for the Sale Shares).

The Consideration shall be payable by the Purchaser to the Vendor upon Completion by way of dollar-for-dollar set-off against obligations of LWD (also a subsidiary of the Vendor) to pay the Purchaser under the LWD MTQ Agreements in accordance with the terms of the Settlement Agreement. The Settlement Agreement will be entered into between Vendor, LWD and the Purchaser on the Completion Date.

## LETTER FROM THE BOARD

The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser with reference to the property valuation report prepared by Vigers Appraisal and Consulting Limited, an independent valuer. Based on the aforesaid property valuation report, the fair market value of the Project as at 30 September 2012 was approximately RMB3,201,500,000 (equivalent to approximately HK\$3,904,268,293). According to the property valuation report, the valuer has valued the Project by direct comparison approach by making reference to comparable sales evidences as available in the relevant market and has also taken into account the expended construction costs and the construction costs that will be expended to complete the development to reflect the quality of the completed development. By taking into account of the book value of the Project as at 30 September 2012 of approximately HK\$2,185,780,579, there is a valuation surplus in the Project of approximately HK\$1,718,487,714. The total fair market value excluding the shareholder loan of the Listar Group as at 30 September 2012 was approximately HK\$2,808,888,522 which was calculated by summation of (1) the net asset value of the Listar Group as at 30 September 2012 (i.e. approximately HK\$139,956,063); (2) the valuation surplus in the Project (i.e. approximately HK\$1,718,487,714); and (3) the shareholder loan as at 30 September 2012 (i.e. approximately HK\$950,444,745). The net Consideration after deduction of the amount owed by Listar to the Vendor of approximately HK\$285,133,424 (equivalent to approximately US\$36,753,470) as at 30 September 2012 on a dollar-for-dollar basis will be approximately HK\$959,097,052 (equivalent to approximately US\$123,626,844). The total fair market value excluding the shareholder loan of 30% interest in the Listar Group as at 30 September 2012 was approximately HK\$842,666,557 and had no material change as of the Latest Practicable Date. Accordingly, there is a premium of approximately HK\$116,430,495 (representing approximately 14% premium over the total fair market value excluding the shareholder loan of 30% interest in the Listar Group).

Having considered the above, the Directors (excluding Mr. Yu who is deemed to be interested in the Disposal) consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### *Conditions precedent to Completion*

Completion is conditional upon:

- (i) the board of directors and (as regards companies incorporated in Hong Kong) the shareholders at a general meeting of each corporate Obligor having approved the entry into, execution and performance of each Transaction Document to which it is a party, the transactions contemplated thereunder and an authorised person to sign on behalf of it each Transaction Document to which it is a party and all other documents, notices, and communications required to be given by or on its behalf, under or for the purposes of the Transaction Documents;
- (ii) (a) the Shareholders (other than those who are required to abstain from voting under the Listing Rules) having approved the Sale and Purchase Agreement and the transactions contemplated thereunder at the SGM; and

## LETTER FROM THE BOARD

- (b) the Shareholders (other than those who are required to abstain from voting under the Listing Rules) having approved the Transaction Documents (other than the Personal Guarantee) that are to be signed by the Group upon Completion and the transactions contemplated thereunder at the SGM;
- (iii) receipt by the Purchaser of original legal opinions in agreed form from:
  - (a) the Hong Kong legal counsel to the Purchaser relating to matters of Hong Kong law relevant to the Transaction Documents;
  - (b) the British Virgin Islands legal counsel to the Vendor relating to matters of the British Virgin Islands law relevant to Listar and the Transaction Documents to which it is a party;
  - (c) the British Virgin Islands legal counsel to the Vendor relating to matters of the British Virgin Islands law relevant to LWD and the Transaction Documents to which it is a party;
  - (d) the Bermuda legal counsel to the Vendor relating to matters of Bermuda law relevant to any Obligor incorporated in Bermuda and the Transaction Documents to which it is a party;
- (iv) the Purchaser having received the due diligence report issued by its advisers regarding the legal, financial and tax aspects of the Listar Group and the Project in form and substance satisfactory to the Purchaser;
- (v) all authorisations, approvals, waivers, permits or filing of any kind from any governmental authority necessary to be obtained under applicable laws or regulation (including, without limitation, any authorisations or approval required for compliance with the relevant provisions in the Listing Rules) in connection with the entering into and performance of each Transaction Document and for the consummation of all the transactions contemplated under each Transaction Document shall have been received and obtained;
- (vi) the warranties given by the Vendor as set out in the Sale and Purchase Agreement remaining true and accurate and not misleading on and as of the Completion Date, before and immediately after giving effect to Completion, as though made on and as of such date;
- (vii) the Vendor having complied with and performed all its covenants, obligations and undertakings contained in the Sale and Purchase Agreement that are due to be complied with and performed as at the Completion Date; and
- (viii) there having occurred no termination event or material adverse change.

Conditions set out in paragraphs (iii), (iv), (vi), (vii) and (viii) above can be waived by the Purchaser by serving a written notice to the Vendor. All other conditions cannot be waived. If the conditions set out above have not been satisfied (or waived by the Purchaser) by 5:00

## LETTER FROM THE BOARD

p.m. on the Long Stop Date, the Sale and Purchase Agreement shall terminate (other than the surviving provisions) automatically and no parties shall have any claim against any other except for antecedent breaches.

### *Completion*

Completion shall take place on the Completion Date. At Completion, the Vendor shall enter into other Transaction Documents, including the Listar Share Mortgage in relation to the charge on the Vendor's then interests in the issued share capital of Listar, being 70% of the issued share capital of Listar. As at the Latest Practicable Date, 51% of the issued share capital of Listar was mortgaged to Sino-i by the Company, details of which are set out in the joint announcement of the Company and Sino-i dated 14 November 2007 (as supplemented by another joint announcement dated 29 May 2009 and further supplemented by an announcement issued by Sino-i dated 20 May 2011). Sino-i is a subsidiary of the Company, the issued shares of which are listed on the Stock Exchange. Upon Completion, the Vendor shall deliver to the Purchaser evidence of release and discharge of the aforesaid share mortgage granted in favour of Sino-i. Failure of such delivery would entitle the Purchaser not to proceed with Completion.

### **Information on the Listar Group**

Listar is a company incorporated in the British Virgin Islands on 27 July 1993 with an authorised share capital of US\$40,000,000 divided into 40,000,000 shares of US\$1.00 each, of which 20,000,000 shares have been issued. As at the Latest Practicable Date, Listar was a wholly-owned subsidiary of the Vendor. Listar is an investment holding company holding the entire issued share capital of Honest Link.

Honest Link is a company incorporated in Hong Kong on 26 May 1992 with an authorised share capital of HK\$10,000,000 divided into 10,000,000 shares of HK\$1.00 each, of which two (2) shares have been issued. As at the Latest Practicable Date, Honest Link was a wholly-owned subsidiary of Listar. Honest Link is an investment holding company and its main assets are the entire equity interests in the Project Company.

The Project Company is a co-operative joint venture established in the PRC with registered capital of US\$42,000,000. Its approved business scope is to develop, construct, sell, lease out and manage self-developed commodity properties and the related ancillary facilities on the Site. As at the Latest Practicable Date, the Project Company was wholly owned by Honest Link and the main asset of the Project Company was the Project.

The Site having an area of approximately 615,000 sq.m., is designated for residential development. The Project namely "Free Man Garden" situated at the Site, having gross floor area of approximately 1,036,000 sq.m., will be developed in 5 phases. The gross floor area of phase 1 of the Project is approximately 298,000 sq.m. of which a saleable area of approximately 210,000 sq.m. is for residential. The pre-sale of residential premises in phase 1 was launched in May 2012, having a total saleable area of approximately 54,000 sq.m., and approximately 40,000 sq.m. of saleable area was sold which derived sales proceeds of approximately HK\$390,000,000 as of 30 September 2012.

## LETTER FROM THE BOARD

Set out below is the consolidated financial information of Listar for the two years ended 31 December 2011 and for the six months ended 30 June 2012:

	<b>As at/for the six months ended 30 June 2012</b>	<b>As at/for the year ended 31 December 2011</b>	<b>As at/for the year ended 31 December 2010</b>
	(unaudited)	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets	146,739	170,363	177,479
Profit/(loss) before taxation	(17,949)	(34,333)	(39,919)
Profit/(loss) after taxation	(17,949)	(34,333)	(39,919)

Based on the historical sales figures and progress of phase 1, the Directors believe that assuming the property market in Guangzhou remain stable, phase 1 should be substantially sold out in 2013 and construction of phase 2 will commence next year with its pre-sale targeting towards the end of 2013 or early 2014.

### **Information on the Group and reason for the Disposal**

The Group is principally engaged in property development, culture and media services and its listed subsidiary, Sino-i, is engaged in corporate IT application services.

As set out above, the Group has been granted facilities in the aggregate principal amount of US\$327,598,000 by the Purchaser pursuant to the LWD MTQ Agreements since 2009. As at the Latest Practicable Date, the outstanding Deferred Sale Price payable by the Group amounted to US\$372,697,324. Pursuant to the LWD MTQ Agreements, on or before 14 December 2012 (or such other date as the Purchaser may approve), the Group shall pay US\$160,380,314 to the Purchaser.

Although the sale of certain premises of the Project has generated sales proceeds of approximately HK\$390,000,000, it is not enough to settle the sum of US\$160,380,314. Given the size and amount of the funds required to settle the aforesaid payment under the LWD MTQ Agreements, it is difficult for the Group to obtain any borrowings. The Directors consider the Disposal is the most effective way to settle the partial payment required under the LWD MTQ Agreements. In view of the above, the Directors (other than Mr. Yu, but including the independent non-executive Directors) are of the view that the terms of the Disposal are fair and reasonable, which have been arrived at after arm's length negotiations and are in the interests of the Company and the Shareholders as a whole.

### **Financial effect of the Disposal**

#### *Earnings*

Without taking into account the expenses to be incurred in connection with the Disposal, based on the net Consideration of approximately HK\$959,097,052 (equivalent to approximately US\$123,626,844) and the net assets of 30% interest in the Listar Group as at 30 June 2012 of



## LETTER FROM THE BOARD

approximately HK\$44,021,553, it is expected to have a gain of approximately HK\$915,075,499 (i.e. HK\$959,097,052–HK\$44,021,553 = HK\$915,075,499) as a result of the Disposal, and such gain will be recognised directly in equity in accordance with the accounting standard for disposal of equity interest.

### *Assets*

The Directors do not expect any immediate material effect of the Disposal on the assets of the Group.

### *Liabilities*

As the Consideration will be used to repay equivalent sum under the LWD MTQ Agreements by way of set-off, the Directors expect that finance from a third party will be decreased by the set-off amount while other payables will be increased by the Shareholder Loan acquired by the Purchaser.

Upon Completion, the Vendor will be holding 70% of the issued share capital of Listar. Therefore, Listar will continue to be a subsidiary of the Vendor and its assets and liabilities will continue be consolidated into the Group's consolidated financial statements. As at the Latest Practicable Date, save for the Relevant Acquisition, the Group had no intention to dispose of its remaining interest in Listar upon Completion.

### **Use of proceeds from the Disposal**

The entire amount of the Consideration will be used to repay equivalent sum under the LWD MTQ Agreements by way of set-off.

### **Listing Rules implications in relation to the Disposal**

As the applicable percentage ratios for the Disposal under the Listing Rules are more than 25% but less than 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and Shareholders' approval requirements under the Listing Rules.

### **CONNECTED TRANSACTIONS**

The Group entered into the Letter Agreement to set out arrangement as regards repayment in relation to the LWD MTQ Agreements. Upon Completion, the Purchaser shall become a 30% shareholder of Listar and thus regarded as a connected person of the Company. Therefore, the entering into of the Letter Agreement by the Vendor and LWD to the Purchaser constituted a connected transaction of the Company under the Listing Rules. Besides, at Completion, the Vendor shall enter into other Transaction Documents, including the Option Agreement, the Shareholders Agreement and the Deed of Covenant, which will be secured by the Security Documents. The transactions contemplated under these Transaction Documents (other than the Sale and Purchase Agreement and the Personal Guarantee) will constitute connected transactions of the Company (collectively, together with the entering into of the Letter Agreement, being the Connected Transactions) under the Listing Rules.

<b>LETTER FROM THE BOARD</b>
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Set out below are the summary terms of the LWD MTQ Agreements (together with the Letter Agreement):

**Dates and parties:**

The LWD MTQ Agreements comprise the following documents signed by the Group and the Purchaser on the dates set out below:

Name of document	Date	Subject matter
1. First Murabaha-Tawarruq agreement	3 August 2009	Grant of financing up to US\$275,000,000
2. Supplemental agreement supplementing the first Murabaha-Tawarruq agreement set out in item 1 above	22 July 2011	Amending certain terms of the first Murabaha-Tawarruq agreement set out in item 1 above
3. Second Murabaha-Tawarruq agreement	22 July 2011	Grant of financing up to US\$52,598,000
4. The Letter Agreement	26 October 2012 15 November 2012	Setting out arrangements as regards repayment in relation to the agreements set out in items 1, 2 and 3 above

The agreements set out in items 1, 2 and 4 above are the First LWD MTQ Agreement and the agreements set out in items 3 and 4 above are the Second LWD MTQ Agreement.

**The facilities**

The facilities under the LWD MTQ Agreements were granted by the Purchaser based on the Shariah principle of Murabaha under a Murabaha-Tawarruq structure which is an indirect way of granting facility to LWD by the Purchaser. LWD was required to enter into certain trade transactions in respect of certain commodities purchase from the Purchaser at a price covering the Purchaser’s purchase price (the “**Purchase Price**”) plus a profit margin agreed upon by both parties (the “**Murabaha Profit**”, which together with the Purchase Price constitute the Deferred Sale Price). Thereafter, LWD was required to sell the commodities to a third party for cash in an amount more or less same as the Purchase Price.

Under the First LWD MTQ Agreement, the Purchase Price was US\$275,000,000 and the Murabaha Profit was US\$31,300,000, amounting to the Deferred Sale Price of US\$306,300,000. The commodities were then sold by LWD at the price of approximately US\$275,000,000.

## LETTER FROM THE BOARD

Under the Second LWD MTQ Agreement, the Purchase Price was US\$52,598,000 and the Murabaha Profit was US\$15,656,671, amounting to a Deferred Sale Price of US\$68,254,671. The commodities were then sold by LWD at the price of approximately US\$52,598,000.

### Purpose of the facilities

The facility under the First LWD MTQ Agreement was granted for the purpose of LWD investing in the development by Nanhai Yitian and Jingyitian of the piece of land situated at Nanshan District, Shekou, Shenzhen of the PRC. The facility under the Second LWD MTQ Agreement was granted for the purpose of funding payment of part of the Murabaha Profit portion of the Deferred Sale Price under the First LWD MTQ Agreement.

### Facility amounts

First LWD MTQ Agreement: up to US\$275,000,000

Second LWD MTQ Agreement: up to US\$52,598,000

### Facilities duration

First LWD MTQ Agreement: from the date on which the Purchaser purchased the commodities pursuant thereto to 31 December 2013

Second LWD MTQ Agreement: from the date on which the Purchaser purchased the commodities pursuant thereto to 31 December 2013

### Repayment

Under both the First LWD MTQ Agreement and the Second LWD MTQ Agreement (prior to the signing of the Letter Agreement), the Deferred Sale Price payable thereunder shall be paid in instalments, with the last instalment falling on 31 December 2013. LWD may make early payment of the whole of the Deferred Sale Price. Under such circumstances, the Purchaser shall have the sole discretion to grant rebate to LWD in such amount as the Purchaser may in its sole discretion determine.

The Group, however, did not make any instalment payment of the Deferred Sale Price due on 31 December 2011, 31 March 2012, 30 June 2012 and 30 September 2012 respectively (being the Relevant Events).

Pursuant to the Letter Agreement, notwithstanding any provisions of the LWD MTQ Transaction Documents:

- (i) on or before 14 December 2012 (or such other date as the Purchaser may approve), the Group shall pay an amount of US\$160,380,314 which shall be applied towards satisfaction of the LWD MTQ Secured Obligations (the “**First Payment**”);

## LETTER FROM THE BOARD

- (ii) on or before 31 December 2012 (or such other date as the Purchaser may approve), the Group shall pay an amount of US\$106,000,000 which shall be applied towards satisfaction of the LWD MTQ Secured Obligations, in connection to which the Group may raise funds by procuring a sale to a reputable investor of such portion of its interest in the issued share capital of, and shareholders' loan owing from, Listar as representing up to 19% of the entire issued share capital of Listar and up to 19% of the aggregate amount of shareholders' loan due from Listar to the Vendor (the "**Relevant Acquisition**"), which if materialised shall be made at a consideration of not less than US\$100,700,000 payable in cash and otherwise on terms acceptable to the Purchaser in its absolute discretion, whereupon the Group shall use proceeds of such sale to settle part of the aforesaid payment of US\$106,000,000;
- (iii) on the date when the payment referred to in (ii) above is made, the Group shall pay an amount of US\$5,406,000 (being the Murabaha Profit calculated on US\$106,000,000 at a rate of return of 12% per annum for the period from 31 July 2012 to 31 December 2012, and subject to adjustment in respect of any additional period ending on the date on which the amount referred to (ii) above is actually paid), which shall be applied towards satisfaction of the LWD MTQ Secured Obligations;
- (iv) on or before 31 December 2012 (or such other date as the Purchaser may approve), the Group shall pay an amount of US\$36,785,000, which shall be applied towards satisfaction of the LWD MTQ Secured Obligations;
- (v) on or before 30 June 2013 (or such other date as the Purchaser may approve), the Group shall pay an amount of US\$40,277,148, which shall be applied towards satisfaction of the LWD MTQ Secured Obligations; and
- (vi) on 30 June 2013 (or such other date as the Purchaser may approve), the Group shall pay an amount of US\$7,270,574 (being the Murabaha Profit calculated on the amount of the payment referred to in (i) above at a rate of return of 12% per annum for the period from 31 July 2012 to 14 December 2012, subject to adjustment in respect of any additional period ending on the date on which the payment referred to in (i) above is actually made), which shall be applied towards satisfaction of the LWD MTQ Secured Obligations.

(payments set out in (i) to (vi) above shall be referred to as the "**Revised Payments**")

The aggregate Deferred Sale Price under the LWD MTQ Agreements is US\$374,554,671 covering the period up to 31 December 2013, however, the outstanding Deferred Sale Price payable by the Group was US\$371,059,334 as at 31 October 2012 since some parts of Murabaha Profit thereof have yet been due.

The aforesaid aggregate Deferred Sales Price of US\$374,554,671 was then superseded by the Revised Payments in the total amount of US\$356,119,036 comprising of two aggregate amounts of US\$308,571,314 and US\$47,547,722 to be paid on or before 31 December 2012 and on or before 30 June 2013 respectively as per the Letter Agreement.

## LETTER FROM THE BOARD

Other than the First Payment (US\$160,380,314) and the sum of US\$100,700,000 to be settled by means of the Consideration and the Relevant Acquisition, the balance of US\$47,491,000 payable on or before 31 December 2012, together with another aggregate sum of US\$47,547,722 payable on or before 30 June 2013, will be settled by means of bank facilities and sale proceeds from the sales of residential units of “Free Man Garden”.

### **Termination events under the LWD MTQ Agreements**

The LWD MTQ Agreements contain events of default the occurrence of which would render the LWD MTQ Secured Obligations becoming immediately due and payable (the “**LWD MTQ Termination Events**”). The LWD MTQ Termination Events are summarised as follows:

- (i) Failure to pay;
- (ii) Misrepresentation;
- (iii) Failure to perform or comply with any of the obligations;
- (iv) Guarantor’s default or the Project Company’s default;
- (v) Insolvency events;
- (vi) Abandonment — any material part of the Project to be abandoned;
- (vii) Cessation of the land grant contracts or land use rights certificate;
- (viii) Expropriation;
- (ix) Repudiation by any Obligor;
- (x) Illegality;
- (xi) Invalidity of security documents;
- (xii) Material adverse change; and
- (xiii) Termination or lapse of guarantee

### **Rebates**

As set out above, pursuant to the LWD MTQ Agreements, in the event LWD shall make early payment of the Deferred Sale Price, the Purchaser may grant rebate to LWD.

## LETTER FROM THE BOARD

Pursuant to the Letter Agreement, conditional upon no LWD MTQ Termination Event having occurred after 26 October 2012 until the payment and discharge in full of the LWD MTQ Secured Obligations:

- (i) upon payment of the First Payment by the Group, the Purchaser shall be deemed to have granted a conditional rebate to LWD against the Deferred Sale Price payable under the LWD MTQ Agreements in the amount of US\$23,390,497 in respect of Murabaha Profit calculated from 1 October 2011 up to 31 July 2012; and
- (ii) upon payment of all the Revised Payments in accordance with the relevant payment dates by the Group, and the payment and discharge of all other LWD MTQ Secured Obligations (whether or not due) in full on or before 30 June 2013 (or such other date as the Purchaser may approve), the Purchaser shall grant a further conditional rebate to LWD in the amount of US\$9,714,280 in respect of the Murabaha Profit (subject to any adjustment in respect of the date on which the relevant Revised Payment is actually made). Such rebate shall be payable by the Purchaser to LWD on demand by LWD.

