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CHINESE ESTATES HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 127)

**CONNECTED TRANSACTION
AND
CONTINUING CONNECTED TRANSACTION
IN RELATION TO THE TENANCY AGREEMENT**

On 12 June 2020, CEL, a direct wholly-owned subsidiary of the Company, as tenant, has entered into the Tenancy 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 Tenancy 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 her minor children)), both in her capacity as a trustee of her minor children and in her own capacity; and (ii) a family trust of Mr. Lau, Ming-wai (a non-executive Director and the chairman of the Board), hence the Landlord is a connected person of the Company. Therefore, under Chapter 14A of the Listing Rules, the entering into of the Tenancy Agreement and the Rental Payment thereof constitute a connected transaction for the Company, and the Service Payment and the Fit-out Administration Fee Payment thereof constitute continuing connected transaction for the Company.

Given that (i) certain applicable percentage ratios in respect of the value of the right-of-use asset under the Tenancy Agreement, when aggregated with the Right-of-Use Asset Value under the Previous Tenancy Agreements, exceed 0.1% but less than 5%; and (ii) certain applicable percentage ratios in respect of the largest aggregated amount of the Charges Cap and the Previous Charges Cap exceed 0.1% but less than 5%, the Tenancy Agreement and the transactions contemplated thereunder are exempt from the independent shareholders’ approval requirement, but are subject to the reporting, announcement and (to the extent constituting continuing connected transaction 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 Tenancy Agreement with WHL, as landlord of the Premises, in relation to the leasing of the Premises for a term of 3 years.

THE TENANCY AGREEMENT

The principal terms of the Tenancy Agreement dated 12 June 2020 are set out below:-

- Parties** : CEL as tenant; and
WHL as landlord
The Landlord is principally engaged in property investment.
- Premises** : the whole of 39th floor of Chubb Tower, Windsor House, the estimated gross floor area of which is approximately 18,995 square feet.
- Term** : 3 years, commencing from 13 June 2020 to 12 June 2023 (both days inclusive).
- Usage** : For office and ancillary use only.
- Rent** : HK\$1,409,500.00 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 Tenancy.
- Service charges** : HK\$177,607.50 per month 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 Premises, CEL is required to pay administration fees at the specified rates set out in the Tenancy Agreement, such fees to be paid prior to commencement of actual works.
- Deposit** : HK\$4,972,747.50, 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 Tenancy Agreement.
- Adjustment** : In the event the actual gross floor area of the Premises shall be different from the above estimated gross floor area, the rent, service charges and deposit payable by the Tenant for the Tenancy shall be adjusted accordingly.
- Termination** : In the case of sale, demolition, rebuilding or refurbishment of the Premises or Windsor House or any part thereof, the Landlord is entitled to terminate the Tenancy Agreement without compensation by giving not less than 6 months' notice in writing.

The Tenant is entitled to terminate the 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 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 Tenancy Agreement; or (iii) the Stock Exchange revokes any waiver or consent (if any) previously granted for the transactions contemplated under the Tenancy Agreement.

ACCOUNTING IMPLICATION TO THE TENANCY AGREEMENT

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

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 Tenancy Agreement, 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 Tenancy Agreement, 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 Tenancy Agreement 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 Agreement, 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 Tenancy Agreement for the period from 13 June 2020 to 31 December 2020, the financial year ending 31 December 2021, 2022 and 2023 shall not exceed the Charges Cap^(Note 1) for the respective period or financial year below:-

For the period from 13 June 2020 to 31 December 2020	For the financial year ending 31 December 2021	For the financial year ending 31 December 2022	For the financial year ending 31 December 2023
HK\$4,200,000	HK\$4,100,000	HK\$4,300,000	HK\$2,400,000

Note 1: The Charges Cap was calculated based on (a) the estimated maximum amount of the Service Payment of HK\$1,900,000, HK\$3,600,000, HK\$3,800,000 and HK\$1,900,000 for the period from 13 June 2020 to 31 December 2020, the financial year ending 31 December 2021, 2022 and 2023 respectively and (b) the estimated maximum amount of the Fit-out Administration Fee Payment of HK\$2,300,000, HK\$500,000, HK\$500,000 and HK\$500,000 for the period from 13 June 2020 to 31 December 2020, the financial year ending 31 December 2021, 2022 and 2023 respectively, which were determined on the abovementioned basis.

In the event the total amount of the Service Payment and the Fit-out Administration Fee Payment under the Tenancy Agreement shall exceed the Charges Cap, or when aggregated with the service payment and the fit-out administration fee payment under the Previous Tenancy Agreements^(Note 2), one or more of the applicable percentage ratios shall reach 5% or more, the Company will re-comply with all the applicable requirements under the Listing Rules, including (where required) the obtaining of approval from independent Shareholders.

Note 2: The largest aggregated amount of the Charges Cap and the Previous Charges Cap is the sum of the Charges Cap and the Previous Charges Cap for the financial year ending 31 December 2021, i.e., HK\$4,100,000 + HK\$10,700,000 = HK\$14,800,000. Please refer to the section headed “Basis of Determination of the Annual Caps” in the Previous Announcement for further details of the Previous Charges Cap.

