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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 AND CONNECTED TRANSACTION IN RELATION TO THE DEEMED DISPOSAL OF EQUITY INTEREST IN CAFE DECO HOLDINGS LIMITED

THE SUBSCRIPTION AND DEEMED DISPOSAL

The Board is pleased to announce that after trading hours of the Stock Exchange on 11 December 2015, Cafe Deco, an indirect non wholly-owned subsidiary of the Company, and the Subscriber entered into the Subscription Agreement, pursuant to which the Subscriber has agreed to subscribe for and Cafe Deco has agreed to allot and issue the Subscription Shares at the aggregate subscription price of HK\$111 million.

On 11 December 2015, the Subscriber has separately entered into the IRHL SPA with IRHL, pursuant to which IRHL has agreed to sell and the Subscriber has agreed to purchase 40% of the issued share capital of Cafe Deco at a consideration of approximately HK\$32.0 million. Completion of the Subscription is conditional on the completion of the IRHL SPA which is expected to take place on or about 14 December 2015.

Following Completion, the issued share capital of Cafe Deco will be held as to 25.28% by Sharp Rise and as to 74.72% by the Subscriber. The equity interest of Cafe Deco held by the Group will be diluted from 60% at present to 25.28%. Cafe Deco will no longer be an indirect non wholly-owned subsidiary of the Company and will become an associate of the Group.

LISTING RULES IMPLICATIONS

Following Completion, the Group's interest in Cafe Deco will be diluted and therefore the Subscription is regarded as a deemed disposal for the Company pursuant to Rule 14.29 of the Listing Rules. The Subscription constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

As at the date of this announcement, IRHL holds a 40% equity interest in Cafe Deco. IRHL is a substantial shareholder of a non wholly-owned subsidiary of the Company and therefore a connected person of the Company at the subsidiary level. Since IRHL has entered into the IRHL SPA with the Subscriber on 11 December 2015 and the Subscription is conditional on the completion of the IRHL SPA, the Subscription also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

The Board has approved the Subscription and the independent non-executive Directors have confirmed that the terms of the Subscription are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Subscription is exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules. Mr Chow Vee Tsung, Oscar, being a non-executive Director, has a 24.72% interest in the issued share capital of the Subscriber. As such, he has abstained from voting on the Board resolution for approving the Subscription.

As Completion is conditional upon the fulfillment or waiver (as the case may be) of the conditions precedent as set out under the paragraph headed "Conditions precedent" under the section headed "The Subscription Agreement" in this announcement, the Subscription may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

INTRODUCTION

The Board is pleased to announce that after trading hours of the Stock Exchange on 11 December 2015, Cafe Deco, an indirect non wholly-owned subsidiary of the Company, and the Subscriber entered into the Subscription Agreement, pursuant to which the Subscriber has agreed to subscribe and Cafe Deco has agreed to allot and issue the Subscription Shares at the aggregate subscription price of HK\$111 million. Details of the Subscription Agreement are set out below.

THE SUBSCRIPTION AGREEMENT

Date

11 December 2015

Parties

- (i) Cafe Deco; and
- (ii) the Subscriber.

The Subscriber is a company incorporated in Hong Kong with limited liability. The principal activity of the Subscriber is investment holding. As at the date of this announcement, the Subscriber is held by a group of investors, including Mr. Chow Vee Tsung, Oscar, Mr. Robert Chang and the ultimate beneficial owners of IRHL. Mr. Chow Vee Tsung, Oscar, who is a non-executive Director, has a 24.72% interest in the issued share capital of the Subscriber. Mr. Robert Chang, who is a director of Cafe Deco Group, has an approximately 3.63% interest in the issued share capital of the Subscriber. The ultimate beneficial owners of IRHL have an approximately 11.9% interest in the issued share capital of the Subscriber. Save for the aforesaid, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Subscriber and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

The Subscription

Pursuant to the Subscription Agreement, the Subscriber has agreed to subscribe in cash for the Subscription Shares at the aggregate subscription price of HK\$111 million which shall be satisfied by the Subscriber on the Completion Date. The Subscription Shares will, when fully paid, rank pari passu in all respects with the other shares in issue or to be issued by Cafe Deco on or prior to the date of the Subscription Agreement, and free from all encumbrances and together with all rights and benefits attached to the Subscription Shares as at the date of the Subscription Agreement.

