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CHEUK NANG (HOLDINGS) LIMITED

卓能（集團）有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 131)

CONTINUING CONNECTED TRANSACTION

New Service Agreement

Reference is made to the announcement of the Company dated 10 October 2012 in respect of the Existing Service Agreement which was approved in the extraordinary general meeting of the Company held on 28 November 2012. The Existing Service Agreement has expired on 30 June 2014.

On 26 September 2014 (after trading hours), the Company and CCAL entered into the New Service Agreement in connection with CCAL's provision of the Services to the Group, the principle terms of which are substantially the same as the Existing Service Agreement.

CCAL is a company wholly-owned by Dr. Chao, an executive Director and the controlling Shareholder. The transactions contemplated under the New Service Agreement therefore constitute continuing connected transaction for the Company under the Listing Rules. Given that the maximum annual value of the Services to be provided by CCAL under the New Service Agreement exceeds HK\$10 million and the relevant percentage ratios also exceeds 5%, the New Service Agreement is subject to reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

A circular containing, amongst other things, further details of the New Service Agreement, the letter from the independent board committee to the Independent Shareholders, the recommendation from the independent financial adviser and the notice of EGM will be dispatched to the Shareholders on or before 21 October 2014.

NEW SERVICE AGREEMENT

Reference is made to the announcement of the Company dated 10 October 2012 in respect of the Existing Service Agreement which was approved in the extraordinary general meeting of the Company held on 28 November 2012. The Existing Service Agreement has expired on 30 June 2014.

After trading hours of the Stock Exchange on 26 September 2014, the Company and CCAL entered into the New Service Agreement under which CCAL is engaged to provide the Services to the Group. The principle terms of the New Service Agreement are substantially the same as the Existing Service Agreement. The fees for the Services shall be based on the works to be performed, and shall be on normal commercial terms and on terms no less favorable to the Group than those offered by CCAL to independent third parties and no less favourable to the Group than those offered by independent service providers. The New Service Agreement may be renewed by mutual agreement between the Company and CCAL subject to compliance with the Listing Rules and all applicable law.

In accordance with the New Service Agreement, where CCAL agreed to provide Services to any member of the Group, such relevant member shall enter into a separate agreement with CCAL and the terms of such separate agreement must comply with (i) the terms of the New Service Agreement; and (ii) the requirements of the Listing Rules. In determining the fees payable to CCAL under each separate agreement, the Company or the relevant member of the Group would solicit at least two other quotations from unrelated parties for services in similar scope to determine if the fees and terms offered by CCAL are fair and reasonable and comparable to those offered by unrelated third parties.

The New Service Agreement was entered into in the ordinary and usual course of business of the Company. The Directors (excluding the independent non-executive Directors) are of the view that the transactions under the New Service Agreement are on normal commercial terms and in the ordinary and usual course of business of the Company, and are fair and reasonable and in the interests of the Company and its Shareholders as a whole. The independent non-executive Directors will form their view on the New Service Agreement upon receipt of the advice from the independent financial adviser.

Conditions

The New Service Agreement is conditional upon the passing of the requisite resolution by the Independent Shareholders approving the New Service Agreement and the transactions contemplated thereunder as well as the Annual Caps thereof at the EGM. If such condition is fulfilled, the New Service Agreement shall deem to have commenced from 1 July 2014 and shall continue until 30 June 2016.

If the approval by the Independent Shareholders of the New Service Agreement is not obtained on or before 31 December 2014 (or such later date as may be agreed between the Company and CCAL), the New Service Agreement will automatically be terminated and neither party to the New Service Agreement shall have any claim against the other party by reason thereof.

Annual Caps

Set out below are the historical maximum aggregate amounts payable by the Group to CCAL for the Services (“Annual Cap”) and actual payments made under the Existing Service Agreement:

Historical Annual Caps for the Existing Service Agreement

From 28 November 2012 to 30 June 2013	From 1 July 2013 to 30 June 2014
<i>HK\$</i>	<i>HK\$</i>
21,633,028	21,757,340

Historical aggregate amount of fees paid to CCAL

From 28 November 2012 to 30 June 2013	From 1 July 2013 to 30 June 2014
<i>HK\$</i>	<i>HK\$</i>
21,626,360	21,755,000

Pursuant to the New Service Agreement, the parties agree that the Annual Cap for each of the years ending 30 June 2015 and 30 June 2016 shall not exceed the following:

From 1 July 2014 to 30 June 2015	From 1 July 2015 to 30 June 2016
<i>HK\$</i>	<i>HK\$</i>
38,871,209	31,293,584

No fee has been paid to CCAL from 1 July 2014 up to the date of this announcement.

