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CHINESE ESTATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 127)

DISCLOSEABLE TRANSACTION

DISPOSAL OF 49% INTEREST IN GRANDDAY GROUP LIMITED

On 5 September 2012, the Company and the Vendor, being an indirect wholly-owned subsidiary of the Company, entered into the Agreement with the Purchaser, pursuant to which the Purchaser agreed to acquire and the Vendor agreed to sell the Sale Shares at a total consideration of US\$500 million (equivalent to approximately HK\$3,878.45 million), which shall be satisfied upon Completion by way of (i) cash as to US\$200 million (equivalent to approximately HK\$1,551.38 million); and (ii) the issuance of the Loan Note by the Purchaser to the Vendor in the principal amount of US\$300 million (equivalent to approximately HK\$2,327.07 million).

As the applicable percentage ratios in respect of each of the Disposal and the Automatic Sale are greater than 5% but are less than 25%, each of the Disposal and the Automatic Sale constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

The exercise of the Buy Option is at the discretion of the Vendor. According to Rule 14.75(1) of the Listing Rules, on the grant of the Buy Option, only the premium (which is nil) will be taken into consideration for calculating the percentage ratios. The Company will comply with the relevant Listing Rules on the exercise of the Buy Option.

The exercise of the Sale Option is not at the discretion of the Vendor. According to Rule 14.74 of the Listing Rules, on the grant of the Sale Option, the transaction will be classified as if the Sale Option has been exercised. The grant of the Sale Option would be treated as a transaction and classified by reference to the percentage ratios pursuant to Rules 14.04(1)(b) and 14.73 of the Listing Rules. Since the applicable percentage ratios for the grant of the Sale Option are greater than 5% but less than 25%, the grant of the Sale Option to the Purchaser constitutes a discloseable transaction for the Company and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

THE DISPOSAL

On 5 September 2012, the Company and the Vendor entered into the Agreement with the Purchaser, pursuant to which the Purchaser agreed to acquire and the Vendor agreed to sell the Sale Shares. The principal terms of the Agreement are set out below: -

- Date** : 5 September 2012
- Parties** : (i) the Vendor as vendor;
(ii) the Purchaser as purchaser; and
(iii) the Company as the Vendor's guarantor.
- Assets to be disposed of** : The Sale Shares, which represent 49% of the entire issued share capital of Grandday. As disclosed in the section headed "Information on the Grandday Group" below, the principal asset of Grandday is its indirect 100% equity interest in Qidong Tongyu and Qidong Baofeng, which in turn own the Property Development.
- Consideration** : The consideration payable by the Purchaser under the Agreement is US\$500 million (equivalent to approximately HK\$3,878.45 million as at the date of this announcement).
- The consideration shall be satisfied upon Completion by way of (i) cash as to US\$200 million (equivalent to approximately HK\$1,551.38 million); and (ii) issuance of the Loan Note by the Purchaser to the Vendor in the principal amount of US\$300 million (equivalent to approximately HK\$2,327.07 million), and was determined after arm's length negotiations between the parties. In determining the consideration, the Group primarily took into consideration the original cost of investment in June 2011 by the Group which was US\$500 million (equivalent to approximately HK\$3,888.95 million) as well as the projected cash inflow to be generated in future years from holding the investment in the Sale Shares as compared with the estimated cash inflow from the Disposal.
- Completion** : Completion shall take place on the date which is five business days following the execution of the Agreement.
- Guarantee** : The Company shall guarantee to the Purchaser the due and punctual performance of each obligation of the Vendor contained in the Agreement and any other transactional documents and agreements entered into pursuant to the Agreement.
- Buy Option** : In the event that any of the following events occurs, the Vendor shall have an option to purchase all but not some of the Sale Shares from the Purchaser in accordance with the terms of the Agreement:-

- (a) the Purchaser delivers a notice to the Vendor of a Claim and the amount claimed, when aggregated with (i) the amount(s) paid by the Vendor under any and all other Claims made by the Purchaser and (ii) the amount(s) of all outstanding Claims made by the Purchaser, exceeds US\$5,000,000 (equivalent to approximately HK\$38,784,500); or
- (b) in relation to the Loan Note:
 - (i) where the redemption date occurs other than as a consequence of a Termination Event or an Illegality Event, and the Purchaser has neither repaid the redemption amount nor elected to exercise its sale option (details of which are set out below);
 - (ii) a Termination Event has occurred, and the Purchaser has not repaid the redemption amount of the Loan Note; or
 - (iii) an Illegality Event has occurred, and the Purchaser has not repaid the redemption amount of the Loan Note.

