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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 26 September 2014 in respect of the Existing Service Agreement which was approved in the extraordinary general meeting of the Company held on 19 November 2014. The Existing Service Agreement has expired on 30 June 2016.

On 16 November 2016 (after trading hours), the Company, CCAL and CCA Macau entered into the New Service Agreement in connection with the provision of the Services by CCAL and CCA Macau to the Group, the principal terms of which are substantially the same as the Existing Service Agreement.

CCAL and CCA Macau are companies 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 and CCA Macau 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 7 December 2016.

NEW SERVICE AGREEMENT

Reference is made to the announcement of the Company dated 26 September 2014 in respect of the Existing Service Agreement which was approved in the extraordinary general meeting of the Company held on 19 November 2014. The Existing Service Agreement has expired on 30 June 2016.

After trading hours of the Stock Exchange on 16 November 2016, the Company, CCAL and CCA Macau entered into the New Service Agreement under which CCAL and CCA Macau have been engaged to provide the Services to the Group. The principal 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 or, as the case may be, CCA Macau 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, CCAL and CCA Macau subject to compliance with the Listing Rules and all applicable law.

In accordance with the New Service Agreement, where CCAL and/or CCA Macau agreed to provide Services to any member of the Group, such relevant member shall enter into a separate agreement with CCAL and/or CCA Macau (as the case may be) 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 and CCA Macau 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 and CCA Macau 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 members of the Independent Board Committee) 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 members of the Independent Board Committee 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 2016 and shall continue until 30 June 2018.

If the approval by the Independent Shareholders of the New Service Agreement is not obtained on or before 31 January 2017 (or such later date as may be agreed between the Company, CCAL and CCA Macau), the New Service Agreement will automatically be terminated and neither party to the New Service Agreement shall have any claim against the other parties 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 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

Historical aggregate amount of fees paid to CCAL

From 1 July 2014 to 30 June 2015	From 1 July 2015 to 30 June 2016
<i>HK\$</i>	<i>HK\$</i>
38,140,000	31,200,000

Pursuant to the New Service Agreement, the parties agree that the Annual Cap for each of the years ending 30 June 2017 and 30 June 2018 shall not exceed the following:

From 1 July 2016 to 30 June 2017	From 1 July 2018 to 30 June 2018
<i>HK\$</i>	<i>HK\$</i>
22,010,000	22,010,000

No fee has been paid to CCAL and CCA Macau from 1 July 2016 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, the property development project in Macau and Malaysia and the proposed renovation projects for existing rental properties of the Group. The proposed Annual Caps under the New Service Agreement decrease substantially compared to the fees paid by the Group for the Services in the two financial years ended 30 June 2016 mainly due to (i) services provided for the development project in Mainland China is completed and (ii) for the development project in Malaysia, the revised architectural plans have recently been submitted to the relevant authority for approval and therefore it is not expected that there will be substantial work involved during the term of the New Service Agreement.

The Directors (excluding the members of the Independent Board Committee who will form their own view on the Annual Caps under the New Service Agreement upon receipt of the advice from the Independent Financial Adviser) consider that the Annual Caps under the New Service 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 Service 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 and CCA Macau 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 demand for the continuing provision of such services, the Board believes that the services by CCAL and CCA Macau 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 and CCA Macau, 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 and the prior service agreement in respect of the Group's existing property development projects since 2009 and CCA Macau has provided services for the Group's Macau project under the prior service agreement for the period between 30 September 2009 and 30 June 2012, the Board believes that the continuity for provision of services by CCAL and CCA Macau 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.

GENERAL

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

CCAL and CCA Macau are companies 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 and CCA Macau 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.

The Independent Board Committee has been 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 7 December 2016.

TERMS USED IN THIS ANNOUNCEMENT

“Board”	the board of Directors
“CCA Macau”	Cecil Chao Design (Macau) Limited, a company incorporated in Macau with limited liability
“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 26 September 2014 entered into between the Company and CCAL regarding the provision of Services by CCAL to the Group for the period from 1 July 2014 to 30 June 2016
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors, who have no material interests in the transactions contemplated under the New Service Agreement, namely Dr. Sun Ping Hsu, Samson, Mr. Ting Woo Shou, Kenneth and Mr. Lam Ka Wai, Graham

“Independent Financial Adviser”	the independent financial adviser to be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the New Service Agreement (including the Annual Caps thereof)
“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
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“New Service Agreement”	the agreement entered into between the Company, CCAL and CCA Macau dated 16 November 2016 in connection with the provision of Services by CCAL and CCA Macau to the Group for the period from 1 July 2016 to 30 June 2018
“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, 16 November 2016

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