The Subscription Shares represent:

- (i) 137.3% of the existing issued share capital of Cafe Deco; and
- (ii) approximately 57.9% of the issued share capital of Cafe Deco as enlarged by the issue of the Subscription Shares.

The subscription price was arrived at after arm's length negotiations between the parties to the Subscription Agreement and was determined with reference to the valuation of Cafe Deco Group as at 30 September 2015 of approximately HK\$71.1 million prepared by an independent valuer based on market comparable approach and taking into account the controlling stake in Cafe Deco Group being acquired by the Subscriber.

Conditions precedent

Completion is conditional upon the fulfillment or waiver (as the case maybe) of the following conditions:

- (i) the completion of the IRHL SPA;
- (ii) the representations, warranties and undertaking given by Cafe Deco remaining true and accurate in all material respects and not misleading in any material respect on the Completion Date; and
- (iii) the representations, warranties and undertaking given by the Subscriber remaining true and accurate in all material respects and not misleading in any material respect on the Completion Date.

The Subscriber may at its absolute discretion at any time waive in writing conditions (i) and (ii) (or any part thereof) above. Cafe Deco may at its absolute discretion at any time waive in writing condition (iii) (or any part thereof) above. If all of the above conditions are not fulfilled in all respects or waived by the Subscriber or Cafe Deco (as the case may be) on or before 31 December 2015 or such later date as may be agreed between the parties in writing from time to time, then the Subscription Agreement shall, subject to the liability of the parties to each other in respect of any prior breaches, terminate immediately and be of no further effect and no party shall have any claim against the other in respect thereof.

Completion

Completion shall take place on the Business Day immediately following the day on which all of the above conditions have been fulfilled or waived or such later date as the parties may agree in writing and Completion is to occur (as the case may be).

INFORMATION ON CAFE DECO

Cafe Deco is a company incorporated under the laws of the British Virgin Islands with limited liability. The principal business activities of Cafe Deco Group is to own, operate, manage, license, franchise or provide consultancy services to (i) restaurants, bars, a combination of restaurants and bars, retail food outlets, food and beverage counters, kiosk outlets, food and beverage catering business, private kitchens, clubs, commissaries or food factories, wine bars, sandwich shops or delicatessens; (ii) food and beverage trading and distribution business (including but not limited to wholesaling and retailing via e-commerce, m-commerce and s-commerce), food and beverage production facilities, central kitchen facilities, food factories, or any other food and beverage related service providers; and/or (iii) any other business relating to or otherwise in connection therewith.

As at 31 March 2015, Cafe Deco Group had 30 outlets located in Hong Kong, Macau and Sydney under various brand names. During the six months ended 30 September 2015, Cafe Deco Group had added two Berliner outlets and one bar outlet.

As at the date of this announcement, Cafe Deco is held as to 60% by Sharp Rise and as to 40% by IRHL. On 11 December 2015, the Subscriber has separately entered into the IRHL SPA with IRHL, pursuant to which IRHL has agreed to sell and the Subscriber has agreed to purchase 40% of the issued share capital of Cafe Deco at a cash consideration of approximately HK\$32.0 million.

Completion of the IRHL SPA is conditional on, among other things, the signing of the Subscription Agreement and the obtaining of an irrevocable waiver by Sharp Rise of all rights or pre-emption that it may have over any or all of the 40% of the issued share capital of Cafe Deco. Completion of the Subscription is conditional on the completion of the IRHL SPA which is expected to take place on or about 14 December 2015. Following Completion, the issued share capital of Cafe Deco will be held as to 25.28% by Sharp Rise and as to 74.72% by the Subscriber.

FINANCIAL INFORMATION OF CAFE DECO GROUP

The audited consolidated financial information of Cafe Deco Group for each of the two financial years ended 31 March 2014 and 2015 is set out below:

	Year ended 31 March	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net profits before taxation	24,927	27,298
Net profits after taxation	16,389	21,487

The unaudited consolidated net asset value of Cafe Deco Group as at 30 September 2015 was approximately HK\$42.7 million.

