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CHINESE ESTATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 127)

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS AGREEMENTS FOR THE TENANCIES

On 28 February 2019, CEL, a direct wholly-owned subsidiary of the Company, as tenant, has entered into the First Tenancy Agreement and the Framework Agreement with WHL, as landlord of the Premises, in relation to the leasing of the Premises for a term of 3 years.

The HKFRSs applicable to the Group include HKFRS 16 “Leases” which came into effect on 1 January 2019. Under HKFRS 16 and in the consolidated statement of financial position of the Group, the Group as the lessee shall recognise a lease as a right-of-use asset and a lease liability. In accordance with the HKFRSs applicable to the Group, the payments by the Group contemplated under the Tenancies comprise different components.

As at the date of this announcement, the Landlord is indirectly owned by (i) Ms. Chan, Hoi-wan (an executive Director and a trustee of the substantial shareholders of the Company (who are two of her minor children)), both in her capacity as a trustee of her minor children and in her own capacity; (ii) Mr. Lau, Ming-wai (a non-executive Director, the chairman of the Board and a substantial shareholder of the Company); and (iii) a family trust of Mr. Joseph Lau, Luen-hung (the spouse of Ms. Chan, Hoi-wan), hence the Landlord is a connected person of the Company. Therefore, under Chapter 14A of the Listing Rules, (a) in respect of the First Tenancy, the entering into of the First Tenancy Agreement and the Rental Payment thereof constitute a connected transaction for the Company, and the Fit-out Administration Fee Payment and the Service Payment thereof constitute continuing connected transactions for the Company; and (b) in respect of the Subsequent Tenancy(ies), the entering into of the Framework Agreement and the transactions contemplated thereunder (including the entering into of the Subsequent Tenancy Agreement(s), the Rental Payment, the Fit-out Administration Fee Payment and the Service Payment thereof) constitute continuing connected transactions for the Company.

Given that (i) one or more of the applicable percentage ratios in respect of the value of the right-of-use asset under the First Tenancy and the Cap for Right-of-use Asset under the Subsequent Tenancy(ies), on an aggregated basis, exceed 0.1% but less than 5%; (ii) one of the applicable percentage ratios of the Charges Cap exceed 0.1% but less than 5%, therefore the Tenancies (and

the transactions contemplated thereunder) are exempt from the Shareholders' approval requirement, but are subject to the reporting, announcement and (to the extent constituting continuing connected transactions for the Company) annual review requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

CEL, a direct wholly-owned subsidiary of the Company, as tenant, has entered into the First Tenancy Agreement and the Framework Agreement with WHL, as landlord of the Premises, in relation to the leasing of the Premises for a term of 3 years.

THE TENANCIES

(A) The First Tenancy

The principal terms of the First Tenancy pursuant to the terms of the First Tenancy Agreement dated 28 February 2019 are set out below:-

- Parties** : CEL as tenant; and
WHL as landlord
The Landlord is principally engaged in property investment.
- Premises** : the whole of 17th floor of Chubb Tower, Windsor House, the estimated gross floor area of which is approximately 18,169 square feet.
- Term** : 3 years, commencing from 1 March 2019 to 28 February 2022 (both days inclusive). The commencement date of the First Tenancy shall be deferred if the existing tenant does not vacate the First Premises on or before the original commencement date.
- Usage** : For office and ancillary use only.
- Rent** : HK\$1,025,000.00 per month (excluding service charges and rates) to be paid monthly in advance.
- Rent-free period** : 2 months from and including the commencement date of the First Tenancy.
- Service charges** : HK\$109,923.00 per month (including air-conditioning charges during normal operating hours and management charges) which may be varied by the Landlord at its absolute discretion from time to time, such charges to be paid monthly in advance.
- Other fees payable** : If CEL conducts certain specified fit-out and/or alteration works in the First Premises, CEL is required to pay administration fees at the specified rates set out in the First Tenancy Agreement, such fees to be paid prior to commencement of actual works.

