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Chuang's China Investments Limited

(莊士中國投資有限公司)

(Incorporated in Bermuda with limited liability)

(Stock Code: 298)

CONTINUING CONNECTED TRANSACTIONS

On 15 October 2021, Xiamen JV (an indirect non-wholly-owned subsidiary of the Company for the purpose of the Listing Rules) as landlord entered into (i) the New Tenancy Agreement with Mingjia Lujiang Hotel as tenant for the lease of the New Leased Villas and Hotel Basement for a term of 10 years, and (ii) the Amendment Agreement to amend certain terms of the Existing Tenancy Agreement.

Mingjia Lujiang Hotel is an indirect non-wholly-owned subsidiary of the JV Partner (a substantial shareholder of Xiamen JV) and Xiamen JV's entry into of the New Tenancy Agreement and the Amendment Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As the duration of the New Tenancy Agreement and the Existing Tenancy Agreement (as amended by the Amendment Agreement) exceed three years, pursuant to Rule 14A.52 of the Listing Rules, the Company has engaged Halcyon Capital as the independent financial adviser to explain why a longer period for the New Tenancy Agreement and the Existing Tenancy Agreement (as amended by the Amendment Agreement) is required and to confirm whether it is normal business practice for the New Tenancy Agreement and the Existing Tenancy Agreement (as amended by the Amendment Agreement) to be of such duration.

As the aggregate maximum annual rental receivable under the Existing Tenancy Agreement (as amended by the Amendment Agreement) and the New Tenancy Agreement is not expected to exceed 5% of the applicable percentage ratios calculated under the Listing Rules, the transaction contemplated under the Existing Tenancy Agreement (as amended by the Amendment Agreement) and the New Tenancy Agreement is only subject to the reporting, annual review and announcement requirements but exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules.

INTRODUCTION

On 15 October 2021, Xiamen JV (an indirect non-wholly-owned subsidiary of the Company for the purpose of the Listing Rules) as landlord entered into (i) the New Tenancy Agreement with Mingjia Lujiang Hotel as tenant for the lease of the New Leased Villas and Hotel Basement for a term of 10 years, and (ii) the Amendment Agreement to amend certain terms of the Existing Tenancy Agreement.

THE NEW TENANCY AGREEMENT

A summary of the principal terms of the New Tenancy Agreement is as follows:

Date: 15 October 2021

Parties: (1) Xiamen JV as landlord; and
(2) Mingjia Lujiang Hotel as tenant.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Mingjia Lujiang Hotel is an indirect non-wholly-owned subsidiary of the JV Partner and is principally engaged in the operation and management of hotel.

Premises: 16 villas (approximately 4,179.8 sq. m. in aggregate) and a portion of the basement of the Hotel (approximately 297.2 sq. m.) within the Project.

Term: 10 years, commencing from the date of the New Tenancy Agreement to 14 October 2031.

Usage: As resort for the 16 villas and as ancillary facilities for the portion of the basement of the Hotel.

Rental: RMB380,900 (equivalent to approximately HK\$457,080) per month for years 1 to 3, RMB399,945 (equivalent to approximately HK\$479,934) per month for years 4 to 6, RMB419,942 (equivalent to approximately HK\$503,931) per month for years 7 to 9, and RMB440,933 (equivalent to approximately HK\$529,120) per month for year 10, payable in advance every month.

There will be a three months rent-free period from the date of the New Tenancy Agreement to 14 January 2022.

Deposit: RMB1,142,700 (equivalent to approximately HK\$1,371,240) was paid by Mingjia Lujiang Hotel to Xiamen JV on the date of the New Tenancy Agreement.

