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## **CHEVALIER INTERNATIONAL HOLDINGS LIMITED**

**其士國際集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

(Stock code: 25)

### **DISCLOSEABLE TRANSACTION**

**Financial adviser to Chevalier International Holdings Limited**



On 28 November 2008, Chevalier Hefei, an indirect wholly-owned subsidiary of the Company, entered into the Agreements with Anhui Travel and Anxing Development, whereby Anxing Development and Chevalier Hefei agreed to subscribe in cash for the increased registered capital of Hua Qiao Hotel of RMB78,000,000 and RMB132,600,000 respectively, and the capital required to be contributed by Anhui Travel is RMB49,400,000. The contribution by Anhui Travel will be satisfied by Anhui Travel implementing a reorganisation of Hua Qiao Hotel to the effect that only the Included Assets will remain at Hua Qiao Hotel. Upon Completion, Chevalier Hefei, Anhui Travel and Anxing Development will hold 51%, 19% and 30% respectively of the enlarged registered capital of Hua Qiao Hotel.

The site for the Joint Development Project undertaken by Hua Qiao Hotel is located at Hefei, Anhui Province, the PRC. It is currently planned that the Joint Development Project would comprise serviced apartments and commercial buildings as well as shopping mall.

The Subscription constitutes a discloseable transaction of the Company under the Listing Rules. A circular containing, among other things, details of the Agreements and other information as required under the Listing Rules will be despatched to the Shareholders as soon as practicable.

## **BACKGROUND**

Reference is made to the announcement of the Company dated 11 July 2006 and the circular dated 2 August 2006 in relation to a discloseable transaction involving an agreement to undertake the Joint Development Project in Hefei, Anhui Province, the PRC.

As disclosed in the aforesaid announcement and circular, Chevalier Chengdu entered into the Development Agreement with the Original JV Partners with the intention to jointly develop a commercial complex on a site situated at Chang Jiang Road Central, Hefei, Anhui Province, the PRC. Pursuant to the Development Agreement, Chevalier Chengdu and the Original JV Partners would bear the cost and share the economic interests in the Joint Development Project on a 51:49 basis. The total investment for the Joint Development Project was RMB750,000,000, of which RMB112,870,000 would be contributed by Chevalier Chengdu in cash and RMB108,440,000 would be contributed by the Original JV Partners by transferring the Land held by Hua Qiao Hotel to the Joint Development Project as their total capital commitment under the Development Agreement. The remaining investment was expected to be financed by external borrowings or be borne by Chevalier Chengdu and the Original JV Partners on a 51:49 basis. It was intended that in due course the Joint Development Project will be undertaken by the Joint Venture Company to be established in the PRC among Chevalier Chengdu and the Original JV Partners, subject to the relevant PRC government approvals. Once the Joint Venture Company is set up, the contributions made by Chevalier Chengdu and the Original JV Partners to the Joint Development Project will be transferred to the Joint Venture Company as their respective capital contributions.

Since the signing of the Development Agreement, Chevalier Chengdu has contributed a total of RMB112,870,000 to the Joint Development Project in accordance with the terms of the Development Agreement. Such amount has been treated as a loan to Hua Qiao Hotel.

As a result of the problems encountered with transferring the Joint Development Project into the Joint Venture Company, the Joint Venture Company has not been established as at the date hereof. The parties to the Development Agreement therefore agreed that instead of injecting the Joint Development Project into the Joint Venture Company, the Group shall inject its capital into Hua Qiao Hotel and Hua Qiao Hotel shall apply to the relevant authorities for the increase in registered capital and the reorganisation from a state-owned enterprise into a sino-foreign joint venture company. In this connection, Chevalier Hefei, Anhui Travel and Anxing Development entered into the Agreements to reflect the revised structure and record the rights and obligations of the parties in Hua Qiao Hotel. The major terms of the Agreements are set out below.

## **THE SUBSCRIPTION AGREEMENT**

**Date:**

28 November 2008

**Parties:**

- (i) Anhui Travel;
- (ii) Chevalier Hefei; and
- (iii) Anxing Development.

Chevalier Hefei is an indirect wholly-owned subsidiary of the Company established in Hong Kong with limited liability. It is principally engaged in investment holding.