- Deposit** : HK\$3,558,519.00, equivalent to 3 months' rent, 3 months' service charges and a quarter of provisional rates payable by CEL to the Landlord on the date of the First Tenancy Agreement.
- Adjustment** : In the event the actual gross floor area of the First Premises shall be different from the above estimated gross floor area, the rent, service charges and deposit payable by the Tenant for the First Tenancy shall be adjusted accordingly.
- Termination** : If the existing tenant does not vacate the First Premises on or before the original commencement date, and the Landlord cannot repossess the First Premises from the existing tenant on or before 1 May 2019, the Landlord is entitled to cancel the First Tenancy Agreement.

In the case of sale, demolition, rebuilding or refurbishment of the First Premises or Windsor House or any part thereof, the Landlord is entitled to terminate the First Tenancy Agreement without compensation by giving not less than 6 months' notice in writing.

The Tenant is entitled to terminate the First Tenancy Agreement by giving a written notice of not less than 1 month (or such shorter period as may be agreed by both parties or requested by the Stock Exchange) in case (i) the continuing performance by the Tenant of its obligations under the First Tenancy Agreement will or is likely to result in a breach or non-compliance of the Listing Rules by the Company; (ii) the Stock Exchange disapproves the transactions contemplated under the First Tenancy Agreement; or (iii) the Stock Exchange revokes any waiver or consent (if any) previously granted for the transactions contemplated under the First Tenancy Agreement.

(B) The Subsequent Tenancy(ies)

The principal terms of the Subsequent Tenancy(ies) pursuant to the terms of the Framework Agreement dated 28 February 2019 and the Subsequent Tenancy Agreement(s) (in agreed form) are set out below:-

- Parties** : CEL as tenant; and
WHL as landlord
- Premises** : the whole of 19th floor, the whole of 20th floor and the whole of 21st floor of Chubb Tower, Windsor House, the total estimated gross floor area of which is approximately 55,171 square feet.
- Term** : 3 years, commencing from a date or dates to be agreed between the parties provided that the commencement date(s) shall not be earlier than 1 November 2019 or later than 29 February 2020. Once the commencement date(s) for any part(s) of the Subsequent Premises is/are agreed, the parties shall enter into the Subsequent Tenancy Agreement(s) in respect of such part(s) of the Subsequent Premises not less than 7 working days prior to such commencement date(s).

- Usage** : For office and ancillary use only.
- Rent** : The rent (excluding service charges and rates) to be paid monthly in advance shall be as follows:-

<i>Floor</i>	<i>Rent (per month)</i>
19/F	HK\$1,084,000.00
20/F	HK\$1,044,000.00
21/F	HK\$1,056,000.00
Total	HK\$3,184,000.00

- Rent-free period** : 2 months from and including the commencement date of the Subsequent Tenancy(ies).

Service charges	<i>Floor</i>	<i>Service charges (per month)</i>
	19/F	HK\$114,922.50
	20/F	HK\$109,433.50
	21/F	HK\$109,433.50
	Total	HK\$333,789.50

The above monthly service charges (including air-conditioning charges during normal operating hours and management charges) may be varied by the Landlord at its absolute discretion from time to time and such charges to be paid monthly in advance.

- Other fees payable** : If CEL conducts certain specified fit-out and/or alteration works in any part(s) of the Subsequent Premises, CEL is required to pay administration fees at the specified rates set out in the respective Subsequent Tenancy Agreement(s), such fees to be paid prior to commencement of actual works.

- Deposit** : Upon the execution of the Framework Agreement, CEL shall pay to WHL the sum of HK\$3,517,789.50 equivalent to 1 month's rent and 1 month's service charges as initial deposit (being HK\$1,198,922.50 for the 19th floor; HK\$1,153,433.50 for the 20th floor and HK\$1,165,433.50 for the 21st floor).

