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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 IN RELATION TO CAPITAL INJECTION IN A JOINT VENTURE

THE CAPITAL CALL

After trading hours of the Stock Exchange on 5 December 2017, MOB3, an indirect wholly-owned subsidiary of the Company, had received the Capital Call from the Investment Manager on behalf of Seavest Manager under the terms of the Operating Agreement. Seavest Core, a company incorporated in Delaware with limited liability, is a joint venture owned as to 95% by MOB3, 4.9% by Seavest Investor and 0.1% by Seavest Manager.

Under the Capital Call, each of MOB3, Seavest Investor and Seavest Manager shall contribute approximately US\$70 million (equivalent to approximately HK\$546 million) in cash, US\$3.6 million (equivalent to approximately HK\$28 million) in cash or in the form of contribution of assets and US\$74,000 (equivalent to approximately HK\$575,000) in cash respectively in proportion to their respective percentage interests in Seavest Core.

LISTING RULES IMPLICATIONS

The commitment to make the capital contribution to Seavest Core by MOB3 pursuant to the Capital Call constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements pursuant to Chapter 14 of the Listing Rules.

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MOB3 shall contribute the sum of approximately US\$70 million (equivalent to approximately HK\$546 million) in cash in the following manner:

- (i) an initial sum of approximately US\$5.7 million (equivalent to approximately HK\$44.5 million) on or before 8 December 2017 (US time); and
- (ii) the remaining balance of approximately US\$64.3 million (equivalent to approximately HK\$501.5 million) upon further request of Seavest Manager.

Upon completion of the capital injection under the Capital Call, the capital of Seavest Core will be increased to approximately US\$73.7 million (equivalent to approximately HK\$575 million).

The Group intends to finance MOB3's contribution to Seavest Core by internal resources.

In the event Seavest Investor contributes assets which comprise the equity interests held by Seavest or Seavest's affiliates in one of the Potential Projects under the Capital Call, the agreed percentage of the equity interest of the particular Potential Project to be injected will be based on (i) the management accounts of that particular Potential Project immediately prior to completion of the possible acquisition and (ii) the valuation of that particular Potential Project conducted by an independent professional valuer.

INFORMATION ON SEAVEST CORE

Seavest Core was formed in Delaware in July 2017 by the Members.

As Seavest Core is a newly established company, it does not have any investments and material assets or liabilities as at the date of this announcement.

Based on the Operating Agreement the principal terms of which are set out in the section headed "The Operating Agreement" below, it is considered that the Group has joint control over Seavest Core, and therefore Seavest Core has been, and will following the capital contribution under the Capital Call be, accounted for as a joint venture by the Group in accordance with applicable Hong Kong Financial Reporting Standards.

THE OPERATING AGREEMENT

Date

7 September 2017

Parties

- (i) MOB3 as one of the Investor Members;
- (ii) Seavest Investor as the other Investor Member; and
- (iii) Seavest Manager as the managing Member.

Both Seavest Investor and Seavest Manager are affiliates of Seavest, a privately held investment management firm specialising in socially oriented venture capital and healthcare real estate in the US. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Seavest Investor, Seavest Manager, Seavest and their ultimate beneficial owner(s) are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Nature of business

The principal purposes of Seavest Core are (i) to invest in, acquire, own, manage, operate, improve, finance, lease, sell, and otherwise deal with real estate projects that meet the investment guidelines set out in the paragraph headed "Investment guidelines" below; (ii) to hold the real estate projects for investment purposes until disposal; and (iii) to conduct such other activities with respect to, and otherwise realise and optimise the economic return from, the real estate projects and any related assets Seavest Core may acquire.

Investment guidelines

- Type of investments : The potential projects shall be associated with financially stable healthcare system. The healthcare system partners should be either:
- (i) maintaining an investment grade rating by reputable investment ratings companies such as Moody's, Standard and Poor's or Fitch; or
 - (ii) having a significant market position within a metropolitan statistical area as a system, or within the hospital's service area.
- Location : The projects shall be located at or adjacent to the campuses of hospitals or off-campus locations where the hospital serves as anchor tenant in the US.

- Leasing/Occupancy : For existing assets or projects, at least 90% occupancy at the time of acquisition. For development projects, at least 90% of the rentable area are preleased.
- Required return : At initial yield of at least 5% at stabilised occupancy and an anticipated levered IRR between 7 to 9% when the assets or projects are at mature stage.

Capital contribution

Upon the written request by Seavest Manager but not later than the closing of the first project to be acquired by Seavest Core, each of the Members shall make a capital contribution in cash or in form of contribution of assets to Seavest Core in proportion to their respective percentage interests in Seavest Core based on (i) the estimated organisation costs of Seavest Core; (ii) the estimated equity required to acquire the Potential Projects; and (iii) the initial working capital of Seavest Core as determined by Seavest Manager and approved by the Investor Members.