Anhui Travel is a state-owned enterprise established in the PRC and is principally engaged in the provision of tourism services and information consulting services. Anhui Travel currently holds the entire equity interest in Hua Qiao Hotel.

Anxing Development is a joint-stock company with limited liability established in the PRC and is principally engaged in property development and trading of building materials and chemical. To the best of the Directors' knowledge, information and belief and after making all reasonable enquiries, Anxing Lianhe holds a 31% equity interest in Anxing Development.

As described in the paragraph headed "Background" above, Chevalier Chengdu has contributed a total amount of RMB112,870,000 from July 2006 to January 2008 to the Joint Development Project and such amount has been treated as a loan to Hua Qiao Hotel. Save for the amount due by Hua Qiao Hotel, to the best of the Directors' knowledge, information and belief and after making all reasonable enquiries, Anhui Travel, Anxing Development and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

Apart from the above, there was no prior transaction and relationship with Anhui Travel, Anxing Development and each of their respective ultimate beneficial owners in the last 12 months which would otherwise require aggregation under Rule 14.22 of the Listing Rules.

### **Principal terms of the Subscription:**

- (i) Pursuant to the Subscription Agreement, Hua Qiao Hotel will apply to the relevant PRC authorities for the increase in registered capital from RMB12,123,000 (equivalent to approximately HK\$13.8 million) to RMB260,000,000 (equivalent to HK\$295.1 million).
- (ii) Subject to the relevant authorities approving the reorganisation of Hua Qiao Hotel into a sino-foreign joint venture company, the increased registered capital of Hua Qiao Hotel shall be contributed (a) in cash by Anxing Development and Chevalier Hefei in the amount of RMB78,000,000 (equivalent to approximately HK\$88.5 million) and RMB132,600,000 (equivalent to approximately HK\$150.5 million) respectively within 20 working days from the approval of the reorganisation of Hua Qiao Hotel into a sino-foreign joint venture company and the issue of relevant approval certificates; and (b) as to RMB49,400,000 (equivalent to approximately HK\$56.1 million) by Anhui Travel implementing the reorganisation of Hua Qiao Hotel as described in the paragraph headed “Information on Hua Qiao Hotel” below to the effect that only the Included Assets will remain at Hua Qiao Hotel. The cash contribution by Chevalier Hefei shall be satisfied in Hong Kong dollars.
- (iii) Upon Completion, Chevalier Hefei, Anhui Travel and Anxing Development will hold 51%, 19% and 30% respectively of the enlarged registered capital of Hua Qiao Hotel.

### **Conditions:**

The Subscription Agreement is subject to and conditional upon the fulfillment of following conditions:

- (i) the approval of 安徽省國有資產管理部門 (State-owned Assets Administration Department of Anhui Province) for the contribution of the Included Assets by Anhui Travel into Hua Qiao Hotel, the increase in the registered capital of Hua Qiao Hotel and the transactions contemplated under the Agreements being obtained;
- (ii) Anhui Travel, Chevalier Hefei and Anxing Development having signed the JV Agreement and the new articles of association of Hua Qiao Hotel;
- (iii) the approvals of the relevant regulatory authorities in the PRC, including but not limited to the approval of 中華人民共和國商務部 (the Ministry of Commerce), of the Agreements and the new articles of association of Hua Qiao Hotel being obtained;

- (iv) there being no restriction, objection or impediment from any relevant governmental authorities which would otherwise prevent the increase in the registered capital of Hua Qiao Hotel;
- (v) Anhui Travel, Chevalier Hefei and Anxing Development having obtained the approvals of their respective directors or shareholders for the execution of the Agreements, the new articles of association of Hua Qiao Hotel and other necessary documentations in connection with the transactions contemplated thereunder in accordance with the requirements of their respective articles of association;
- (vi) Hua Qiao Hotel having obtained all necessary consents and approvals for the Subscription Agreement and the adoption of the new articles of association;
- (vii) Anhui Travel having duly completed a reorganisation of Hua Qiao Hotel to the effect that the Excluded Assets shall be transferred out of Hua Qiao Hotel;
- (viii) the land and buildings included in the Included Assets shall be free from liens, charges, mortgages, court orders and other encumbrances;
- (ix) the due appointment by each party of the appropriate number of directors to the board of directors of Hua Qiao Hotel pursuant to the new articles of association of Hua Qiao Hotel;
- (x) all the representations and warranties given by the parties to the Subscription Agreement remaining true and accurate in all respects up to and including the date of Completion; and
- (xi) the approval of the Stock Exchange for the Agreements and the transactions contemplated thereunder having been obtained.