In the event that the buy option is exercised, the price for such sale and purchase of Sale Shares shall be US\$500 million (equivalent to approximately HK\$3,878.45 million), save and except in the case of the exercise of option pursuant to (b)(iii) above, where such price shall be US\$200 million (equivalent to approximately HK\$1,551.38 million).

In addition, upon completion of such sale and purchase, (i) the Loan Note and the Share Charge shall be released and discharged; (ii) if the buy option is exercised pursuant to part (a) above, the Vendor shall return to the Purchaser the Loan Note Interest, where applicable; (iii) the Purchaser shall return to the Vendor the Dividend and Claim Amount; and (iv) if the buy option is exercised pursuant to part (b)(i) or (ii) above, the Purchaser shall pay to the Vendor a fee of US\$100 million (equivalent to approximately HK\$775.69 million). The amount payable by the Purchaser to the Vendor shall be deducted and set-off against the amount payable by the Vendor to the Purchaser on completion.

Such sale and purchase shall be completed no later than (a) 10 business days after the date on which a notice to exercise the buy option is given; or (b) the day falling on the fifth business day after the Company having obtained the necessary shareholders' approval (if so required by the Stock Exchange or the Listing Rules), whichever is later.

The Vendor's option to purchase all of the Sale Shares from the Purchaser and the transactions contemplated under such option as mentioned above are collectively referred to as the "**Buy Option**".

Sale Option

: In the event that any of the following events occurs, the Purchaser may, at its option, elect to sell all but not some of the Sale Shares to the Vendor in accordance with the terms of the Agreement:-

- (a) in relation to the Loan Note, where the redemption date occurs other than as a consequence of a Termination Event or an Illegality Event;
- (b) in relation to the Loan Note, an Illegality Event has occurred, and the Purchaser has not repaid the redemption amount; or
- (c) the Purchaser delivers a notice to the Vendor of a Claim and the amount claimed, when aggregated with (i) the amount(s) paid by the Vendor under any and all other Claims made by the Purchaser and (ii) the amount(s) of all outstanding Claims made by the Purchaser, exceeds US\$5,000,000 (equivalent to approximately HK\$38,784,500).

In the event that the sale option is exercised, the price for such sale and purchase of Sale Shares shall be US\$500 million (equivalent to approximately HK\$3,878.45 million), save and except in the case of the exercise of option pursuant to (b) above, where such price shall be US\$200 million (equivalent to approximately HK\$1,551.38 million).

In addition, upon completion of such sale and purchase, (i) the Loan Note and the Share Charge shall be released and discharged; (ii) if the sale option is exercised pursuant to part (c) above, the Vendor shall return to the Purchaser the Loan Note Interest, where applicable; (iii) the Purchaser shall return to the Vendor the Dividend and Claim Amount; and (iv) if the sale option is exercised pursuant to part (a) above, the Purchaser shall pay to the Vendor a fee of US\$100 million (equivalent to approximately HK\$775.69 million). The amount payable by the Purchaser to the Vendor shall be deducted and set-off against the amount payable by the Vendor to the Purchaser on completion.

The Purchaser's option to sell all of the Sale Shares to the Vendor and the transactions contemplated under such option as mentioned above are collectively referred to as the "**Sale Option**".

Automatic Sale

: For as long as any of the Indentures Security remains outstanding, if, on or before 20 January 2016, an event of default (as defined in the Indentures) occurs and such event of default has not been waived, remedied or cured or is otherwise continuing as at 20 January 2016; or if a demand is made on Grandday and/or Lucky Grow under any of the Indentures Security and/or any enforcement action is taken under any of the Indentures Security, the Purchaser shall sell and the Vendor shall purchase all but not some of the Sale Shares.

The price for such sale and purchase of Sale Shares shall be US\$500 million (equivalent to approximately HK\$3,878.45 million).

In addition, upon completion of such sale and purchase, (i) the Loan Note and the Share Charge shall be released and discharged; (ii) the Vendor shall return to the Purchaser the Loan Note Interest, where applicable; and (iii) the Purchaser shall return to the Vendor the Dividend and Claim Amount. The amount payable by the Purchaser to the Vendor shall be deducted and set-off against the amount payable by the Vendor to the Purchaser on completion.

The obligation for the Vendor to buy, and the Purchaser to sell, all of the Sale Shares and the transactions contemplated thereunder as mentioned above are collectively referred to as the “**Automatic Sale**”.

