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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**

THE TENANCY AGREEMENT

On 13 March 2023, CEL, a direct wholly-owned subsidiary of the Company, as tenant, entered into the Tenancy Agreement with WHL, as landlord, in relation to the renewal of the leasing of the Premises for a term of 2 years 4 months and 19 days commencing from 13 June 2023 to 31 October 2025 (both days inclusive).

The HKFRSs applicable to the Group include HKFRS 16 “Leases”. Under HKFRS 16 and in the consolidated statement of financial position of the Company, 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.

LISTING RULES IMPLICATIONS

As at the date of this announcement, WHL is indirectly wholly owned by Ms. Chan, Hoi-wan (an executive Director, the chief executive officer of the Company and a trustee of the substantial shareholders of the Company (who are her minor children)) as trustee for her minor children, hence WHL is a connected person of the Company. Therefore, under Chapter 14A of the Listing Rules, the entering into of the Tenancy Agreement and the payment of the Rental Payment thereof constitute a connected transaction of the Company, and the payment of the Service Payment and the Fit-out Administration Fee Payment thereof constitutes a continuing connected transaction of the Company.

Given that (i) all 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 Other Existing 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 Charges Cap for Existing Tenancy Agreements exceed 0.1% but less than 5%, the Tenancy 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 of the Company) annual review requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

For the purpose of securing renewal of the tenancy of the Premises upon expiry of the Existing Tenancy Agreement, on 13 March 2023, CEL, a direct wholly-owned subsidiary of the Company, as tenant, entered into the Tenancy Agreement with WHL, as landlord, in relation to the renewal of the leasing of the Premises for a term of 2 years 4 months and 19 days commencing from 13 June 2023 to 31 October 2025 (both days inclusive), with principal terms set out below. The Premises is currently leased by CEL as tenant from WHL as landlord pursuant to the Existing Tenancy Agreement entered into between CEL and WHL for a term of three years commencing from 13 June 2020 to 12 June 2023 (both days inclusive).

THE TENANCY

The principal terms of the Tenancy under the Tenancy Agreement are set out below:-

- Date** : 13 March 2023
- 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** : 2 years 4 months and 19 days, commencing from 13 June 2023 to 31 October 2025 (both days inclusive).
- Usage** : For office and ancillary use only.
- Rent** : HK\$1,090,000.00 per month (excluding service charges and rates) to be paid monthly in advance.
- Rent-free period** : Nil.
- 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 the Fit-out Administration Fee Payment, being 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\$3,923,272.50, equivalent to three months' rent, three months' service charges and one quarter's rates payable by CEL to the Landlord upon commencement of the Tenancy Agreement. An equivalent amount being part of the security deposit in the sum of HK\$4,972,747.50 paid by CEL to the Landlord under the Existing Tenancy Agreement shall be applied to satisfy the deposit payment obligation of CEL under the Tenancy Agreement and the remaining balance of HK\$1,049,475.00 shall be applied as part of the first month's rent payable under the Tenancy Agreement.

Adjustment : In the event the actual gross floor area of the Premises differs from the above estimated gross floor area as a result of the Landlord's alteration of the building plans or any other factor prior to the commencement of the term of the Tenancy, 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 six months' notice in writing.

The Tenant is entitled to terminate the Tenancy Agreement by giving a written notice of not less than one 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

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 and the Fit-out Administration Fee Payment under the Tenancy Agreement are capital in nature and will be recognised, among others, as assets of the Group at the commencement date of the Tenancy and the date of completion of such fit-out and/or alteration works respectively. The Service Payment 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.

The HKFRSs applicable to the Group include HKFRS 16 "Leases". Under HKFRS 16 and in the consolidated statement of financial position of the Company, 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 Company, 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.

The value of right-of-use asset under the Tenancy Agreement was estimated to be approximately HK\$29,376,210.

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 (taking into account factors including 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) proposed that the annual caps on the total amount of the Service Payment and the Fit-out Administration Fee Payment under the Tenancy Agreement for the period from 13 June 2023 to 31 December 2023 and each of the financial years ending 31 December 2024 and 2025 shall not exceed the Charges Cap^(Note 1) for the respective period or financial year below:-

For the period from 13 June 2023 to 31 December 2023	For the financial year ending 31 December 2024	For the financial year ending 31 December 2025
HK\$2,200,000	HK\$3,800,000	HK\$3,500,000

Note 1: The Charges Caps were calculated based on (a) the estimated maximum amount of the Service Payment of HK\$1,700,000, HK\$3,300,000 and HK\$3,000,000 for the period from 13 June 2023 to 31 December 2023 and each of the financial years ending 31 December 2024 and 2025; and (b) the estimated maximum amount of the Fit-out Administration Fee Payment of HK\$500,000, HK\$500,000 and HK\$500,000 for the period from 13 June 2023 to 31 December 2023 and each of the financial years ending 31 December 2024 and 2025 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 exceeds the relevant Charges Cap, or when aggregated with the Charges Cap for Existing Tenancy Agreements^(Note 2), one or more of the applicable percentage ratios reach(es) 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 Charges Cap for Existing Tenancy Agreements is the sum of the Charges Cap and the Charges Cap for Existing Tenancy Agreements for the financial year ending 31 December 2023, i.e., HK\$2,200,000 + HK\$10,300,000 = HK\$12,500,000. Please refer to the section headed “Basis of Determination of the Annual Caps” in the Other Existing Tenancies Announcement and the Previous Announcement for further details of the Charges Cap for Existing Tenancy Agreements.