In the event where any of the rebates set out above are granted or paid by the Purchaser but there being a LWD MTQ Termination Event prior to the payment and discharge in full of all LWD MTQ Secured Obligations, the Group shall forthwith on demand by the Purchaser pay to the Purchaser an amount equal to all amounts rebated.

### **Waiver**

As set out above, the Group did not make any instalment payment of the Deferred Sale Price payable under the LWD MTQ Agreements due on 31 December 2011, 31 March 2012, 30 June 2012 and 30 September 2012 respectively (being the Relevant Events).

Pursuant to the Letter Agreement, the Purchaser grants a conditional waiver of the occurrence of the Relevant Events on the condition that:

- (i) there being no LWD MTQ Termination Event (other than the Relevant Events) occurred after the date of the Letter Agreement until payment and discharge in full of the LWD MTQ Secured Obligations;
- (ii) all Revised Payments having been paid in accordance with the relevant payment dates by the Group; and
- (iii) all other LWD MTQ Secured Obligations (whether or not due) are paid and discharged in full on or before 30 June 2013 (or such other date as the Purchaser may approve).

Violation of any of the aforesaid conditions would render:

- (a) the aforesaid conditional waiver granted by the Purchaser be revoked and deemed not to have been given; and
- (b) the Purchaser being entitled to enforce all rights, remedies and recourse in respect of any LWD MTQ Termination Event arising from the Relevant Events, without prejudice to its rights in respect of any other LWD MTQ Termination Events.

## LETTER FROM THE BOARD

### Security

The LWD MTQ Agreements were secured by the following LWD MTQ Security Documents, being documents relating to the interests of LWD and its subsidiaries, as well as Honest Link and its subsidiaries:

- (i) the First LWD Share Mortgage;
- (ii) the First Liu Wan Investment Share Mortgage;
- (iii) the First LWD Accounts Charge;
- (iv) the First Liu Wan Investment Account Charge;
- (v) the First LWD Security Assignment;
- (vi) the First Liu Wan Investment Security Assignment;
- (vii) the First Personal Guarantee;
- (viii) the First Corporate Guarantee;
- (ix) the Second LWD Accounts Charge;
- (x) the Second Liu Wan Investment Account Charge;
- (xi) the Second LWD Share Mortgage;
- (xii) the Second Liu Wan Investment Share Mortgage;
- (xiii) the Second LWD Security Assignment;
- (xiv) the Second Liu Wan Investment Security Assignment;
- (xv) the Dongjing Guarantee;
- (xvi) the Dongjing Account Charge;
- (xvii) the Dongjing Security Assignment;
- (xviii) the Dongjing Share Mortgage;
- (xix) the Dongjing Subordination Deed;
- (xx) the Second Corporate Guarantee; and
- (xxi) the Second Personal Guarantee.

## LETTER FROM THE BOARD

### **Release and discharge of security**

Pursuant to the Letter Agreement, notwithstanding the terms of the LWD MTQ Agreements, upon payment and discharge in full of all amounts provided for in the Letter Agreement and all other LWD MTQ Secured Obligations, the Purchaser shall release the security granted pursuant to the LWD MTQ Agreements subject to the terms thereof.

### **Lapse of the Letter Agreement**

Upon Completion, the Purchaser shall become a 30% shareholder of Listar and thus regarded as a connected person of the Company under the Listing Rules. The entering into of the Letter Agreement constituted a connected transaction of the Company and shall be subject to the reporting, announcement, circular and Independent Shareholders' approval requirements. In the event the Independent Shareholders' approval cannot be obtained on or before 14 December 2012 (or such other business day as may be mutually agreed between the Purchaser and the Vendor in writing), the Letter Agreement shall lapse and shall be of no further effect.

### **Reasons for entering into of the Letter Agreement**

As the Group did not make any instalment payment of the Deferred Sale Price due on 31 December 2011, 31 March 2012, 30 June 2012 and 30 September 2012 respectively (being the Relevant Events), the Group entered into the Letter Agreement to set out a new repayment schedule in relation to the LWD MTQ Agreements.

Based on the above, the Directors (excluding Mr. Yu by reason of him being a party to the First Personal Guarantee and the Second Personal Guarantee guaranteeing the Group's obligations under the LWD MTQ Transaction Documents but including the independent non-executive Directors who have expressed their view in the "Letter from the Independent Board Committee" in this circular after having considered the advice from the Independent Financial Adviser) consider that the terms of the Letter Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Principal terms of the Option Agreement, the Shareholders Agreement and the Deed of Covenant to be executed at Completion are set out below:

#### **(A) *The Option Agreement***

##### *Parties:*

- (1) the Purchaser; and
- (2) the Vendor

##### *Put Option*

As and from the Completion Date, the Vendor grants to the Purchaser the Put Option to require the Vendor to purchase the Option Assets at the Put Option Exercise Price (as defined below).



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### *Put Option Exercise Period*

The Purchaser may exercise the Put Option by serving a Put Option Exercise Notice to the Vendor at any time during the Put Option Exercise Period, being the period commencing on (i) the Commencement Date and expiring on the date falling twenty-four (24) months after the Commencement Date; or (ii) in the case of occurrence of any termination event, the date on which such termination event occurs and expiring on the date on which the Put Option would have expired should no such termination event occur. The Put Option may be exercised once only. Any Put Option Exercise Notice once issued is irrevocable. The Put Option shall cease to be exercisable upon completion pursuant to the exercise of the Put Option. The Put Option Exercise Period shall lapse on the date on which the Purchaser has disposed of the Acquired Interests or any part thereof in accordance with the Shareholders Agreement if on such date no termination event has occurred or is continuing. A Put Option Exercise Notice shall be deemed to have been served upon payment of the Minimum IRR by the Vendor pursuant to sub-paragraph headed “(b) IRR make-whole” under the paragraph headed “(C) The Deed of Covenant” below.

### *Put Option Exercise Price*

The exercise price of the Put Option (the “**Put Option Exercise Price**”) shall be an amount in US dollars equal to the amount required to ensure that the Internal Rate of Return of the Purchaser’s investment in the Acquired Interests be not less than the Minimum IRR.

The Put Option Exercise Price was arrived at after arm’s length negotiations between the Vendor and the Purchaser by reference to the Internal Rate of Return under the LWD MTQ Agreements which is equivalent to the Minimum IRR.

The Directors (excluding Mr. Yu by reason of him being a party to the First Personal Guarantee and the Second Personal Guarantee guaranteeing the Group’s obligations under the LWD MTQ Transaction Documents but including the independent non-executive Directors who have expressed their view in the “Letter from the Independent Board Committee” in this circular after having considered the advice from the Independent Financial Adviser) consider that the Put Option Exercise Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### *Completion of the sale and purchase of the Option Assets pursuant to exercise of the Put Option*

Completion of the sale and purchase of the Option Assets pursuant to exercise of the Put Option shall take place on the date falling sixty (60) days after the date of service of the Put Option Exercise Notice (if such date is a business day) or the business day next following such date (if it is not) (or such other day as may be agreed between the Vendor and the Purchaser in writing), whereupon the Vendor shall pay the Put Option Exercise Price to the Purchaser. Until payment in full of the Put Option Exercise Price and all other

## LETTER FROM THE BOARD

amounts (if any) under the Transaction Documents, the Put Option Exercise Price shall continue to accrue profit at the rate equal to the Minimum IRR for the period to and including the actual date of payment.

### *Call Option*

As and from the Completion Date, the Purchaser grants to the Vendor the Call Option to require the Purchaser to sell the whole (but not part) of the Option Assets at the Call Option Exercise Price (as defined below).

### *Call Option Exercise Period*

The Vendor may exercise the Call Option by serving a Call Option Exercise Notice to the Purchaser at any time during the Call Option Exercise Period, being the period commencing on the Commencement Date and expiring on the date falling twenty-four (24) months after the Commencement Date, which shall lapse upon the occurrence of a termination event. The Call Option may be exercised once at any time during the Call Option Exercise Period. Notwithstanding the issue of a Call Option Exercise Notice, upon exercise of the Put Option, the Call Option shall be deemed not to have been exercised. Subject to the foregoing and subject to completion being conditional upon compliance with the Listing Rules, any Call Option Exercise Notice, once issued, is irrevocable. The Call Option shall cease to be exercisable upon exercise of the Put Option.

### *Call Option Exercise Price*

The exercise price of the Call Option (the “**Call Option Exercise Price**”) shall be an amount in US dollars equal to the higher of:

- (a) the amount required to ensure that the Internal Rate of Return of the Purchaser’s investment in the Acquired Interests be not less than the Minimum IRR; and
- (b) the market value of the Option Assets on the relevant exercise date to be agreed by the Vendor and the Purchaser thereupon or, failing that, to be determined by an independent valuation company.

The Call Option Exercise Price was arrived at after arm’s length negotiations between the Vendor and the Purchaser by reference to the Put Option Exercise Price and to the potentiality of inflated market value of the Option Assets as a matter of equality that the Call Option Exercise Price equals the Put Option Exercise Price, and in the event that the market value of the Option Assets increases in the future, the Vendor should acquire the Option Assets at the price in which the inflated market value is taken into account.

The Directors (excluding Mr. Yu by reason of him being a party to the First Personal Guarantee and the Second Personal Guarantee guaranteeing the Group’s obligations under the LWD MTQ Transaction Documents but including the independent non-executive Directors who have expressed their view in the “Letter from the Independent Board

## LETTER FROM THE BOARD

Committee” in this circular after having considered the advice from the Independent Financial Adviser consider that the Call Option Exercise Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### *Completion of the sale and purchase of the Option Assets pursuant to exercise of the Call Option*

Completion of the sale and purchase of the Option Assets pursuant to exercise of the Call Option shall take place on the later of:

- (a) the date falling thirty (30) days after the date of service of the Call Option Exercise Notice (if such date is a business day) or the business day next following such date (if it is not), or such longer period not exceeding sixty (60) days as is necessary for compliance with the requirements under the Listing Rules (or such other day as may be agreed between the Vendor and the Purchaser in writing); and
- (b) if the Call Option Exercise Price has not been determined in accordance with the Option Agreement by the date referred to paragraph (a) above, the seventh (7th) business day after the day on which the Call Option Exercise Price is determined,

whereupon the Vendor shall pay the Call Option Exercise Price to the Purchaser. Until payment in full of the Call Option Exercise Price and all other amounts (if any) under the Transaction Documents, the Call Option Exercise Price shall continue to accrue profit at the rate equal to the Minimum IRR for the period to and including the actual date of payment.

### *Reasons for the grant of the Put Option and the Call Option*

The Vendor views that the Put Option is an incentive for the Purchaser’s agreement to the amount of the Consideration which represents a high premium of the Disposal (as more particularly described in the headings of the “Consideration” above), i.e. the Purchaser shall have flexibility in selling the Option Assets back to the Vendor at its sole discretion. On the other hand, the Vendor may manage the funding requirement for knowing the pre-determined price under the Put Option. In view of granting the Put Option to the Purchaser by the Vendor, the Purchaser also grants the Call Option to the Vendor for having its flexibility in managing its shareholding interest in Listar, especially in the event that the Vendor expects that the market value of Listar will increase in the future, the Vendor may consider exercising the Call Option to secure its 100% shareholding interest in Listar for entitlement of 100% benefits or returns in the Project.

Based on the above, the Directors (excluding Mr. Yu by reason of him being a party to the First Personal Guarantee and the Second Personal Guarantee guaranteeing the Group’s obligations under the LWD MTQ Transaction Documents but including the independent non-executive Directors who have expressed their view in the “Letter from the Independent Board Committee” in this circular after having considered the advice from the Independent Financial Adviser) are of the view that the terms of the Option

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Agreement are on normal commercial terms based on arm's length negotiations between the Group and the Purchaser which are no less favourable to the Group than those from independent third parties given the circumstances. Such Directors also consider the terms of the Option Agreement are fair and reasonable, and are in the interests of the Company and the Independent Shareholders as a whole.

### **(B) *The Shareholders Agreement***

#### *Parties:*

- (1) the Vendor;
- (2) the Purchaser; and
- (3) Listar

#### *Principal terms:*

- (a) Scope of business

The sole business of the Listar Group shall be the development and operation of the Project.

- (b) Finance for Listar

Unless Listar and its all shareholders otherwise agree in writing, all loans shall be lent to Listar by its shareholders on an equal pro rata basis in proportion to the respective outstanding amounts of such shareholder loans. Listar may raise capital and obtain financing to meet the funding requirements of the Listar Group for working capital or other financial support by such means as the board of directors determines from time to time.

- (c) Board representation

The number of directors of Listar shall be five (5), of which three (3) directors shall be appointed by the Vendor and two (2) directors shall be appointed by the Purchaser. The chairman shall be nominated by the Purchaser but he shall have no casting vote on the equality of votes.

- (d) Project management committee

The shareholders of Listar agree that the board of directors of the Project Company shall establish a project management committee (the "**PMC**") to supervise the management and operations of the Project Company and the Project. The PMC shall initially consist of four (4) members, comprising two (2) members appointed by the Vendor and two (2) members being representatives from a firm of independent project consultants engaged by the Project Company with the approval of the Purchaser.

## LETTER FROM THE BOARD

(e) Right of first offer

Each shareholder of Listar grants to the other shareholder a right of first offer with respect to the shares of Listar held by such shareholder and the shareholder loans owing to such shareholder.

(f) Rights of first offer on future equity offerings

Listar grants to each shareholder a right of first offer with respect to future issues by Listar of any shares of, or securities convertible into or exchangeable or exercisable for any shares of, any class of its capital and with respect to any future borrowing by Listar of any shareholder loans in proportion to such shareholder's percentage holding of shares in Listar from time to time.

(g) Dividend

Subject to the terms of the Transaction Documents, the initial dividend policy of each Listar Group company shall be to distribute a cash dividend equivalent to all net after-tax distributable profit, having regard to the profitability of the Listar Group and any statutory requirement for reserves of the Listar Group.

(h) Duration

The term of the Shareholders Agreement shall extend until terminated by operation of law or by mutual agreement of Listar and its shareholders or in accordance with the terms of the Shareholders Agreement.

(i) Termination

The Shareholders Agreement shall terminate if either the Vendor or the Purchaser ceases to hold any shares of Listar; or upon the liquidation or the making of an order for the winding-up of Listar (other than for the purpose of reconstruction or amalgamation).

*Reasons for entering into the Shareholders Agreement*

For the purpose of listing out (i) the rights and obligations of the Vendor and the Purchaser in the capacity of shareholders of Listar and (ii) the terms and conditions upon which the Vendor and the Purchaser are investing in Listar, the Vendor, the Purchaser and Listar agreed to enter into the Shareholders Agreement upon Completion. As such, both the Vendor and the Purchaser's rights and obligations in their investment in Listar can be securely protected and governed by the Shareholders Agreement.

Based on the above, the Directors (excluding Mr. Yu by reason of him being a party to the First Personal Guarantee and the Second Personal Guarantee guaranteeing the Group's obligations under the LWD MTQ Transaction Documents but including the independent non-executive Directors who have expressed their view in the "Letter from the Independent Board Committee" in this circular after having considered the advice from the Independent Financial Adviser) are of the view that the terms of the

## LETTER FROM THE BOARD

Shareholders Agreement are on normal commercial terms based on arm's length negotiations between the Group and the Purchaser which are no less favourable to the Group than those from independent third parties given the circumstances. Such Directors also consider the terms of the Shareholders Agreement are fair and reasonable, and are in the interests of the Company and the Independent Shareholders as a whole.

### **(C) *The Deed of Covenant***

#### *Parties:*

- (1) the Vendor;
- (2) Listar; and
- (3) the Purchaser

#### *Principal terms:*

##### (a) Relevant Acquisition

As set out in the LWD MTQ Agreements, (brief summary of which is set out in the section headed the "Connected Transactions" above) the Group is required to pay US\$106,000,000 to discharge the secured obligations thereunder on or before 31 December 2012. The requisite funds for payment of such amount might be raised by the Group by way of disposal of further interests in Listar up to 19% of issued share capital of Listar and up to 19% of the aggregate amount of shareholder loans due from Listar to the Vendor for a consideration of not less than US\$100,700,000 (being the Relevant Acquisition). In connection with this, the Purchaser agrees under the Deed of Covenant that the Vendor may conduct such Relevant Acquisition notwithstanding the provisions set out in the Transaction Documents (such as the pre-emptive provisions under the Shareholders Agreement set out above). Subject to the approval of the Purchaser, the Relevant Acquisition may be conducted for a smaller percentage of the interest in Listar for a consideration less than US\$100,700,000 on terms acceptable to the Purchaser, which are no more favourable than those of the sale of the Acquired Interests pursuant to the Sale and Purchase Agreement.

Subject to the approval of the Purchaser, the Relevant Acquisition may take the form of a transfer of 19% of the equity interest in the Project Company in which case the Vendor shall, subject to compliance with the Listing Rules, transfer to the Purchaser at nominal consideration such additional shares in the issued share capital of Listar and shareholder loans due from Listar to the Vendor as to ensure that the Purchaser retains a minimum of 30% indirect interest in the registered capital of, and the shareholder loans to, the Project Company on the condition that the Purchaser shall not be entitled to share in the economic interest arising from the sale proceeds of the Relevant Acquisition (save for any application of the same to discharge part of the LWD MTQ Secured Obligations).

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The Directors (excluding Mr. Yu by reason of him being a party to the First Personal Guarantee and the Second Personal Guarantee guaranteeing the Group's obligations under the LWD MTQ Transaction Documents but including the independent non-executive Directors who have expressed their view in the "Letter from the Independent Board Committee" in this circular after having considered the advice from the Independent Financial Adviser) consider that the above arrangements with the Purchaser (including the minimum consideration of the Relevant Acquisition, if materialised, at US\$100,700,000 and the further transfer of issued shares in Listar to the Purchaser at nominal consideration should the Relevant Acquisition take the form of acquisition of equity interests in the Project Company) are fair and reasonable after arm's length negotiations between the Group and the Purchaser. The minimum consideration of the Relevant Acquisition, if materialised, at US\$100,700,000, was arrived at after arm's length negotiations between the Group and the Purchaser by reference to the Consideration for the Acquired Interests. Given immediately upon Completion, the Purchaser's indirect interest in the Project Company amount to 30%, the above Directors consider it fair and reasonable that in the event the Relevant Acquisition shall take the form of acquisition of equity interests in the Project Company, the Vendor shall transfer to the Purchaser at nominal consideration such additional shares in the issued share capital of Listar and shareholder loans due from Listar to the Vendor so as to ensure that the Purchaser retains a minimum 30% indirect interest in the Project Company.

As at the Latest Practicable Date, no agreement had been entered into by the Group with any reputable investor in relation to the Relevant Acquisition. The Company will publish an announcement as and when required in accordance with the Listing Rules when any legally binding agreement has been signed by the Group in relation to the Relevant Acquisition.

(b) IRR make-whole

The Vendor shall ensure that the Internal Rate of Return of the Purchaser's investment in the Acquired Interests be not less than the Minimum IRR as at the earlier of (a) 31 December 2017; (b) the date on which the Purchaser has disposed of all of its interest in the Acquired Interests; and (c) the date on which the Project is fully completed and the Project Company has made the final distributions to its shareholders. Otherwise, the Vendor shall forthwith, on demand by the Purchaser and taken into account for the purpose of calculating the Internal Rate of Return, make a payment to the Purchaser that would provide the Purchaser with an Internal Rate of Return equal to the Minimum IRR. Upon payment of the same to the Purchaser, a Put Option Exercise Notice shall be deemed to have been issued by the Purchaser in accordance with the Option Agreement and that the Put Option Exercise Price shall be deemed to have been paid in full.

The Directors (excluding Mr. Yu by reason of him being a party to the First Personal Guarantee and the Second Personal Guarantee guaranteeing the Group's obligations under the LWD MTQ Transaction Documents but including the independent non-executive Directors who have expressed their view in the "Letter from the Independent Board Committee" in this circular after having considered the advice from the Independent

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Financial Adviser consider that the above arrangement (including the Minimum IRR) with the Purchaser is fair and reasonable after arm's length negotiations based on the rate of return under the LWD MTQ Agreements, which is 12% per annum.

