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FAR EAST HOTELS AND ENTERTAINMENT LIMITED

遠東酒店實業有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00037)

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO
ACQUISITION OF REMAINING 50% EQUITY INTEREST IN A JOINT VENTURE**

Financial Adviser to the Company

Deloitte. **德勤**
Deloitte & Touche Corporate Finance Limited

THE ACQUISITION

The Board announces that on 24 October 2016 (after trading hours), the Company and the Vendor entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares and the Sale Loans at an aggregate consideration of HK\$22,815,000. The sole asset of the Target Company is the Property which comprises 40 parcels of agricultural lots located in Yuen Long, New Territories, Hong Kong with a total site area of approximately 149,846 square feet.

As at the date of this announcement, the Target Company is a jointly controlled entity owned as to 50% by the Company and 50% by the Vendor. Upon Completion, the Target Company will become a directly wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the Group.

LISTING RULES IMPLICATION

Since one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Acquisition are more than 5% and all of them are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, as the Vendor is an executive Director and a substantial Shareholder being beneficially interested in 109,324,299 Shares (representing approximately 18.2% of the total issued share capital of the Company), the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition also constitutes a connected transaction of the Company. As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Acquisition are more than 5%, the Acquisition is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Vendor and his associates will be required to abstain from voting on the Shareholders' resolutions in relation to the Acquisition Agreement and the transaction contemplated thereunder at the EGM.

GENERAL

The EGM will be convened and held for the Independent Shareholders for the purpose of, among others, considering, and if thought fit, approving the Acquisition Agreement and the transaction contemplated thereunder. The Vendor and its associates will be required to abstain from voting on the resolution(s) approving the Acquisition Agreement and the transaction contemplated thereunder at the EGM. Save as aforementioned, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the Acquisition Agreement and the transaction contemplated thereunder and therefore no other Shareholder is required to abstain from voting at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors has been established to make recommendation to the Independent Shareholders as to (i) whether the terms of the Acquisition Agreement are fair and reasonable; (ii) whether the Acquisition is on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the Acquisition is in the interests of the Company and the Shareholders as a whole; and (iv) how to vote on the Acquisition. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

A circular containing, among others, (i) further information on the Acquisition; (ii) the recommendation from the Independent Board Committee in respect of the Acquisition; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition; (iv) valuation report of the Property from the Valuer; and (v) the notice of the EGM, is expected to be despatched to the Shareholders on or before 14 November 2016 in accordance with the Listing Rules.

The Board announces that on 24 October 2016 (after trading hours), the Company and the Vendor entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares and the Sale Loans at an aggregate consideration of HK\$22,815,000. The principal terms of the Acquisition Agreement are set out below:

THE ACQUISITION AGREEMENT

Date

24 October 2016 (after trading hours)

Parties

Purchaser : The Company

Vendor : Mr. Derek Chiu

Subject Matter

Pursuant to the Acquisition Agreement, the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares and the Sale Loans.

The Sale Shares represent 50% of the issued share capital of the Target Company and the entire interest held by the Vendor in the Target Company. The Sale Loans represent the entire sum due from the Target Company to the Vendor as at Completion Date. As at the date of the Acquisition Agreement, the Sale Loans amounted to approximately HK\$9,004,797.5.

The sole asset of the Target Company is the Property which comprises 40 parcels of agricultural lots located in Yuen Long, New Territories, Hong Kong with a total site area of approximately 149,846 square feet. Further particulars of the Target Company are set out in the section headed “Information on the Target Company” below.

As at the date of this announcement, the Target Company is a jointly controlled entity owned as to 50% by the Company and 50% by the Vendor. Upon Completion, the Target Company will become a directly wholly-owned subsidiary of the Company.

Consideration

The aggregate Consideration shall be HK\$22,815,000 of which HK\$13,810,202.5 is the consideration for the Sale Shares and HK\$9,004,797.5 is the consideration for the Sale Loans. The Consideration shall be payable in cash within 5 days upon Completion.

The Consideration was determined after arm's length negotiation between the Company and the Vendor with reference to, among others, (i) preliminary valuation of the Property at approximately HK\$46,900,000 in existing state as at 30 September 2016 prepared by the Valuer after deducting the affected area of the Land in Dispute; (ii) the net asset value of the Target Company as at 30 September 2016 based on the unaudited management accounts of the Target Company; (iii) the benefits of the Acquisition as detailed in the section headed "Reasons for and benefits of the Acquisition"; and (iv) the amount of the Sale Loans as at the date of the Acquisition Agreement.

The Acquisition will be funded by internal resources of the Company.