FINANCIAL IMPACT OF THE DEEMED DISPOSAL ON THE GROUP

Following Completion, the issued share capital of Cafe Deco will be held as to 25.28% by Sharp Rise and as to 74.72% by the Subscriber. The equity interest of Cafe Deco held by the Group will be diluted from 60% at present to 25.28% and Cafe Deco will no longer be an indirect non wholly-owned subsidiary of the Company and will become an associate of the Group. The Group will account for the results and net assets of Cafe Deco using equity accounting method based on the equity interest held since the Completion Date.

Based on the existing information available to the Company, the gain or loss from the deemed disposal, which is based on the fair value of the net assets of Cafe Deco Group attributable to the Company after Completion less the net asset value of Cafe Deco Group attributable to the Company before Completion after taking into account the goodwill and other intangible assets of Cafe Deco Group, is expected to be immaterial.

DEED OF ASSIGNMENT OF LOAN

As at the date of this announcement, IRHL is indebted to Sharp Rise in the amount of HK\$8.38 million. Following completion of the IRHL SPA, Sharp Rise, IRHL and the Subscriber will enter into a deed of assignment, pursuant to which the Subscriber will acquire from Sharp Rise all its benefit of and interest in the loan at a consideration of HK\$8.38 million.

SHAREHOLDERS' AGREEMENT

Following Completion, Sharp Rise, the Subscriber and Cafe Deco will enter into the Shareholders' Agreement to govern the rights and obligations of Sharp Rise and the Subscriber in Cafe Deco. The Shareholders' Agreement shall include the following principal terms:

- (i) the maximum number of directors of Cafe Deco shall be four. Sharp Rise shall have the right to appoint and remove one director of Cafe Deco, while the Subscriber shall have the right to appoint and remove up to three directors of Cafe Deco; and
- (ii) any shareholder of Cafe Deco wishes to sell, transfer or otherwise dispose of its shares (the "**Offeror Shareholder**") is prohibited to do so unless with the consent of the other shareholder (the "**Offeree Shareholder**"). The Offeror Shareholder shall give a notice in writing to the Offeree Shareholder offering to sell all or part of the shares beneficially owned by the Offeror Shareholder. The notice shall provide the terms of the offer and state the identity of the proposed purchaser of the shares (the "**Third Party Purchaser**"). If the offer is not accepted by the Offeree Shareholder, the Offeror Shareholder shall be entitled to sell the shares to the Third Party Purchaser and on terms and conditions no more favourable than those in the notice.

REASONS FOR THE SUBSCRIPTION

The Company is an investment holding company with its subsidiaries principally engaged in construction and engineering, insurance and investment, property, food and beverage, car dealership and enterprise and network solutions.

With the backdrop of the slowing down of the Mainland China's economy and negative outlook of the food and beverage retails in Hong Kong coupled with the reduction in number of overseas visitors to Hong Kong, the Group has been exploring options for its food and beverage segment and reallocating resources among the various businesses under the Group's portfolio. The unstable profit margins due to the fluctuation in food and beverage costs and the substantial rise in staff costs and rental expenses are the major adverse factors to the food and beverage business. To maintain its competitiveness in the present market environment, it is the plan of Cafe Deco Group to focus on those brand names with scalable concepts such as Berliner and Cafe Deco Pizzeria and increase the number of outlets to enjoy economies of scale. To this end, Cafe Deco Group would require additional capital to meet its capital expenditure and operational needs. As the Board would like to allocate the resources to other businesses of the Group, the Group does not intend to provide additional capital to the food and beverage segment. The introduction of the Subscriber as a new controlling shareholder of Cafe Deco through the Subscription would reduce the reliance of Cafe Deco on the financial support from the Group and allow the Group to redirect its resources to other core business segments of the Group.

The Subscription will strengthen Cafe Deco's capital base to facilitate the growth of its business in the future. Cafe Deco intends to utilise the funds from the Subscription to repay the outstanding loans payable by Cafe Deco Group to two banks in the aggregate amounts of approximately HK\$74.0 million as at 30 September 2015 drawn under the banking facilities in the aggregate amounts of HK\$150 million. The banking facilities are supported by 100% corporate guarantee provided by the Company which will be released after Completion. Besides, the funds from the Subscription will be utilised for business expansion and general working capital of Cafe Deco Group.