The Annual Caps under the New Service Agreement are determined between the parties on an arm’s length basis by reference to factors such as the current market price of similar services available in the market, the prevailing market conditions and the Group’s various developments, particularly its existing property development projects in Hong Kong, and two respective property development projects in Hangzhou, the People’s Republic of China and Malaysia and the proposed renovation projects for existing rental properties of the Group. It is anticipated that the Annual Cap for the year ended 30 June 2016 will be lower as the development project in Hangzhou is currently expected to be completed before 30 June 2015.

The Directors (excluding the independent non-executive Directors who will form their own view on the Annual Caps under the New Business Agreement upon receipt of the advice from the independent financial adviser) consider that the Annual Caps under the New Business Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

In the event that the Annual Caps under the New Business Agreement are exceeded, the Company will make a further announcement and will comply with the Listing Rules as and when necessary.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW SERVICE AGREEMENT

The principal activities of CCAL are providing architectural, engineering, design and miscellaneous consultancy services for property development projects. Given that the Group's property development projects are underway which results in the increasing demand of the continuing provision of such services, the Board believes that the services by CCAL under the New Service Agreement, which is to be provided on a regular and continuing basis, will enable the Group to benefit from the expertise, experience, efficiency and economies of scale of CCAL, which would enable the Group to obtain quality services at competitive prices. In addition, CCAL has been providing Services pursuant to the Existing Service Agreement in respect of the Group's existing property development projects, the Board believes that the continuity for provision of services by CCAL will avoid possible interruptions in the carrying out of the Group's development projects if the Group has to engage other professional firms for such services. The amount of the Annual Caps under the New Service Agreement will increase substantially compared to the fees paid by the Group for the Services in the two financial years ended 30 June 2014 mainly due to (i) fees for services provided for the development project in Hangzhou is expected to be settled before mid 2015, and (ii) the development project in Malaysia is expected to enter into the construction stage and substantial amount of Services would be required.

GENERAL

The Company is an investment holding company. The activities of its principal operating subsidiaries include property trading, property development and investment.

CCAL is a company wholly owned by Dr. Chao, an executive Director and the controlling Shareholder. The transactions contemplated under the New Service Agreement therefore constitute a continuing connected transaction for the Company under the Listing Rules. Given that the maximum annual value of the Services to be provided by CCAL under the New Service Agreement exceeds HK\$10 million and the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) also exceeds 5%, the New Service Agreement is subject to reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

An independent board committee will be formed to advise the Independent Shareholders on the New Service Agreement and an independent financial adviser will be appointed by the Company to advise the independent board committee and the Independent Shareholders as to whether the terms of the New Service Agreement are fair and reasonable so far as the Shareholders are concerned.

A circular containing, amongst other things, further details of the New Service Agreement, the letter from the independent board committee to the Independent Shareholders, the recommendation from the independent financial adviser and the notice of EGM will be despatched to the Shareholders on or before 21 October 2014.

TERMS USED IN THIS ANNOUNCEMENT

“Board”	the board of Directors
“CCAL”	Cecil Chao & Associates Limited, a company incorporated in Hong Kong with limited liability
“Company”	Cheuk Nang (Holdings) Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Dr. Chao”	Dr. Chao Sze Tsung, Cecil, an executive Director and the controlling shareholder of the Company
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, to approve the New Service Agreement and the transactions contemplated thereunder and the Annual Caps thereof
“Existing Service Agreement”	the agreement dated 10 October 2012 entered into between the Company and CCAL regarding the provision of Services by CCAL to the Group for the period from 28 November 2012 to 30 June 2014
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the EGM
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Service Agreement”	the agreement entered into between the Company and CCAL dated 26 September 2014 in connection with the provision of Services by CCAL to the Group for the period from 1 July 2014 to 30 June 2016
“Services”	architectural, engineering, design, project management and related services

“Share(s)”	share(s) of the Company
“Shareholders”	holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollar
“%”	per cent.

Yours faithfully,
For and on behalf of the Board
Chao Sze Tsung, Cecil
Chairman

Hong Kong, 26 September 2014

As at the date of this announcement, the Board comprises of nine Directors, of which Dr. Chao Sze Tsung, Cecil (Chairman), Ms. Chao Gigi, Mr. Chao Howard, Mr. Yung Philip, Ms. Ho Sau Fun, Connie are executive Directors; Mr. Lee Ding Yue, Joseph is non-executive Director and Dr. Sun Ping Hsu, Samson, Mr. Ting Woo Shou, Kenneth and Mr. Lam Ka Wai, Graham are independent non-executive Directors.