The Directors (excluding the Vendor who has a material interest in the Acquisition, and the independent non-executive Directors whose view will be given after considering the advice from the Independent Financial Adviser) consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion is conditional upon the satisfaction of or waiver in writing (as the case may be), among other things, the following Conditions:

- (a) the Independent Shareholders having passed the ordinary resolution approving the Acquisition Agreement and the transaction contemplated thereunder by way of poll at the EGM;
- (b) all representations and warranties given by the Vendor under the Acquisition Agreement having remained true and accurate and not misleading in all material aspects as at the Completion Date, and there being no situation, facts or circumstances which constitute or may constitute any breach of warranties under the Acquisition Agreement;
- (c) the Target Company having performed and complied with all agreements, obligations and conditions in the Acquisition Agreement that are required to be performed or complied with by it on or before Completion; and
- (d) no material adverse change or prospective material adverse change in the Target Company's business, operations, financial conditions or prospects has occurred since the date of the Acquisition Agreement.

The Company shall have the right to waive the Conditions, save as Condition (a) as set out above. If any of the Conditions as set out in the Acquisition Agreement have not been fulfilled (or where applicable, waived by the Company) at or before 12:00 noon on the Long Stop Date, the Acquisition Agreement shall lapse, whereupon the Vendor and the Company shall have no further obligations under the Acquisition Agreement (save in respect of any accrued rights and obligations).

Completion

Upon fulfilment and/or waiver of all the Conditions, Completion shall take place on the Completion Date.

INFORMATION ON THE TARGET COMPANY

The Target Company was incorporated in Hong Kong on 27 March 2009 with limited liability and an issued share capital of HK\$100 representing 100 shares. As at the date of this announcement, the Target Company is a jointly controlled entity owned as to 50% by the Company and 50% by the Vendor. The Target Company is principally engaged in property investment with the Property as its sole asset. The details of the Property are set out in section headed “Information on the Property”. Save for the investment in the Property, to the best knowledge of the Directors, the Target Company has not conducted any business activities since its incorporation.

As advised by the Vendor, the original cost of the Sale Shares, representing 50% of the total issued share capital of the Target Company, was HK\$50 and such cost did not include loans advanced by the Vendor to the Target Company.

Information on the Property

The Property comprises 40 parcels of agricultural land with total site area of approximately 149,846 square feet located at the southern part of Shap Pat Heung, a village or rural area within Yuen Long district. The Property is about 2 kilometers to the south east of Yuen Long Town and it can be accessed in approximately five minutes by car from Yuen Long Station via Tai Shu Ha Road West when there is no heavy traffic. The value of the Property, assuming that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value, was estimated to be approximately HK\$49,500,000 as at 30 September 2016 based on a preliminary valuation conducted by the Valuer.

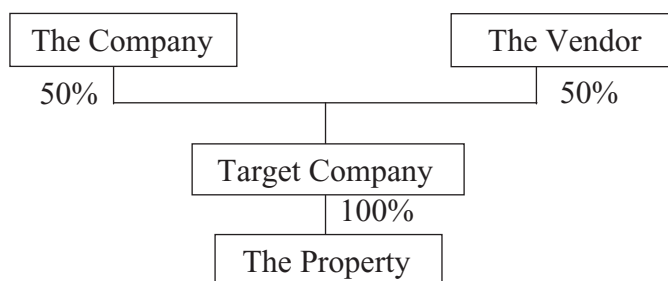
In 2015, there was a claim made against the Target Company for the right over the possession of the Land in Dispute, which is on the peripheral area of the Property and has an aggregate area of 7,827.10 square feet.

The legal proceeding in relation to the Land in Dispute is currently in process and is at its preliminary stage. The fair value of the Property stated in the financial statements of the Target Company as at 31 March 2015 and 2016 have been taken into account the risks of suspected trespass and likely dispossession of the Land in Dispute. The preliminary valuation of the Property as at 30 September 2016 prepared by the Valuer, deducting the affected area of the Land in Dispute, was approximately HK\$46,900,000.

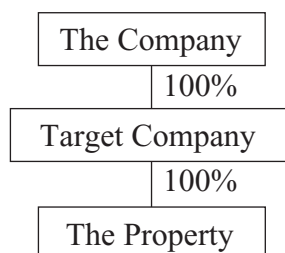
Shareholding structure of the Target Company

The shareholding structure of the Target Company immediately before and after Completion is illustrated as follows:

Immediately before Completion



Immediately after Completion



Financial information of the Target Company

Set out below is the summary of the Target Company's key financial information for the two years ended 31 March 2016 and six months ended 30 September 2016, prepared in accordance with the Hong Kong Financial Reporting Standards:

	For the six months ended 30 September	For the year ended 31 March	
	2016	2016	2015
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Revenue	—	—	—
Increase in fair value of investment property	1,141,279	5,398,605	1,719,418
Net profit before taxation	1,133,924	5,386,250	509,063
Net profit after taxation	1,133,924	5,386,250	509,063

As illustrated above, the Target Company has not generated revenue during the last two financial years and the six months ended 30 September 2016. The net profits before and after taxation for the two years ended 31 March 2016 and the six months ended 30 September 2016 were mainly attributable to the increase in fair value of the Property.