(c) Interim cash distributions

For as long as the Purchaser maintains a shareholding in Listar, the Vendor shall after each period of six (6) months ending on 30 June or 31 December pay to the Purchaser a proportion of the available cash (after deducting, among others, any fees, expenses and tax incurred in relation to the Project) in respect of that period equal to the proportion of the Purchaser's shareholding in Listar.

(d) Profit distributions

After completion of each phase of the Project and all legal procedures for distribution of the net profits of the Project Company for that phase has been completed under applicable laws and regulations in the PRC (including the audit of accounts, verification of land value-added tax and tax assessment and payment), the Vendor shall make a profit distribution with respect to profits accrued for that phase (the "**Interim Profit**") by Listar to its shareholders (whether by way of distribution of dividends or repayment of shareholder loan) in accordance with their respective shareholdings in Listar.

If Listar fails to pay the Interim Profit accrued for that phase for any reason (including a failure by the Project Company to make a distribution to Honest Link or otherwise), the Vendor shall pay the Purchaser an amount (the "**Vendor's Payment**") on account of such Interim Profit distribution equal to the amount of profit distribution which Listar would otherwise have been able to pay the Purchaser. If, after the Vendor makes the Vendor's Payment, Listar makes a distribution to the Purchaser of profit to which the Vendor's Payment or any part thereof relates, the Purchaser shall upon demand by the Vendor pay to the Vendor an amount equal to the Vendor's Payment or the relevant part thereof in reimbursement to the Vendor.

On each date (each a "**Distribution Date**") on which the Interim Profit distribution or the Vendor's Payment is payable to the Purchaser, Excess Cash (if any) shall be used to set off the Interim Profit distribution or the Vendor's Payment on a dollar-for-dollar basis, and the Vendor shall pay the Purchaser the Adjustment Amount if applicable.

The Directors (excluding Mr. Yu by reason of him being a party to the First Personal Guarantee and the Second Personal Guarantee guaranteeing the Group's obligations under the LWD MTQ Transaction Documents but including the independent non-executive Directors who have expressed their view in the "Letter from the Independent Board Committee" in this circular after having considered the advice from the Independent Financial Adviser) consider that the above arrangement with the Purchaser is fair and reasonable after arm's length negotiations by reference to the rate of return under the LWD MTQ Agreements, and the terms thereof are no less favourable to the Group than those from independent third parties given the circumstances.



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(e) Release

The parties to the Deed of Covenant shall be released from all obligations and liabilities thereunder, and all security interests created under the Security Documents shall also be released and discharged, on the earlier of:

- (i) the date on which the Purchaser confirms in writing that all Secured Obligations have been paid and discharged in full;
- (ii) the date on which the Purchaser confirms in writing that all obligations and liabilities of the Vendor under the Option Agreement and the amount of Minimum IRR calculated pursuant to the sub-paragraph headed “(b) IRR make-whole” above have been paid and discharged in full and no other amounts have fallen due and remain outstanding to the Purchaser under the Transaction Documents;
- (iii) the later of (i) 31 December 2017 and (ii) the date on which both the Put Option Exercise Period and the Call Option Exercise Period have expired if on or before such date the Purchaser has not made a demand for payment pursuant to the sub-paragraph headed “(b) IRR make-whole” above and no Put Option Exercise Notice or Call Option Exercise Notice has been issued, and the Purchaser confirms in writing that as at such date no other amounts have fallen due and remain outstanding to the Purchaser under the Transaction Documents; and
- (iv) the date on which the Purchaser has disposed of the Acquired Interests or any part thereof in accordance with the Shareholders Agreement if on such date no termination event has occurred and is continuing.

*Reasons for entering into the Deed of Covenant*

The Deed of Covenant lists out certain specific entitlements of the Vendor and the Purchaser in Listar for securing their respective interests in the Project development, which is expected to be completed in about five (5) years from 31 October 2012.

Based on the above, the Directors (excluding Mr. Yu by reason of him being a party to the First Personal Guarantee and the Second Personal Guarantee guaranteeing the Group’s obligations under the LWD MTQ Transaction Documents but including the independent non-executive Directors who have expressed their view in the “Letter from the Independent Board Committee” in this circular after having considered the advice from the Independent Financial Adviser) are of the view that the terms of the Deed of Covenant (including those set out in sub-paragraphs (a) to (e) above) are on normal commercial terms based on arm’s length negotiations between the Group and the Purchaser which are no less favourable to the Group than those from independent third parties given the circumstances. Such Directors also consider the terms of the Deed of Covenant are fair and reasonable, and are in the interests of the Company and the Independent Shareholders as a whole.

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The obligations of the Obligors under the Sale and Purchase Agreement and the other Transaction Documents (being the Secured Obligations) will be secured by the Security Documents, including the following:

**(D) *The Corporate Guarantee***

*Parties:*

- (1) Guarantor: the Company; and
- (2) Guarantee: the Purchaser

*The guarantee*

Under the Corporate Guarantee, the Company guarantees to the Purchaser, as primary obligor, the receipt by the Purchaser and the discharge of the Secured Obligations.

*Other undertaking*

Under the Corporate Guarantee, the Company undertakes that so long as the Secured Obligations remain outstanding, it shall procure Mr. Yu to remain as the Controlling Shareholder. Given the Corporate Guarantee will be executed only to secure the obligations of the Obligors under the Sale and Purchase Agreement and the other Transaction Documents, of which none is a loan agreement, no disclosure obligation will arise under the applicable rule of the Listing Rules.

**(E) *The Personal Guarantee***

*Parties:*

- (1) Guarantor: Mr. Yu; and
- (2) Guarantee: the Purchaser

*The guarantee*

Under the Personal Guarantee, Mr. Yu guarantees to the Purchaser, as primary obligor, the receipt by the Purchaser and the discharge of the Secured Obligations. The Personal Guarantee, however, does not form part of the Connected Transactions.

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**(F) *The Listar Security Documents***

*(a) Vendor Account Charge*

Parties:

- (1) Chargor:           the Vendor; and
- (2) Chargee:           the Purchaser

The account charge:

The Vendor, as beneficial owner, assigns and agrees to assign, absolutely in favour of the Purchaser, all rights, title and interest in and to which the Vendor is or become entitled in relation to the Vendor's bank account and all monies at any time standing to the credit of such bank account.

*(b) HLDL Accounts Charge*

Parties:

- (1) Chargor:           Honest Link; and
- (2) Chargee:           the Purchaser

The accounts charge:

Honest Link, as beneficial owner, assigns and agrees to assign, absolutely in favour of the Purchaser, by way of first fixed charge, all rights, title and interest in and to which Honest Link is or become entitled in relation to the Honest Link's bank accounts and all monies at any time standing to the credit of such bank accounts.

*(c) Security Assignment (Vendor Rights)*

Parties:

- (1) Assignor:           the Vendor; and
- (2) Assignee:           the Purchaser

The security assignment:

The Vendor, as legal and beneficial owner, assigns and agrees to assign, absolutely in favour of the Purchaser, by way of first legal assignment, all of the Vendor's rights, title and interest, present and future, in and to the Sale and Purchase Agreement, the Shareholders Agreement and the Deed of Covenant, including all proceeds in respect of the above and all cash and other property at any time receivable or distributable in relation thereto.

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*(d) Security Assignment (Vendor Shareholder Loan)*

Parties:

- (1) Assignor: the Vendor; and
- (2) Assignee: the Purchaser

The security assignment:

The Vendor, as beneficial owner, assigns and agrees to assign, absolutely in favour of the Purchaser, by way of first legal assignment, all of the Vendor's rights, title and interest, present and future, in and to any and all sums for which Listar is indebted and may thereafter become indebted to the Vendor including but not limited to all advances or funds from time to time provided or made available by the Vendor to Listar, and unless repayment has previously been made.

*(e) Security Assignment (Listar Shareholder Loan)*

Parties:

- (1) Assignor: Listar; and
- (2) Assignee: the Purchaser

The security assignment:

Listar, as beneficial owner, assigns and agrees to assign, absolutely in favour of the Purchaser, by way of first legal assignment, all of Listar's rights, title and interest, present and future, in and to any and all sums of which Honest Link is and may thereafter become indebted to Listar including but not limited to all advances or funds from time to time provided or made available by Listar to Honest Link, and unless repayment has previously been made.

*(f) Security Assignment (HLDL Shareholder Loan)*

Parties:

- (1) Assignor: Honest Link; and
- (2) Assignee: the Purchaser

The security assignment:

Honest Links, as beneficial owner, assigns and agrees to assign absolutely in favour of the Purchaser, by way of legal assignment, all of Honest Link's rights, title and interest, present and future, in and to any and all sums of which the Project Company is and may thereafter become indebted to Honest Link including but not

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limited to all advances or funds from time to time provided or made available by Honest Link to the Project Company, and unless repayment has previously been made, subject to the Dongjing Security Assignment which was entered into between Honest Link and the Purchaser to secure the obligations under the Second LWD MTQ Agreements.

*(g) Listar Share Mortgage*

Parties:

- (1) Mortgagor: the Vendor;
- (2) Mortgagee: the Purchaser; and
- (3) Company: Listar

The mortgage:

The Vendor, as beneficial owner, mortgages and covenants to mortgage by way of first legal mortgage 14,000,000 shares of Listar, being 70% of the entire issued shares of Listar as at the Latest Practicable Date, (the “**Listar Mortgaged Shares**”) together with all the rights, properties, moneys and interest thereof to the Purchaser.

*(h) HLDL Share Mortgage*

Parties:

- (1) Mortgagor: Listar;
- (2) Mortgagee: the Purchaser; and
- (3) Company: Honest Link

The mortgage:

Listar, as a beneficial owner, mortgages and covenants to mortgage by way of first legal mortgage 2 shares of Honest Link, being the entire issued shares of Honest Link as at the Latest Practicable Date (the “**HLDL Mortgaged Shares**”) together with all the rights, properties, moneys and interest thereof to the Purchaser, subject to the Dongjing Share Mortgage which was entered into between Listar, Honest Link and the Purchaser to secure the obligations under the Second LWD MTQ Agreements.

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**(G) LWD Security Documents**

*(a) LWD Share Mortgage*

Parties:

- (1) Mortgagor: the Vendor;
- (2) Mortgagee: the Purchaser; and
- (3) Company: LWD

The mortgage:

The Vendor, as beneficial owner, mortgages and covenants to mortgage, by way of first legal mortgage 215,000,000 shares of LWD, being the entire issued share capital of LWD as at the Latest Practicable Date (the “**LWD Mortgaged Shares**”) together with all the rights, properties, moneys and interest thereof to the Purchaser, subject to the First LWD Share Mortgage and Second LWD Share Mortgage which were entered into between the Vendor, LWD and the Purchaser to secure the obligations under the LWD MTQ Agreements.

*(b) Liu Wan Investment Share Mortgage*

Parties:

- (1) Mortgagor: LWD;
- (2) Mortgagee: the Purchaser; and
- (3) Company: Liu Wan Investment

The mortgage:

LWD, as beneficial owner, mortgages and covenants to mortgage, by way of first mortgage 2 shares of Liu Wan Investment, being the entire issued shares of Liu Wan Investment as at the Latest Practicable Date (the “**Liu Wan Mortgaged Shares**”) together with all the rights, properties, moneys and interest thereof to the Purchaser, subject to the First Liu Wan Investment Share Mortgage and the Second Liu Wan Investment Share Mortgage which were entered into between LWD, Liu Wan Investment and the Purchaser to secure obligations under the LWD MTQ Agreements.

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*(c) LWD Security Assignment*

Parties:

- (1) Assignor: LWD; and
- (2) Assignee: the Purchaser

The security assignment:

LWD, as beneficial owner, assigns and agrees to assign, absolutely in favour of the Purchaser, by way of first legal assignment, all the rights, title and interest, present and future, in and to any and all sums for which Liu Wan Investment and Nanhai Yitian are and may thereafter become indebted to LWD including but not limited to all advances or funds from time to time provided or made available by LWD to Liu Wan Investment and Nanhai Yitian, subject to the First LWD Security Assignment and the Second LWD Security Assignment which were entered into between LWD and the Purchaser to secure obligations under the LWD MTQ Agreements.

*(d) Liu Wan Investment Security Assignment*

Parties:

- (1) Assignor: Liu Wan Investment; and
- (2) Assignee: the Purchaser

The security assignment:

Liu Wan Investment, as beneficial owner, assigns and agrees to assign, absolutely in favour of the Purchaser, by way of first legal assignment, all the rights, title and interest, present and future, in and to any and all sums for which Nanhai Yitian is and may thereafter become indebted to Liu Wan Investment including but not limited to all advances or funds from time to time provided or made available by Liu Wan Investment to Nanhai Yitian, subject to the First Liu Wan Investment Security Assignment and the Second Liu Wan Investment Security Assignment which were entered into between Liu Wan Investment and the Purchaser to secure obligations under the LWD MTQ Agreements.

*(e) LWD Accounts Charge*

Parties:

- (1) Chargor: LWD; and
- (2) Chargee: the Purchaser

## LETTER FROM THE BOARD

The accounts charge:

LWD, as beneficial owner, assigns, and agrees to assign, absolutely in favour of the Purchaser, by way of first fixed charge, all the rights, title and interest in and to which LWD is or may thereafter become entitled in relation to LWD's bank accounts and all monies at any time standing to the credit of such bank accounts, subject to the First LWD Accounts Charge and the Second LWD Accounts Charge which were entered into between LWD and the Purchaser to secure obligations under the LWD MTQ Agreements.

(f) *Liu Wan Investment Account Charge*

Parties:

- (1) Chargor: Liu Wan Investment; and
- (2) Chargee: the Purchaser

The accounts charge:

Liu Wan Investment, as beneficial owner, assigns, and agrees to assign, absolutely in favour of the Purchaser, by way of first fixed charge, all the rights, title and interest in and to which Liu Wan Investment is or may thereafter become entitled in relation to a Liu Wan Investment's bank account and all monies at any time standing to the credit of such bank account, subject to the First Liu Wan Investment Account Charge and the Second Liu Wan Investment Account Charge which were entered into between Liu Wan Investment and the Purchaser to secure obligations under the LWD MTQ Agreements.

Reasons for entering into the Connected Transactions

As set out above, as the Group did not make any instalment payment of the Deferred Sale Price due on 31 December 2011, 31 March 2012, 30 June 2012 and 30 September 2012 respectively (being the Relevant Events), the Group entered into the Letter Agreement to set out a new repayment schedule in relation to the LWD MTQ Agreements. In the event that either the Purchaser or the Vendor wishes to dispose of any or all of the Option Assets, the mechanism in the Option Agreement can facilitate such disposal for securing its controlling interest in Listar. The Shareholders Agreement lists out (i) the rights and obligations of the Vendor and the Purchaser in the capacity of shareholders of Listar and (ii) the terms and conditions upon which the Vendor and the Purchaser are investing in Listar. Therefore, both the Vendor and the Purchaser's rights and obligations in their investment in Listar can be securely protected and governed by the Shareholders Agreement. The Deed of Covenant specifies certain specific entitlements of the Vendor and the Purchaser in Listar for securing their respective interests in the Project development, which is expected to be completed in about five (5) years from 31 October 2012.



## LETTER FROM THE BOARD

Based on the above, the Directors (excluding Mr. Yu by reason of him being a party to the First Personal Guarantee and the Second Personal Guarantee guaranteeing the Group's obligations under the LWD MTQ Transaction Documents but including the independent non-executive Directors who have expressed their view in the "Letter from the Independent Board Committee" in this circular after having considered the advice from the Independent Financial Adviser) are of the view that the terms of the Letter Agreement, the Option Agreement, the Shareholders Agreement, the Deed of Covenant and the Security Documents (other than the Personal Guarantee) are on normal commercial terms based on arm's length negotiations between the Group and the Purchaser which are no less favourable to the Group than those from independent third parties given the circumstances. Such Directors also consider the terms of the aforesaid agreements are fair and reasonable, and are in the interests of the Company and the Independent Shareholders as a whole. Mr. Yu has abstained from voting at the relevant Board meeting approving the Connected Transactions.

### Listing Rules implications in relation to the Connected Transactions

Upon Completion, the Purchaser shall become a 30% shareholder of Listar and thus regarded as a connected person of the Company under the Listing Rules. Thus, the entering into of the Letter Agreement, the Option Agreement, the Shareholders Agreement and the Deed of Covenant as secured by the Security Documents (other than the Personal Guarantee) by the Group constituted (in relation to the Letter Agreement)/will constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, there was (i) no voting trust or other agreement or arrangement or understanding entered into by binding upon each of Mr. Yu and his associates; and (ii) no obligation or entitlement of each of Mr. Yu and his associates, whereby he has or may have temporarily or permanently passed control over the exercise of the voting right in respect of his Shares to a third party, either generally or on a case by case basis. The Connected Transactions are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements.

The Independent Board Committee has been established to provide recommendations to the Independent Shareholders in respect of the Connected Transactions. The Independent Financial Adviser has also been appointed to advise the Independent Board Committee and the Independent Shareholders in the same respect.

### GENERAL

As at the Latest Practicable Date, the Purchaser did not hold any Share. Mr. Yu, the chairman of the Company, an executive Director and the Controlling Shareholder, is a party to the First Personal Guarantee and the Second Personal Guarantee, which were executed to secure the LWD MTQ Secured Obligations. Since the entire amount of the Consideration will be used to repay equivalent sum under the LWD MTQ Agreements by way of set-off, Mr. Yu is considered to be interested in the Disposal and the Connected Transactions. Accordingly, he

## **LETTER FROM THE BOARD**

shall abstain from voting on the relevant resolutions to approve the Disposal and the Connected Transactions at the SGM. Save for the aforesaid, no Shareholder is required to abstain from voting on the resolutions to be proposed at the SGM.

### **SGM**

A notice convening the SGM to be held at Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong at 10:45 a.m. on 7 December 2012 is set out on pages 96 to 100 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete the form of proxy and return it to the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjourned meeting should you so wish.

### **RECOMMENDATION**

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on pages 50 to 51 of this circular which contains its recommendation to the Independent Shareholders on the Connected Transactions.

Your attention is also drawn to the letter from the Independent Financial Adviser on pages 52 to 72 of this circular which contains, among other matters, its advice to the Independent Board Committee and the Independent Shareholders regarding the Connected Transactions.

The Directors consider the terms of the Disposal and the Connected Transactions to be fair and reasonable and the Disposal and the Connected Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend (i) the Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Disposal and the transactions contemplated thereunder; and (ii) the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Connected Transactions.

### **PROCEDURES BY WHICH A POLL MAY BE DEMANDED**

Pursuant to bye-law 70 of the Bye-Laws, a resolution put to the vote of a general meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the results of the show of hands or on the withdrawal of any other demand for a poll) demanded by:

- (i) the chairman of the meeting; or
- (ii) at least three members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

## LETTER FROM THE BOARD

- (iii) any member or members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) a member or members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

According to the amended rule 13.39(4) of the Listing Rules which became effective on 1 January 2009, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the Company will procure that the chairman of the SGM shall demand voting on the resolutions set out in the notice of SGM be taken by way of poll.

### FURTHER INFORMATION

Your attention is drawn to the “Letter from the Independent Board Committee” as set out on pages 50 to 51 of this circular, the “Letter from Independent Financial Adviser” as set out on pages 52 to 72 of this circular and the additional information set out in the appendices to this circular.

Yours faithfully,  
By order of the Board  
**Nan Hai Corporation Limited**  
**Chen Dan**  
*Director*

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

*The following is the text of the letter of recommendation from the Independent Board Committee to the Independent Shareholders prepared for the purpose of inclusion in this circular.*



**南海控股有限公司\***

**NAN HAI CORPORATION LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 680)**

21 November 2012

*To the Independent Shareholders,*

Dear Sirs

**MAJOR TRANSACTION,  
CONNECTED TRANSACTIONS  
AND  
NOTICE OF SPECIAL GENERAL MEETING**

We refer to the circular of the Company to the Shareholders dated 21 November 2012 (the “**Circular**”), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as the Independent Board Committee to advise you as to whether, in our opinion, the terms of the Connected Transactions and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned. Odysseus Capital Asia Limited has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 52 to 72 of the Circular. Your attention is also drawn to the “Letter from the Board” of the Circular and the additional information set out in appendices to the Circular.

\* *For identification purpose only*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

Having considered the terms of the Connected Transactions and the transactions contemplated thereunder and the advice of the Independent Financial Adviser, we consider that the Connected Transactions and the transactions contemplated thereunder are fair and reasonable as far as the Independent Shareholders are concerned and the Connected Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Connected Transactions.