OTHER TRANSACTIONAL DOCUMENTS IN RELATION TO THE DISPOSAL

Certain other transactional documents were executed or will be executed upon Completion in relation to the Disposal, including but not limited to the following documents:-

1. upon Completion, the Vendor and the Purchaser shall execute a deed of assignment pursuant to which, among other things, the Vendor shall assign to the Purchaser all rights and benefits under the deed of indemnity dated 22 June 2011 among the Vendor, Grandday, Shengjian and Evergrande, including the indemnity against certain taxation claims given by Shengjian and Evergrande in favour of the Vendor and the Grandday Group thereunder;
2. upon Completion, the Company and the Vendor shall execute a deed of indemnity in favour of the Purchaser pursuant to which, among other things, the Company and the Vendor shall indemnify the Purchaser against certain taxation claims resulting from events or matters occurring from 23 June 2011 to the date of Completion;
3. upon Completion, the Vendor and the Purchaser shall execute a deed of assignment pursuant to which, among other things, the Vendor shall assign to the Purchaser all rights and benefits under the agreement dated 16 May 2011 among the Vendor, Shengjian and Evergrande in relation to, among other things, the sale of 49% of the issued share capital of Grandday by Shengjian to the Vendor;
4. on 5 September 2012, Evergrande and Shengjian issued a letter agreement (“**Letter Agreement**”) in favour of the Vendor, pursuant to which they agreed to give certain further undertakings relating to Grandday in favour of the Vendor; and
5. upon Completion, the Vendor and the Purchaser shall execute a deed of assignment pursuant to which the Vendor shall assign to the Purchaser all rights and benefits under the Letter Agreement.

Upon Completion, the Vendor shall cease to have any rights or obligations (save for any antecedent breaches) under the shareholders' agreement in relation to Grandday dated 22 June 2011 entered into among Shengjian, the Vendor and Grandday.

THE LOAN NOTE

The principal terms of the Loan Note are set out below: -

- Principal amount** : US\$300,000,000 (equivalent to approximately HK\$2,327,070,000)
- Issuer** : The Purchaser
- Issue date** : The date of Completion
- Redemption date** : The earlier of:
 - (a) the date falling 9 months after Completion;
 - (b) the date on which a Termination Event provided in the Loan Note occurs; and
 - (c) the date notified by the Vendor to the Purchaser in the event of an Illegality Event.
- Interest** : (a) 2% per annum for the period from the date of Completion to but excluding the date falling six months thereafter (“**Step-Up Date**”); and
 - (b) 12% per annum for the period from and including the Step-Up Date to the date on which the Loan Note is fully repaid or redeemed.

All accrued interest is payable on the redemption date unless otherwise specified in the Loan Note.

- Redemption** : The Purchaser may, upon giving to the Vendor at least 3 business days' prior written notice, redeem the principal amount of the Loan Note in whole or in part (but if in part, in integral multiples of US\$1,000,000 (equivalent to approximately HK\$7,756,900)), together with all interest accrued on the amount of the Loan Note redeemed.

Unless previously redeemed, the principal amount outstanding on the redemption date shall be redeemed on that date together with all interest accrued thereon to but excluding the redemption date.

In the event of an Illegality Event, the Vendor shall notify the Purchaser, and the Purchaser shall redeem all outstanding principal amount of the Loan Note together with all interest accrued on a date as notified by the Vendor.

- Security** : The Purchaser's liabilities and obligations under the Loan Note shall be secured by the Share Charge.
- Transfer** : The Vendor may not transfer its interest in the Loan Note, other than to an affiliate or with the Purchaser's consent.

REASONS FOR AND BENEFITS OF THE DISPOSAL AND USE OF PROCEEDS

The Directors believe that the Disposal will increase cash reserve of the Group under the challenges in the global economic environment, which is in line with the Group's policy as mentioned in its latest interim results announcement dated 15 August 2012 for the six months ended 30 June 2012.

The Directors, including the independent non-executive Directors, consider that the terms of the Agreement (including each of the Disposal, the Automatic Sale, the Buy Option and the Sale Option), the Loan Note, the Share Charge and other transactional documents in relation to the Disposal have been made on normal commercial terms, are fair and reasonable and the entering into of the Agreement, the Loan Note, the Share Charge and the transactions contemplated thereunder (including each of the Disposal, the Automatic Sale, the Buy Option and the Sale Option) are in the interests of the Company and the shareholders of the Company as a whole.

Based on the carrying amount of available-for-sale investment in the 49% equity interest of Grandday of approximately HK\$3,888.95 million (equivalent to US\$500 million) as at the date of this announcement, it is estimated that a loss of approximately HK\$10.50 million before tax will accrue to the Group after Completion. The net proceeds from the Disposal will be used by the Group for general working capital purpose.