Upon the execution of the Subsequent Tenancy Agreement(s), CEL shall pay to WHL a deposit in a sum equivalent to 3 months' rent, 3 months' service charges and a quarter of provisional rates in respect of the relevant part(s) of the Subsequent Premises. The aforesaid respective initial deposit in respect of any part(s) of the Subsequent Premises will be applied towards payment of part of the deposit payable for such part(s) of the Subsequent Premises under the respective Subsequent Tenancy Agreement(s).

Adjustment : In the event the total actual gross floor area of the respective part(s) of the Subsequent Premises shall be different from the above total estimated gross floor area of such part(s) of the Subsequent Premises, the rent, service charges and deposit payable by the Tenant for the respective Subsequent Tenancy(ies) shall be adjusted accordingly.

Termination : In the event that the Subsequent Tenancy(ies) in respect of any part(s) of the Subsequent Premises cannot commence on or before 29 February 2020 for any reason, either party may, by written notice to the other party, terminate the Framework Agreement in respect of such part(s) of the Subsequent Premises whereupon the initial deposit already paid in respect of such part(s) of the Subsequent Premises will be refunded by the Landlord to the Tenant without interest and neither party shall have any claim against the other party.

In the case of sale, demolition, rebuilding or refurbishment of the Subsequent Premises or Windsor House or any part thereof, the Landlord is entitled to terminate the Subsequent Tenancy Agreement(s) without compensation by giving not less than 6 months' notice in writing.

The Tenant is entitled to terminate the Framework Agreement or the Subsequent Tenancy Agreement(s) (as the case may be) by giving a written notice of not less than 1 month (or such shorter period as may be agreed by both parties or requested by the Stock Exchange), in case (i) the continuing performance by the Tenant of its obligations under the Framework Agreement or the Subsequent Tenancy Agreement(s) (as the case may be) will or is likely to result in a breach or non-compliance of the Listing Rules by the Company; (ii) the Stock Exchange disapproves the transactions contemplated under the Framework Agreement or the Subsequent Tenancy Agreement(s) (as the case may be); or (iii) the Stock Exchange revokes any waiver or consent (if any) previously granted for the transactions contemplated under the Framework Agreement or the Subsequent Tenancy Agreement(s) (as the case may be).

ACCOUNTING IMPLICATION TO THE TENANCIES

In accordance with the HKFRSs applicable to the Group, the payments by the Group contemplated under the Tenancies comprise different components and hence different accounting treatments will be applied. The Rental Payment to be made by the Group under the Tenancies and the payments to be made by the Group for fit-out and/or alteration works in the Premises under the Tenancies (including the Fit-out Administration Fee Payment) are capital in nature and will be recognised, among others, as assets of the Group at the respective commencement dates of the Tenancies and the date of completion of such fit-out and/or alteration works respectively. The Service Payment to be made by the Group under the Tenancies are revenue in nature and will be recognised, among others, as expenses of the Group over the lease term of the Tenancies.

The HKFRSs applicable to the Group include HKFRS 16 “Leases” which came into effect on 1 January 2019. Under HKFRS 16 and in the consolidated statement of financial position of the Group, the Group as the lessee shall recognise a lease as a right-of-use asset and a lease liability. The right-of-use asset represents its right to use the underlying leased asset over the lease term and the lease liability represents its obligation to make lease payments (i.e. the rental payment). The asset and the liability arising from the lease are initially measured on present value basis and calculated by discounting the non-cancellable lease payments under the Tenancies, using the incremental borrowing rate as the discount rate. Under HKFRS 16 and in the consolidated statement of comprehensive income of the Group, the Group shall recognise (i) depreciation charge over the life of the right-of-use asset, and (ii) interest expenses amortised from the lease liability over the lease term.

BASIS OF DETERMINATION OF THE ANNUAL CAPS

In accordance with Chapter 14A of the Listing Rules, the Company is required to set annual cap on the total amount of the Service Payment and the Fit-out Administration Fee Payment payable by the Group under the Tenancies, which is a variable sum.

