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NATIONAL ELECTRONICS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 213)

**MAJOR TRANSACTION
DISPOSAL OF 50% IN PROPERTY COMPANY
AND
FORMATION OF JOINT VENTURE**

15 January 2016

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DEFINITIONS

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

“Agreed Lot Valuation”	HK\$1,582,828,282, being the value attributed to the Lot as agreed between the parties
“Announcement”	the announcement of the Company dated 15 December 2015 in relation to the Transactions
“Board”	the board of Directors
“Business Day”	a day on which licensed banks operating in Hong Kong, British Virgin Islands and Singapore are generally open for ordinary business and dealings in inter-bank deposits and payments can take place (excluding Saturdays, Sundays, public holidays and any 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 the hours of 9:00 a.m. and 5:00 p.m.)
“close associate(s)”, “connected person(s)”, “percentage ratio(s)”	has the meaning ascribed to it under the Listing Rules
“Company”	National Electronics Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
“Completion”	completion of the Disposal in accordance with the terms and conditions of the Disposal Agreement
“Completion Date”	29 January 2016 or any other date agreed by the Seller and the Purchaser in writing
“Completion NAV”	the adjusted net asset value of the Property Group as at Completion Date (adjusted to exclude the book cost related to the Lot and the outstanding liability of the Shareholder’s Loan as at the Completion Date). For the avoidance of doubt, the Completion NAV shall be a negative figure if it is a net liability
“Conditions”	conditions precedent to the Completion as set out in the Disposal Agreement
“Consideration”	the total consideration payable by the Purchaser for the Disposal, details of which are set out in the paragraph headed “Consideration” in this circular

DEFINITIONS

“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Shares as described in this circular
“Disposal Agreement”	the sale and purchase agreement dated 15 December 2015 between the Seller and the Purchaser in relation to the Disposal
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“JV Formation”	the formation of joint venture, namely the Property Company, by the Seller and the Purchaser on a 50:50 basis upon Completion pursuant to the Shareholders Agreement
“Latest Practicable Date”	8 January 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Lot”	the piece or parcel of ground situate at No. 45 Tai Tam Road, Hong Kong and registered in the Land Registry as Rural Building Lot No. 442
“Pro-forma Completion NAV”	the Completion NAV as contemplated under the Disposal Agreement, which is estimated to be a net liability amount of approximately HK\$845,000,000
“Property”	the Lot together with all messuages, erections and buildings erected or to be erected thereon
“Property Company”	Tania Investments Holdings Limited, a company incorporated in the British Virgin Islands
“Property Group”	the Property Company and the Property Subsidiary

DEFINITIONS

“Property Subsidiary”	Tania Development Limited, a company incorporated in the British Virgin Islands
“Purchaser”	Malibu Development Holdings Limited, a company incorporated in the British Virgin Islands
“Sale Shares”	50 issued shares in the Property Company, representing 50% of all the issued shares of the Property Company
“Seller”	Tania Investments Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share(s)”	ordinary shares in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Shareholder’s Loan”	all loans and other amounts (whether principal, interest or otherwise) owing, from time to time, by the Property Company to the Seller
“Shareholders Agreement”	the shareholders agreement to be entered into between the Seller, the Purchaser and the Property Company with respect to the Property Company at Completion, the major terms of which are set out in the paragraph headed “JV Formation” in this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the Disposal, the JV Formation and the transactions contemplated thereby
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

LETTER FROM THE BOARD

NATIONAL ELECTRONICS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 213)

Executive Directors:

Mr. Lee Yuen Ching, Jimmy
Mr. Lee Bon Chi, Loewe
Mr. Lee Yuen Kui, James
Mr. Lee Yuen Cheor, Edward
Mr. Wai Kwong Yuen, Ricky

Non-executive Director:

Ms. Lee Yuen Yu, Dorathy

Independent non-executive Directors:

Dr. Samson Sun, M.B.E., J.P.
Mr. Chan Chak Cheung, William
Mr. Chan Kwok Wai

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

*Principal place of business in
Hong Kong:*

Suite 3201, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

15 January 2016

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION DISPOSAL OF 50% IN PROPERTY COMPANY AND FORMATION OF JOINT VENTURE

1. INTRODUCTION

Reference is made to the announcement of the Company dated 15 December 2015 in relation to the Transactions (i.e. the Announcement).

On 15 December 2015, the Seller, a wholly-owned subsidiary of the Company, and the Purchaser entered into the Disposal Agreement, pursuant to which the Seller agreed to sell and the Purchaser agreed to purchase the Sale Shares, representing 50% of the issued share capital of the Property Company. The Consideration for the Disposal shall be 50% of the aggregate of (i) the Agreed Lot Valuation of HK\$1,582,828,282 and (ii) the Completion NAV. Upon Completion, the Property Company will cease to be a subsidiary of the Company and a joint venture will be formed between the Seller and the Purchaser on a 50:50 basis pursuant to the Shareholders Agreement.