Yours faithfully,

The Independent Board Committee

**Mr. Huang Yaowen**

**Prof. Jiang Ping**

**Mr. Lau Yip Leung**

*Independent non-executive Directors*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the full text of the letter of opinion from Odysseus Capital Asia Limited to the Independent Board Committee and the Independent Shareholders in relation to the Connected Transactions and the transactions contemplated thereunder, for the purpose of incorporation in this circular.*

**ODYSSEUS**

### **ODYSSEUS CAPITAL ASIA LIMITED**

Room 2112–13, Shui On Centre,  
6–8 Harbour Road, Wanchai  
Hong Kong

21 November 2012

*To the Independent Board Committee  
and the Independent Shareholders*

Dear Sir or Madam,

## **CONNECTED TRANSACTIONS**

### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Letter Agreement and the connected transactions contemplated under the Transaction Documents (together, the “Connected Transactions”) which shall be entered into upon completion of the Disposal, details of which are set out in the circular of the Company dated 21 November 2012 (the “Circular”) of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular, unless the context requires otherwise.

The Directors announced that, on 26 October 2012, the Company, LWD and the Purchaser signed the Letter Agreement setting out, inter alia, the arrangements with respect to repayment under the obligations of the LWD MTQ Agreements. They further announced that, on 31 October 2012, the Vendor, a wholly-owned subsidiary of the Company, Listar and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire 30% of the entire issued share capital of Listar and 30% of the aggregate outstanding amount of shareholder’s loan owing by Listar to the Vendor as at the Completion Date at an aggregate consideration of approximately US\$160.38 million.

The Disposal constitutes a major transaction of the Company under the Listing Rules. The Group entered into the Letter Agreement on 26 October 2012 to set out arrangement as regards repayment in relation to the LWD MTQ Agreements. Upon Completion, the Purchaser shall become a 30% shareholder of Listar and thus regarded as a connected person of the Company. Therefore, the entering into of the Letter Agreement by the Vendor and LWD to the Purchaser constituted a connected transaction of the Company under the Listing Rules. Besides, as at

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Completion, the Vendor shall enter into other Transaction Documents, including the Option Agreement, the Shareholders Agreement and the Deed of Covenant, which are secured by the Security Documents. The transactions contemplated under these Transaction Documents will constitute connected transactions of the Company under the Listing Rules. Mr. Yu, the chairman of the Company, a controlling Shareholder and executive director of the Company and thus a connected person of the Company, being a party to the Personal Guarantee guaranteeing the Obligor's obligations to the Purchaser under the Transaction Documents, therefore, he is considered to be interested in the Disposal. Accordingly, Mr. Yu and his associates shall abstain from voting on the resolutions to approve the Transaction Documents. All Connected Transactions contemplated under the Transaction Documents shall be subject to the approval of the Independent Shareholders by means of poll vote at a special general meeting of the Company to be convened.

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Huang Yaowen, Prof. Jiang Ping and Mr. Lau Yip Leung, has been established to advise the Independent Shareholders on the terms of the Connected Transactions. Odysseus Capital Asia Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Connected Transactions are fair and reasonable and whether the documents relating to the Connection Transactions are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

In formulating our opinion, we have relied upon the information and facts contained or referred to in the announcement of the Company dated 31 October, 2012 as well as the representations made and materials supplied or made available by the Directors and the management of the Company. The Directors have declared in a responsibility statement set out in Appendix III to the circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular. We have assumed that all such information, facts and representations were true and accurate in all respects at the time they were supplied or made and continue to be true and accurate at the date of the Circular and can be relied upon and will continue as such at the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of such information and representations and have confirmed with the management of the Company that no material facts have been withheld or omitted from such information and representations. In relation to the third party expert, i.e. the independent valuer, namely Vigers Appraisal and Consulting Limited (the "Independent Valuer"), providing valuation relevant to the Disposal for inclusion in this letter, we have taken all reasonable and necessary steps to comply with the requirements set out in Rule 13.80 of the Listing Rules and we are not aware of any issues that shall be brought to the Independent Shareholders' attention. The steps taken by us include the followings:

- (i) discussing with the Independent Valuer with respect to their expertise and any current or prior relationships with the Company, other parties to the Sale and Purchase Agreement and connected persons of either the Company or other parties to the Sale and Purchase Agreement;

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) reviewing the terms of their engagement (having particular regard to the scope of work, whether the scope of work is appropriate to the valuation required to be given and any limitation on the scope of work which might adversely impact on the degree of assurance given by the valuation report); and
- (iii) save for the information as disclosed in the Circular, we are not aware that the Company or other parties to the Sale and Purchase Agreement has made formal or informal representation to the Independent Valuer.

We consider that we have been provided with sufficient information to enable us to reach an informed view. We have not, however, for the purpose of this exercise, conducted any independent verification of such information or any independent in-depth investigation or audit into the business, affairs, financial position or future prospects of the Company, the Purchaser, or any of their respective subsidiaries or associates nor have we carried out any independent verification of the information provided by the Company. Our opinion is based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change this opinion and that we do not have any obligation to update, revise or reaffirm this opinion.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Connected Transactions, we have considered the following principal factors and reasons:

#### 1. Background of the Group and Listar

##### *i. Information of the Group*

The Company is an investment holding company whose subsidiaries are engaged in (i) property development; (ii) corporate IT application services; and (iii) culture and media services. Based on the information set out in the interim report for the six months ended June 2012 and the annual reports for the years ended 31 December 2010 and 2011, the consolidated financial results of the Group are summarised as below:

	<b>For the six month ended 30 June 2012 (unaudited) HK\$'000</b>	<b>For the year ended 31 December 2011 (audited) HK\$'000</b>	<b>2010 (audited) HK\$'000</b>
Turnover from continuing operations	929,213	2,333,452	1,932, 979
Profit/(Loss) attributable to owners of the Company from continuing and discontinued operations	(234,551)	(494,746)	(381,573)



<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b>
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	As at 30 June 2012 (unaudited) <i>HK\$'000</i>	As at 31 December 2011 (audited) <i>HK\$'000</i>	2010 (audited) <i>HK\$'000</i>
Current assets	9,927,636	9,540,971	8,802,802
Non-current assets	<u>2,379,771</u>	<u>2,279,227</u>	<u>1,754,408</u>
<b>Total assets</b>	12,307,407	11,820,198	10,557,210
Current liabilities	7,029,703	6,116,507	5,007,074
Non-current liabilities	<u>1,396,167</u>	<u>1,516,171</u>	<u>1,029,916</u>
<b>Total liabilities</b>	8,425,870	7,632,678	6,036,990
<b>Net assets</b>	<u><u>3,881,537</u></u>	<u><u>4,187,520</u></u>	<u><u>4,520,220</u></u>

As shown in the table above, the Group recorded a turnover from its continuing operations of approximately HK\$2,333.45 million for the year ended 31 December 2011, representing an increase of approximately 20.72% from the preceding financial year. Nonetheless, net loss attributable to owners of the Company amounted to approximately HK\$494.75 million for the year ended 31 December 2011 as compared with that of approximately HK\$381.57 million for the year ended 31 December 2010.

As at 31 December 2011, the Group had audited total assets of approximately HK\$11,820.20 million, representing an increase of approximately 11.96% as compared with the year ended 31 December 2010. According to the annual report for the year ended 31 December 2011, the Group's aggregated borrowings amounted to approximately HK\$4,917.62 million, implying an increase of approximately 25.77%. The gearing ratio of the Group, as stated in the annual report, increased from 43.46% as at 31 December 2010 to 51.83% as at 31 December 2011.

As stated in the Company's 2011 annual report, the Group would remain cautiously optimistic about the prospect of the property market in China, given the remote likelihood of further tightening measures from the PRC government due to the imperative maintenance of the economic growth in China, ever accelerating urbanization, and appreciation of Renminbi. The Group would forge ahead with the development of Phase 3 of "The Peninsula" and the initial sales of "Free Man Garden" (the underlying property project of the Disposal), as stated in the Company's 2011 annual report.

According to the Company's annual reports for the financial years from 2009 to 2011, the performance of the Group in property development has substantially been dependent on the sales and construction process of the "The Peninsula". In 2009, the Company's property development division achieved turnover and net profit before tax of approximately HK\$3,377.0 million and HK\$833.9 million respectively. This appeared to be a remarkable performance for the division in recent years, which was mainly

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

attributable to the satisfying sales of Phase 2 of “The Peninsula”. However, sales of the remaining properties in Phase 2 of “The Peninsula” plummeted in subsequent years and fell short of the expected figures due to the austerity measures of the PRC government on the property market, which in turn led to contraction in the transaction volumes of the property market in Shenzhen. Thus, turnovers of the Company’s property development division in 2010 and 2011 were reduced by over 70% (compared to that of 2009) to approximately HK\$715.6 million and approximately HK\$736.2 million respectively, with net profit before tax of approximately HK\$32.1 million and approximately HK\$108.4 million in the respective periods.

*ii. Information of the Listar Group*

Listar is a wholly-owned subsidiary of the Vendor before the completion of the Disposal. Listar is an investment holding company holding the entire issued share capital of Honest Link which is an investment holding company and its main asset is the entire equity interest in the Project Company.

The Project Company is a co-operative joint venture established in the PRC with registered capital of US\$42 million. Its approved business scope is to develop, construct, sell, lease out and manage self-developed commodity properties and the related ancillary facilities on the Site. As at the date of this Circular, the Project Company is wholly owned by Honest Link and the main asset of the Project Company is the Project.

The Site having an area of approximately 615,000 sq.m., is designated for residential development. The Project namely “Free Man Garden” situated at the Site, having a gross floor area of approximately 1,036,000 sq.m., will be developed in 5 phases. The gross floor area of phase 1 of the Project is approximately 298,000 sq.m. of which a saleable area of approximately 210,000 sq.m. is for residential. The pre-sale of residential premises in phase 1, having a total saleable area of approximately 54,000 sq.m., was launched in May 2012, of which approximately 40,000 sq.m. of saleable area was sold which derived sales proceeds of approximately HK\$390 million as of 30 September 2012. Based on such historical sales figures, the Directors believe that assuming the property market in Guangzhou remain stable, phase 1 should be substantially sold out in 2013 and construction of phase 2 will commence next year with its pre-sale targeting toward the end of 2013 or early 2014.

<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b>
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Set out below is the consolidated financial information of Listar for the two years ended 31 December 2010 and 31 December 2011 and for the six months ended 30 June 2012:

	<b>As at/for the six months ended 30 June 2012 (unaudited) HK\$'000</b>	<b>As at/for the year ended 31 December 2011 (unaudited) HK\$'000</b>	<b>As at/for the year ended 31 December 2010 (unaudited) HK\$'000</b>
Net assets	146,739	170,363	177,479
Profit/(loss) before taxation	(17,949)	(34,333)	(39,919)
Profit/(loss) after taxation	(17,949)	(34,333)	(39,919)

## **2. Overview of the PRC property market**

According to China Residential Market Watch for Q1 2012 issued by Beijing Holdings Information & Technology Co Ltd and Knight Frank LLP (the “Knight Frank Report”), China currently has the world’s largest housing market, where both local and foreign investors have immense interest in. In 2011, an estimated 9.6 million new homes were sold across Mainland China. The real estate sector accounted for approximately 20.4% of China’s RMB30.2 trillion fixed asset investments last year. Meanwhile, foreign direct investment (FDI) in China’s real estate sector amounted to approximately US\$26.9 billion in 2011, accounting for approximately 23.2% of the country’s total inbound FDI.

As stated in the World Bank database, the gross domestic product (“GDP”) of the PRC increased from approximately US\$5,931 billion in 2010 to approximately US\$7,318 billion in 2011. The stimulus package that propelled the PRC economy since the global financial crisis in 2008 has resulted in inflation, overpriced property market and escalating debts owed especially by local governments. In the first half of 2011, the government carried out a series of measures to regulate the residential market, including but not limited to increasing the building of subsidized housing, imposing restrictions on home-purchase in individual cities and raising the down-payment ratios and mortgage rates for the purchase of second homes. Meanwhile, the People’s Bank of China tightened credit by successively raising the RMB required reserve ratio on deposit-taking financial institutions as well as RMB benchmark deposit and loan rates.

With reduced demand and bank credit, the transaction volumes of both primary and secondary residential homes declined. In the first quarter of 2012, adjusted new-home prices in 20 major Chinese cities dropped 6.0% from their last peak in the third quarter of 2011 pursuant to the Knight Frank Report. During the course of 2012, the pessimistic property market condition had subsequently led to significant liquidity problem for many PRC property developers. The liquidity issue, together with the incessant austerity measures of the PRC government, prevailing high leverage and a peak of loans maturing, substantially enhanced the default risk of non-performing mortgage and developer loans in China, deterring the confidence

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of both institutional and private lenders, at the same time further tightening credits in the market. The growth rate of credits in China has slowed down since the implementation of austerity policies, and even showed sign of deterioration in the latest period despite the recovery trend in the first half of 2012. Credit growth in September 2012 reduced to approximately RMB623.2 billion, comparing to growth of approximately RMB703.9 billion in August, while long-term corporate credit only grew by approximately RMB127.7 billion. Meanwhile, high cost of capital continues to overshadow the Chinese property market. The private lending rate in the Chinese eastern cities averaged at over 20% a year according to figures released by the People's Bank of China branch in Wenzhou in May 2012.

Located in the southern part of the PRC, Guangdong Province had a permanent population of 104.3 million at the end of 2010. According to Guangdong Province Statistical Yearbook for 2011, Guangdong Province recorded a GDP of approximately RMB5,267.4 billion in 2011, representing a year-on-year (“yoy”) growth rate of approximately 10.0%, well above the national average. In particular, the GDP from the real estate sector in Guangdong amounted to approximately RMB321.4 billion in 2011. As shown in the reports released by the Statistical Bureau of Guangzhou, the GDP of Guangzhou, where the Project is located, increased to RMB1,230.3 billion in 2011, showing the yoy increase of approximately 11.0%. Also, the per capita annual disposable income of urban households in Guangdong Province increased by approximately 12.3% from approximately RMB30,658 in 2010 to approximately RMB34,438 in 2011.

Despite the promising growth in GDP, the residential market in Guangzhou has been falling in terms of prices and transaction volumes under the shadow of tightening policies. According to the Knight Frank Report, the adjusted price of primary residential property in Guangzhou decreased by 3.4%, while the total transacted area of primary residential property plummeted by 10.0% during the first quarter of 2012 on a quarter-to-quarter basis. Yet, the fall of price of primary residential property in Guangzhou's suburban region, which includes Huadu where the Project is located, is relatively mild compared to that in urban region. During the first quarter of 2012, the average price fall of suburban primary residential property in Guangzhou was 1.0%, while the decline for urban property approached 20.1%.

Based on the foregoing and given the PRC's current economic climate, tight credit market conditions and the slowdown in property sales, we concur with the Directors' view that the Disposal is the most effective way to settle the partial payment required under the LWD MTQ Agreements and it is in the interests of the Company and its Shareholders as a whole.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 3. Principal terms of the Disposal and the Connected Transactions

As the completion of the Disposal is conditional upon, inter alia, the Independent Shareholders having approved the Transaction Documents (other than the Personal Guarantee) that are to be signed upon the Completion and the transactions contemplated thereunder at the SGM, we have therefore considered the principal terms of both the Disposal and the Connected Transactions as a whole in order to derive our opinion.

#### *The Sale and Purchase Agreement*

##### *i. Assets to be disposed of*

1. the Sale Shares, being 6,000,000 share of US\$1.00 each in the capital of Listar, representing 30% of the issued share capital of Listar as at the date of this Circular; and
2. the Shareholder Loan, being 30% of the aggregate amount of the shareholder's loan owing by Listar to the Vendor as at the Completion Date. As at 30 September 2012, the aggregate amount owed by Listar to the Vendor was approximately HK\$950 million. Pursuant to the Sale and Purchase Agreement, the Shareholder Loan shall not exceed HK\$955 million as at Completion.

##### *ii. Consideration*

The total consideration for the Acquired Interests is approximately US\$160.38 million comprising the consideration of the Shareholder Loan which shall be the face value of the Shareholder Loan on a dollar-for-dollar basis and the balance thereof shall be the consideration for the Sale Shares.

The Consideration shall be payable by the Purchaser to the Vendor upon Completion by way of direct dollar-for-dollar set-off against LWD's obligations to pay to the Purchaser under the LWD MTQ Agreements.

According to a property valuation report prepared by the Independent Valuer, the fair market value of the Project as at 30 September 2012 was approximately RMB3,201.5 million (equivalent to approximately HK\$3,904.27 million). Based on our discussion with the Independent Valuer, we note that in performing the valuation, the Independent Valuer has adopted the direct comparison approach by making reference to comparable sales evidence as available in the relevant market and has also taken into account the expended construction costs and the costs that will be expended to complete the development to reflect the quality of the completed development.

Based on the fair market value of the Project determined by the Independent Valuer and the book value of the Project as at 30 September 2012 of approximately HK\$2,185.78 million, there is a valuation surplus in the Project of approximately HK\$1,718.49 million. The total fair market value excluding the Shareholder Loan of the Listar Group as at 30 September 2012 was approximately HK\$2,808.89 million which was calculated by summation of (1) the net asset value of the Listar Group as at 30 September 2012 of

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

approximately HK\$139.96 million; (2) the valuation surplus in the Project of approximately HK\$1,718.49 million; and (3) the Shareholder Loan as at 30 September 2012 of approximately HK\$950.44 million. This implies the total fair market value, excluding the Shareholder Loan, of 30% interest in the Listar Group as at 30 September 2012 amounts to approximately HK\$842.67 million. The net Consideration after deduction of the amount owed by Listar to the Vendor of approximately HK\$285.13 million (i.e. 30% of the Shareholder Loan as at 30 September 2012) on a dollar-for-dollar basis will be approximately HK\$959.10 million. Accordingly, the Consideration represents a premium of approximately HK\$116.43 million or approximately 13.8% premium over the total fair market value excluding the Shareholder Loan of 30% interest in the Listar Group.

Having considered the current environment in the PRC property market as described above, we believe that it is very difficult and time-consuming to dispose of a minority stake in a property development project at the current market price, let alone at a premium. We therefore concur with the Directors' view that the Disposal is the most effective way to settle part of the obligations under the LWD MTQ Agreements whilst divesting part of the Project at an acceptable valuation.

Having considered the above, we concur with the Directors' view that the Consideration with a premium of approximately HK\$116.43 million and by way of dollar-for-dollar set-off against obligations of LWD (also a subsidiary of the Vendor) to pay the Purchaser under the LWD MTQ Agreements is fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

### *Connected Transactions*

The Group entered into the Letter Agreement on 26 October 2012 to set out arrangement as regards repayment in relation to the LWD MTQ Agreements. Upon Completion, the Purchaser shall become a 30% shareholder of Listar and thus be regarded as a connected person of the Company. Therefore, the entering into of the Letter Agreement by the Vendor and LWD to the Purchaser constituted a connected transaction of the Company under the Listing Rules. Besides, as at Completion, the Vendor shall enter into other Transaction Documents, including the Option Agreement, the Shareholders Agreement and the Deed of Covenant, which are secured by the Security Documents. The transactions contemplated under these Transaction Documents will also constitute connected transactions of the Company under the Listing Rules.

#### *1. Principal terms of the Option Agreement*

##### *i. Put Option*

Under the Option Agreement, the Vendor grants to the Purchaser the Put Option to require the Vendor to purchase the Option Assets at an amount in US dollars which is equal to the amount required to ensure that the Internal Rate of Return of the Purchaser's investment in the Acquired Interests be not less than the Minimum IRR of 12% per annum. The Put Option is exercisable from the Commencement Date and expiring on the date falling 24 months thereafter.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### ii. Call Option

As and from the Completion Date, the Purchaser grants to the Vendor the Call Option to require the Purchaser to sell the whole (but not part) of the Option Assets at an amount in US dollars equal to the higher of (i) the amount required to ensure that the Internal Rate of Return of the Purchaser's investment in the Acquired Interests be not less than the Minimum IRR; and (ii) the market value of the Option Assets on the relevant exercise date to be agreed by the Vendor and the Purchaser thereupon or, failing that, to be determined by an independent valuation company. The Call Option is exercisable from the Commencement Date and expiring on the date falling 24 months thereafter.

Under the current market conditions, we believe that it is difficult to sell a minority stake of a property development project in the PRC at market valuation. We regard the Put Option as an incentive for the Purchaser to agree to purchase the Acquired Interests at the Consideration which represents a substantial premium of approximately 13.8% over its appraised market value. The Minimum IRR required under the Put Option Exercise Price is equivalent to the cost of financing under the LWD MTQ Agreements. The Put Option is not exercisable until the third anniversary after the Completion Date which allows the Company to manage the funding requirement to fulfill the Put Option obligation which is pre-determined. In return for granting the Put Option to the Purchaser by the Vendor, the Purchaser also grants the Call Option to the Vendor where the Call Option Exercise Price was arrived at after arm's length negotiations by reference to the Put Option Exercise Price and to the potentiality of inflated market value of the Option Assets. We believe that the granting of the Call Option as fair and reasonable as it allows the Company to have flexibility in managing its shareholding interest in Listar, especially in the event that the Vendor takes a view that the market value of Listar will increase in the future. The Company may consider exercising the Call Option to buy back its 30% shareholding interest in Listar for entitlement of higher benefits or returns in the Project.