Having allowed a reasonable buffer for any upward adjustments on the Service Payment (including due to inflation or otherwise) under the Tenancies and taking into account the possible fit-out and/or alteration works to be conducted in the Premises and the specified rates set out in the Tenancy Agreements, the Directors (including the independent non-executive Directors) set that the total amount of the Service Payment and the Fit-out Administration Fee Payment under the Tenancies for the 10 months ending 31 December 2019, the financial year ending 31 December 2020, 2021 and 2022 shall not exceed the Charges Cap ^(Note) for the respective period or financial year below:-

For the period from 1 March 2019 to 31 December 2019	For the financial year ending 31 December 2020	For the financial year ending 31 December 2021	For the financial year ending 31 December 2022
HK\$6,000,000	HK\$10,000,000	HK\$10,700,000	HK\$7,700,000

Note : The Charges Cap was calculated based on (a) the estimated maximum amount of the Service Payment of HK\$2,900,000, HK\$9,300,000, HK\$10,000,000 and HK\$7,200,000 for the 10 months ending 31 December 2019, the financial year ending 31 December 2020, 2021 and 2022 respectively and (b) the estimated maximum amount of the Fit-out Administration Fee Payment of HK\$3,100,000, HK\$700,000, HK\$700,000 and HK\$500,000 for the 10 months ending 31 December 2019, the financial year ending 31 December 2020, 2021 and 2022 respectively, which were determined on the abovementioned basis.

Moreover, as the Subsequent Tenancy(ies) and the Rental Payment thereof constitutes continuing connected transactions for the Company, the Company is also required to set annual cap for the total value of the right-of-use asset relating to the Subsequent Tenancy(ies). Having considered (i) the fact that the Subsequent Tenancy Agreement(s) may be entered into in any of the financial years ending 31 December 2019 or 2020; (ii) the value of CEL’s right to use the underlying leased asset for the lease term which is initially measured on present value basis and calculated by discounting the non-cancellable lease payments for the Subsequent Tenancy(ies), using the incremental borrowing rate as the discount rate, plus a reasonable buffer, the Directors (including the independent non-executive Directors) set that the total value of the right-of-use asset relating to the Subsequent Tenancy(ies) shall not exceed the Cap for Right-of-use Asset for the respective period or financial year below:-

For the period from 1 November 2019 to 31 December 2019	For the period from 1 January 2020 to 29 February 2020
HK\$108,256,000	HK\$108,256,000

If the actual total amount of the Service Payment and the Fit-out Administration Fee Payment made by CEL under the Tenancies and/or the total value of the right-of-use asset relating to the Subsequent Tenancy(ies) shall exceed the Charges Cap and/or the Cap for Right-of-use Asset (as the case may be), the Company will re-comply with all applicable requirements under the Listing Rules, including (where required) the obtaining of approval from the Shareholders.

REASONS FOR AND BENEFITS OF ENTERING INTO OF THE TENANCIES

The First Tenancy Agreement and the Framework Agreement (and the transactions contemplated thereunder) were entered into in the ordinary and usual course of business of the Group. The Premises will be used as part of the headquarter of the Group. Apart from the Premises, the Group intends to lease the 39th floor at Chubb Tower, Windsor House (“**Additional Premises**”) as other part of the headquarter of the Group. The Additional Premises are currently under refurbishment by the Landlord and will not be available for occupation by the tenant within 12 months from the date of this announcement. As such, the entering into of tenancy agreement by the Group in respect of the Additional Premises will be arranged at a later date and subject to further negotiation and agreement between the relevant parties. The purpose of entering into of the Tenancies was to secure a sizeable office space for a sufficiently long period to enable the Group’s operation. The amount of the Rental Payment for the Tenancies were arrived after arm’s length negotiation between the parties to the Tenancies and determined with reference to, among other things, the current market rent payable for a lease similar to the same property and of comparable utility and by reference to the opinion on the market rent of the Premises from an independent professional valuer, Norton Appraisals Limited. The amount of the Service Payment and the Fit-out Administration Fee Payment were determined with reference to similar charges charged by the Landlord to the other tenants of the same property. The Directors (including the independent non-executive Directors) are of the view that (i) the Agreements and the transactions contemplated thereunder are on normal commercial terms and the amounts of the Rental Payment, the Service Payment and the Fit-out Administration Fee Payment are fair, reasonable and in line with the market level; (ii) the Cap for Right-of-use Asset and the Charges Cap are fair and reasonable; and (iii) the entering into of the Agreements (and the transactions contemplated thereunder) is in the ordinary and usual course of business of the Group and is in the interest of the Company and the Shareholders as a whole.