LETTER FROM THE BOARD

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Transactions exceeds 25% but is less than 75%, the Transactions constitute major transaction for the Company and are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Company has obtained a written approval from a closely allied group of Shareholders which held 536,514,894 Shares as at the Latest Practicable Date (representing approximately 52.27% of the issued share capital of the Company) approving the Transactions.

The purpose of this circular is to provide you with, among other things, further information on the Transactions.

2. THE DISPOSAL

On 15 December 2015, the Seller, a wholly-owned subsidiary of the Company, and the Purchaser entered into the Disposal Agreement, pursuant to which the Seller agreed to sell and the Purchaser agreed to purchase the Sale Shares, representing 50% of the issued share capital of the Property Company. Upon Completion, the Property Company will cease to be a subsidiary of the Company and a joint venture will be formed between the Seller and the Purchaser on a 50:50 basis pursuant to the Shareholders Agreement.

The Disposal Agreement

Date

15 December 2015

Parties

- (i) the Seller as seller; and
- (ii) the Purchaser as purchaser.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner are third parties independent of and not connected with the Company and its connected persons.

Assets to be disposed of

The Sale Shares, representing 50% of the issued share capital of the Property Company.

The Property is the only major asset of the Property Subsidiary, which is the sole subsidiary of the Property Company.

LETTER FROM THE BOARD

Consideration

The Consideration for the Disposal shall be 50% of the aggregate of:

- (a) HK\$1,582,828,282, being the value attributed to the Lot as agreed between the parties (the “**Agreed Lot Valuation**”); and
- (b) the adjusted net asset value of the Property Group as at Completion Date (adjusted to exclude the book cost related to the Lot and the outstanding liability of the Shareholder’s Loan as at the Completion Date) (the “**Completion NAV**”).

The Completion NAV as contemplated under the Disposal Agreement is estimated to be a net liability amount of approximately HK\$845,000,000 (the “**Pro-forma Completion NAV**”). Such amount is calculated based on the consolidated net liabilities of the Property Company as at 30 November 2015 (based on the unaudited consolidated management accounts of the Property Company) of approximately HK\$3,015,000, adjusted to deduct the book cost related to the Lot of approximately HK\$955,190,000 and add the estimated amount of outstanding liability of the Shareholder’s Loan as at the Completion Date of approximately HK\$113,309,000.

The estimated amount of Consideration is approximately HK\$369,000,000, which is 50% of the aggregate of (a) the Agreed Lot Valuation and (b) the Pro-forma Completion NAV (i.e. 50% x (HK\$1,582,828,282 - HK\$845,000,000)).

Payment

The Consideration shall be paid by the Purchaser in cash and in US\$ equivalent of the below amount according to the following schedule:

- (a) on the date of the Disposal Agreement, a sum of US\$2,373,455.86, which the parties agree to be the US\$ equivalent of HK\$18,395,707 (the “**Deposit**”);
- (b) at Completion, an amount equivalent to A, where

$$A = (80\% \times \text{Estimated Consideration}), \text{ minus Deposit}$$

$$\begin{array}{l} \text{Estimated} \\ \text{Consideration} \end{array} = 50\% \text{ of the aggregate of (i) the Agreed Lot Valuation and (ii) the Pro-forma Completion NAV as estimated by the Seller in accordance with the terms of the Disposal Agreement (the “**Estimated Consideration**”)}$$

LETTER FROM THE BOARD

The Seller and the Purchaser shall agree on the actual amount of the Completion NAV with reference to a Completion NAV statement to be prepared in accordance with the terms of the Disposal Agreement as soon as practicable after Completion, such that:

- (i) if the Completion NAV is more than the Pro-forma Completion NAV as comprised in the Estimated Consideration, then 50% of such difference shall be added to the payment of the remaining balance of the Consideration as mentioned in item (c) below; and
 - (ii) if the Completion NAV is less than the Pro-forma Completion NAV as comprised in the Estimated Consideration, then 50% of such difference shall be deducted from the payment of the remaining balance of the Consideration as mentioned in item (c) below.
- (c) on 29 July 2016, the remaining balance of the Consideration. Payment of such remaining balance shall be secured by a share charge on 20% of the Sales Shares (being 10 issued shares in the Property Company) executed by the Purchaser in favour of the Seller upon Completion.

The Deposit is refundable if Completion does not take place by the Completion Date, other than by virtue of any breach of the Disposal Agreement by the Purchaser.