Based on the above, we concur with the Directors' views that the terms of the Option Agreement are on normal commercial terms based on arm's length negotiations between the Group and the Purchaser which are no less favourable to the Group than those from independent third parties given the circumstances. We consider the terms of the Option Agreement are fair and reasonable, and are in the interests of the Company and the Independent Shareholders as a whole.

### 2. *Shareholders Agreement*

The Shareholders Agreement shall be entered into between the Vendor, the Purchaser and Listar to set out the rights and obligations of the Vendor and the Purchaser in the capacity of shareholders of Listar. We consider that the principal terms and conditions contained in the Shareholders Agreement are on normal commercial terms and are customary to this type of agreement to securely protect and govern the interests of both the Purchaser and the Vendor. We concur with the Directors' belief that the terms of the Shareholders Agreement are determined based on arm's length negotiations between the Group and the Purchaser which are no less favourable to the Group than those from

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

independent third parties given the circumstances. We also consider that the terms of the Shareholders Agreement are fair and reasonable, and are in the interests of the Company and the Independent Shareholders as a whole.

### 3. *Deed of Covenant*

The Deed of Covenant shall be entered into between the Vendor, the Purchaser and Listar which includes the following principal terms:

#### i. *Relevant Acquisition*

Pursuant to the Deed of Covenant, the Vendor may conduct the Relevant Acquisition to pay approximately US\$106 million to the Purchaser on or before 31 December 2012 to settle part of the Company's obligations under the LWD MTQ Agreements. Subject to the approval of the Purchaser, the Relevant Acquisition (i) may be conducted for a percentage smaller than 19% of the interest in Listar for a consideration less than US\$100.7 million on terms acceptable to the Purchaser; and (ii) may take the form of a transfer of 19% of the equity interest in the Project Company in which case the Vendor shall, subject to compliance with the Listing Rules, transfer to the Purchaser at nominal consideration such additional shares in the issued share capital of Listar and shareholder loans due from Listar to the Vendor as to ensure that the Purchaser retains a minimum of 30% indirect interest in the registered capital of, and the shareholder loans to, the Project Company on the condition that the Purchaser shall not be entitled to share in the economic interest arising from the sale proceeds of the Relevant Acquisition.

Given immediately upon Completion, the Purchaser's indirect interest in the Project Company amounts to 30%, we concur with the Directors' view that this "anti-dilution" protection to the Purchaser as described above is fair and reasonable that in the event the Relevant Acquisition shall take the form of acquisition of equity interests in the Project Company, the Purchaser shall be able to retain a minimum of 30% indirect interest in the Project Company. We believe that it is also in the interests of the Company and the Independent Shareholders as more flexibility is given to the Company to conduct the Relevant Acquisition.

#### ii. *Internal Rate of Return*

The Vendor shall ensure that the Internal Rate of Return of the Purchaser's investment in the Acquired Interests be not less than the Minimum IRR as at the earliest of (a) 31 December 2017; (b) the date on which the Purchaser has disposed of all of its interest in the Acquired Interests; and (c) the date on which the Project is fully completed and the Project Company has made the final distributions to its shareholders.

As mentioned before, the Minimum IRR of 12% is equivalent to the cost of financing under the LWD MTQ Agreements. In assessing the Minimum IRR, we have considered the current environment of the credit market for the PRC property sector (as discussed in the section headed "Overview of the PRC property market")



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

above) and the borrowing costs of PRC property developers, in particular the bond yields and coupon rates of the US\$ denominated bonds issued by the PRC property developers listed on the Stock Exchange of Hong Kong Limited, details of which are set out below:

Name	Market Capitalization (approximately HK\$ million)	Coupon (p.a.)	Rating	Yield to maturity (average mid price)
SPG Land Holdings Ltd.	1,934	13.50%	CCC+	19.18%
Road King Infrastructure Ltd	3,962	9.50%	B+	7.76%
Road King Infrastructure Ltd	3,962	9.875%	B+	8.54%
Fantasia Holdings Group Co Ltd	4,426	14.0%	B	12.56%
Fantasia Holdings Group Co Ltd	4,426	13.75%	B	13.74%
Central China Real Estate Ltd	4,662	12.25%	B+	8.22%
China SCE Property Holdings Ltd	4,679	10.50%	B	12.16%
China SCE Property Holdings Ltd	4,679	11.50%	B	11.61%
Powerlong Real Estate Holdings Ltd	5,303	13.75%	CCC+	14.53%
Yuzhou Properties Co	5,357	13.50%	B	10.66%
Yuzhou Properties Co	5,357	11.75%	B	11.15%
China South City Holdings Ltd	7,446	13.50%	B	13.35%
China South City Holdings Ltd	7,446	13.50%	B	13.97%
Kaisa Group Holdings Ltd	7,652	13.50%	B+	11.79%
Kaisa Group Holdings Ltd	7,652	12.875%	B+	12.58%
Renhe Commercial Holdings Co Ltd	8,459	11.75%	CCC+	35.29%
Renhe Commercial Holdings Co Ltd	8,459	13.0%	CCC+	31.67%
Glorious Property Holdings Ltd	9,039	13.0%	CCC+	15.82%

Note: These prices are indicative as they are affected by trading liquidity and other market factors.

Source: Bloomberg, 15 November 2012

We believe that it is very difficult to identify any direct comparable companies for this analysis since companies comparable with the asset size of Nanhai may not be large enough to issue bonds in the bond market. However, for the purpose of this analysis, we have selected bond issuers which focus on property development in the PRC with market capitalisations of between HK\$1 billion and HK\$10 billion. These companies are in general more established than the Company in the property development sector with more diversified and sizeable property portfolios in the PRC and relatively strong balance sheets when compared to that of the Company as evidenced by their credit ratings.

Based on the above, despite the Company having a smaller balance sheet and less diversified asset portfolio, we note that the required return requested by the Purchaser under the Minimum IRR of 12% lies within the range of trading yields to maturity and the coupon rates of the bonds issued by PRC property developers listed above.

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Having considered that:

- the current credit environment for the PRC property sector and the high borrowing costs of PRC property developers as described under the section headed “Overview of the PRC property market” above;
- the Minimum IRR required by the Purchaser of 12% is equivalent to the cost of financing under the LWD MTQ Agreements; and
- the Minimum IRR lies within the range of the trading yields to maturity and the coupon rates of the bonds issued by PRC property developers listed above, which in general have more diversified and sizeable property portfolios in the PRC and relatively strong balance sheets when compared to that of the Company,

we are of the view that the Minimum IRR is fair and reasonable.

### iii. Interim cash distributions

The Vendor shall after each period of six months ending on 30 June or 31 December pay to the Purchaser a proportion of the available cash if any (after deducting, among others, any fees, expenses and tax incurred in relation to the Project) in respect of that period equal to the proportion of the Purchaser’s shareholding in Listar.

### iv. Profit distributions

After completion of each phase of the Project and all legal procedures for distribution of the net profits of the Project Company for that phase has been completed under applicable laws and regulations in the PRC, the Vendor shall make a profit distribution with respect to profits accrued for that phase (the “Interim Profit”) by Listar to its shareholders. If Listar fails to pay the Interim Profit accrued for that phase for any reason, the Vendor shall pay the Purchaser an amount (the “Vendor’s Payment”) on account of such Interim Profit distribution equal to the amount of profit distribution which Listar would otherwise have been able to pay the Purchaser. If, after the Vendor makes the Vendor’s Payment, Listar makes a profit distribution to the Purchaser to which the Vendor’s Payment or any part thereof relates, the Purchaser shall upon demand by the Vendor pay to the Vendor an amount equal to the Vendor’s Payment or the relevant part thereof in reimbursement to the Vendor.

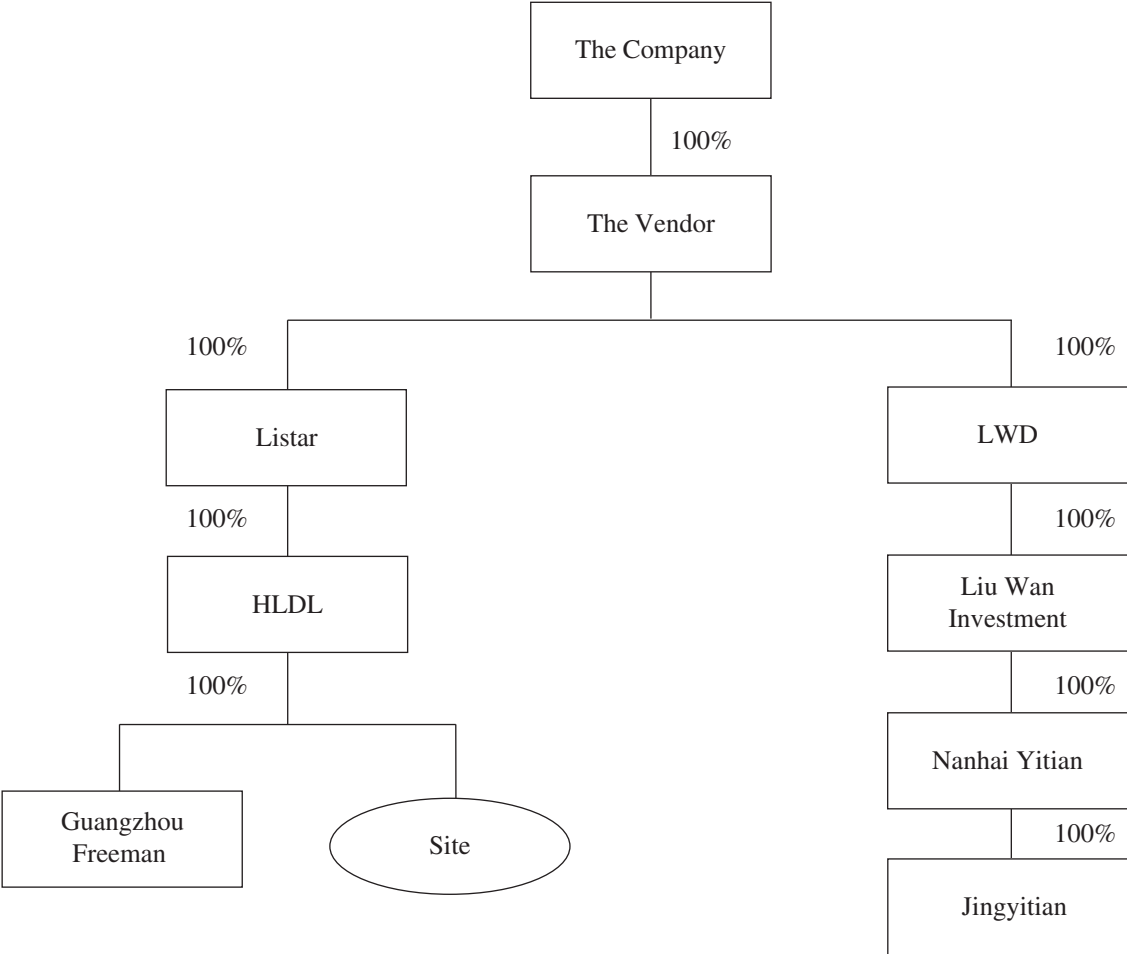
On each date which the Interim Profit distribution or the Vendor’s Payment is payable to the Purchaser, Excess Cash (if any) shall be used to set off the Interim Profit distribution or the Vendor’s Payment on a dollar-for-dollar basis, and the Vendor shall pay the Purchaser the Adjustment Amount if applicable.

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We concur with the Directors' views that the above arrangements on Cash Distributions and Profit Distributions are normal commercial terms to protect the interest of the Purchaser and are fair and reasonable after arm's length negotiations by reference to the rate of return under the LWD MTQ Agreements, and the terms thereof are no less favourable to the Group than those from independent third parties given the circumstances.

*4. The Security Documents*

For ease of reference, we set out below the shareholding structure of Listar Group and LWD group as at the date of the Circular:



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Upon Completion, the following Security Documents will also be executed to secure, inter alia, the obligations of the Obligors under the Option Agreement, the Shareholders Agreement and the Deed of Covenant.

i. Corporate Guarantee

Under the Corporate Guarantee, the Company guarantees to the Purchaser, as primary obligor, the receipt by the Purchaser and the discharge of the Secured Obligations. The Company also undertakes that so long as the Secured Obligations remain outstanding, it shall procure Mr. Yu to remain as the Controlling Shareholder.

ii. The Personal Guarantee

Under the Personal Guarantee, Mr. Yu guarantees to the Purchaser, as primary obligor, the receipt by the Purchaser and the discharge of the Secured Obligations. The Personal Guarantee does not form part of the Connected Transactions.

iii. The Listar Security Documents

The Listar Security Documents principally comprise of documents which the Group, in summary:

- (a) assigns in favour of the Purchaser all rights, title, interest and all monies at any time standing to the credit of the bank accounts of each of the Vendor and Honest Link;
- (b) assigns in favour of the Purchaser by way of first legal assignment, all rights, title and interest, present and future, arising from all shareholders indebtedness owed by Listar, Honest Link, Project Company to the Vendor, Listar and Honest Link respectively;
- (c) assigns in favour of the Purchaser by way of first legal assignment, all rights, title and interest, present and future, arising from the Sale and Purchase Agreement, the Shareholders Agreement and the Deed of Covenant;
- (d) mortgages and covenants to mortgage by way of first legal mortgage of 70% of the entire issued shares of Listar, together with all the rights, properties, monies and interest thereof to the Purchaser; and
- (e) mortgages and covenants to mortgage by way of first legal mortgage of the entire issued shares of Honest Link, together with all the rights, properties, monies and interest thereof to the Purchaser, subject to the Dongjing Share Mortgage previously entered into for securing obligations under the LWD MTQ Agreements.

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### iv. The LWD Security Documents

The LWD Security Documents principally comprise of documents which the Group, in summary:

- (a) assigns in favour of the Purchaser, by way of first fixed charge, all rights, title, interest and all monies at any time standing to the credit of the bank accounts of each of LWD and Liu Wan Investment, subject to the relevant account charges previously entered into for securing obligations under the LWD MTQ Agreements;
- (b) assigns in favour of the Purchaser by way of first legal assignment, all rights, title and interest, present and future, arising from all shareholders indebtedness owed by Liu Wan Investment and Nanhai Yitian to LWD and those owed by Nanhai Yitian to Liu Wan Investment, subject to the security assignments previously entered into for securing obligations under the LWD MTQ Agreements; and
- (c) mortgages and covenants to mortgage by way of first legal mortgage of the entire issued shares of each of LWD and Liu Wan Investment, together with all their respective rights, properties, monies and interest thereof to the Purchaser, subject to the relevant share mortgages previously entered into for securing obligations under the LWD MTQ Agreements.

We consider that the terms of the Security Documents (other than the Personal Guarantee, which does not form part of the Connection Transactions) fair and reasonable as the terms therein are normal commercial terms to secure the obligations of the Obligors under the Transaction Documents and are determined based on arm's length negotiations having taken into the account of the terms of the Disposal as a whole.

### 5. *Letter Agreement*

The Letter Agreement was entered into between the Company, LWD and the Purchaser on 26 October 2012 to set out certain arrangements in relation to the LWD MTQ Agreements. The principal terms are set out below:

#### i. Relevant Acquisition

As mentioned above under the "Deed of Covenant", the Relevant Acquisition may be conducted for a smaller percentage of the interest in Listar and its shareholder loans for a consideration less than US\$106 million payable in cash and otherwise on terms acceptable to the Purchaser in its absolute discretion. On the date on which this payment is paid, the Group shall also pay an amount of approximately US\$5.41 million (being the Murabaha Profit calculated on US\$106 million at a rate of 12% per annum for the period between 31 July 2012 and 31 December 2012),

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adjusted and calculated at such rate in respect of any additional period ending on the date on which this amount is actually paid, which shall be applied towards the satisfaction of the Secured Obligations.

ii. Revised payments by the Vendor and LWD

The Group shall pay the following amounts on or before the respective payment dates set out below (or such other date as the Purchaser may approve) towards satisfaction of the Secured Obligations in accordance with the LWD MTQ Agreements:

<b>Payment Date</b>	<b>Amount (US\$):</b>
31 December 2012	36,785,000
30 June 2013	40,277,148

On or before 14 December 2012 (or such other date as the Purchaser may approve), the Group shall pay an amount of approximately US\$160 million towards satisfaction of the Secured Obligations in accordance with the LWD MTQ Agreements (the “First Payment”). The payment is made by way of set-off of the Purchaser’s obligations to pay the Consideration at Completion under the Sale and Purchase Agreement.

On 30 June 2013 (or such other date as the Purchaser may approve), LWD shall pay for application towards satisfaction of the Secured Obligations in accordance with the LWD MTQ Agreements an amount of approximately US\$7.27 million (being the Murabaha Profit calculated on the amount of approximately US\$160 million at a rate of 12% per annum for the period between 31 July 2012 and 14 December 2012), adjusted and calculated at such rate in respect of any additional period ending on the date on which the aforesaid amount is actually paid.

iii. Conditional rebate

Conditional upon no LWD MTQ Termination Events having occurred after the date of the Letter Agreement until payment and discharge in full of the LWD MTQ Secured Obligations:

- (a) upon payment of the First Payment referred to paragraph (ii) above by the Vendor and/or LWD, the Purchaser shall be deemed to have granted a conditional rebate to LWD against the Deferred Sale Price in the amount of approximately US\$23.39 million Murabaha Profit calculated from 1 October 2011 up to 31 July 2012; and
- (b) upon payment of all amounts referred to the Revised Payments referred to paragraph (ii) above on the due dates therefor and the payment and discharge of all other Secured Obligations (whether or not due) in full on or before 30 June 2013 (or such other date as the purchaser may approve), the Purchaser shall grant a further conditional rebate to LWD against the

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Deferred Sale Price in the amount of approximately US\$9.71 million in respect of the Murabaha Profit accrued in accordance with the LWD MTQ Agreements, subject to any adjustment in respect of the date on which the relevant Revised Payment is actually made.

The aforesaid rebates are both conditional upon no Termination Event occurring after the date of the Letter Agreement until payment and discharge in full of the Secured Obligations by LWD. In the event where any of the rebates set out above are granted or paid by the Purchaser but there being the occurrence of any Termination Event prior to payment and discharged of all Secured Obligations by LWD, LWD and the Vendor shall, as a joint and several obligation, forthwith on demand by the Purchaser pay to the Purchaser an amount equal to all amounts rebated to LWD.

#### iv. Conditional waiver

The Purchaser hereby grants a conditional waiver of the occurrence of the Relevant Events on the condition that (i) no Termination Event (other than the Relevant Events) has occurred or shall occur after the date of the Letter Agreement until payment and discharge in full of the Secured Obligations, (ii) all Revised Payments referred to above are paid on the due dates therefor and (iii) all other Secured Obligations (whether or not due) are paid and discharged in full on or before 30 June 2013 (or such other date as the Purchaser may approve).

Violations of any of the aforesaid conditions would result in:

- (a) the conditional waiver granted by the Purchaser above shall be revoked and deemed not to have been given; and
- (b) the Purchaser being entitled to enforce all rights, remedies and recourse in respect of any Termination Event arising from the Relevant Events, without prejudice to its rights in respect of any other Termination Event.

Given that the Group did not make any installment payments under the obligations of the LWD MTQ Agreements due on 31 December 2011, 31 March 2012, 30 June 2012 and 30 September 2012 respectively, we consider that the Letter Agreement was entered into based on arm's length negotiations on normal commercial terms allowing the Group to reschedule its repayment obligations under the LWD MTQ Agreements whilst the Group benefiting from being granted rebates for making the Revised Payments in accordance with the prescribed dates. Hence, we are of the view that the terms of the Letter Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

#### **4. Reasons for the Disposal**

The Group has been granted two facilities in the aggregate principal amount of approximately US\$327.6 million by the Purchaser pursuant to the LWD MTQ Agreements since 2009. As at the date of the Announcement, the outstanding Deferred Sale Price payable by the Group amounted to approximately US\$371.06 million. Pursuant to the LWD MTQ Agreements, on or before 14 December 2012 (or such other date as the Purchaser may approve), the Group shall pay approximately US\$160.38 million to the Purchaser.

Although the sale of certain premises of the Project has generated sales proceeds of approximately HK\$390 million, it is not enough to settle the sum of approximately US\$160.38 million. Given the size and amount of the funds required to settle the aforesaid payment under the LWD MTQ Agreements, it is difficult for the Group to refinance such amount within a short period of time under the current market condition. The Directors consider the Disposal is the most effective way to settle the partial payment required under the LWD MTQ Agreements. In view of the above, the Directors (other than Mr. Yu, but including the independent non-executive Directors) are of the view that the terms of the Disposal are fair and reasonable, which have been arrived at after arm's length negotiations and are in the interests of the Company and the Shareholders as a whole.