Upon the written request by Seavest Manager, each of the Members shall make further capital contribution to Seavest Core in proportion to their respective percentage interests in Seavest Core in order to (i) implement the annual plan which is approved by the Investor Members; (ii) settle the liabilities and indemnities, if any, of Seavest Core; and (iii) settle the mandatory payments made to third parties who are not affiliates of Seavest Manager.

In the event that a Member (the “**Non-contributing Member**”) fails to contribute its relevant proportion of the capital contribution within 10 business days upon receipt of the written request by Seavest Manager, (i) the capital contributed by other Members shall be refunded in proportion; (ii) the Non-contributing Member’s percentage interest in Seavest Core will be diluted; or (iii) the other Members shall make a loan equivalent to the Non-contributing Member’s shortfall proportion of the capital contribution to Seavest Core.

Management and operation

The management and control of Seavest Core shall be vested in Seavest Manager. Except as permitted by the Delaware Limited Liability Company Act and the Operating Agreement, the Investor Members shall have no part in the management or control of Seavest Core and shall have no authority or right to act on behalf of Seavest Core in connection with any matter. Save for a list of major decisions as described in the Operating Agreement which require the approvals of all of the Investor Members, Seavest Manager, as the managing Member of Seavest Core, shall have the duty, responsibility, power and authority to manage and administer the day-to-day business and affair of Seavest Core and to identify potential healthcare real estate projects in the US which meet the investment guidelines set out in the Operating Agreement and described above.

The Investment Manager, an affiliate of Seavest, has been engaged to provide asset management services to Seavest Core in relation to the operations, financing, leasing and other activities of Seavest Core.

Buyout right

MOB3 shall have the right to buyout the interests of Seavest Manager and Seavest Investor in Seavest Core at a price to be mutually agreed on the occurrence of any of the following events:

- (i) Seavest Manager committed gross negligence constituting damages not covered by insurance in an amount equal to or exceeding US\$1 million (equivalent to HK\$7.8 million);
- (ii) Seavest Manager committed willful misconduct, bad faith, fraud, misappropriation of funds or illegal acts;
- (iii) Seavest Manager breached the representations and warranties provided in the Operating Agreement; or
- (iv) Seavest Manager failed to meet 80% of the targeted net operating income which was set out in the Investor Members' approved annual plan in two consecutive calendar quarters unless (a) MOB3 is satisfied with the reason presented by Seavest Manager; or (b) such underperformance was due to unforeseeable events outside the reasonable control of Seavest Manager.

Fees

For the investment services provided, the Investment Manager or its affiliates shall be paid:

- (i) an annual investment management fee based on an agreed percentage of the net asset value of Seavest Core (as defined in the Operating Agreement) which shall be paid quarterly;
- (ii) upon acquisition of a project (other than the Potential Projects), an acquisition fee based on an agreed percentage of the gross purchase price of such project; and
- (iii) upon financing or refinancing of a project (including the Potential Projects), an agreed percentage of the maximum principal amount of such financing.

If Seavest Manager, in its discretion, decides to engage an affiliate to render the relevant services, subject to approval of the Investor Members, the services fee shall be charged as follows:

- (i) property management fee based on market rates but not less than an agreed percentage of the gross income for the relevant projects and paid on monthly basis;
- (ii) construction management fee based on market rates but not more than an agreed percentage of the approved construction costs of relevant projects and paid on monthly basis; and
- (iii) development management fee based on market rates but not more than an agreed percentage of the approved construction costs and paid over a period of construction and lease-up for the relevant projects and on monthly basis.

Distributions

When there is Available Cash, within 30 days following the end of each quarter, the Available Cash shall be distributed as follows:

- (i) first 100% to the Members in proportion to their respective percentage interests in Seavest Core until MOB3's IRR equals an agreed percentage per annum; and
- (ii) thereafter, 90% to the Members in proportion to their respective percentage interests in Seavest Core and 10% to Seavest Manager.

Within 30 days upon the occurrence of any Capital Transaction, the proceeds from the Capital Transaction shall be distributed as follows:

- (i) first 100% to the Members in proportion to their respective percentage interests in Seavest Core until MOB3's IRR equals an agreed percentage per annum; and
- (ii) thereafter, 90% to the Members in proportion to their respective percentage interests in Seavest Core and 10% to Seavest Manager.

Restriction on equity transfer

Except for (i) a transfer by Seavest Investor or Seavest Manager to their affiliate so long as following the transfer, Seavest or its successor continues to control Seavest Investor and Seavest Manager; or (ii) a transfer by MOB3 to an entity directly or indirectly controlled by the Company or its successor entity, no Member may transfer all or any part of its interests in Seavest Core.

REASONS FOR AND BENEFITS OF THE CAPITAL INJECTION

The Company is an investment holding company and the principal activities of its subsidiaries include construction and engineering, property investment, property development and operations, senior housing and car dealership.