The Consideration was determined after arm's length negotiations between the Seller and the Purchaser with reference to the calculation method and factors mentioned in paragraph headed "Consideration" above. The Agreed Lot Valuation was determined with reference to the market valuation from an external independent professional valuer. The Directors consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Other arrangements at Completion

It is estimated that after the fulfilment of Condition (d) as mentioned under the paragraph headed "Conditions" below and as at Completion Date, the outstanding amount of the Shareholder's Loan will stand at approximately HK\$113,000,000. The Seller and the Purchaser accept and acknowledge that instead of assigning 50% of the Shareholder's Loan by the Seller in favour of the Purchaser, 50% of such Shareholder's Loan shall be repaid at Completion using the amount payable by the Purchaser to the Seller at Completion (i.e. the amount A as mentioned in item (b) under the paragraph headed "Payment" above), such that immediately after Completion, the Property Company shall owe each of the Seller and the Purchaser an equal amount in Shareholder's Loan.

Project Management Agreement

The Seller shall ensure Tania Limited, a wholly-owned subsidiary of the Company, as project manager, and the Property Subsidiary, as employer, to enter into a project management agreement upon Completion, pursuant to which Tania Limited shall provide project management services to the Property Subsidiary from Completion.

LETTER FROM THE BOARD

Conditions

Completion is subject to the following Conditions:

- (a) the Property Subsidiary being able to show and give a good title to the Property in accordance with applicable laws subject to the Purchaser's acceptance of the Property (as shown by the title deeds and any instrument available in public registries) as at the date of the Disposal Agreement save and except for requisitions raised but not satisfied;
- (b) the Property being free from all encumbrances (except those referred to in the title deeds and any instrument available in public registries and the encumbrances created under certain bank security documents);
- (c) there being no breach of any of the fundamental warranties under the Disposal Agreement;
- (d) the Seller having procured the Property Subsidiary to arrange additional bank financing, of which HK\$202,000,000 shall be used for partial repayment of Shareholder's Loan; and
- (e) the approval of the Transactions by the Shareholders as required by the Listing Rules having been obtained.

Condition (e) is not waivable and has been satisfied as at the Latest Practicable Date. Despite that the other Conditions may be waived by the Purchaser by serving a written notice to the Seller pursuant to the Disposal Agreement, as at the Latest Practicable Date the Purchaser has not waived and does not have any current intention to waive the Conditions. Therefore, it is expected that the above will not have any impact or effect on the substance of the Disposal Agreement.

Completion

Completion shall take place on the Completion Date.

3. INFORMATION ON THE PROPERTY GROUP

The Property Company is a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company as at the date of the Announcement. The principal business activity of the Property Company is investment holding.

The Property Subsidiary is a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Property Company as at the date of the Announcement. The principal business activity of the Property Subsidiary is property development and investment.

The cleared site value of the Lot from an external independent professional valuer is approximately HK\$1,600,000,000.

LETTER FROM THE BOARD

The consolidated net liabilities of the Property Company as at 31 March 2015 (based on the unaudited consolidated accounts of the Property Company) and as at 30 November 2015 (based on the unaudited consolidated management accounts of the Property Company) were approximately HK\$2,998,000 and HK\$3,015,000 respectively. The unaudited consolidated net losses of the Property Company for the year ended 31 March 2014 and 2015 were approximately HK\$22,000 and HK\$44,000 respectively and the unaudited consolidated net losses of the Property Company for the eight months ended 30 November 2015 were approximately HK\$17,000.

4. USE OF PROCEEDS

Based on the estimated amount of the Consideration and the unaudited consolidated net asset value of the Property Company as at 30 November 2015, the Company estimates the net potential gain on the Disposal (i.e. the excess of the Consideration over 50% of the net asset value of the Property Company as at 30 November 2015) to be approximately HK\$285,000,000. The sale proceeds are currently intended for general working capital purpose and not for investment in assets.

Upon Completion, the Property Company will cease to be a subsidiary of the Company and the accounts of the Property Company will no longer be consolidated in the financial statements of the Company thereafter. The Property Company will be accounted for as a jointly controlled entity of the Company. The Property Company will be held as to 50% by the Seller upon Completion and these remaining interests are currently intended to be retained.

5. THE JV FORMATION

Upon Completion, the Property Company will become a joint venture of the Seller and the Purchaser on a 50:50 basis. The Seller, the Purchaser and the Property Company will enter into the Shareholders Agreement with respect to the Property Company at Completion.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, upon Completion, save for being the 50% shareholder of the Property Company (which will not be accounted for as a subsidiary of the Company), the Purchaser and its ultimate beneficial owner are third parties independent of and not connected with the Company and its connected persons.

Business

The Property Company will continue to act as the investment holding company of the Property Subsidiary. The Property Subsidiary, as the owner of the Lot, shall act as the vehicle implementing the property development project on the Lot, including the completion of the construction and fitting out of the residential units on the Lot, obtaining of the relevant governmental approvals for the property development project, marketing and sales of the completed residential units, and the arrangement of further financing for the property development project.

Funding

In case the property development project on the Lot requires further funding and such funding need cannot be satisfied by the internal resources or external facilities of the Property Group, each of the Seller and the Purchaser shall provide funding of an amount up to HK\$50,000,000 to the Property Group during the term of the Shareholders Agreement and the Company will comply with the applicable Listing Rules requirements as and when necessary.