REASONS FOR AND BENEFITS OF ENTERING INTO OF THE TENANCY AGREEMENT

As mentioned in the Previous Announcement, it was the intention of the Group to also lease the Premises situated at the whole of 39th floor of the same building from the Landlord to be used as other part of the headquarter of the Group. Furthermore, for the purpose of leasing the Subsequent Premises, CEL as tenant and WHL as landlord entered into the Subsequent Tenancy Agreement dated 18 October 2019, in the principal terms as agreed between CEL and WHL in the Framework Agreement. At present, according to the Landlord, the refurbishment of the Premises has been completed and the Premises is available for occupation by the Group. The Tenancy Agreement was entered into in the ordinary and usual course of business of the Group in order to secure additional sizeable office space for a sufficiently long period to facilitate the Group’s operation. The amount of the Rental Payment for the Tenancy Agreement was arrived after arm’s length negotiation between the parties to the Tenancy Agreement and determined with reference to, among other things, the current market rent payable for a lease similar to the same building and of comparable utility, the fact that the Premises being located on a higher floor of the building and has a feature of a high headroom floor, and by reference to the opinion on the market rent of the Premises from an independent professional valuer, Norton Appraisals Holdings Limited. The respective amounts 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 building. The Directors (including the independent non-executive Directors) are of the view that (i) the Tenancy Agreement and the transactions contemplated thereunder are on normal commercial terms and the respective 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 Charges Cap is fair and reasonable; and (iii) the entering into of the Tenancy Agreement (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 term of 3 years to be made by CEL for the Tenancy Agreement will be approximately HK\$62.9 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 her minor children)), both in her capacity as a trustee of her minor children and in her own capacity; and (ii) a family trust of Mr. Lau, Ming-wai (a non-executive Director and the chairman of the Board), hence the Landlord is a connected person of the Company. Therefore, under Chapter 14A of the Listing Rules, the entering into of the Tenancy Agreement and the Rental Payment thereof constitute a connected transaction for the Company, and the Service Payment and the Fit-out Administration Fee Payment thereof constitute continuing connected transaction for the Company.

Given that (i) certain applicable percentage ratios in respect of the value of the right-of-use asset under the Tenancy Agreement, when aggregated with the Right-of-Use Asset Value under the Previous Tenancy Agreements, exceed 0.1% but less than 5%; and (ii) certain applicable percentage ratios in respect of the largest aggregated amount of the Charges Cap and the Previous Charges Cap exceed 0.1% but less than 5%, the Tenancy Agreement and the transactions contemplated thereunder are exempt from the independent shareholders' approval requirement, but are subject to the reporting, announcement and (to the extent constituting continuing connected transaction 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 Tenancy Agreement (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 Tenancy Agreement and the transactions contemplated thereunder. Save as disclosed above, to the best of the Directors' knowledge having made all reasonable enquiries, no other Directors has a material interest in the Tenancy Agreement (and the transactions contemplated thereunder) and thus was required to abstain from voting on the resolutions of the Board approving the Tenancy Agreement and the transactions contemplated thereunder.

DEFINITIONS

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

“associate”	has the meaning ascribed to it in Chapter 14A of the Listing Rules;
“Board”	the board of Directors;
“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 Tenancy Agreement 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”	has the meaning ascribed to it in the Listing Rules;
“Director(s)”	director(s) of the Company;
“First Tenancy Agreement”	the tenancy agreement dated 28 February 2019 entered into between CEL as tenant and WHL as landlord in relation to the leasing of the whole of 17 th floor of Chubb Tower, Windsor House;
“Fit-out Administration Fee Payment”	the administration fee payment at the specified rates set out in the Tenancy Agreement payable by CEL to WHL for conducting certain specified fit-out and/or alteration works in the Premises under the Tenancy Agreement;
“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 dollar, 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 whole of 39 th floor of Chubb Tower, Windsor House;
“Previous Announcement”	the announcement of the Company dated 28 February 2019 in relation to the entering into of the First Tenancy Agreement and the Framework Agreement by CEL and WHL;
“Previous 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 Previous Tenancy Agreements for the respective period or financial year as set out in the section headed “Basis of Determination of the Annual Caps” in the Previous Announcement;
“Previous Tenancy Agreements”	the First Tenancy Agreement and the Subsequent Tenancy Agreement;
“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 Tenancy Agreement;
“Right-of-Use Asset Value under the Previous Tenancy Agreements”	for the purpose of Chapter 14A of the Listing Rules, the aggregate of (i) the value of the right-of-use asset under the First Tenancy Agreement and (ii) the value of the right-of-use asset under the Subsequent Tenancy Agreement;
“Service Payment”	the service charges and rates payment payable by CEL to WHL under the Tenancy Agreement;
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholders”	the holders 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 Agreement”	the formal tenancy agreement dated 18 October 2019 entered into between CEL as tenant and WHL as landlord in relation to the leasing of all of the Subsequent Premises in the form and substance as agreed in the Framework Agreement;

“substantial shareholders”	has the meaning ascribed to it in the Listing Rules;
“Tenancy”	the tenancy of the Premises pursuant to the Tenancy Agreement and the transactions contemplated thereunder;
“Tenancy Agreement”	the agreement dated 12 June 2020 entered into between CEL as tenant and WHL as landlord in relation to the leasing of the Premises;
“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, 12 June 2020

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>