As at 30 September 2016, the unaudited net asset value of the Target Company was approximately HK\$27,620,405.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company. The Group is principally engaged in hotel operation, serviced property letting, securities investment and trading, and property investment in Hong Kong, the PRC and overseas.

As stated in the latest annual report of the Group for the year ended 31 March 2016, whilst maintaining the Group's existing business and improving core competitiveness, this is the Board's intention to actively seek and identify any appropriate investment opportunities that can provide investment potential and broaden the income base of the Group. In addition, it was disclosed in the circular of the Company dated 22 July 2015 in relation to a major disposal that the Company intended to apply approximately 65% of the net proceeds from such disposal, being approximately HK\$48 million, for developing the existing businesses of the Group, including but not limited to property investments. The Acquisition is in line with the business strategies of the Group as aforementioned and will increase the land bank of the Group for potential development opportunities.

The Acquisition represents a strategical move of the Company to invest in land resources with promising prospects. The Board expects that Yuen Long will be an important source of supply for public and private housing in the years to come. Since November 2012, the Planning Department and the Civil Engineering and Development Department commissioned an in-depth study to enhance and optimise the use of brownfield sites in southern Yuen Long (“Yuen Long South”). Further, according to the 2016 Policy Address, the Hong Kong government is proceeding in full steam to take forward residential projects relating to the development of new development areas (NDAs) and the extension of new towns. It is estimated that Yuen Long South, together with other NDAs and new town extensions, can provide over 197,000 units for occupation starting seven years from now. Aside from land for housing, the government will also increase the land supply for economic use. The projects regarding Yuen Long South and other NDAs and new town extensions are progressing as scheduled. The projects will in aggregate provide over 7.8 million square metres of floor area for commercial or industrial uses and nearly 240,000 employment opportunities in various sectors. Taking into consideration that the Property situates in the vicinity of Yuen Long South, the Directors believe that upon Completion and in the short-to-medium term, the Group will benefit from the appreciation in value of the Property as a result of the urban design and development in Yuen Long South.

Further, development of agricultural land has been specifically mentioned in the 2016 Policy Address. It is stated that the government will explore ways to optimize the use of quality agricultural land through planning and land management. It is also mentioned that sites no longer suitable for agricultural purposes can be released for other uses in order to improve the rural environment. The Directors are of the view that, upon change of the use of land, the Property will be able to develop into viable projects for other alternative uses and bring about attractive long-term return to the Group.

Upon Completion, the Target Company will become a directly wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the Group.

Accordingly, the Directors (excluding the Vendor, who has a material interest in the Acquisition and the independent non-executive Directors whose views will be given after considering the advice from the Independent Financial Adviser) are of the view that the Acquisition and the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Vendor, who is an executive Director, has abstained from voting at the Board meeting approving the Acquisition Agreement and the transaction contemplated thereunder. Save as disclosed, none of the Directors has any material interest in the Acquisition.

LISTING RULES IMPLICATIONS

Since one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Acquisition are more than 5% and all of them are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, as the Vendor is an executive Director and a substantial Shareholder being beneficially interested in 109,324,299 Shares (representing approximately 18.2% of the total issued share capital of the Company), the Vendor is a connected person of the Company under Chapter 14A of

the Listing Rules. Accordingly, the Acquisition also constitutes a connected transaction of the Company. As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Acquisition are more than 5%, the Acquisition is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Vendor and his associates will be required to abstain from voting on the Shareholders' resolutions in relation to the Acquisition Agreement and the transaction contemplated thereunder at the EGM.

GENERAL

The EGM will be convened and held for the Independent Shareholders for the purpose of, among others, considering, and if thought fit, approving the Acquisition Agreement and the transaction contemplated thereunder. The Vendor and its associates will be required to abstain from voting on the resolution(s) approving the Acquisition Agreement and the transaction contemplated thereunder at the EGM. Save as aforementioned, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the Acquisition Agreement and the transaction contemplated thereunder and therefore no other Shareholder is required to abstain from voting at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors has been established to make recommendation to the Independent Shareholders as to (i) whether the terms of the Acquisition Agreement are fair and reasonable; (ii) whether the Acquisition is on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the Acquisition is in the interests of the Company and the Shareholders as a whole; and (iv) how to vote on the Acquisition. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

A circular containing, among others, (i) further information on the Acquisition; (ii) the recommendation from the Independent Board Committee in respect of the Acquisition; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition; (iv) valuation report of the Property from the Valuer; and (v) the notice of the EGM, is expected to be despatched to the Shareholders on or before 14 November 2016 in accordance with the Listing Rules.