LETTER FROM THE BOARD

Board composition

The board of each of the Property Company and the Property Subsidiary will comprise four directors and each of the Seller and Purchaser shall nominate two directors. The chairman of the board shall be appointed by the Seller but he/she shall not have a second or casting vote in board meetings.

6. INFORMATION ON THE GROUP

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture, assembly and sale of electronic watches and watch parts, trading of watch movements and watch parts, property development and investment and hotel operation.

7. INFORMATION ON THE PURCHASER

The Purchaser is a company incorporated in the British Virgin Islands and has no business operation before Completion. Upon Completion, it shall be principally engaged in holding the Sale Shares.

The ultimate beneficial owner of the Purchaser is BPE Asia Real Estate Fund, L.P. (the “**Fund**”), which is a private investment fund organized under the laws of the Cayman Islands that focuses on real estate investment across Asia and Australia. The Fund manages approximately US\$365 million and the limited partners of the Fund are primarily pension funds, sovereign wealth funds and fund of funds managers.

The Group had cooperated with another investment fund to develop real estate projects in Hong Kong, all of which had been completed and sold in 2006. Certain senior management members of such investment fund had later become senior investment professionals associated with the Fund (including its managing director and head of real estate) and introduced the Fund to the Group.

Save for the above and the Transactions, the Fund does not have any prior or current business relationships and/or any other connections or relationships with the Company, any of the Directors, controlling shareholder or connected persons of the Company.

8. REASONS FOR AND BENEFIT OF THE TRANSACTIONS

The Directors consider that the Transactions provide a good opportunity for the Group to realise its investment and enhance the liquidity of the Group, as well as providing the Group with a valuable opportunity to co-invest with an investment partner on the development of the Property.

The Property will comprise seven 3-storey detached garden houses plus a basement floor for car parking uses upon completion of development works. As at 15 December 2015 (being the date of valuation as stated in Appendix II of this circular), superstructure works of the development on the Lot was in progress and the development works are scheduled to be completed in December 2016.

LETTER FROM THE BOARD

Marketing programme of the Property will be launched after completion of the development works. It is expected that the Property may be sold or kept for long-term investments depending on the prevailing market conditions. The Company expects that revenue will be generated when the Property are sold or rented. The generation of profit will mostly depend on the market conditions at that time.

The Board concludes that the terms and conditions of the Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

9. FINANCIAL EFFECTS OF THE TRANSACTIONS

The net assets of the Group will increase following the Disposal. Although the total assets of the Group (after taking into account the amount of Consideration to be received by the Group) will decrease as a result of the decrease in the share of net book value of the Property Group after the Disposal, such decrease in total assets will be offset by a decrease in bank loan following the Disposal, representing a decrease in the total liabilities of the Group where the Group no longer shares the liabilities of the Property Group after the Disposal. As the extent of the aforesaid decrease in the total liabilities of the Group is larger than the decrease in the total assets of the Group, the net assets of the Group will increase after the Disposal. No income is derived from the Property Group since the Property, which is the only major asset of the Property Group, is still under the development stage. The estimated gain on the Disposal of HK\$285 million will increase the profits of the Group.

10. IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Transactions exceeds 25% but is less than 75%, the Transactions constitute major transaction for the Company and are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder or any of their respective close associates have any material interest in the Transactions. As such, no Shareholder would be required to abstain from voting under the Listing Rules if the Company were to convene a general meeting for the approval of such matters.

The Company has a closely allied group of Shareholders which together hold approximately 52.27% of the total issued share capital of the Company as at the Latest Practicable Date. Pursuant to Rule 14.44 of the Listing Rules, the Company has obtained a written approval from Brentford Investments Limited which held 260,813,276 Shares as at the Latest Practicable Date (representing approximately 25.41% of the issued share capital of the Company), and from Fenmore Investments Limited which held 275,701,618 Shares as at the date of Latest Practicable Date (representing approximately 26.86% of the issued share capital of the Company), for the approval of the Transactions. The said 260,813,276 Shares held by Brentford Investments Limited are part of the property of a discretionary trust of which each of Messrs. James Lee Yuen Kui and Edward Lee Yuen Cheor is named beneficiary. The said 275,701,618 Shares held by Fenmore Investments Limited are part of the property of a discretionary trust of which Mr. Jimmy Lee Yuen Ching and his family

LETTER FROM THE BOARD

members and Mr. Loewe Lee Bon Chi's family members are named beneficiaries. Messrs. James Lee Yuen Kui and Edward Lee Yuen Cheor are brothers and they are cousins of Mr. Jimmy Lee Yuen Ching, who is the father of Mr. Loewe Lee Bon Chi. As such, no general meeting will be convened by the Company to approve such matters.