- Break Clause: Xiamen JV shall have the right to early terminate the New Tenancy Agreement without cause by providing Mingjia Lujiang Hotel a sum equivalent to two months' rental for each remaining year of the term of the New Tenancy Agreement (calculated from the termination date up to the expiration of the New Tenancy Agreement, rounded up to a year even if less than a year) as liquidated damages.
- Option to Renew: Mingjia Lujiang Hotel shall have an option, exercisable by notice in writing to Xiamen JV at least 90 days prior to expiry of the New Tenancy Agreement, to renew the tenancy on terms satisfactory to Xiamen JV.
- Guarantee: Lujiang Hotel and JV Partner shall provide joint and several guarantee for the performance of the obligations of Mingjia Lujiang Hotel under the New Tenancy Agreement.

Currently Mingjia Lujiang Hotel itself manages the Hotel and the adjacent 3 villas leased under the Existing Tenancy Agreement, and upon commencement of the New Tenancy Agreement, it will also manage the New Leased Villas and Hotel Basement and the other villas in the Project.

THE AMENDMENT AGREEMENT

Further, Mingjia Lujiang Hotel has requested Xiamen JV for a reduction of rent under the Existing Tenancy Agreement in respect of the Hotel and the adjacent 3 villas in view of its operational difficulty. During the past 2 years, Covid-19 has significantly affected the business environment and tourism in Xiamen. It has also changed the tourism pattern and travelling mode of people which has created more operational fluctuation and business uncertainty to hotel operator. As evidenced by the tenant of 21 villas in the Project which were operated as “亞朵S酒店” (Atour S Hotel), it was in arrears of rent for a year and finally Xiamen JV has to terminate the tenancy. Other individual tenants of the other villas have also requested Xiamen JV for rent reduction because of the overall poor business environment.

Having considered the macro factors above, it is difficult for Xiamen JV to find a suitable tenant with financial strength in such uncertain operating environment at a comparable rental level to occupy the Hotel and the adjacent 3 villas. Mingjia Lujiang Hotel, as backed by the Xiamen tourism authority, is considered to be more reliable and financially sound. Moreover, it is expected that the New Leased Villas and Hotel Basement leased under the New Tenancy Agreement to Mingjia Lujiang Hotel will allow economies of scale to the business and operation of the Hotel and the adjacent 3 villas.

Under the Amendment Agreement dated 15 October 2021 between Xiamen JV as landlord and Mingjia Lujiang Hotel as tenant, the Existing Tenancy Agreement is amended as follows:

- (a) the monthly rental for the Hotel Agreement will be reduced from (i) RMB750,000 (equivalent to approximately HK\$900,000) to RMB480,000 (equivalent to approximately HK\$576,000) for the period from 20 October 2021 to 19 January 2022; and (ii) approximately RMB833,333 (equivalent to approximately HK\$1,000,000) to approximately RMB533,333 (equivalent to approximately HK\$640,000) for the period from 20 March 2022 to 19 December 2023 (in which the period from 20 January 2022 to 19 March 2022 remained as rent-free period); and
- (b) the monthly rental for the Supplemental Agreement will be reduced from (i) approximately RMB159,348 (equivalent to approximately HK\$191,218) to approximately RMB101,983 (equivalent to approximately HK\$122,380) for the period from 1 November 2021 to 30 April 2023 (in which the period from 1 May 2022 to 31 July 2022 remained as rent-free period); and (ii) approximately RMB175,283 (equivalent to approximately HK\$210,340) to approximately RMB112,181 (equivalent to approximately HK\$134,617) for the period from 1 May 2023 to 31 January 2024.

For the remaining periods thereafter upto January 2027, monthly rental for the Hotel Agreement and the Supplemental Agreement will resume to the original level. This bridging arrangement can help to support the business and cash flow of the tenant under the current difficult environment. The total rental receivable upto maturity will be reduced by about 13.8% from approximately RMB61.4 million (equivalent to approximately HK\$73.7 million) to approximately RMB52.9 million (equivalent to approximately HK\$63.5 million).

Furthermore, JV Partner will provide joint and several guarantee with Lujiang Hotel for the performance of the obligations of Mingjia Lujiang Hotel under the Existing Tenancy Agreement (as amended by the Amendment Agreement).

All the other terms of the Existing Tenancy Agreement remain in full force and effect.