Shareholders and potential investors should note that completion of the Acquisition is subject to the fulfilment or waiver of the conditions under the Acquisition Agreement. As the Acquisition may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

DEFINITIONS

“Acquisition”	the acquisition of the Sale Shares and the Sale Loans by the Company from the Vendor pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional agreement dated 24 October 2016 entered into between the Company and the Vendor in relation to the Acquisition
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Far East Hotels and Entertainment Limited (Stock Code: 00037), a company incorporated in Hong Kong and the issued shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Acquisition in accordance with the terms and conditions as set out in the Acquisition Agreement
“Completion Date”	the date on which Completion takes place, which shall be within 5 days following the satisfaction or waiver of the Conditions
“Condition(s)”	the condition(s) precedent to Completion, as set out in the Acquisition Agreement
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	the sum of HK\$22,815,000, being the total consideration payable by the Company to the Vendor for the Sale Shares and the Sale Loans
“Director(s)”	director(s) of the board of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, approve, among other things, the Acquisition Agreement and the transaction contemplated thereunder
“Group”	the Company and its subsidiaries

“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising all independent non-executive Directors, namely Mr. Ip Shing Hing, Mr. Ng Wing Hang Patrick and Mr. Choy Wai Shek Raymond, which is formed to advise the Independent Shareholders on the Acquisition Agreement and the Acquisition
“Independent Financial Adviser”	Goldin Financial Limited, a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
“Independent Shareholder(s)”	Shareholders other than the Vendor and his associates
“Land in Dispute”	Lot Nos. 1545, 1547 in Demarcation District No. 118 and portion of Lot Nos. 1543 and 1544 in Demarcation District No. 118 which are parts of the Property
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 March 2017, or such later date as the Company and the Vendor may agree in writing
“PRC”	The People’s Republic of China which, for the purposes of this announcement, shall exclude Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Property”	40 parcels of agricultural lots with Lot Nos. 1478, 1481, 1483, 1484, 1487, 1488, 1489, 1490, 1491, 1492, 1495, 1496, 1497, 1498, 1499, 1502, 1503, 1505, 1506, 1509, 1510, 1512, 1513, 1515, 1519, 1520, 1521, 1522, 1523, 1525, 1526, 1529, 1543, 1544, 1545, 1547, 1552, 1556, 1557 & 1571 in Demarcation District No. 118, Shap Pat Heung, Yuen Long, New Territories, Hong Kong

“Sale Loans”	the advance, loan(s) and finance made to the Target Company by the Vendor which is unsecured, non-interest bearing and repayable on demand, which shall be in the sum of HK\$9,004,797.5 upon Completion
“Sale Shares”	50 shares in the issued share capital of the Target Company, representing 50% of the total issued shares of the Target Company as at the date of the Acquisition Agreement, free from encumbrance and together with all rights now or thereafter attached thereto including but not limited to all dividends and distribution declared, paid or made in respect thereof on or after Completion
“SFO”	the Securities and Futures Ordinance (Chapter 571) of the Laws of Hong Kong
“Share(s)”	the ordinary share(s) in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Sino Noble Development Limited, a limited liability company incorporated in Hong Kong on 27 March 2009, which is owned as to 50% by the Company and 50% by the Vendor as at the date of this announcement
“Valuer”	Vigers Appraisal & Consulting Limited, an independent qualified property valuer
“Vendor”	Mr. Derek Chiu, an executive Director, Managing Director and Chief Executive of the Company and a substantial Shareholder who is beneficially interested in approximately 18.2% of the issued share capital of the Company as at the date of this announcement and a son of Mr. Deacon Chiu (deceased) and Mrs. Chiu Ju Ching Lan
“%”	per cent.

By Order of the Board
Far East Hotels and Entertainment Limited
Derek Chiu
Managing Director and Chief Executive

Hong Kong, 24 October 2016

As at the date of this announcement, the executive Directors are Mr. Derek Chiu (Managing Director and Chief Executive), Ms. Margaret Chiu, Mr. Alex Chiu and Ms. Amanda Chiu; the non-executive Directors are Mrs. Chiu Ju Ching Lan and Mr. Dick Tat Sang Chiu; and the independent non-executive Directors are Mr. Ip Shing Hing, Mr. Ng Wing Hang Patrick and Mr. Choy Wai Shek Raymond.