The Consideration (being approximately US\$160.38 million) shall be settled by way of dollar-for-dollar set-off against obligations of LWD to pay the Purchaser under the LWD MTQ Agreements. As a result, following Completion, the Company's liabilities will be greatly reduced by approximately US\$160.38 million under the LWD MTQ Agreements, allowing the Company to focus more resources and maintain a rapid expansion strategy on its culture and media services business from which the Directors expect more robust growth in profit contribution in the next few years.

We believe that under the current market condition, disposing a minority stake in a property development project in the PRC at market valuation is very difficult, let alone disposing such a stake at a substantial premium to the market. Having considered the current financial situation of the Company and the repayment pressure under the LWD MTQ Agreements, we concur with the Directors' view that it is in the interest of the Company and its Shareholders to dispose part of the controlling interest in Listar to the Purchaser who is familiar with the Project and can commensurate a speedy completion of the Disposal.

#### **5. Possible financial effects**

##### *(a) Possible financial effects on the Disposal*

##### *i. Earnings*

Without taking into account the expenses to be incurred in connection with the Disposal, the Company has estimated that, upon Completion, a gain of approximately HK\$915.08 million as a result of the Disposal will be recognized directly in equity and will not be recognized in the profit and loss accounts. As mentioned above, such gain is estimated based on the difference between the net Consideration of approximately HK\$959.10 million and net assets value of 30% interest in the Listar



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Group as at 30 June 2012 of approximately HK\$44.02 million. Upon Completion, the Vendor will be holding 70% of the issued share capital of Listar as opposed to 100% and hence the future profit contribution from Listar will be reduced accordingly.

### *ii. Net assets*

According to the Company's interim report for the six months ended 30 June 2012, the Company's net assets value was approximately HK\$3,881.54 million. Based on the information available to the Company as at the Latest Practicable Date, immediately upon Completion, the net assets of the Company is estimated at approximately HK\$4,840.63 million, representing an increase of approximately HK\$959.10 million in accordance with the accounting standard for disposal of equity interest.

### *iii. Gearing and working capital*

According to the Company's Annual Report for the year ended 31 December 2011, the gearing ratio of the Company, which was calculated based on net debt (being total borrowings less cash) divided by total capital (being the sum of net debt and net assets), was approximately 51.83%. Upon Completion, the gearing ratio is estimated at 41.45%, representing a decrease of 20.03%. Furthermore, given that there will be a substantial reduction in the outstanding indebtedness of the Company upon Completion, the working capital of the Company is expected to improve tremendously as a result of the Disposal.

### ***(b) Possible financial effects on the Connected Transactions***

Other than the financial effects on the Disposal as described above, the Directors do not expect any further financial impacts to the Group's earnings, assets and liabilities immediately after completion of the Connected Transactions.

## **RECOMMENDATIONS**

As mentioned above, the completion of the Disposal is conditional upon, inter alia, the Independent Shareholders having approved the Transaction Documents (other than the Personal Guarantee) that are to be signed upon the Completion and the transactions contemplated thereunder at the SGM, we have therefore considered the principal terms of both the Disposal and the Connected Transactions as a whole in order to derive our opinion.

Having considered the above principal factors and reasons, in particular that:

- the Disposal is an effective way to repay part of the obligations under the LWD MTQ Agreements to the Purchaser who is familiar with the Project and can commensurate a speedy completion of the Disposal;

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- under the current market conditions, it is difficult to sell a minority stake of a property development project in the PRC at market valuation. Pursuant to the Disposal, the net Consideration represents a 13.8% premium over the net asset value of Listar adjusted for the appraised market value of the Project prepared by the Independent Valuer;
- we regard the Put Option as an incentive for the Purchaser to agree to purchase the Acquired Interests at the Consideration which represents a substantial premium over its market value. We consider the granting of the Call Option as fair and reasonable as it allows the Company to have flexibility in managing its shareholding interest in Listar, especially in the event that the Vendor takes a view that the market value of Listar will increase in the future;
- the Minimum IRR of 12% requested by the Purchaser is equivalent to the financing cost under the obligations of the LWD MTQ Agreements. Under the current environment in the credit market, especially for the PRC property development sector, we consider the Minimum IRR as fair and reasonable;
- the agreements relating to the Transaction Documents are on normal commercial terms to secure the Vendor and Purchaser's rights and obligations under the Connected Transactions; and
- the Letter Agreement was entered into to set out the new arrangements under the LWD MTQ Agreements after the Group has failed to fulfill its previous obligations under such agreements. It allows the Group to reschedule its repayment obligations under the LWD MTQ Agreements whilst the Group benefiting from being granted rebates for making the Revised Payments in accordance with the prescribed dates,

we are of the view that the terms of the Connected Transactions as a whole and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions in relation to the Connected Transactions at the SGM. We also recommend the Independent Shareholders to vote in favour of the resolution in relation to the Connected Transactions at the SGM.

Yours faithfully,  
For and on behalf of  
**Odysseus Capital Asia Limited**  
**Joseph Chu**  
*Managing Director*

**1. INDEBTEDNESS****Borrowings, secured**

At 30 September 2012, the Group's borrowings were as follows:

	<b>As at 30 September 2012</b>
	<i>HK\$'000</i>
Bank and other borrowings	2,743,332
Finance lease liabilities	386
Finance from a third party (includes finance costs payables)	<u>2,741,109*</u>
	<u><u>5,484,827</u></u>

\* The contractual principal and accrued finance costs payables as at 30 September 2012 are approximately HK\$2,741,616,000.

**Security and guarantees**

At the close of business on 30 September 2012, the Group's borrowings were secured as follows:

	<b>As at 30 September 2012</b>
	<i>HK\$'000</i>
Construction in progress	407,975
Property, plant and equipment	317,557
Prepaid land lease payments under operating leases	14,757
Intangible assets	32,048
Properties under development and completed properties held for sale	2,727,906
Financial assets at fair value through profit or loss	184
Trade receivables	14,271
Bank deposits	<u>276,320</u>
	<u><u>3,791,018</u></u>

In addition, the Group's borrowings were secured by personal guarantee given by a director, corporate guarantee given by the Company, pledge of certain shares of several subsidiaries, assignment of shareholders' loan of three subsidiaries and a subordination deed from a wholly-owned subsidiary.

Bank and other borrowings of approximately HK\$2,058,368,000 and finance from a third party of approximately HK\$2,741,109,000 were guaranteed.

### Contingent liabilities

Guarantees given in connection with credit facilities granted to:

	<b>As at 30 September 2012 HK\$'000</b>
An associate ( <i>note</i> )	15,357
Third parties ( <i>note</i> )	64,595
	<u>79,952</u>

*Note:* There have been no material developments in pending litigation against Banco de Oro-EPCI Inc. (formerly known as Equitable PCI Bank Inc.) ("**EPCIB**"), a Filipino bank, and Waterfront Philippines Inc. ("**Waterfront**"), a Filipino company, as disclosed in the Group's annual audited financial statements for the year ended 31 December 2011. Due to the pending litigation, the Group cannot ascertain the fair value of the guarantee in respect of the loan made available by EPCIB to the Company's associate.

Up to the Latest Practicable Date, information of the outstanding balance of the indebtedness of the ICBC Loan (as defined in the Company's 2011 annual report) ("**ICBC Indebtedness**") disclosed in the Group's annual audited financial statements for the year ended 31 December 2011 for ascertaining the fair value of the guarantee for ICBC Indebtedness has yet been available.

Except for the above, the Group has some pending litigations as at 30 September 2012 which the Group considered that it would not incur a material outflow of resources as a result of these litigations. For details, please refer to point 6 of Appendix III.

Saved as aforesaid and apart from intra-group liabilities and normal accounts payable, the Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 30 September 2012.

## 2. FINANCIAL AND TRADING PROSPECTS

The Group was continuously engaged in property development, culture and media services, and also corporate IT application services through its listed subsidiary, Sino-i, during the year of 2011. During the year, turnover was approximately HK\$2,365,800,000 (comprising HK\$2,333,500,000 from continuing operations and HK\$32,300,000 from discontinued operations) (2010: HK\$1,963,500,000) and net loss after tax was approximately HK\$586,000,000 (2010: HK\$428,600,000).

For the property development segment, in the first half in 2012, the Chinese government continued the austerity measures adopted last year, as a result of which the operating environment of property development business remained difficult. However, signs of solid demand in domestic consumption have already emerged. The Group therefore holds an optimistic view towards the prospect of property market in the second half of this year. The initial batch of Phase 1 of “Free Man Garden” in Guangzhou launched for pre-sale in the first half of this year has got progressive feedback from the market. In light of this, the Group will fully devote to the sale of such project in the second half of this year and will develop the next phase in due course.

廣東大地影院建設有限公司 (Guangdong Dadi Cinema Construction Limited), (“**Dadi Cinema**”), a wholly-owned subsidiary of the Company, acting as a core element of various media businesses, achieved considerable results in 2012 first half. Meanwhile, the investment projects introduced at the end of last year and in the first half of this year grew rapidly and entered into its maturity stage during the period, and thus contributed stable income for Dadi Cinema. The management of Dadi Cinema will continue to focus on further improvement in its management and operational efficiency in the second half of this year.

Sino-i will continue to expand its corporate IT application services business, step up the marketing efforts for its self-developed products; speed up the development of newly established branch operations; strengthen its overall business development ability; enhance performance contribution; facilitate the integration of internal resources; and improve operation efficiency, aiming at reducing the operating loss substantially during the year.

## 3. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the Group’s internal resources, cash flow from operations, and the new banking facility in an amount of RMB1.2 billion to be obtained, the Group after completion of the proposed Disposal, will have sufficient working capital to satisfy its present requirements for the next twelve months from the date of this circular in the absence of unforeseen circumstances. Continuous sales proceeds from the sale of residential units of the property project namely “Free Man Garden” is an additional source of fund for satisfying the working capital of the Group, and it is expected that the aforesaid new banking facility of RMB1.2 billion will be available before the first quarter of 2013 and that no impediment to obtain such facilities. The terms and conditions for the aforesaid new banking facility are expected to be those customary ones, including completion of mandatory security filing and registration with the governing departments in the PRC; no creation of any additional encumbrances over the security; no dissolution and liquidation of the borrower; and corporate guarantee etc. In the event that the

aforesaid new banking facility could not be obtained and the continuous sales proceeds from the sale of residential units of “Free Man Garden” would not be sufficient to meet the capital requirements of the Group, the Group would consider to (i) dispose of some of its assets e.g. plot(s) of bare land located in the property project of either “Free Man Garden” or “The Peninsula” or both; and/or (ii) raise funds by other alternatives, e.g. borrowings from other financiers and issuance of derivatives e.g. convertible bonds, exchangeable bonds, rights issue, warrants and etc.

#### **4. 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 2011, the date to which the latest published audited consolidated accounts of the Group were made up.

Vigers Appraisal & Consulting Limited  
International Asset Appraisal Consultants



10th Floor  
The Grande Building  
398 Kwun Tong Road  
Kwun Tong  
Kowloon  
Hong Kong

21 November 2012

The Directors  
Nan Hai Corporation Limited  
Room 15–18, 36/F  
Shun Tak Centre (China Merchants Tower)  
Hong Kong

Dear Sirs,

**Re: Valuation of Free Man Garden (a residential development) located at  
Dongjing Section of Guanghua Gonglu, Xinhua Town, Huadu District, Guangzhou City,  
Guangdong Province, the People's Republic of China (the "PRC")**

In accordance with instruction from Nan Hai Corporation Limited (the "Company") for us to assesses the value of the above-mentioned property interest held by its subsidiaries (together referred to as the "Group") located in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of (1) the market value of such property interest in its existing state and (2) the property's Capital Value When Completed as at 30 September 2012 (the "Date of Valuation") for public circular purpose.

Our valuation is our opinion of market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the property interest which is held by the Group under development in the PRC, we have valued such property interest on the basis that it will be developed and completed in accordance with the latest development proposal as provided to us by the Group. We have assumed that all consents, approvals and licences from relevant government authorities for the development proposal have been obtained or will be obtained without onerous conditions or undue time delays. We have also assumed that the design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant authorities. In arriving at our opinion of value, we have adopted the direct comparison approach by making reference to comparable sales evidences as available in the relevant market and have also taken into account the expended construction costs and the costs that will be expended to complete the development to

reflect the quality of the completed development. The “Capital Value When Completed” (also known as Gross Development Value) represents our opinion of the aggregate selling prices of the development assuming that it would have been completed at the Date of Valuation.

Our valuation has been made on the assumption that the owner sells the relevant property interest in the market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements, which would serve to increase the value of such interest. Furthermore, no account has been taken of any option or right of pre-emption concerning or affecting a sale and no forced sale situation in any manner is assumed in our valuation.

We have inspected the exterior and, where possible, the interior of the property. However, no structural survey has been made and we are therefore unable to report whether the property is free from rot, infestation or any structural defects. No tests were carried out on any of the services.

In valuing the property interest, we have assumed that the owner has free and uninterrupted rights to use, occupy or assign the property interest for the whole of the unexpired term of the respective land use rights. Furthermore, we have also assumed that all consents, approvals and licences from relevant PRC government authorities for development of the property interest were granted without any onerous conditions or undue delay.

In the course of our valuation, we have not caused title searches to be made for the property interest at the relevant government bureau in the PRC. However, we have been provided with extracts of title documents relating to the property interest. We have not, however, searched the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which do not appear on the copies handed to us. We have relied on the legal opinion (the “PRC legal opinion”) provided by the Group’s PRC legal adviser, Beijing Zhongji Law Firm.

All dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Group and therefore are only approximations.

In the course of our valuation, we have made certain valuation assumptions that are regarded as reasonable and appropriate in the current circumstances. We have also assumed that all consents, approvals and licences from relevant government authorities for the property under development have been granted without any onerous conditions or undue time delay which might affect its value. Where there exists of absence of evidence, we have assumed that the terms of land use rights of the appraised property in the PRC commenced from the issuance date of its respective State-owned Land Use Right Certificate.

Having perused all relevant documentation, we relied to a very considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, occupation, construction costs, site and floor areas and in the identification of the property in which the Group has valid interests. We have also been advised by the Group that no material facts had been concealed or omitted in the information provided to us and we have not independently verified the information so provided.



Details of the current status of titles, grant of major approvals, licenses and documents of the property interest set out in the valuation certificate are based on the information provided by the Group. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material factors have been omitted from the information so provided for us to reach an informed view, and have no reason to suspect that any material information has been withheld. We have no responsibility for any legal matters concerning the legal title to the property interest set out in this letter and valuation certificate.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the property but have assumed that the site areas shown on the documents and official site plans handed to us are correct nor have we conducted any investigation on site to determine the suitability of ground conditions and services etc. for any future development, nor have we undertaken any ecological or environmental surveys. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period. Based on our experience of valuation of similar properties in the PRC, we consider the assumptions so made to be reasonable. No on-site measurements have been taken.

In valuing the property interest, we have complied with all the requirements set out in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors (“HKIS”) and the requirements set out in Chapter 5 and Practice Notes 12 & 16 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

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

Unless otherwise stated, all monetary amounts stated are in Renminbi.

We enclosed herewith our valuation certificate.

Yours faithfully,  
For and on behalf of  
**Vigers Appraisal And Consulting Limited**  
**Raymond Ho Kai Kwong**  
*Registered Professional Surveyor*  
*MRICS MHKIS MSc(e-com)*  
China Real Estate Appraiser  
*Managing Director*

*Note:* Mr. Raymond Ho Kai Kwong, Chartered Surveyor, *MRICS MHKIS MSc(e-com)*, China Real Estate Appraiser, has over twenty five years’ experience in undertaking valuations of properties in Hong Kong and has over twenty two years’ experience in valuations of properties in the PRC, Macau, Taiwan and Asia-Pacific region.

## VALUATION CERTIFICATE

## Property interests held by the Group for development

Property	Description and tenure	Particulars of Occupancy	Market Value in existing state as at 30 September 2012																						
Free Man Garden (A residential development) Located at Dongjing Section of Guanghua Gonglu, Xinhua Town, Huadu District, Guangzhou City, Guangdong Province, the PRC	<p>The property consists of a piece of oblong-shaped site with a total site area of approximately 615,249.94 sq.m. located at the southern side of Guang Hua Gong Lu amid Huadu District in Guangzhou.</p> <p>The property is planned to be developed into a large-scale comprehensive residential estate development. The gross floor area of the proposed development upon completion will be approximately as follows:</p>	<p>The construction work of Phase 1 was in progress of which 14 residential towers were undergoing external work, 8 residential towers have been completed up to roof level and commercial portion has been completed excavation stage.</p> <p>The construction work of Phase 2, 3, 4 and 5 of the property has not been started.</p> <p>The development is planned to be completed in phases between 2013 and 2017.</p>	RMB3,201,500,000																						
	<table border="0"> <thead> <tr> <th>Use</th> <th>Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Residential</td> <td>941,910</td> </tr> <tr> <td>Commercial</td> <td>33,590</td> </tr> <tr> <td>Clubhouse</td> <td>12,128</td> </tr> <tr> <td>Kindergarten</td> <td>7,230</td> </tr> <tr> <td>Primary &amp; Secondary School</td> <td>13,850</td> </tr> <tr> <td>Other Public Facility</td> <td><u>11,180</u></td> </tr> <tr> <td>Sub-total:</td> <td>1,019,888</td> </tr> <tr> <td>Clubhouse below ground</td> <td><u>16,067</u></td> </tr> <tr> <td>Sub-total:</td> <td><u>16,067</u></td> </tr> <tr> <td>Total:</td> <td><u><u>1,035,955</u></u></td> </tr> </tbody> </table>	Use	Gross Floor Area (sq.m.)	Residential	941,910	Commercial	33,590	Clubhouse	12,128	Kindergarten	7,230	Primary & Secondary School	13,850	Other Public Facility	<u>11,180</u>	Sub-total:	1,019,888	Clubhouse below ground	<u>16,067</u>	Sub-total:	<u>16,067</u>	Total:	<u><u>1,035,955</u></u>		
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	<p>The proposed development also consists of 7,423 car parking spaces upon completion.</p> <p>The construction work of Phase 1 was in progress. As estimated by the Group, Phase 1 is scheduled to complete in 4th quarter of 2013 and the whole development will be completed in or about 2017.</p> <p>The property is held under land use rights for various terms with the latest one being expired on 25 December 2068 for residential/composite uses. (Details please refer to Notes 5 to 10 below)</p>																								

*Notes:*

1. Pursuant to 5 State-owned Land Use Right Grant Contracts and their five supplemental contracts, the land use rights of the property is granted to 廣州東鏡新城房地產有限公司 (Guangzhou Dongjing Xin Cheng Real Estate Company Limited, referred hereinafter as “Guangzhou Dongjing), the principal terms of the above contracts are as follows:

No.	State-owned Land Use Right Grant Contract (Document No.)	Land Area (sq.m.)	Term (Years)	Use	Land Premium (RMB)
1.	Hua Gua Fang De Zi (1998) Di No. 065	494,562.95	70	Commodity Property	148,368,000
2.	Hua Guo Tu (1993) De Pi Zi Di No. 532	33,486	70	Commercial and residential	3,378,737.4
3.	Hua Guo Tu (1993) De Pi Zi Di No. 536	26,796	70	Commercial and residential	2,703,716.4
4.	Hua Guo Tu (1993) De Pi Zi Di No. 545	28,913	70	Commercial and residential	2,917,321.7
5.	Hua Guo Tu (1993) De Pi Zi Di No. 574	30,000	70	Commercial and residential	3,027,000
<b>Total</b>		<b><u>613,757.95</u></b>			<b><u>160,394,775.5</u></b>

2. According to State-owned Land Use Right Grant Contract (Document No. Hua Gua Fang De Zi (1998) Di No. 065) contains, inter-alia, the following conditions:
- If Guangzhou Dongjing does not use the land according to the terms agreed in this contract or does not invest in construction of the land in two years, the land use rights pertaining to the land may be taken back by the government according to the law.
  - If either the Grantor or Guangzhou Dongjing (Grantee) against any terms in this contract or its supplemental contract, it will be treated as breach of contract. All the losses will be handled according to the PRC law.
  - The development shall be completed before 20 November 2000.
3. According to 3 State-owned Land Use Right Grant Contracts (Document Nos. Hua Guo Tu (1993) De Pi Zi Di No. 532, 545 and 574) contains, inter-alia, the following conditions:
- If Guangzhou Dongjing does not use the land according to the terms agreed in this contract or does not invest in construction of the land in two years, the land use rights pertaining to the land may be taken back by the government without any compensation.
  - Guangzhou Dongjing shall use the land according to the purposes permitted and shall construct the property pursuant to construction design plans approved by the government.
  - The contract does not stipulate time limits for completion of the development.
4. According to a State-owned Land Use Right Grant Contract (Document No. Hua Guo Tu (1993) De Pi Zi Di No. 536) contains, inter-alia, the following conditions:
- Gongzhou Dongjing shall commence the development within 180 days from the land use rights granted. The construction of the property shall be at least 60% completed on gross floor area before 1 October 1996.