Chevalier Hefei shall have the right to waive all the above conditions by giving written notice to the other parties. Completion shall take place on the date the above conditions are satisfied or waived.

### **Board composition**

Upon Completion, Hua Qiao Hotel shall become a sino-foreign joint venture company. Its board of directors shall comprise seven members, of which four will be appointed by Chevalier Hefei, two by Anhui Travel and one by Anxing Development.

### **Information on Hua Qiao Hotel**

Hua Qiao Hotel was established on 21 October 1982 under the PRC laws to engage in the provision of tourism services and property development. At present, Hua Qiao Hotel is 100% owned by Anhui Travel.

In addition to holding the Land for the Joint Development Project, Hua Qiao Hotel also carries on other hotel related operations. Pursuant to the terms of the Subscription Agreement, prior to Completion, a reorganisation of Hua Qiao Hotel is required to be implemented to the effect that principally those assets and liabilities of Hua Qiao Hotel, which are directly related to the Joint Development Project, and advances from Chevalier Chengdu, Anhui Travel and Anxing Development to Hua Qiao Hotel (being the Included Assets) shall remain, while the other unrelated assets and liabilities (being the Excluded Assets) shall be transferred by Anhui Travel out of Hua Qiao Hotel.

Based on an asset appraisal report prepared by an independent valuer in the PRC, the value of the Included Assets amounted to approximately RMB84.4 million as at 30 April 2008. The Land comprised in the Included Assets was valued based on direct comparison approach by making reference to comparable sales evidence as available in the relevant market; while the other Included Assets are valued based on the net book value as shown in the management accounts of Hua Qiao Hotel. The value of the Included Assets shall be verified by an independent assessor to be appointed and approved by Chevalier Hefei, Anhui Travel and Anxing Development before Completion. If the value of the Included Assets as assessed is less than RMB49,400,000, Anhui Travel shall make up the shortfall in cash to Hua Qiao Hotel. If the value of the Included Assets exceeds RMB49,400,000, the excess shall be treated as a loan from Anhui Travel to Hua Qiao Hotel.

Based on the management accounts of Hua Qiao Hotel prepared under generally accepted accounting principles in the PRC and assuming the reorganisation of Hua Qiao Hotel has been completed, the Included Assets of Hua Qiao Hotel recorded net loss (both before and after tax) of approximately RMB1,000 and RMB5,000 for the years ended 31 December 2006 and 2007 respectively. The net asset value of the Included Assets of Hua Qiao Hotel as at 31 December 2007 was approximately RMB16.1 million.

After Completion, Hua Qiao Hotel will be accounted for as a jointly controlled entity in the accounts of the Group.

## **THE JV AGREEMENT**

In conjunction with the Subscription Agreement and the reorganisation of Hua Qiao Hotel into a sino-foreign joint venture company, the parties to the Subscription Agreement also entered into the JV Agreement on 28 November 2008 to record the respective rights and obligations of the parties in the operations of Hua Qiao Hotel after Completion. The new articles of association of Hua Qiao Hotel was also executed by the parties on the same date. In particular, it was agreed in the JV Agreement that:

- (i) the joint venture term of Hua Qiao Hotel shall be 20 years from the date of the issue of the certificate of approval for establishment of Hua Qiao Hotel as a sino-foreign joint venture by the relevant regulatory authority in the PRC;
- (ii) the parties to the JV Agreement shall be entitled to the profits and assets of Hua Qiao Hotel in proportion to their respective equity interests in Hua Qiao Hotel;
- (iii) the development costs for the Joint Development Project or the other costs of Hua Qiao Hotel which are in excess of the capital contribution by the parties under the Subscription Agreement shall be funded by external borrowings as far as practicable;
- (iv) except for certain matters as stipulated in the JV Agreement which shall be approved unanimously by the board of directors of Hua Qiao Hotel, all board resolutions of Hua Qiao shall be passed by two-third of the members of the board; and
- (v) pre-emptive rights are given to the other shareholders if any one shareholder of Hua Qiao Hotel intends to dispose of its interest in Hua Qiao Hotel.