Based on the above, the Directors are of the view that the terms of the Subscription Agreement are on normal commercial terms which are fair and reasonable, and the entering into of the Subscription Agreement is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Following Completion, the Group's interest in Cafe Deco will be diluted and therefore the Subscription is regarded as a deemed disposal for the Company pursuant to Rule 14.29 of the Listing Rules. The Subscription constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

As at the date of this announcement, IRHL holds a 40% equity interest in Cafe Deco. IRHL is a substantial shareholder of a non wholly-owned subsidiary of the Company and therefore a connected person of the Company at the subsidiary level. Since IRHL has entered into the IRHL SPA with the Subscriber on 11 December 2015 and the Subscription is conditional on the completion of the IRHL SPA, the Subscription also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

The Board has approved the Subscription and the independent non-executive Directors have confirmed that the terms of the Subscription are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Subscription is exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules. Mr Chow Vee Tsung, Oscar, being a non-executive Director, has a 24.72% interest in the issued share capital of the Subscriber. As such, he has abstained from voting on the Board resolution for approving the Subscription.

As Completion is conditional upon the fulfillment or waiver (as the case may be) of the conditions precedent as set out under the paragraph headed "Conditions precedent" under the section headed "The Subscription Agreement" in this announcement, the Subscription may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

"Board"	the board of Directors
"Business Day"	any day (excluding a Saturday, a Sunday and a public holiday) on which licensed banks in Hong Kong are generally open for business
"Cafe Deco"	Cafe Deco Holdings Limited, a company incorporated under the laws of the British Virgin Islands with limited liability
"Cafe Deco Group"	Cafe Deco and its subsidiaries
"Company"	Chevalier International Holdings Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the Subscription
"Completion Date"	the date on which Completion takes place
"connected person(s)"	has the meaning ascribed thereto in the Listing Rules
"Director(s)"	director(s) of the Company
"Group"	the Company and its subsidiaries

“IRHL”	International Restaurants Holdings Limited, a company incorporated in the Cayman Islands with limited liability
“IRHL SPA”	the sale and purchase agreement dated 11 December 2015 entered into among (i) the Subscriber (as purchaser); (ii) IRHL (as vendor); and (iii) Gleninternational Limited and MCA International Holdings Limited (as guarantors), in respect of the sale and purchase of a 40% equity interest in Cafe Deco
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Shareholder(s)”	holder(s) of the ordinary share(s) of HK\$1.25 each in the issued share capital of the Company
“Shareholders’ Agreement”	the shareholders’ agreement to be entered into among Sharp Rise, the Subscriber and Cafe Deco
“Sharp Rise”	Sharp Rise Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, and a wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Food Group HK Limited, a company incorporated in Hong Kong with limited liability
“Subscription”	the subscription of the Subscription Shares by the Subscriber in accordance with the terms of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 11 December 2015 entered into between Cafe Deco and the Subscriber in relation to the Subscription
“Subscription Shares”	1,373 new shares of Cafe Deco with par value of US\$1 each to be allotted and issued by Cafe Deco and subscribed for by the Subscriber

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

For illustration purposes only, amounts denominated in US\$ in this announcement have been translated into Hong Kong dollars at an exchange rate of US\$1 = HK\$7.75.

By Order of the Board
Chevalier International Holdings Limited
CHOW Yei Ching
Chairman

Hong Kong, 11 December 2015

As at the date of this announcement, the Board comprises Dr. Chow Yei Ching (Chairman), Messrs. Kuok Hoi Sang (Vice Chairman and Managing Director), Tam Kwok Wing (Deputy Managing Director), Ho Chung Leung and Ma Chi Wing and Miss Lily Chow as Executive Directors; Dr. Chow Ming Kuen, Joseph, Messrs. Sun Kai Dah, George and Yang Chuen Liang, Charles and Professor Poon Chung Kwong as Independent Non-Executive Directors; and Dr. Ko Chan Gock, William and Mr. Chow Vee Tsung, Oscar as Non-Executive Directors.