ANNUAL CAP AMOUNTS

The annual aggregate maximum rental receivable by Xiamen JV under the Existing Tenancy Agreement (as amended by the Amendment Agreement) and the New Tenancy Agreement for each of the 11 financial years ending 31 March 2032 will be subject to the following cap amounts (the “Annual Cap Amounts”):

<u>Year ending 31 March</u>	<u>Rental</u>	<u>Annual Cap Amounts</u>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>Equivalent to HK\$'000</i>
2022	12,226	12,226	14,671
2023	14,782	14,782	17,738
2024	14,822	14,822	17,787
2025	14,782	14,782	17,738
2026	14,782	14,782	17,738
2027 (<i>Note</i>)	12,828	12,828	15,394
2028	4,749	4,749	5,699
2029	4,736	4,736	5,683
2030	4,736	4,736	5,683
2031	4,736	4,736	5,683
2032	2,556	2,556	3,067

Note: The Existing Tenancy Agreement (as amended by the Amendment Agreement) will expire in January 2027.

The Annual Cap Amounts were determined with reference to the effective rental denominated in RMB, which has taken into account the rental amounts and the rent-free periods as stipulated in the Existing Tenancy Agreement (as amended by the Amendment Agreement) and the New Tenancy Agreement.

REASONS FOR, AND BENEFITS OF, ENTERING INTO THE NEW TENANCY AGREEMENT AND THE AMENDMENT AGREEMENT

Xiamen JV is a company established in the PRC and is recorded as a joint venture in the consolidated financial statements of the Group, in which Dragon Rich has a 70% interest and the JV Partner has the remaining 30% interest. The principal activities of Xiamen JV are property and hotel development and investment and its sole development project is the Project located at Xiamen, the PRC, which comprises the Hotel and 30 villas.

The Group is principally engaged in property development, investment and trading, hotel operation and management, development and operation of cemetery, sales and trading of goods and merchandises (including art pieces), and securities investment and trading.

As disclosed in the announcements of the Company dated 19 January 2017 and 30 April 2018, the six-storey Hotel together with some portions of the basement and the three villas situated adjacent to the Hotel were leased to Mingjia Lujiang Hotel for a term of 10 years under the Hotel Agreement and 104 months under the Supplemental Agreement (to be coterminous with the Hotel Agreement). As disclosed in prior years' annual reports of the Company, all the remaining 27 villas were leased out to independent third parties for a term of 10 years or more so as to generate a steady recurring income stream. And out of these 27 villas, 21 villas were leased to a tenant to operate them as “亞朵S酒店” (Atour S Hotel).

As affected by the decrease in the number of tourists in Xiamen and coupled with the outbreak of Covid-19, together with the tight operating cashflow in the start-up period, the tenant of the 21 villas encountered operational difficulty and failed to pay rental to Xiamen JV since the last quarter of 2019. After some negotiations, in March 2021, Xiamen JV terminated the tenancy and obtained repossession of the 21 fully furnished villas from the tenant as the settlement arrangement.

Xiamen JV considered that the New Tenancy Agreement will provide steady recurrent income stream. The New Tenancy Agreement was entered into in the ordinary and usual course of business of the Group, and the period of the lease is in line with normal business practice of the hospitality industry. Xiamen JV will continue to market the remaining 5 furnished villas for lease in order to maintain its steady recurrent income.

As for the Amendment Agreement, having considered the macro factors as mentioned above, the financial strength of Lujiang Hotel and JV Partner (who will guarantee the performance of Mingjia Lujiang Hotel under the Existing Tenancy Agreement) and the economies of scale on an overall basis, Xiamen JV considered that the entry of the Amendment Agreement will enable it to continue to enjoy a steady recurrent income.

Given that the terms of the New Tenancy Agreement and the Amendment Agreement were negotiated on an arm's length basis with reference to market rent and market practice, the Directors (including the independent non-executive Directors) consider that the terms of the New Tenancy Agreement and the Amendment Agreement are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Group and the shareholders of the Company as a whole.