INFORMATION ON THE GRANDDAY GROUP

Grandday is a company incorporated in the British Virgin Islands with limited liability. Before Completion, Grandday is owned as to 49% by the Vendor and 51% by Shengjian. The principal business of Grandday is investment holding.

Lucky Grow is a company incorporated in Hong Kong with limited liability and is owned as to 100% by Grandday. The principal business of Lucky Grow is investment holding and it owns the entire equity interest in Qidong Tongyu and Qidong Baofeng.

Qidong Tongyu is a wholly foreign-owned enterprise established in the PRC. The principal business of Qidong Tongyu is property development, and it owns certain parts of the Property Development.

Qidong Baofeng is a wholly foreign-owned enterprise established in the PRC. The principal business of Qidong Baofeng is property development, and it owns certain parts of the Property Development.

According to the unaudited consolidated financial statements of the Grandday Group as at 30 June 2012 which were prepared in accordance with the Hong Kong Financial Reporting Standards, the unaudited consolidated total assets of the Grandday Group was approximately RMB2,667.83 million (equivalent to approximately HK\$3,260.62 million), the unaudited consolidated net assets of the Grandday Group was approximately RMB24.35 million (equivalent to approximately HK\$29.76 million) and the consolidated book value of the Property Development was approximately RMB2,225.61 million (equivalent to approximately HK\$2,720.14 million).

The financial highlights of the Grandday Group are set out below: -

	For the year ended 31 December	
	2010 (RMB)	2011 (RMB)
Turnover	-	-
(Loss) / Profit before tax	(6,909,000) (equivalent to approximately (HK\$8,444,000))	9,280,000 (equivalent to approximately HK\$11,342,000)
(Loss) / Profit after tax	(5,259,000) (equivalent to approximately (HK\$6,428,000))	11,227,000 (equivalent to approximately HK\$13,722,000)

After Completion, the Vendor shall cease to hold any of the issued share capital of Grandday and thus shall cease to have any indirect interest in each of Lucky Grow, Qidong Tongyu and Qidong Baofeng.

INFORMATION ON THE PROPERTY DEVELOPMENT

The Property Development is located at 中國江蘇省啓東市寅陽鎮寅興墾區外側東南部 (the southeast exterior of Yin Xing Ken District, Yinyang Town, Qidong City, Jiangsu Province, the PRC). The Property Development is of a total site area of approximately 1,335,000 square meters. The Property Development will be developed into an integrated residential, business and resort complex with an estimated total gross floor area of 1,580,000 square meters. As at the date of this announcement, construction of the first phase of the development has commenced. The launching of the first phase has commenced in July 2012.

INFORMATION ON THE VENDOR AND THE GROUP

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

The Vendor is an investment holding company.

INFORMATION ON THE PURCHASER

The Purchaser is controlled by investment fund(s) managed by SPARX Asia Capital Management Limited, which in turn is a wholly-owned subsidiary of SPARX Group Co., Ltd. The Purchaser is principally engaged in investment holding, while SPARX Group Co., Ltd. is principally engaged in investment management.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, each of the Purchaser, SPARX Asia Capital Management Limited, SPARX Group Co., Ltd., the controlling shareholder(s) of SPARX Group Co., Ltd. and the ultimate beneficial owner(s) of the controlling shareholder(s) of SPARX Group Co., Ltd. are third parties independent of and not connected with the Company and its connected persons.

GENERAL

As the applicable percentage ratios in respect of each of the Disposal and the Automatic Sale are greater than 5% but are less than 25%, each of the Disposal and the Automatic Sale constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

The exercise of the Buy Option is at the discretion of the Vendor. According to Rule 14.75(1) of the Listing Rules, on the grant of the Buy Option, only the premium (which is nil) will be taken into consideration for calculating the percentage ratios. The Company will comply with the relevant Listing Rules on the exercise of the Buy Option.

The exercise of the Sale Option is not at the discretion of the Vendor. According to Rule 14.74 of the Listing Rules, on the grant of the Sale Option, the transaction will be classified as if the Sale Option has been exercised. The grant of the Sale Option would be treated as a transaction and classified by reference to the percentage ratios pursuant to Rules 14.04(1)(b) and 14.73 of the Listing Rules. Since the applicable percentage ratios for the grant of the Sale Option are greater than 5% but less than 25%, the grant of the Sale Option to the Purchaser constitutes a discloseable transaction for the Company and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules. For the purpose of calculating the percentage ratios, the consideration includes the premium (which is nil) and the exercise price of the Sale Option. The actual monetary value of the highest exercise price of the Sale Option has been used to calculate the percentage ratios. The Company will comply with the relevant Listing Rules on the exercise of the Sale Option.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:-