If, despite the said written approval from Brentford Investments Limited and Fenmore Investments Limited having been obtained, voting was required and the Company held a general meeting for the approval of the transactions contemplated under the Agreement, the Directors would have recommended that the Shareholders vote in favour of such resolution.

11. ADDITIONAL INFORMATION

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

By Order of the Board
National Electronics Holdings Limited
Lee Yuen Ching Jimmy
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Audited financial information of the Group for each of the three years ended 31 March 2013, 2014 and 2015 are disclosed in the annual reports of the Company for the years ended 31 March 2013, 2014 and 2015 respectively which were published on both the website of the Stock Exchange (www.hkexnews.hk) and the designated website of the Company (<http://www.irasia.com/listco/hk/national/index.htm>).

Interim financial information of the Group for the six-month ended 30 September 2015 is disclosed in the interim report of the Company for the six-month ended 30 September 2015, which was published on both the website of the Stock Exchange (www.hkexnews.hk) and the designated website of the Company (<http://www.irasia.com/listco/hk/national/index.htm>).

The Directors are of the opinion that there is not any material adverse change in the financial or trading position of the Group since the date to which the latest published audited accounts of the Company have been made up.

2. INDEBTEDNESS OF THE GROUP

As at 30 November 2015, being the latest practicable date for the purpose of the statement of indebtedness prior to the printing of this circular, the Group had outstanding bank borrowings of approximately HK\$3,647 million (of which approximately HK\$2,932 million was secured by fixed charges on certain of the Group's assets with net book value of approximately HK\$4,647 million, including properties) representing short and long term loans and trust receipt loans. In addition, the Group had outstanding at that date obligations under hire purchase contracts and finance leases of approximately HK\$31 million and contingent liabilities in respect of guarantees given to third parties of approximately HK\$0.6 million.

Save as aforesaid, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on the Latest Practicable Date any loan capital and/or debt securities issued and outstanding or agreed to be issued or otherwise created but unissued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills, if any) or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL OF THE GROUP

The Directors are of the opinion that, after taking into account the financial resources and banking facilities available to the Group and its internally generated funds and the effect of the Agreement, the Group will have sufficient working capital to satisfy its present requirements for the next twelve (12) months from the date of this circular in the absence of unforeseen circumstances.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**Watches and Watch Components**

During the six months ended 30 September 2015, the turnover of the Group's watch manufacturing and watch component trading division decreased slightly as compared with the same period in 2014 while maintaining its profit margin.

The European economic environment remains weak and the decrease of GDP growth in China, coupled with a slower than expected demand for multi-function analogue watches in the U.S. will pose challenges to sales in the coming year. The management will focus on further streamlining its production facilities to reduce cost and the marketing of smart watches and other outdoor electronics products with a more mass appeal.

Property Development and Investment

In respect of the property development and investment business, both the turnover and profit figures have decreased in the six months ended 30 September 2015 due to the lack of significant disposal of the Group's property.

The construction work for the Property is progressing well and targeted to be completed by the end of 2016. The Group is planning for an exceptionally designed and luxurious interior fit out programme in the first half of 2017.

The boutique office building at 7 St Thomas, Toronto, Canada will be completed by the end of 2016.

The Group is working on the detailed architectural and interior design of the first phase residential tower at our 88 Queen Street East project in Toronto, Canada. Pre-sales preparation for this phase is underway and is anticipated to begin in the first half of 2016.

Hotel Operation

Due to the acquisition of 99 Bonham in June 2014 and The Jervois in October 2014, the sales revenue of the Group's hotel operation division for the six months ended 30 September 2015 increased significantly as compared with the same period last year.

The recent reduction in the number of tourists from China to Hong Kong has had an impact on most hotels in the region but the effect on the Group's boutique hotel business has been quite limited as the Group caters more to business and professional clients as well as international travelers and the Group expects our occupancy rate to remain satisfactory.

The following is the text of the letter and valuation certificate in relation to the Property received from DTZ Debenham Tie Leung Limited, an independent property valuer, prepared for the purpose of incorporation in this circular.



16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

The Directors
Tania Development Limited
Suite 3201, Gloucester Tower, The Landmark
11 Pedder Street, Central
Hong Kong

8 January 2016

Dear Sirs,

RE: NO. 45 TAI TAM ROAD, TAI TAM, HONG KONG.

Instructions, Purpose & Date of Valuation

We refer to your instructions for us to carry out a market valuation of the property which is held by Tania Development Limited (the “Property Subsidiary”) for sale and purchase purpose. We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the property as at 15 December 2015 (the “date of valuation”).