- (ii) Guangzhou Dongjing shall use the land according to the purposes permitted and shall construct the property pursuant to construction design plans approved by the government.
5. According to two State-owned Land Use Right Certificates (Document Nos. Hua Guo Yong (93) Zi Di 11016292 and 11016293) both dated 28 December 1993 issued by the People's Government of Huadu City, portion of the site with a site area of approximately 33,486 sq.m. (Lot No.: 21 Qu 1 Zong) and 26,796 sq.m. (Lot No.: 21 Qu 2 Zong) respectively is vested in Guangzhou Dongjing for a term of 70 years commencing from 28 December 1993 and expiring on 27 December 2063 for composite uses.
  6. According to a State-owned Land Use Right Certificate (Document No.: Hua Guo Yong (97) Zi Di 11030357) dated 10 December 1997 issued by the People's Government of Hua Du City, portion of the site with an area of approximately 28,913 sq.m. (Lot No.: 121009) is vested in Guangzhou Dongjing for a term of 70 years commencing from 3 December 1993 and expiring on 2 December 2063 for residential (composite) uses.
  7. According to a State-owned Land Use Right Certificates (Document Nos.: Hua Guo Yong (97) Zi Di 11030358) issued by the People's Government of Hua Du City, portion of the site with a site area of approximately 30,000 sq.m. (Lot No.: 121010) dated 12 December 1997 is vested in Guangzhou Dongjing for a term of 70 years commencing from 3 December 1997 and expiring on 2 December 2067 for residential (composite) uses.
  8. According to a State-owned Land Use Right Certificate (Document No.: Hua Guo Yong (2000) Zi Di 11034456) dated 1 December 2000 issued by the People's Government of Hua Du City, portion of the site with an area of approximately 33,330.57 sq.m. (Lot No.: 012017) is vested in Guangzhou Dongjing for a term expiring on 25 December 2068 for residential (composite) uses.
  9. According to a State-owned Land Use Right Certificate (Document No.: Hua Guo Yong (2004) Zi Di 720205) issued by the People's Government of Hua Du City, portion of the site with an area of approximately 65,924.67 sq.m. (Lot No.: 0121033) is vested in Guangzhou Dongjing for a term expiring on 20 December 2068 for residential uses.
  10. According to a State-owned Land Use Right Certificate (Document No.: Hua Guo Yong (2004) Zi Di 720206) issued by the People's Government of Hua Du City, portion of the site with an area of approximately 396,799.7 sq.m. (Lot No.: 0121032) is vested in Guangzhou Dongjing for a term expiring on 20 December 2068 for residential uses.
  11. According to 7 State-owned Land Use Right Certificates as mentioned in Notes 5 to 10 above, Lot Nos. and site area of the property are summarized as follows:

No.	State-owned Land Use Right Certificate (Document No.)	Lot No.	Site Area (sq.m.)
1.	Hua Guo Yong (93) Zi Di 11016292	21 Qu 1 Zong	33,486
2.	Hua Guo Yong (93) Zi Di 11016293	21 Qu 2 Zong	26,796
3.	Hua Guo Yong (97) Zi Di 11030357	121009	28,913
4.	Hua Guo Yong (97) Zi Di 11030358	121010	30,000
5.	Hua Guo Yong (2000) Zi Di 11034456	012017	33,330.57
6.	Hua Guo Yong (2004) Zi Di 720205	0121033	65,924.67
7.	Hua Guo Yong (2004) Zi Di 720206	0121032	396,799.7
<b>Total</b>			<b><u>615,249.94</u></b>

12. According to a Construction Land Use Planning Permit (Document No.: 93210) dated 16 August 1993 issued by Guangzhou City Town Planning Bureau Huadu Branch (廣州市城市規劃局花都區分局) in favour of 廣州東鏡新城房地產開發有限公司, the permitted site area for construction of the property is approximately 306,823 sq.m..

13. According to a Construction Land Use Planning Permit (Document No.: 94217) dated 30 July 1994 issued by Huadu City Planning Bureau (花都市規劃局) in favour of Guangzhou Dongjing, the permitted site area for construction of the property is approximately 494,562.95 sq.m..
14. According to a document issued by Guangzhou City Town Planning Bureau (廣州市城市規劃局) (Document: Sui Gui Pi (2007) No. 273) dated 12 September 2007, the permitted total gross floor area of the whole development is 1,292,351 sq.m. (1,032,551 sq.m. based on plot ratio). The aforesaid document contains, inter-alia, the following conditions:

Site Area	Net Site Area	Plot Ratio	Maximum Site Coverage	Green Area Ratio	No. of Units	Total Gross Floor Area (sq.m.)
615,253.9 sq.m.	570,509 sq.m.	1.8% (based on net site area of 570,509 sq.m.)	14.65% (based on net site area of 570,509 sq.m.)	36% (based on net site area of 570,509 sq.m.)	10,667 units	1,292,351 sq.m. (1,032,551 sq.m. based on plot ratio)

15. According to the aforesaid document (Document: Sui Gui Pi (2007) No. 273), Phase 3 (now Phase 1) of the property comprises the commercial portion and wet market with gross floor area of approximately 20,680 sq.m. and 2,000 sq.m. respectively. As informed by the Company, the commercial portion and wet market of Phase 1 have not yet been obtained Construction Work Planning Permits.
16. According to the following documents issued by Guangzhou City Town Planning Bureau (廣州市城市規劃局) in favour of Guangzhou Dongjing, Phase 1 of the property is permitted to comprise the following development:

Document No.	Building	Approved Gross Floor Area
Sui Gui Han (2009)8632	Residential	21,334 sq.m. above ground
Sui Gui Han (2009)8634	Residential	21,215 sq.m. above ground
Sui Gui Han (2009)8636	Residential	25,202 sq.m. above ground
Sui Gui Han (2009)8637	Residential	23,889 sq.m. above ground
Sui Gui Han (2009)8639	Residential	26,258 sq.m. above ground
Sui Gui Han (2009)8640	Residential	21,441 sq.m. above ground
Sui Gui Han (2009)8642	Residential	23,041 sq.m. above ground
Sui Gui Han (2009)8643	Residential	18,965 sq.m. above ground
Sui Gui Han (2009)8644	Residential	10,154 sq.m. above ground
Sui Gui Han (2009)8645	Residential	9,318 sq.m. above ground
Sui Gui Han (2009)8646	Residential	8,808 sq.m. above ground
Sub-total		<u>209,625 sq.m. above ground</u>
Sui Gui Han (2009)8647	Kindergarten	<u>4,350 sq.m. above ground</u>
Sub-total		<u>4,350 sq.m. above ground</u>
Sui Gui Han (2009)8648	Community Service Centre	7,821.01 sq.m. above ground <u>16,067 sq.m. below ground</u>
Sub-total		<u>7,821.01 sq.m. above ground</u> <u>16,067 sq.m. below ground</u>
Sui Gui Han (2010)785	Carpark and Plant Room on Basement	<u>60,005 sq.m. below ground</u>
Sub-total		<u>60,005 sq.m. below ground</u>
Total		<u>221,796.01 sq.m. above ground</u> <u>76,072 sq.m. below ground</u>

17. According to a Construction Commencement Permit issued by Guangzhou Huadu Development Bureau dated 8 February 2010 in favor of Guangzhou Dongjing (廣州東鏡新城房地產有限公司), Phase 1 of the property is permitted to commence the construction work of 11 blocks of residential buildings, kindergarten and basement of residential with a construction scale of approximately 273,981 sq.m.
18. Pursuant to a Guangzhou Commodity Property Pre-sale Permit issued by Guangzhou Land Resources and Building Management Bureau on 8 October 2012, Phase 1 of the property comprising 960 residential units with total gross floor area of approximately 120,069.18 sq.m. is permitted to pre-sale.
19. As instructed by the Company, we have valued the whole development including the sold portion of the development in our valuation for the sold portion has not yet been handed over to individual owners. The sold portion of the development comprising 238 residential units of Phase 1 with total gross floor area of approximately 27,818.64 sq.m.

For the 238 residential units that were sold at a total consideration of about RMB224,000,000.

20. According to the development proposal and information given, the estimated total construction costs (excluding land costs) for developing the property as at 30 September 2012 was in the sum of RMB3,521,185,670 and the construction costs incurred at the Date of Valuation was approximately RMB1,019,295,544. In the course of our valuation, we have taken into account the said construction costs.
21. Based on the total gross floor area that is allowable to be sold in the future, the Capital Value When Completed of the proposed development as at the Date of Valuation was approximately RMB8,132,000,000 on the basis assuming the development was completed as at the Date of Valuation.
22. The levy and computation of Land Appreciation Tax of the subject property have not been taken account into our valuation.
23. Pursuant to a Mortgage Contract (Document No.: Di Zi Yue Xing 268 Zhi Xing 2010 Nian W001) dated 10 June 2010, a portion of the site (State-owned Land Use Right Certificate Document No. Hua Guo Yong (2004) Zi Di 720206 and Hua Guo Yong (93) Zi Di 11016292) with total land area of 430,286.32 sq.m. is subject to a mortgage in favour of ICBC (Sales Department of Guangdong Province Branch). As informed by the Company, the mortgage for State-owned Land Use Right Certificate Document No. Hua Guo Yong (2004) Zi Di 720206 with a land area of 396,799.75 sq.m. has been released.
24. Pursuant to a Mortgage Contract (Document No.: GDY477390120100017) dated 5 July 2010, a portion of the site (State-owned Land Use Right Certificates Document No. Hua Guo Yong (2000) Zi Di 11034456 and Hua Guo Yong (2004) Zi Di 720205) with total land area of 99,255.24 sq.m. is subject to a mortgage in favour of Bank of China Limited (Guangzhou Huadu Branch) to guarantee a maximum loan of RMB400,000,000 for a period between 1 March 2010 and 1 March 2015.
25. Pursuant to a Mortgage Contract dated 4 May 2010, a portion of the site (State-owned Land Use Right Certificate Document No. Hua Guo Yong (2004) Zi Di 720206) with a land area of 396,799.75 sq.m. is subject to a mortgage in favour of China Construction Bank (Guangzhou Huadu Branch).
26. Pursuant to a Mortgage Contract (Document No.: Di Zi Yue Xing 268 Zhi Xing 2012 Nian DJ001) dated 16 May 2012, a portion of the property comprising 144 residential units of Unit 201, 202, 203, 301, 302, 303, 402, 602, 702, 703, 802, 901, 1001, 1101, 1103, 1202, 1302, 1401, 1402, 1403, 1501, 1503, 1601, 1701, 1802, 1901, 1903, 2002, 2003, 2102, 2201, 2202, 2301, 2302, 2303, 2401, 2402, 2501, 2502 and 2602 of Block 11, Unit No. 201, 203, 204, 301, 401, 404, 503, 601, 603, 702, 703, 903, 1003, 1101, 1104, 1201, 1203, 1301, 1402, 1403, 1502, 1503, 1602, 1603, 1604, 1701, 1702, 1703, 1801, 1802, 1803, 1804, 1902, 1903, 2002, 2003, 2102, 2103, 2104, 2202, 2203, 2204, 2301, 2302, 2303, 2304, 2401, 2402, 2403, 2404, 2501, 2502, 2503, 2504, 2601, 2602 and 2603 of Block 12 and Unit 201, 203, 204, 301, 302, 303, 304, 403, 501, 502, 504, 602, 701, 703, 1004, 1103, 1303, 1401, 1402, 1403, 1404, 1501, 1502, 1503, 1504, 1601, 1602, 1603, 1702, 1801, 1802, 1803, 1804, 1901, 1903, 2002, 2003, 2102, 2103, 2104, 2202, 2203, 2204, 2301, 2302, 2303 and 2304 of Block 16 is subject to a mortgage in favour of ICBC (Guangzhou Huadu Branch).

27. In the course of our valuation, we have made the following assumptions:
- (i) The property is freely transferable together with the residual term of its land use rights to any third party (both overseas and domestic) in the open market at no extra land use rights grant premium and other onerous charges payable to the government authorities and with the benefit of vacant possession;
  - (ii) We have valued such property interest on the basis that it will be developed and completed in accordance with the Group's latest development proposals provided to us. We have assumed that all necessary approvals for the proposals have been obtained;
  - (iii) The design and construction of the future development to be erected over the subject land is in compliance with the land planning regulations and have been approved by the relevant authorities;
  - (iv) In the course of our valuation, we have not conducted any land surveying to verify the correctness of the site boundaries. We have valued the Property in its existing state and according to the boundary information given to us by the Instructing Party;
  - (v) Should there exists any change in site area or other important development parameters such as the plot ratio, site coverage, building height restriction etc., we would like to reserve our rights for amending our valuation;
  - (vi) The property is free from any mortgage, legal charges, order and other encumbrances which may cause adversely effect on the titleship of the property; and
  - (vii) the land premium and other costs of ancillary utility services for the subject Property has been fully paid and there will be no need to pay any resettlement and ancillary utilities costs in relation to this project.
28. The PRC legal opinion states, inter-alia, the following:
- (i) The ownership of the land use rights is legally vested in Guangzhou Dongjing.
  - (ii) Guangzhou Dongjing is legally entitled to build commercial and residential buildings on the property and mortgage the land use rights. After completion of the buildings, Guangzhou Dongjing is legally entitled to sell and mortgage the buildings.
  - (iii) The land use rights of lands with land use rights certificate No. Hua Guo Yong (2004) Zi Di 720206, Hua Guo Yong (93) Zi Di 11016292, Hua Guo Yong (2000) Zi Di 11034456, Hua Guo Yong (2004) Zi Di 720205 and 144 residential units are subject to mortgage. The 144 residential units which are subject to mortgage are as follows:  
  
Unit 201, 202, 203, 301, 302, 303, 402, 602, 702, 703, 802, 901, 1001, 1101, 1103, 1202, 1302, 1401, 1402, 1403, 1501, 1503, 1601, 1701, 1802, 1901, 1903, 2002, 2003, 2102, 2201, 2202, 2301, 2302, 2303, 2401, 2402, 2501, 2502 and 2602 of Block 11, Unit No. 201, 203, 204, 301, 401, 404, 503, 601, 603, 702, 703, 903, 1003, 1101, 1104, 1201, 1203, 1301, 1402, 1403, 1502, 1503, 1602, 1603, 1604, 1701, 1702, 1703, 1801, 1802, 1803, 1804, 1902, 1903, 2002, 2003, 2102, 2103, 2104, 2202, 2203, 2204, 2301, 2302, 2303, 2304, 2401, 2402, 2403, 2404, 2501, 2502, 2503, 2504, 2601, 2602 and 2603 of Block 12 and Unit 201, 203, 204, 301, 302, 303, 304, 403, 501, 502, 504, 602, 701, 703, 1004, 1103, 1303, 1401, 1402, 1403, 1404, 1501, 1502, 1503, 1504, 1601, 1602, 1603, 1702, 1801, 1802, 1803, 1804, 1901, 1903, 2002, 2003, 2102, 2103, 2104, 2202, 2203, 2204, 2301, 2302, 2303 and 2304 of Block 16.
  - (iv) The land premium has been fully settled.
  - (v) Guangzhou Dongjing has obtained approval issued by the relevant government authorities for construction of residential, clubhouse and kindergarten of Phase 1 of the property, whilst has not yet been obtained approval for construction of commercial and wet market of Phase 1 of the property. The PRC legal opinion has foreseen. There is no substantial penalty nor legal consequences for Guangzhou

Dongjing for the construction work of commercial portion of Phase 1 performed without the obtain of the Construction Work Planning Permits. According to Guangzhou Dongjing, the permits for construction of commercial portion of Phase 1 will be obtained in 2013.

- (vi) A Pre-sale Permit of 960 residential units with total gross floor area of 120,069.18 sq.m. has been obtained.
  - (vii) Guangzhou Dongjing has pre-sale 238 residential units as at 30 September 2012. The aforesaid 238 residential units are under construction and have not yet been handed over to individual purchasers. Therefore, the ownership of the aforesaid 238 residential units is legally vested in Guangzhou Dongjing as at 30 September 2012. The sales and purchase agreements of the aforesaid 238 residential units have been registered with the appropriate government authorities and registration of ownership of pre-sale commodity property of the aforesaid 238 residential units have been completed. Guangzhou Dongjing will apply for permit of handed over to individual purchasers from relevant government authorities upon completion of the buildings. The aforesaid 238 residential units are not subject to any mortgage.
  - (viii) The PRC legal opinion found that Guangzhou Dongjing did not follow the land use conditions contained in the 5 Land Use Rights Grant Contracts. However, in view of the Construction Commencement Permit and Pre-sale Permit of a portion of Phase 1 have been obtained and Guangzhou Dongjing does not receive any notice or penalty from Guangzhou Huadu Land Resources and Building Management Bureau or any relevant government authorities. The PRC lawyer, in the opinion that Guangzhou Dongjing did not follow the land use conditions contained in the Land Use Rights Grant Contracts should not affect Guangzhou Dongjing's legal right to use the land.
29. The property is situated in Huadu District of Guangzhou. Huadu District is located in the northern suburban area of Guangzhou. In respect of the general property market condition, investors have regained their confidence in residential market, particularly in suburban areas where the prices were much lower than that in downtown. A large amount of supply in suburban area (estimated to be over 3,600 units) such as Huadu District in September. On quarterly basis, there were a total of 5,870 transactions in Huadu District, raised 29% to 610,148 sq.m. In the third quarter of 2012, the general price level of newly developed residential units in Guangzhou's suburban area was about RMB8,000 — RMB10,000/sq.m.
30. The property was inspected by Ms. Kathy Xu, Senior Manager, China Real Estate Appraiser (CREA), MRICS on 19 October 2012.



## 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 Group. 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 and Chief Executive

As at the Latest Practicable Date, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the directors or chief executive of the Company were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules were as follows:

#### *The Company*

#### *Long position in Shares in issue*

Name of Directors	Number of shares of HK\$0.01 each				Approximate percentage holding
	Personal interest	Corporate interest	Family interest	Total interest	
Mr. Yu	—	34,945,726,203 (Note 1)	69,326,400 (Note 2)	35,015,052,603	51.01%
Chen Dan	32,000,000	—	—	32,000,000	0.05%
Wang Gang	8,500,000	—	—	8,500,000	0.01%

#### *Notes:*

- Out of these 34,945,726,203 shares, 31,203,232,705 shares were collectively held by Mr. Yu through Rosewood Assets Ltd., Pippen Limited and First Best Assets Limited, companies wholly owned by him; and 3,742,493,498 shares were held by Macro Resources Ltd., a company indirectly held as to 60% by Mr. Yu.
- These 69,326,400 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

*Associated Corporations*

As disclosed above, Mr. Yu, together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of the Company. As such, Mr. Yu is taken to be interested in the shares that the Company or its controlled corporations hold in the associated corporations of the Company within the meaning of Part XV of the SFO, including interests held by the Company in the shares of Sino-i, a subsidiary of the Company. Sino-i is a company the shares of which are listed on the Stock Exchange and is also an associated corporation of the Company within the meaning of Part XV of the SFO. As at the Latest Practicable Date, the interests of the directors of the Company in shares and underlying shares of Sino-i were as follows:

*Sino-i**Long position in shares in issue*

Name of Director	Number of Shares of HK\$0.01 each			Total interest	Approximate percentage holding
	Personal interest	Corporate interest	Family interest		
Mr. Yu	—	12,515,795,316 (Note 1)	44,000,000 (Note 2)	12,559,795,316	63.07%

*Notes:*

- These 12,515,795,316 shares were collectively held by Goalrise Investments Limited, View Power Investments Limited and Wise Advance Investments Limited, all of which are wholly-owned subsidiaries of the Company. Mr. Yu was taken to be interested in these shares by virtue of his controlling interests in shares of the Company.
- These 44,000,000 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Company, none of the directors nor chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive were taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

**(b) Substantial Shareholders**

As at the Latest Practicable Date, so far as was known to any director or chief executive of the Company, other than a director or chief executive of the Company, the following persons had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

*The Company*

Name of person holding an interest in shares which has been disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO	Nature of interest	Number of shares in issue subject to long position	Approximate percentage of issued share capital of the Company	Note
Kung Ai Ming	Family and Corporate interest	35,015,052,603	51.01%	1
Rosewood Assets Ltd.	Beneficial interest	7,668,000,210	11.17%	3
Pippen Limited	Beneficial interest	14,830,245,497	21.60%	3
Righteous International Limited	Corporate interest	3,742,493,498	5.45%	3
Macro Resources Ltd.	Beneficial interest	3,742,493,498	5.45%	2 & 3
First Best Assets Limited	Beneficial interest	8,704,986,998	12.68%	3
CITIC Group Corporation	Corporate interest	8,635,691,472	12.58%	2
Lim Siew Choon	Corporate interest	8,819,673,777	12.85%	4
Empire Gate Industrial Limited	Beneficial interest	5,514,986,997	8.03%	4
Lee Tat Man	Beneficial interest Security interest	60,900,000 7,700,000,000	0.09% 11.22%	

*Notes:*

- Ms. Kung Ai Ming is the spouse of Mr. Yu and was taken to be interested in those shares in which Mr. Yu and herself (together with their respective corporate interests) held an interest.
- CITIC Group Corporation was indirectly interested in 8,635,691,472 shares, of which interests are held by its wholly-owned subsidiary, Staverley Assets Limited, and its 40% owned company, Macro Resources Ltd..