## **INFORMATION ON THE JOINT DEVELOPMENT PROJECT**

The site for the Joint Development Project initially comprises the Land which is located at Chang Jiang Road Central, Hefei, Anhui Province, the PRC. After the signing of the Development Agreement, further land was acquired for the Joint Development Project. It is intended that the total site area for the Joint Development Project shall be approximately 21,000 sq. m., which shall be developed into serviced apartments, commercial buildings as well as shopping mall with total floor area of approximately 182,000 sq. m. The detailed development plan is still subject to finalisation after Completion.

At present, preliminary foundation work has commenced at the site. It is expected that the total development costs for the Joint Development Project are approximately RMB1,100 million and the entire development will be completed in late 2011. The development is intended to be named as 華僑廣場 (Hua Qiao Plaza\*) after completion.

## **REASONS FOR THE SUBSCRIPTION**

The Company is an investment holding company which, through its subsidiaries, is principally engaged in the business of construction and engineering, insurance and investment, property, food and beverages, information technology and others. The

Company currently has operations in China, South East Asia, Europe, North America, Australia and the Middle East. In particular, the Company's presence in the PRC property market includes cities such as Shanghai, Chengdu, Beijing, Shenzhen, Hefei and Changchun.

Hefei is the capital city and an important industrial centre of the Anhui Province, with a total area of approximately 7,266 square kilometers and a population of approximately 4.8 million as of 2007. The development site for the Joint Development Project is situated at a prime location in Hefei, which gives the Joint Development Project a competitive advantage in terms of location. Like other PRC urban cities, Hefei has attained fast economic growth in recent years. This fast economic growth has created increasing demand for commercial and residential properties. The Group is positive about the property market in Hefei and had entered into the Development Agreement to participate in the Joint Development Project. As explained in the paragraph headed "Background" above, due to the problems encountered in transferring the Joint Development Project into the Joint Venture Company, the parties agreed that direct participation into Hua Qiao Hotel would be the appropriate structure and accordingly the Agreements were entered into in place of the Development Agreement. Under the Agreements, the Group will hold a 51% interest in the Joint Development Project which is the same as the original intention under the Development Agreement. Due to the inclusion of additional site area and the changes in the land price for the Land, the total development costs for the Joint Development Project is expected to be more than those estimated at the time of the Development Agreement. Accordingly, cash contribution will be made pursuant to the Subscription Agreement by Chevalier Hefei and Anxing Development to fund the additional development costs. The amount previously contributed by Chevalier Chengdu to the Joint Development Project will remain as a loan to Hua Qiao Hotel after Completion.

The terms of the Agreements were negotiated among the parties to the Agreements on an arm's length basis. Having considered the development potential of the Joint Development Project and the fact that the Group's percentage equity interest and other principle rights and obligations in the Joint Development Project remain the same as those under the Development Agreement, the Directors (including the independent non-executive Directors) consider that the terms of the Agreements are fair and reasonable and the entering into of the Agreements is in the interests of the Company and the Shareholders as a whole.

The contribution to the registered capital of Hua Qiao Hotel by Chevalier Hefei is to be funded from internal resources of the Group and/or bank borrowings.



## GENERAL

The Subscription constitutes a discloseable transaction of the Company under the Listing Rules. A circular containing, among other things, details of the Agreements and other information as required under the Listing Rules will be despatched to the Shareholders as soon as practicable.