Basis of Valuation

Our valuation of the property represents its market value which in accordance with the HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

Valuation Assumptions

Our valuation excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

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

In valuing the property, we have complied with the requirements set out in Chapter 5 of the Rules Governing the Listing of Securities published by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

Method of Valuation

We have valued the property on the basis that it will be developed and completed in accordance with the Property Subsidiary's latest development proposal provided to us. We have assumed that all consents, approvals and licences from relevant government authorities for the development proposal have been obtained without onerous condition or delays. In arriving at our valuation, we have made reference to comparable sales evidence as available in the market and applied adjustments to account for differences between the comparables and the property. We have taken into account the expended construction costs and allowed for the costs that will be expended to complete the proposed development. The "capital value if completed at the Date of Valuation" represents our opinion of the market value of the proposed development assuming that were completed at the Date of Valuation.

Source of Information

We have relied to a very considerable extent on the information given by the Property Subsidiary and have accepted advice given to us on such matters as planning approval, statutory notices, easements, tenure, particulars of occupancy, lettings, rentals, site and floor areas and all other relevant matters. Dimensions and measurements are based on the copies of documents provided to us and are therefore only approximations. No on-site measurement has been carried out.

Title Investigation

We have not been provided with copies of the title documents relating to the property but have caused searches to be made at the Land Registry. However, we have not searched the original documents to verify ownership or to ascertain any amendment. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

Site Inspection

Our valuer, Mr. Jeff Luk, inspected the property in December 2015. We have not carried out any soil or site investigation. In undertaking our valuation, we have assumed that the property is suitable for development and no extraordinary costs or delays will be incurred during construction.

Our valuation certificate is hereby enclosed for your attention.

Yours faithfully,
For and on behalf of
DTZ Debenham Tie Leung Limited

Ho Siu Wa
Registered Professional Surveyor
(General Practice)
MHKIS, MRICS
Senior Director

Note: Mr. Ho Siu Wa is a Registered Professional Surveyor who has over 31 years' experience in the valuation of properties in Hong Kong.

VALUATION CERTIFICATE

Property held by the Property Subsidiary in Hong Kong for development

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 15 December 2015
No. 45 Tai Tam Road, Tai Tam, Hong Kong.	The property comprises a site with a registered site area of 3,009.10 sq.m. (32,390 sq.ft.) which is under development into seven houses development.	At the Date of Valuation, superstructure works of the development was in progress.	HK\$1,730,000,000
Rural Building Lot No. 442.	<p>Upon completion, the property will comprise seven 3-storey detached garden houses plus a basement floor for car parking uses. The development is scheduled to be completed in December 2016.</p> <p>The gross floor area of the proposed development upon completion will be approximately 2,707.922 sq.m. (29,148 sq.ft.) excluding caretaker's quarter of approximately 11.233 sq.m. (121 sq.ft.).</p> <p>The locality of the property is characterized by a mixture of garden houses and high-rise residential developments of various ages.</p> <p>The property is held from the Government under Government Lease for a term of 75 years from 31 March 1941 renewable for a further term of 75 years. The current Government Rent payable for the lot is HK\$372.00 per annum.</p>		

- (1) The registered owner of the property is the Property Subsidiary (i.e. Tania Development Limited).
- (2) The property is subject to a Building Mortgage in favour of Hang Seng Bank Limited vide Memorial No. 15070202180072 dated 26 June 2015.
- (3) The property is subject to a No-objection Letter from the Government of The Hong Kong Special Administration Region by the District Lands Officer/Hong Kong West and South vide Memorial No. 15091602330010 dated 14 September 2015.

- (4) The property is subject to a Modification Letter from the Government of The Hong Kong Special Administration Region by the District Lands Officer/Hong Kong West and South vide Memorial No. 15091602330025 dated 14 September 2015.
- (5) The property is zoned for “Residential (Group C) 4” under Tai Tam and Shek O Zoning Plan No. S/H18/10 dated 6 May 2008.
- (6) The capital value of the property if completed as at 15 December 2015 is approximately HK\$2,650,000,000.
- (7) According to the information provided to us, the total estimated cost for carrying out the development of the property is about HK\$410,000,000 and the construction cost incurred is about HK\$100,000,000. We have taken into account such costs in the course of our valuation.
- (8) As instructed by the Property Subsidiary, we have also valued the property as a clear site without taking into account any construction costs which have already incurred in the development. The clear site value of the property were HK\$1,600,000,000 as at 15 December 2015.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS**(a) Interests of Directors**

As at the Latest Practicable Date, the interests and short positions of the Director and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

(i) Ordinary shares of HK\$0.10 each

Name of director	Capacity	Personal interests	Corporate interests	Other interests	Total interests	Percentage of the issued share capital of the Company
Mr. Jimmy Lee Yuen Ching	Chairman	—	—	275,701,618 (note a)	275,701,618	26.861%
Mr. Loewe Lee Bon Chi	Managing Director	—	—	308,701,618 (notes a, b)	308,701,618	30.076%
Mr. James Lee Yuen Kui	Managing Director	6,534	—	260,813,276 (note c)	260,819,810	25.411%
Mr. Edward Lee Yuen Cheor	Director	—	—	260,813,276 (note c)	260,813,276	25.410%
Mr. Ricky Wai Kwong Yuen	Director	—	40,994,543 (note d)	—	40,994,543	3.994%
Dr. Samson Sun, M.B.E., J.P.	Director	—	5,817,864 (note e)	—	5,817,864	0.567%
Mr. William Chan Chak Cheung	Director	330,000	—	—	330,000	0.032%