The aggregate estimated amount of the Rental Payment, the Service Payment and the Fit-out Administration Fee Payment for the terms of 3 years to be made by CEL for the Tenancies will be approximately HK\$177.5 million and is expected to be financed by internal resources of the Group.

INFORMATION OF THE GROUP

The Group is principally engaged in property investment and development, brokerage, securities investment, money lending and cosmetics distribution and trading. CEL is an investment holding company incorporated in Hong Kong with provision of management services to its group companies and a direct wholly-owned subsidiary of the Company.

LISTING RULES IMPLICATION

As at the date of this announcement, the Landlord is indirectly owned by (i) Ms. Chan, Hoi-wan (an executive Director and a trustee of the substantial shareholders of the Company (who are two of her minor children)), both in her capacity as a trustee of her minor children and in her own capacity; (ii) Mr. Lau, Ming-wai (a non-executive Director, the chairman of the Board and a substantial shareholder of the Company); and (iii) a family trust of Mr. Joseph Lau, Luen-hung (the spouse of Ms. Chan, Hoi-wan), hence the Landlord is a connected person of the Company. Therefore, under Chapter 14A of the Listing Rules, (a) in respect of the First Tenancy, the entering into of the First Tenancy Agreement and the Rental Payment thereof constitute a connected transaction for the Company and the Fit-out Administration Fee Payment and the Service Payment thereof constitute continuing connected transactions for the Company; and (b) in respect of the Subsequent Tenancy(ies), the entering into of the Framework Agreement and the transactions contemplated thereunder (including the entering into of the Subsequent Tenancy Agreement(s), the Rental Payment, the Fit-out Administration Fee Payment and the Service Payment thereof) constitute continuing connected transactions for the Company.

Given that (i) one or more of the applicable percentage ratios in respect of the value of the right-of-use asset under the First Tenancy and the Cap for Right-of-use Asset under the Subsequent Tenancy(ies), on an aggregated basis, exceed 0.1% but less than 5%; (ii) one of the applicable percentage ratios of the Charges Cap exceed 0.1% but less than 5%, therefore the Tenancies (and the transactions contemplated thereunder) are exempt from the Shareholders' approval requirement, but are subject to the reporting, announcement and (to the extent constituting continuing connected transactions for the Company) annual review requirements under Chapter 14A of the Listing Rules.

Having considered (i) the interest of Ms. Chan, Hoi-wan and Mr. Lau, Ming-wai in the Landlord as disclosed above; and (ii) Ms. Chan, Hoi-wan, Mr. Lau, Ming-wai and Ms. Chan, Sze-wan are directors of the Landlord, Ms. Chan, Hoi-wan, Mr. Lau, Ming-wai and Ms. Chan, Sze-wan are considered to have interests in the Agreements (and the transactions contemplated thereunder). In addition, Ms. Chan, Lok-wan is an associate of Ms. Chan, Hoi-wan and Ms. Chan, Sze-wan; and Ms. Amy Lau, Yuk-wai is a relative of Ms. Chan, Hoi-wan and Mr. Lau, Ming-wai. Therefore, each of the above Directors, if presents at the meeting, has abstained from voting on the resolutions of the Board approving the Agreements and the transactions contemplated thereunder. Save as disclosed above, to the best of knowledge of the Directors having made all reasonable enquiries, no other Directors has a material interest in the Agreements (and the transactions contemplated thereunder) and thus was required to abstain from voting on the resolutions of the Board approving the Agreements and the transactions contemplated thereunder.