## DEFINITIONS

“Agreements”	the Subscription Agreement and the JV Agreement
“Anhui Travel”	安徽省旅遊集團有限公司 (Anhui Province Travel Group Company Limited*), a state-owned enterprise established in the PRC
“Anxing Development”	安徽安興發展股份有限公司 (Anhui Anxing Development Joint-Stock Company Limited*), a joint-stock company established in the PRC with limited liability
“Anxing Lianhe”	安徽安興聯合總公司 (Anhui Anxing Lianhe Corporation*), a state-owned enterprise established in the PRC
“Board”	the board of Directors
“Chevalier Chengdu”	其士(成都)投資管理有限公司 (Chevalier (Chengdu) Investment Management Limited*), an indirect wholly-owned subsidiary of the Company established as a wholly-foreign owned enterprise in the PRC with limited liability
“Chevalier Hefei”	Chevalier Investment (Hefei) Limited, an indirect wholly-owned subsidiary of the Company established in Hong Kong with limited liability
“Company”	Chevalier International Holdings Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange
“Completion”	completion of the Agreements

“Development Agreement”	the joint development project agreement dated 27 June 2006 entered into between Chevalier Chengdu and the Original JV Partners to undertake the Joint Development Project
“Directors”	the directors of the Company
“Excluded Assets”	certain assets and liabilities of Hua Qiao Hotel (such as the businesses of 安徽省華僑飯店商貿公司(Anhui Province Hua Qiao Hotel Trading Company*),安徽省華僑飯店勞動服務公司(Anhui Province Hua Qiao Hotel Labour Services Company*) and 安徽省華僑飯店商品部(Anhui Province Hua Qiao Hotel Commercial Products Division*)), which are not directly related to the Joint Development Project and are to be transferred by Anhui Travel out of Hua Qiao Hotel and will not be included as capital contribution by Anhui Travel pursuant to the terms of the Subscription Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hua Qiao Hotel”	安徽省華僑飯店 (Anhui Province Hua Qiao Hotel*), a company established in the PRC which is currently wholly-owned by Anhui Travel and is to be renamed as 安徽省華僑飯店有限公司(Anhui Province Hua Qiao Hotel Company Limited*) after the reorganisation into a sino-foreign joint venture enterprise
“Included Assets”	certain assets and liabilities of Hua Qiao Hotel (which are principally directly related to the Joint Development Project) and advances from Chevalier Chengdu, Anhui Travel and Anxing Development to Hua Qiao Hotel, which are to be remained in Hua Qiao Hotel as capital contribution by Anhui Travel pursuant to the terms of the Subscription Agreement
“Joint Development Project”	the commercial complex known as 華僑廣場 (Hua Qiao Plaza*) to be developed at the Land
“Joint Venture Company”	a joint venture company intended to be established in the PRC with limited liability by Chevalier Chengdu and the Original JV Partners

“JV Agreement”	the joint venture agreement dated 28 November 2008 entered into between Chevalier Hefei, Anhui Travel and Anxing Development in relation to the rights and obligations of the parties in Hua Qiao Hotel
“Land”	a parcel of land situated at Chang Jiang Road Central in Hefei, Anhui Province, the PRC and is owned by Hua Qiao Hotel which was intended to be contributed to the Joint Development Project by the Original JV Partners
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Original JV Partners”	Hua Qiao Hotel and Anxing Lianhe
“PRC”	the People’s Republic of China, excluding Hong Kong, the Macao Special Administrative Region and Taiwan for the purpose of this announcement
“Shareholders”	the holders of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the proposed cash subscription of RMB132,600,000 by Chevalier Hefei in the enlarged registered capital of Hua Qiao Hotel pursuant to the Subscription Agreement
“Subscription Agreement”	the agreement relating to the subscription of the increased registered capital of Hua Qiao Hotel dated 28 November 2008 made between Chevalier Hefei, Anhui Travel and Anxing Development
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“sq. m.”	square metres

By order of the Board of  
**Chevalier International Holdings Limited**  
**Chow Yei Ching**  
*Chairman and Managing Director*

Hong Kong, 4 December 2008

\* *for identification only*

*The exchange rate of RMB1.00 to HK\$1.135 used in this announcement is for reference only.*

*As at the date of this announcement, the Board comprises Dr. Chow Yei Ching (Chairman and Managing Director), Mr. Kuok Hoi Sang (Vice Chairman and Managing Director), Mr. Tam Kwok Wing (Deputy Managing Director), Mr. Chow Vee Tsung, Oscar, Mr. Ho Chung Leung and Mr. Ho Sai Hou as executive Directors and Dr. Chow Ming Kuen, Joseph, Mr. Sun Kai Dah, George and Mr. Yang Chuen Liang, Charles as independent non-executive Directors.*