“Agreement” the sale and purchase agreement dated 5 September 2012, entered into among the Company, the Vendor and the Purchaser, in respect of the Disposal;

“Board”	the board of Directors;
“Claim(s)”	any claim(s) by the Purchaser in respect of a breach of any of the warranties or other terms of the Agreement or under any of the transactional documents as more particularly described in the Agreement;
“Company”	Chinese Estates Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange;
“Completion”	the completion of the Agreement;
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Disposal”	the disposal of the Sale Shares by the Vendor to the Purchaser under the Agreement at a total consideration of US\$500 million (equivalent to approximately HK\$3,878.45 million);
“Dividend and Claim Amount”	the aggregate amount of all cash dividends received by the Purchaser in respect of the Sale Shares, and any amount(s) actually received by the Purchaser for any Claims made by it, each prior to the completion date of the relevant sale and purchase;
“Evergrande”	Evergrande Real Estate Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange;
“Grandday”	Grandday Group Limited, a company incorporated in the British Virgin Islands with limited liability and owned, prior to Completion, as to 49% by the Vendor and 51% by Shengjian;
“Grandday Group”	Grandday and its subsidiaries, namely Lucky Grow, Qidong Tongyu and Qidong Baofeng;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Illegality Event”	has the meaning given to such term in the Loan Note;
“Indentures”	the three indentures issued by Evergrande in respect of certain senior notes due 2014, 2015 and 2016 respectively;

“Indentures Security”	certain guarantee and/or indemnity granted by each of Grandday and Lucky Grow and the share charge granted by Grandday over certain shares held by it in Lucky Grow, each in connection with the Indentures;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Loan Note”	the secured loan note in the principal amount of US\$300,000,000 (equivalent to approximately HK\$2,327,070,000) to be issued by the Purchaser in favour of the Vendor upon Completion in part satisfaction of the consideration for the Disposal, main terms of which are set out in the section headed “The Loan Note” in this announcement;
“Loan Note Interest”	the aggregate amount of all interest paid by the Purchaser under the Loan Note up to the relevant completion date;
“Lucky Grow”	Lucky Grow Holdings Limited, a company incorporated in Hong Kong with limited liability, owned as to 100% by Grandday;
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Property Development”	the property development project at 中國江蘇省啓東市寅陽鎮寅興墾區外側東南部 (the southeast exterior of Yin Xing Ken District, Yinyang Town, Qidong City, Jiangsu Province, the PRC);
“Purchaser”	Dynamic Grand Limited, a company incorporated in the British Virgin Islands with limited liability, the details of which are set out in the section headed “Information on the Purchaser” in this announcement;
“Qidong Baofeng”	啓東寶豐置業有限公司 Qidong Baofeng Real Estate Co., Ltd., a wholly foreign-owned enterprise established in the PRC with limited liability, which owns certain parts of the Property Development;
“Qidong Tongyu”	啓東通譽置業有限公司 Qidong Tongyu Real Estate Co., Ltd., a wholly foreign-owned enterprise established in the PRC with limited liability, which owns certain parts of the Property Development;
“Sale Shares”	49 Shares, representing 49% of the entire issued share capital of Grandday;

“Shares”	the shares of US\$1.00 each in the share capital of Grandday;
“Share Charge”	the share charge over the Sale Shares to be executed by the Purchaser in favour of the Vendor upon Completion as security of the payment or discharge of all liabilities and obligations of the Purchaser under the Loan Note;
“Shengjian”	Shengjian (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of Evergrande;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Termination Event”	has the meaning given to such term in the Loan Note;
“Vendor”	Loyal Pride Limited, a company incorporated in the British Virgin Islands with limited liability, being an indirect wholly-owned subsidiary of the Company;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of the PRC;
“US\$”	United States dollar, the lawful currency of the United States of America; and
“%”	per cent.

In this announcement, the exchange rates of US\$1 to HK\$7.7569 and RMB1 to HK\$1.2222 are used for reference only.

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

Hong Kong, 5 September 2012

As at the date of this announcement, the Board comprised Mr. Joseph Lau, Luen-hung, Ms. Chan, Sze-wan, Mr. Lam, Kwong-wai and Ms. Lui, Lai-kwan as Executive Directors, Mr. Lau, Ming-wai and Ms. Amy Lau, Yuk-wai as Non-executive Directors, and Mr. Chan, Kwok-wai, Ms. Phillis Loh, Lai-ping and Mr. Ma, Tsz-chun as Independent Non-executive Directors.

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