REASONS FOR AND BENEFITS OF ENTERING INTO OF THE TENANCY AGREEMENT

After entering into the Existing Tenancy Agreement, the Group has been occupying the Premises as being part of the Group’s headquarter. As the Existing Tenancy Agreement will expire in June 2023, and it is the Group’s intention to continue using the Premises as being part of the Group’s headquarter, hence the Group entered into the Tenancy Agreement to secure a renewal of the leasing of the Premises upon expiry of the term of the Existing Tenancy Agreement. The Tenancy Agreement was entered into in the ordinary and usual course of business of the Group in order to continue securing a 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 similar to the rate of a lease of 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 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 Caps are 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 aggregated amount of the Rental Payment, the Service Payment and the Fit-out Administration Fee Payment for the term of 2 years 4 months and 19 days payable by CEL for the Tenancy is estimated to be approximately HK\$40.7 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, building and property management, brokerage, securities investment, money lending and cosmetics distribution and trading. CEL is a direct wholly-owned subsidiary of the Company principally engaged in investment holding and provision of management services to the Group.

LISTING RULES IMPLICATIONS

As at the date of this announcement, WHL is indirectly wholly owned by Ms. Chan, Hoi-wan (an executive Director, the chief executive officer of the Company and a trustee of the substantial shareholders of the Company (who are her minor children)) as trustee for her minor children, hence WHL is a connected person of the Company. Therefore, under Chapter 14A of the Listing Rules, the entering into of the Tenancy Agreement and the payment of the Rental Payment thereof constitute a connected transaction of the Company, and the payment of the Service Payment and the Fit-out Administration Fee Payment thereof constitutes a continuing connected transaction of the Company.

Given that (i) all 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 Other Existing 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 Charges Cap for Existing Tenancy Agreements exceed 0.1% but less than 5%, the Tenancy 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 of the Company) annual review requirements under Chapter 14A of the Listing Rules.

Having considered (i) the interest of Ms. Chan, Hoi-wan in WHL as disclosed above; and (ii) Ms. Chan, Hoi-wan is a director of WHL, Ms. Chan, Hoi-wan is considered to have interests in the Tenancy Agreement and the transactions contemplated thereunder. In addition, each of Ms. Chan, Lok-wan and Mr. Lau, Ming-wai is an associate of Ms. Chan, Hoi-wan; and Ms. Amy Lau, Yuk-wai is a relative of Ms. Chan, Hoi-wan. Therefore, each of the above Directors, if he/she was present at the relevant Board meeting, had 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 knowledge of the Directors having made all reasonable enquiries, none of the other Directors has a material interest in the Tenancy Agreement (and the transactions contemplated thereunder) and thus none of the other Directors 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;
“Charges Cap for Existing Tenancy Agreements”	for the purpose of Chapter 14A of the Listing Rules, the maximum amount of the service payment, the fit-out administration fee payment and the dedicated lift maintenance payment under the Other Existing Tenancy Agreements and the service payment and the fit-out administration fee payment under the Existing Tenancy Agreement for the respective period or financial year as set out in the section headed “Basis of Determination of the Annual Caps” in the Other Existing Tenancies Announcement and the Previous Announcement respectively;
“Company”	Chinese Estates Holdings Limited (stock code: 127), a company incorporated in Bermuda with limited liability, the Shares of which 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;
“Existing Tenancy Agreement”	tenancy agreement dated 12 June 2020 entered into between CEL as tenant and WHL as landlord in relation to the leasing of the Premises, with details disclosed in the Previous Announcement;
“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;
“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;
“Landrich”	Landrich (H.K.) Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Multiple Floors Tenancy Agreement”	the tenancy agreement dated 28 March 2022 entered into between CEL as tenant and WHL as landlord in relation to the leasing of the premises consisting of the whole of 19th floor, the whole of 20th floor and the whole of 21st floor of Chubb Tower, Windsor House, for a term of three years commencing from 1 November 2022 to 31 October 2025 (both days inclusive) with details disclosed in the Other Existing Tenancies Announcement;
“Other Existing Tenancy Agreements”	the Room 3602 Tenancy Agreement and the Multiple Floors Tenancy Agreement;
“Other Existing Tenancies Announcement”	the announcement of the Company dated 28 March 2022 in relation to the entering into of the Other Existing Tenancy Agreements;
“Premises”	the whole of 39th floor of Chubb Tower, Windsor House;
“Previous Announcement”	the announcement of the Company dated 12 June 2020 in relation to the entering into of the Existing 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 Other Existing Tenancy Agreements”	for the purpose of Chapter 14A of the Listing Rules, the aggregate of the value of the right-of-use asset under the Other Existing Tenancy Agreements;
“Room 3602 Tenancy Agreement”	the tenancy agreement dated 28 March 2022 entered into between Landrich as tenant and WHL as landlord in relation to the leasing of the premises situated at Room 3602 on the 36th floor of Chubb Tower, Windsor House, for a term of three years commencing from 1 April 2022 to 31 March 2025 (both days inclusive), with details disclosed in the Other Existing Tenancies Announcement;
“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;
“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 tenancy agreement dated 13 March 2023 entered into between CEL as tenant and WHL as landlord in relation to the leasing of the Premises for a term of 2 years 4 months and 19 days, commencing from 13 June 2023 to 31 October 2025 (both days inclusive) ;
“WHL” or “Landlord”	Windsor House Limited, a company incorporated in Hong Kong with limited liability;
“Windsor House”	a 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, 13 March 2023

As at the date of this announcement, the Board comprised 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, Mr. Leung, Yun-fai, Ms. Phillis Loh, Lai-ping and Mr. Ma, Tsz-chun as Independent Non-executive Directors.

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