(ii) *Share options*

Name of Director	Capacity	Number of options held	Number of underlying shares	Percentage of the issued share capital of the Company
Mr. Loewe Lee Bon Chi	Managing Director (Beneficial owner)	16,720,000	16,720,000	1.629%
Mr. Chan Kwok Wai	Independent Non-executive Director (Beneficial owner)	330,000	330,000	0.032%

Notes:

- (a) 275,701,618 shares are part of the property of a discretionary trust of which Mr. Jimmy Lee Yuen Ching and his family members and Mr. Loewe Lee Bon Chi's family members are named beneficiaries.
- (b) 33,000,000 shares are held by Mr. Loewe Lee Bon Chi's family member.
- (c) 260,813,276 shares are part of the property of a discretionary trust of which each of Mr. James Lee Yuen Kui and Mr. Edward Lee Yuen Cheor is named beneficiary.
- (d) 40,994,543 shares are held by two companies controlled by Mr. Ricky Wai Kwong Yuen.
- (e) 5,817,864 shares are held by a company controlled by Dr. Samson Sun, M.B.E., J.P.

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

As at the Latest Practicable Date, none of the Directors had any interest, either direct or indirect, in any assets which have been, since 31 March 2015 (the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Group.

Share options

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 20 August 2008 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 19 August 2018. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At the Latest Practical Date, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 17,050,000, representing 1.66% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Consideration at HK\$1 is payable on the grant of an option. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the Directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The following table disclosed movements in the Company's share options during the six months ended 30 September 2015:

Name of director	Date of grant	Exercise period	Exercise price per share	Balance at 1.4.2015	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Balance at 30.09.2015
Mr. Loewe Lee Bon Chi	18.3.2010	18.3.2010-17.3.2018	0.493 (note)	9,200,000	—	—	—	—	10,120,000 (note)
	23.3.2011	23.3.2011-22.3.2018	0.691 (note)	6,000,000	—	—	—	—	6,600,000 (note)
Mr. Chan Kwok Wai	23.3.2011	23.3.2011-22.3.2018	0.691 (note)	300,000	—	—	—	—	330,000 (note)

Note: On the basis of one (1) bonus share for every ten (10) existing shares in issue on 1 September 2015, a total of 93,456,451 bonus shares were issued on 11 September 2015. As a result of the bonus issue, adjustments were made to the exercise price and the number of shares to be allotted and issued upon exercise of the subscription rights attaching to the outstanding share options. The share options were adjusted in the manner set forth below with effect from 11 September 2015:

Date of grant	Before the issue of Bonus Shares	Exercise price per share HK\$	After the issue of Bonus Shares	Adjusted exercise price per share HK\$
	Number of Shares to be issued upon exercise of the outstanding share options		Adjusted number of Shares to be issued upon exercise of the outstanding share options	
18 March 2010	9,200,000	0.542	10,120,000	0.493
23 March 2011	<u>6,300,000</u>	0.760	<u>6,930,000</u>	0.691
	<u>15,500,000</u>		<u>17,050,000</u>	

The closing price of the Company's share immediately before 18 March 2010, the date of grant of the options, was HK\$0.542 and before 23 March 2011, the date of grant of the options, was HK\$0.760.

(b) Interests of Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, no person (other than the interests disclosed under the paragraph headed "(a) Interests of Directors" above) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company 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.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which will not expire or may not be terminated by the Company within one year without payment of compensation (other than statutory compensation).

4. LITIGATION

As at the Latest Practicable Date, there was no litigation or claims of material importance known to the Directors pending or threatened against any member of the Group.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or any of their close associates had an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

6. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinions, letter or advices contained in this circular:

(a) Name	(b) Qualification
DTZ Debenham Tie Leung Limited ("DTZ")	Professional Surveyors and Valuers

DTZ does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. DTZ has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, valuation certificate and/or references to its name in the form and context in which they are included.