DEFINITIONS

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

“Agreements”	the First Tenancy Agreement, the Framework Agreement and the Subsequent Tenancy Agreement(s);
“associate(s)”	has the meaning ascribed to it in Chapter 14A of the Listing Rules;
“Board”	the board of Directors;
“Cap for Right-of-use Asset”	for the purpose of Chapter 14A of the Listing Rules, the maximum amount of the total value of the right-of-use asset relating to the Subsequent Tenancy(ies) for the respective period or financial year as set out in the section headed “Basis of Determination of the Annual Caps” in this announcement;
“CEL” or “Tenant”	Chinese Estates, Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Company;
“Charges Cap”	for the purpose of Chapter 14A of the Listing Rules, the maximum amount of the Service Payment and the Fit-out Administration Fee Payment under the Tenancies for the respective period or financial year as set out in the section headed “Basis of Determination of the Annual Caps” in this announcement;
“Company”	Chinese Estates Holdings Limited (stock code: 127), a company incorporated in Bermuda with limited liability, the Shares are listed on the main board of the Stock Exchange;
“connected person(s)”	has the meaning ascribed to it in the Listing Rules;
“Director(s)”	director(s) of the Company;
“First Premises”	the whole of 17 th floor of Chubb Tower, Windsor House;
“First Tenancy”	the tenancy of the First Premises pursuant to the First Tenancy Agreement and the transactions contemplated thereunder;
“First Tenancy Agreement”	the agreement dated 28 February 2019 entered into between CEL as tenant and WHL as landlord in relation to the leasing of the First Premises;
“Fit-out Administration Fee Payment”	the administration fee payment at the specified rates set out in the Tenancy Agreements payable by CEL to WHL for conducting certain specified fit-out and/or alteration works in the Premises under the Tenancies;

“Framework Agreement”	the agreement for lease dated 28 February 2019 entered into between CEL as tenant and WHL as landlord in relation to the leasing of the Subsequent Premises;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“HKFRS(s)”	Hong Kong Financial Reporting Standard(s) issued by the Hong Kong Institute of Certified Public Accountants from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Premises”	the First Premises and the Subsequent Premises collectively;
“relative”	has the meaning ascribed to it in Chapter 14A of the Listing Rules;
“Rental Payment”	the rental payment payable by CEL to WHL under the Tenancies;
“Service Payment”	the service charges and rates payment payable by CEL to WHL under the Tenancies;
“Share(s)”	ordinary share(s) of HK\$0.10 each 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;
“Subsequent Premises”	the whole of 19 th floor, the whole of 20 th floor and the whole of 21 st floor of Chubb Tower, Windsor House;
“Subsequent Tenancy(ies)”	the tenancy or tenancies of all or any part(s) of the Subsequent Premises pursuant to the Framework Agreement and the Subsequent Tenancy Agreement(s) and the transactions contemplated thereunder;
“Subsequent Tenancy Agreement(s)”	the formal tenancy agreement or agreements to be entered into between CEL as tenant and WHL as landlord in relation to the leasing of all or any part(s) of the Subsequent Premises (the form and substance of which have been agreed under the Framework Agreement);

“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules;
“Tenancies”	the First Tenancy and the Subsequent Tenancy(ies) collectively;
“Tenancy Agreements”	the First Tenancy Agreement and the Subsequent Tenancy Agreement(s) collectively;
“WHL” or “Landlord”	Windsor House Limited, a company incorporated in Hong Kong with limited liability;
“Windsor House”	property namely Windsor House situated at 311 Gloucester Road, Causeway Bay, Hong Kong; and
“%”	per cent.

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

Hong Kong, 28 February 2019

As at the date of this announcement, the Board comprised Ms. Chan, Sze-wan, Ms. Chan, Hoi-wan, Ms. Chan, Lok-wan and Mr. Lam, Kwong-wai 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.

Website: <http://www.chineseestates.com>