Since 2011, the Group has been engaged in the senior housing business in the US. At present, the Group owns 25 senior housing facilities in the US providing over 2,000 beds to serve different needs of the ageing population. Through the investments in senior housing, the Group also recognised the potential of medical and healthcare related properties in the US market. Founded in 1981, Seavest is a reputable investment management firm in the US focusing on medical office buildings, outpatient facilities and specialised treatment centers that are strategic to hospitals. Seavest is a recognised owner and manager of its investments and currently has a portfolio of 13 healthcare assets in the US that are under its management. The formation of a joint venture with Seavest's affiliates would enable the Group to leverage on Seavest's broad network of relationships and expertise in healthcare sector to expand the Group's investment portfolio in the US from elderly housing to a wider range of healthcare related properties.

Currently, Seavest Manager had identified the Potential Projects and had entered into discussions with the potential vendors in relation to the possible acquisitions of the Potential Projects. As at the date of this announcement, no agreements had been entered into between Seavest Core and the potential vendors. The Potential Projects identified by Seavest Manager include:

- (i) a medical building with a GLA of 296,633 sq. ft. located at Buffalo, New York, the US. Major tenants include the largest healthcare provider and largest physicians group in western New York. The latest occupancy rate was approximately 95%;
- (ii) a medical building with a GLA of 68,843 sq. ft. located at Penn Township, Pennsylvania, the US. Major tenant is a hospital with leading market share in its primary service area and is part of a nationally recognised diverse research and clinical care organisation. The latest occupancy rate was approximately 100%; and
- (iii) a medical building with a GLA of 62,724 sq. ft. located at Warwick, Rhode Island, the US. The building is currently 100% leased to a hospital with leading market share in its primary service area. Seavest or Seavest's affiliates have an indirect equity interest of approximately 30% in this particular Potential Project.

The Capital Call of approximately US\$73.7 million (equivalent to approximately HK\$575 million) was determined by Seavest Manager after having considered (i) the estimated organisation costs of Seavest Core; (ii) the estimated capital required to acquire the Potential Projects and the amount of external financing available to fund the acquisition of the Potential Projects; and (iii) the initial working capital requirement of Seavest Core.

Taking into account the above, the Directors are of the view that the investment in Seavest Core enables the Group to expand its investment into medical and healthcare related properties to generate return and capital appreciation potential to the Group, and that the terms of the Capital Call are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

The commitment to make the capital contribution by MOB3 to Seavest Core under the Capital Call constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements pursuant to Chapter 14 of the Listing Rules.

DEFINITIONS

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

“Available Cash”	the amount of available cash, if any, by which the sum of (i) the cash receipts realised from operations of Seavest Core, plus (ii) the amount of any reduction in reserves (including but not limited to capital expenditures and/or developments of projects) exceeds the sum of (i) all cash disbursements of Seavest Core (including but limited to the investment management fee, all costs and expenses), plus (ii) the amount of any increase in reserves
“Board”	the board of Directors
“Capital Call”	the written request dated 5 December 2017 issued by the Investment Manager on behalf of Seavest Manager to the Members pursuant to the Operating Agreement requesting for capital contribution of approximately US\$73.7 million (equivalent to approximately HK\$575 million) by Members to Seavest Core
“Capital Transaction”	a sale or other disposition, financing or refinancing by Seavest Core of any of its assets
“Company”	Chevalier International Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 25)
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Investment Manager”	Seavest Healthcare Properties, LLC, a limited liability company incorporated in Delaware and a wholly-owned subsidiary of Seavest
“Investor Members”	MOB3 and Seavest Investor
“IRR”	the annualised nominal discount rate of cashflows calculated pursuant to the Operating Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Member(s)”	being MOB3, Seavest Investor and/or Seavest Manager
“MOB3”	MOB3 Bond, LLC, a company incorporated in Delaware with limited liability and an indirect wholly-owned subsidiary of the Company
“Operating Agreement”	the operating agreement dated 7 September 2017 (including the amendments made to the operating agreement on 4 December 2017) entered into among the Members to set out their respective rights, duties and obligations in Seavest Core
“Potential Project(s)”	certain potential property project(s) identified by Seavest Manager which may meet the investment guidelines set out in the paragraph headed “Investment guidelines” under the section headed “The Operating Agreement”
“Seavest”	Seavest Investment Group, a company incorporated in Delaware with limited liability
“Seavest Core”	Seavest Core Fund I, LLC, a company incorporated in Delaware with limited liability
“Seavest Investor”	Seavest Core Fund I Investors, LLC, a company incorporated in Delaware with limited liability
“Seavest Manager”	Seavest Core Fund I Manager, LLC, a company incorporated in Delaware with limited liability
“Shareholder(s)”	holder(s) of the ordinary share(s) in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“GLA”	gross leasable area
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“sq. ft.”	square feet
“US”	United States of America
“US\$”	US dollars, the lawful currency of the US
“%”	per cent.

For the purpose of this announcement and for illustrative purpose only, conversions of US\$ to HK\$ are based on the exchange rate of US\$1.00 = HK\$7.80. No representation is made that any amounts in HK\$ or US\$ can be or could have been converted at the relevant dates at the above rate or at any other rates or at all.

By Order of the Board
Chevalier International Holdings Limited
KUOK Hoi Sang
Chairman and Managing Director

Hong Kong, 5 December 2017

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

* *For identification purpose only*