As at the Latest Practicable Date, DTZ did not have any direct or indirect interests in any assets which have been, since 31 March 2015 (the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the date of this circular and are or may be material:

- (a) a conditional sale and purchase agreement entered into on 28 April 2014 by Verde Group Limited, a wholly-owned subsidiary of the Company, with GCPF Cayman Holding 10 Corp., in relation to the purchase of 73% of the issued share capital of Smart Plus Group Limited and the assignment of the benefit of the shareholder loan at a consideration of HK\$219,347,587;

- (b) a conditional sale and purchase agreement entered into on 28 April 2014 by Seafield Capital Limited, a wholly-owned subsidiary of the Company, with GCPF Cayman Holding 11 Corp., in relation to the purchase of 73% of the issued share capital of Ally Vantage Limited and the assignment of the benefit of the shareholder loan at a consideration of HK\$258,647,172;
- (c) an assignment of shareholder loan entered into on 28 April 2014 by Verde Group Limited, a wholly-owned subsidiary of the Company, with GCPF Cayman Holding 10 Corp., in relation to the assignment of the benefit of the shareholder loan in respect of Smart Plus Group Limited;
- (d) a deed of termination entered into on 28 April 2014 by Verde Group Limited, a wholly-owned subsidiary of the Company, with GCPF Cayman Holding 10 Corp. and Smart Plus Group Limited, in relation to the termination of the shareholder's agreement in respect of Smart Plus Group Limited;
- (e) a deed of termination entered into on 28 April 2014 by Seafield Capital Limited, a wholly-owned subsidiary of the Company, with GCPF Cayman Holding 11 Corp. and Ally Vantage Limited, in relation to the termination of the shareholder's agreement in respect of Ally Vantage Limited;
- (f) a deed of termination entered into on 28 April 2014 by, among others, Spring Orchard Limited, Verde Group Limited and Seafield Capital Limited, each being a wholly-owned subsidiary of the Company, with GCPF Cayman Holding 9 Corp., GCPF Cayman Holding 10 Corp., GCPF Cayman Holding 11 Corp., in relation to the termination of the umbrella agreement as more particularly described in the announcement of the Company dated 3 June 2011;
- (g) a deed entered into on 28 April 2014 by, among others, Spring Orchard Limited, a wholly-owned subsidiary of the Company, to waive its right of first offer under the JVC01 Right of First Offer as defined in the announcement of the Company dated 28 April 2014;
- (h) a conditional sale and purchase agreement dated 7 May 2014 entered into between Arsandco Investments Limited and St. Thomas Developments Incorporated, a wholly-owned subsidiary of the Company, in relation to the purchase of the property for a consideration of C\$87,500,000 (which is equivalent to approximately HK\$622,073,375) as more particularly described in the announcement of the Company dated 9 May 2014 and the circular of the Company dated 23 June 2014;
- (i) an agreement entered into on 15 May 2014 by Harbour Horizon Holdings Ltd., an indirect wholly-owned subsidiary of the Company with Ten Acre (Mayfair) Two Limited in relation to the grant and acceptance of the Leases for a total consideration of £3,725,000 (exclusive of value added tax) (which is equivalent to approximately HK\$48,611,250) as more particularly set out in the announcement of the Company dated 19 May 2014;

- (j) a sale and purchase agreement dated 1 August 2014, as amended by an amendment agreement dated 8 August 2014 and a second amendment agreement dated 23 September 2014, all entered into between Unionville Development Corporation, a wholly-owned subsidiary of the Company, and 2426483 Ontario Limited in relation to the disposal of the property for a consideration of C\$26,980,000 (equivalent to approximately HK\$191,426,000), subject to adjustments as more particularly set out in the announcement of the Company dated 22 August 2014;
- (k) a provisional agreement dated 26 November 2014 and entered into between GCPF Cayman Holding 9 Corp., Spring Orchard Limited, a wholly-owned subsidiary of the Company, and Leader Foresight Ltd. in respect of the disposal of the entire issued share capital of Mercato Group Limited and the assignment of the shareholder loan for a total consideration of HK\$395,000,000 less mortgaged loan and subject to adjustment;
- (l) a preliminary sale and purchase agreement dated 16 December 2014 entered into between Cherish Limited, a wholly-owned subsidiary of the Company, an individual who is an independent third party and Centaline Property Agency Limited (a licenced estate agency with Licenced Estate Agency Company Licence No. C-000227) in respect of the sale and purchase of the property for a consideration of HK\$48,000,000 as more particularly set out in the announcement of the Company dated 17 December 2014; and
- (m) the Disposal Agreement.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business at Suite 3201, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong during normal business on any weekday (except public holidays) from the date of this circular up to and including 29 January 2016:

- (a) the memorandum of association and Bye-laws of the Company;
- (b) the annual reports of the Company of each of the two financial years immediately preceding the issue of this circular and the interim report of the Company for the six-month ended 30 September 2015;
- (c) the letter and valuation certificate referred to in Appendix II to this circular;
- (d) the written consent given by DTZ;
- (e) the material contracts referred to in this appendix; and
- (f) this circular.

9. MISCELLANEOUS

- (a) The qualified accountant and company secretary of the Company is Mr. Wong Kam Kee, Andy, who is an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Wong holds an Executive Master Degree of Business Administration from Chinese University of Hong Kong and a Master of Science Degree in Financial Management from the University of London. Mr. Wong was an audit executive of an international accounting firm and held senior finance positions in several listed public companies in Hong Kong.
- (b) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The principal place of business of the Company is at Suite 3201, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text in case of inconsistency.