3. Rosewood Assets Ltd., Phippen Limited, Righteous International Limited and First Best Assets Limited are companies wholly owned by Mr. Yu and Macro Resources Ltd. is held as to 60% by Righteous International Limited. Their interests in shares are disclosed as the corporate interests of Mr. Yu above. Interest held by Macro Resources Ltd. was included as the interest of Righteous International Limited.
4. Empire Gate Industrial Limited is wholly owned by Mr. Lim Siew Choon. Its interest in shares was included as interest held by Mr. Lim Siew Choon.

### *Subsidiaries*

Name of shareholder (other than a member of the Group) who is interested in 10% or more of the subsidiary of the Company	Name of the company in which interests or short positions were held	Number of shares or extent of interest directly held in the subsidiary of the Company	Approximate percentage of issued registered share capital or registered capital of the subsidiary of the Company
西部電影集團有限公司 (Western Movie Group Co., Ltd.)*	陝西西影大地影院建設 有限公司 (Shaanxi Xi Ying Dadi Cinema Construction Limited)*	RMB9,000,000	30%
The Purchaser	Listar	6,000,000 Shares (L)	30%

\* *English transliteration of the Chinese company's name*

(L) *denotes long position in the Shares*

Save as disclosed above, as at the Latest Practicable Date, so far as was known to any director or chief executive of the Company, other than a director or chief executive of the Company, no persons had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

### **3. SERVICE CONTRACT**

None of the Directors had entered into any service and proposed service contracts with the Company or any other member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) as at the Latest Practicable Date.

### **4. COMPETING BUSINESS**

To the best knowledge of the Directors, none of the Directors or their respective associates had any interests in any business which competed or might compete with the business of the Group as at the Latest Practicable Date.

## 5. MATERIAL INTERESTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in the assets which had been, since 31 December 2011, the date to which the latest published audited consolidated accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2011, being the date to which the latest audited consolidated accounts of the Company have been made up), or were proposed to be acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2011, being the date to which the latest audited consolidated accounts of the Company have been made up).

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which was significant in relation to the business of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2011, being the date to which the latest audited consolidated accounts of the Company have been made up).

## 6. LITIGATION

- (a) In respect of the purported sale of the 74,889,892 shares of Acesite (Philippines) Hotel Corporation Inc. (“**Acesite Phils**”) (“**Philippines Shares**”), which were mortgaged by Acesite Limited (“**Acesite**”), by EPCIB, a Filipino Bank, to Waterfront, a Filipino company, in February 2003, Acesite, a former subsidiary of Sino-i; Evallon Investment Limited, a wholly-owned subsidiary of Sino-i; Mr. Yu, the chairman and executive director of both the Company and Sino-i and, South Port Development Limited, a former wholly-owned subsidiary of Sino-i as first, second, third and fourth plaintiff respectively issued a claim against EPCIB and Waterfront, on the grounds that the purported sale of the Philippines Shares was unlawful as such sale was in breach of the terms of the mortgage; in breach of a compromise agreement reached in January 2003; and in other breaches, for damages; further or other relief; interest and costs and etc. in February 2006 under High Court Number of HCCL 5 of 2006 (“**1st Case**”). In May 2007, Acesite Phils filed a claim against Mr. Yu; Mr. Lam Bing Kwan, a non-executive director of both the Company and Sino-i; Sino-i; and Acesite for damages; further or other relief; interest and costs and etc. under High Court Number of HCA498 of 2007 (“**2nd Case**”). The defendants in both cases have filed their defences respectively to the Court. Acesite Phils filed a consent order dated 16 August 2011 to the High Court for dismissal of the 2nd Case. The 1st Case is still in progress and no date has been fixed for trial.
- (b) Dadi Media Limited (“**Dadi Media**”), a wholly-owned subsidiary of Sino-i, as plaintiff, issued a claim against two minority shareholders of CE Dongli Technology Group Company Limited, a subsidiary of Sino-i, for the sum of HK\$27,750,498 together with interest thereon and costs in May 2004 under the High Court Number of HCA1130 of 2004. The two defendants filed a defence and counterclaim in June

2004 and then an amended defence and counterclaim in September 2004. The counterclaim was further amended and re-amended. In December 2004, the two defendants issued a claim against China Enterprise ASP Limited (“**CE ASP**”), a wholly-owned subsidiary of Dadi Media, for (1) the sum of HK\$806,250; (2) an award of compensation pursuant to section 32P of the Employment Ordinance; (3) the sum of HK\$13,000; and (4) interest and costs under High Court Number HCA2892 of 2004. CE ASP filed a defence in March 2005. These two cases are still in progress and no trial date has been fixed.

- (c) In May 2007, a company incorporated in China, namely 深圳市益田房地產集團股份有限公司 (Shenzhen Yitian Real Estate Group Company Limited) (“**Yitian**”) issued a pleading ((2007) 深中法民五初字第142號) (“**Case 1**”) to Jingyitian, requesting for the court’s judgement including (i) nullity of a letter of undertaking entered into between Yitian and Jingyitian, dated 2 September 1999; and (ii) refund of HK\$41 million together with interest to Jingyitian, which was the total consideration fully paid by Jingyitian to Yitian under the letter of undertaking for assigning all rights and interests Yitian had in two pieces of land sites bearing numbers of K708–2 and K708–3 which subsequently became part of the total area for the development of a large-scale property project namely “The Peninsula” in Shekou, Shenzhen, and for surrendering its rights in property development in the above mentioned land sites and in sharing of any profits to be derived therefrom. Jingyitian has subsequently filed its defence to the court.

In January 2009, LWD, Liu Wan Investment and Nanhai Yitian received another pleading ((2008) 粵高法民初四字第第一號) (“**Case 2**”) from Yitian. Yitian alleged that it was rejected to participate to the development of the second phase of “The Peninsula” subsequent to the completion of cooperation in development of the first phase, and claimed for damages of RMB396,356,182 resulting from the alleged breach of a cooperation agreement. LWD and Liu Wan Investment directly and indirectly hold 100% of Nanhai Yitian, and LWD and Liu Wan Investment are the wholly-owned subsidiaries of the Company. LWD, Liu Wan Investment and Nanhai Yitian have subsequently filed their defences to the court. In early February 2010, LWD, Liu Wan Investment and Nanhai Yitian received summons from High People’s Court of Guangdong Province (“**High People’s Court**”) for cross examination of evidences between the plaintiff and defendants on 26 February 2010, and received another summons for trial on 10 March 2010. Upon the presentation of lawyers acting for the plaintiff and defendants respectively in the first trial, no further hearing has been fixed by the High People’s Court.

In March 2012, Yitian filed a written application to the court for dismissal of the Case 1, and subsequently the court granted its leave to Yitian that the Case 1 be dismissed and Yitian shall bear the cost of RMB123,400 on 13 March 2012.

In April 2012, the High People’s Court issued its judgment on the Case 2 in favour of the defendants, LWD, Liu Wan Investment and Nanhai Yitian. As per the judgment, the pleadings of Yitian were all turned down and dismissed by the High People’s Court, and Yitian has to bear the costs of approximately RMB2,024,000.

Yitian then as an appellant filed its appeal to the Supreme People's Court on 29 May 2012, and the defendants as respondents filed their respondent statements to the Supreme People's Court on 25 June 2012. No trial date has been fixed.

## 7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2011, being the date to which the latest audited consolidated accounts of the Company have been made up) within two years immediately preceding the Latest Practicable Date:

- (a) the Letter Agreement;
- (b) the LWD MTQ Transaction Documents; and
- (c) the Sale and Purchase Agreement

## 8. QUALIFICATIONS AND CONSENT OF EXPERTS

The following are the qualifications of the experts who have given their opinions and advice which are included in this circular:

<b>Name</b>	<b>Qualification</b>
Odysseus Capital Asia Limited	a licensed corporation registered under the SFO to carry out type 6 (advising on corporate finance) regulated activity
Vigers Appraisal and Consulting Limited	Independent professional valuer

Each of the Independent Financial Adviser and Vigers Appraisal and Consulting Limited has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter or reports and the references to its name in the form and context in which they respectively appear.

None of the above experts had any interests in any Shares or shares in any member of the Group, or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group as at the Latest Practicable Date.

As at the Latest Practicable Date, none of the Independent Financial Adviser and Vigers Appraisal and Consulting Limited had any direct or indirect interests in any assets which have since 31 December 2011 (being the date to which the latest audited consolidated accounts of the Company have been made up) been acquired or disposed of by or leased to or by any member of the Group, or was proposed to be acquired or disposed of by or leased to or by any member of the Group.

**9. MISCELLANEOUS**

- (a) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and the principal place of business in Hong Kong is at Units 15–18, 36th Floor, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.
- (b) The branch share registrar of the Company in Hong Kong is Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Mr. Watt Ka Po James who is a fellow member of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.
- (d) The English text of this circular and the accompanying form of proxy shall prevail over their Chinese text for the purpose of interpretation.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong, at Units 15–18, 36/F, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong, during normal business hours, from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;
- (c) the Shareholders Agreement;
- (d) the Option Agreement;
- (e) the Deed of Covenant;
- (f) the Security Documents;
- (g) the letter from the Independent Board Committee as set out on pages 50 to 51 of this circular;
- (h) the letter from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders as set out on pages 52 to 72 of this circular;
- (i) the valuation report on the Project prepared by Vigers Appraisal and Consulting Limited as set out in Appendix II to this circular;
- (j) the written consents referred to in the paragraph headed "Qualifications and consent of experts" in this Appendix;



- (k) the annual reports of the Company for the two years ended 31 December 2010 and 2011 and the interim report of the Company for the six months ended 30 June 2012; and
- (l) this circular.



# 南海控股有限公司\*

NAN HAI CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 680)

**NOTICE IS HEREBY GIVEN THAT** a special general meeting (the “**SGM**”) of Nan Hai Corporation Limited (the “**Company**”) will be held at Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 7 December 2012 at 10:45 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolutions of the Company:

## ORDINARY RESOLUTIONS

1. “**THAT:**

- (i) the sale and purchase agreement (the “**SP Agreement**”, a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) dated 31 October 2012 entered into between Nan Hai Development Limited (the “**Vendor**”), a wholly-owned subsidiary of the Company, and Baitak Asian Shenzhen Peninsula Co., Ltd (the “**Purchaser**”) in relation to the sale and purchase of 30% issued share capital of Listar Properties Limited (“**Listar**”) and 30% of the aggregate amount of the shareholder’s loan owing by Listar to the Vendor as at the date of completion of the SP Agreement at the aggregate consideration of US\$160,380,314 be and are hereby approved, confirmed and ratified; and
- (ii) the directors of the Company be and are hereby authorised on behalf of the Company to do all such things and sign, seal, execute, perfect and deliver all such documents as they may in their discretion consider necessary, desirable or expedient, for the purposes of or in connection with the implementation and/or give effect to any matters relating to the SP Agreement (including but not limited to entering into any supplemental or variation agreement thereto) and the transactions contemplated thereunder.”

2. “**THAT:**

- (i) the letter agreement dated 26 October 2012 and the supplemental letter agreement dated 15 November 2012 (collectively, the “**Letter Agreement**”, a copy of which has been produced to the meeting marked “B” and signed by the chairman of the meeting for the purpose of identification) from Nan Hai

\* For identification purpose only

## NOTICE OF SGM

Development Limited, a wholly-owned subsidiary of the Company, and Liu Wan Development (BVI) Company Limited (“LWD”), a wholly-owned subsidiary of the Company, to Baitak Asian Shenzhen Peninsula Co., Ltd (the “Purchaser”) in relation to setting out arrangements as regards repayment in relation to (i) the Murabaha-Tawarruq agreement dated 3 August 2009 entered into between LWD and the Purchaser (as amended and supplemented by a supplemental agreement dated 22 July 2011); and (ii) the Murabaha-Tawarruq agreement dated 22 July 2011 entered into between LWD and the Purchaser be and are hereby approved, confirmed and ratified; and

- (ii) the directors of the Company be and are hereby authorised on behalf of the Company to do all such things and sign, seal, execute, perfect and deliver all such documents as they may in their discretion consider necessary, desirable or expedient, for the purposes of or in connection with the implementation and/or give effect to any matters relating to the Letter Agreement (including but not limited to entering into any supplemental or variation agreement thereto) and the transactions contemplated thereunder.”

### 3. “THAT:

- (i) the transactions contemplated under the following documents (collectively, the “**Transaction Documents**”) to be entered into on the date of completion (the “**Completion**”) of the sale and purchase agreement dated 31 October 2012 entered into between Nan Hai Development Limited (the “**Vendor**”), a wholly-owned subsidiary of the Company, and Baitak Asian Shenzhen Peninsula Co., Ltd (the “**Purchaser**”) be and are hereby approved:
  - (a) the option agreement to be entered into between the Vendor and the Purchaser in relation to the grant of the put option and the call option (a copy of which has been produced to the meeting marked “C” and signed by the chairman of the meeting for the purpose of identification);
  - (b) the shareholders agreement (the “**Shareholders Agreement**”) to be entered into between the Vendor, the Purchaser and Listar in respect of their rights and obligations in Listar (a copy of which has been produced to the meeting marked “D” and signed by the chairman of the meeting for the purpose of identification);
  - (c) the deed of covenant (the “**Deed of Covenant**”) to be entered into between the Vendor, the Purchaser and Listar in relation to certain obligations to be undertaken by the Vendor as regards Listar and its subsidiaries after Completion (a copy of which has been produced to the meeting marked “E” and signed by the chairman of the meeting for the purpose of identification);
  - (d) the corporate guarantee to be granted by the Company in favour of the Purchaser to secure all present and future indebtedness, obligations and liabilities (whether actual or contingent and whether owed on a joint and

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several basis), which are or maybe or may become due or owing by the Vendor or any of Listar, the Company, Mr. Yu Pun Hoi (an executive director and controlling shareholder of the Company), Honest Link Development Limited (“**Honest Link**”), Liu Wan Investment Company Limited (“**Liu Wan Investment**”), Liu Wan Development (BVI) Company Limited (“**LWD**”) and any other person (other than the Purchaser) who is a party to the Transaction Documents (the “**Secured Obligations**”) (a copy of which has been produced to the meeting marked “F” and signed by the chairman of the meeting for the purpose of identification);

- (e) the account charge to be entered into between the Vendor and the Purchaser in relation to the charge on the Vendor’s bank account to secure the Secured Obligations (a copy of which has been produced to the meeting marked “G” and signed by the chairman of the meeting for the purpose of identification);
- (f) the accounts charge to be entered into between Honest Link and the Purchaser in relation to the charge on Honest Link’s bank accounts to secure the Secured Obligations (a copy of which has been produced to the meeting marked “H” and signed by the chairman of the meeting for the purpose of identification);
- (g) the share mortgage to be entered into between Listar, Honest Link and the Purchaser in relation to the mortgage of the entire issued share capital of Honest Link to secure the Secured Obligations (a copy of which has been produced to the meeting marked “I” and signed by the chairman of the meeting for the purpose of identification);
- (h) the share mortgage to be entered into between the Vendor, Listar and the Purchaser in relation to the mortgage of the Vendor’s interest in the issued share capital of Listar to secure the Secured Obligations (a copy of which has been produced to the meeting marked “J” and signed by the chairman of the meeting for the purpose of identification);
- (i) the security assignment to be entered into by the Vendor and the Purchaser in relation to the rights and interest of the Vendor in the SP Agreement, the Shareholders Agreement and the Deed of Covenant to secure the Secured Obligations (a copy of which has been produced to the meeting marked “K” and signed by the chairman of the meeting for the purpose of identification);
- (j) the security assignment to be entered into by the Vendor and the Purchaser in relation to the shareholder’s loan(s) due and owing to the Vendor from Listar to secure the Secured Obligations (a copy of which has been produced to the meeting marked “L” and signed by the chairman of the meeting for the purpose of identification);

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- (k) the security assignment to be entered into by Listar and the Purchaser in relation to the shareholder's loan(s) due and owing to Listar from Honest Link to secure the Secured Obligations (a copy of which has been produced to the meeting marked "M" and signed by the chairman of the meeting for the purpose of identification);
- (l) the security assignment to be entered into by Honest Link and the Purchaser in relation to the shareholder's loan(s) due and owing to Honest Link from 廣州東鏡新城房地產有限公司 (Guangzhou Dongjing Xincheng Properties Co., Ltd.) (the "**Project Company**") to secure the Secured Obligations (a copy of which has been produced to the meeting marked "N" and signed by the chairman of the meeting for the purpose of identification);
- (m) the share mortgage to be entered into between the Vendor, LWD and the Purchaser in relation to the mortgage of the entire issued share capital of LWD to secure the Secured Obligations (a copy of which has been produced to the meeting marked "O" and signed by the chairman of the meeting for the purpose of identification);
- (n) the share mortgage to be entered into between LWD, Liu Wan Investment and the Purchaser in relation to the mortgage of the entire issued share capital of Liu Wan Investment to secure the Secured Obligations (a copy of which has been produced to the meeting marked "P" and signed by the chairman of the meeting for the purpose of identification);
- (o) the security assignment in relation to the shareholder's advances from LWD to Liu Wan Investment and 深圳南海益田置業有限公司 (Shenzhen Nanhai Yitian Realty Company Limited) ("**Nanhai Yitian**") to be entered into between LWD and the Purchaser to secure the Secured Obligations (a copy of which has been produced to the meeting marked "Q" and signed by the chairman of the meeting for the purpose of identification);
- (p) the security assignment in relation to the shareholder's advances from Liu Wan Investment and Nanhai Yitian to be entered into between Liu Wan Investment to the Purchaser to secure the Secured Obligations (a copy of which has been produced to the meeting marked "R" and signed by the chairman of the meeting for the purpose of identification);
- (q) the accounts charge to be entered into between LWD and the Purchaser in relation to the charge on LWD's bank accounts to secure the Secured Obligations (a copy of which has been produced to the meeting marked "S" and signed by the chairman of the meeting for the purpose of identification); and

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- (r) the account charge to be entered into between Liu Wan Investment and the Purchaser in relation to the charge on Liu Wan Investment's bank account to secure the Secured Obligations (a copy of which has been produced to the meeting marked "T" and signed by the chairman of the meeting for the purpose of identification); and
- (ii) the directors of the Company be and are hereby authorised on behalf of the Company to do all such things and sign, seal, execute, perfect and deliver all such documents as they may in their discretion consider necessary, desirable or expedient, for the purposes of or in connection with the implementation and/or give effect to any matters relating to the Transaction Documents (including but not limited to entering into any supplemental or variation agreement thereto) and the transactions contemplated thereunder."

By order of the Board  
**Nan Hai Corporation Limited**  
**Watt Ka Po James**  
*Company Secretary*

Hong Kong, 21 November 2012

*Notes:*

1. Any shareholder of the Company entitled to attend and vote at the SGM is entitled to appoint another person as his/her proxy to attend and vote on his/her behalf in accordance with the bye-laws of the Company. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.
2. In order to be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Abacus 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.
3. Where there are joint registered holders of any share(s), any one of such joint holders may attend and vote at the SGM, either in person or by proxy, in respect of such share(s) as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the SGM or any adjourned meeting thereof (as the case may be), the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
4. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the SGM or any adjournment thereof if he/she so desires. If a shareholder of the Company attends the SGM after having deposited the form of proxy, his/her form of proxy will be deemed to have been revoked.
5. Voting of the ordinary resolutions as set out in this notice will be by poll.
6. As at the date of this notice, the directors of the Company are:

*Executive directors:*

Mr. Yu Pun Hoi  
Ms. Chen Dan  
Ms. Liu Rong

*Non-executive directors:*

Mr. Wang Gang  
Mr. Lam Bing Kwan

*Independent non-executive directors:*

Mr. Huang Yaowen  
Prof. Jiang Ping  
Mr. Lau Yip Leung