As no Director has any interest in the New Tenancy Agreement and the Amendment Agreement, none of them has abstained from voting on the Board resolutions approving the New Tenancy Agreement and the Amendment Agreement.

OPINION FROM THE INDEPENDENT FINANCIAL ADVISER

As the duration of the New Tenancy Agreement and the Existing Tenancy Agreement (as amended by the Amendment Agreement) exceed three years, pursuant to Rule 14A.52 of the Listing Rules, the Company has engaged Halcyon Capital as the independent financial adviser to explain why a longer period for the New Tenancy Agreement and the Existing Tenancy Agreement (as amended by the Amendment Agreement) is required and to confirm whether it is normal business practice for the New Tenancy Agreement and the Existing Tenancy Agreement (as amended by the Amendment Agreement) to be of such duration.

In formulating its opinion, Halcyon Capital has taken into consideration the following principal factors:

- (i) as advised by the management of the Company, the Project comprised the Hotel and a cluster of 30 villas. In general, a hotel tenant usually incurs significant initial investment and costs including refurbishing the hotel from time to time to meet its own operating needs, setting up the information technology systems and reservation platform, staff training and outlay for the marketing and branding of the hotel which may take several years to establish and to achieve the desired results;
- (ii) a long term lease facilitates the hotel to be in a better position to minimize business uncertainties and allow time to build up customer loyalty and reputation of the hotel and thus provide confidence and assurance to the tenant for its efforts in establishing a reputable brand of the hotel, which is mutually beneficial to the landlord and the tenant;
- (iii) all of the 30 villas were completed in 2017 on a “bare-shell” basis, and that additional fitting-out and interior decoration works need to be carried out by the tenants to meet their operating model. At the time of entering into of the Existing Tenancy Agreement, it was expected that additional fitting-out and interior decoration works will be carried out by Mingjia Lujiang Hotel to meet their operating model and initial investment and costs would be incurred including carrying out such additional fitting-out works on the villas and outlay for the marketing of the villas. It usually takes considerable time to build up customer loyalty and operating reputation. According to the Ministry of Culture and Tourism, the total number of trips of domestic tourism in the PRC dropped by approximately 53.8% to approximately 2.88 billion in 2020, and the relevant revenue derived dropped by over 60% in 2020, as compared to 2019, and as stated in the annual report of the Company for the year ended 31 March 2021, the tourism industry in Xiamen has been seriously affected by the pandemic of Covid-19. Although the New Leased Villas and Hotel Basement have been fully furnished by the previous tenant, it is expected that considerably more time may be required to build up customer loyalty and operating reputation under the pandemic situation. As such, a long term lease would provide confidence and assurance to Mingjia Lujiang Hotel for its efforts on business operation, whereas a short term lease arrangement would not be attractive and commercially sensible from the perspective of Mingjia Lujiang Hotel in view of the uncertainties in near term;

- (iv) as advised by the management of the Company, it has always been the Group's intention to lease out all 30 villas and the Hotel with a view to generating steady recurring income stream. The original term under the previous lease agreements for the New Leased Villas and Hotel Basement ranged from 10 years to 12 years;
- (v) up to the date of this announcement, prior to the default of the ex-tenant of the 21 villas, 27 villas have been leased to independent third parties with a term of 10 years or more and the three villas adjacent to the Hotel have been leased to Mingjia Lujiang Hotel for a term of about 104 months. Halcyon Capital has reviewed the lease agreements (the "**Third Party Leases**") entered into between Xiamen JV and other independent third parties in respect of the villas and noted that all the Third Party Leases have duration in excess of three years, with a period of 10 years or more; and
- (vi) the New Leased Villas and Hotel Basement are situated right next to the Hotel together with the adjacent three villas, all of which were leased to Mingjia Lujiang Hotel for a term of 10 years under the Hotel Agreement or about 104 months under the Supplemental Agreement, as the case may be. Halcyon Capital concurs with the management of the Company that the term of the New Tenancy Agreement is in line with the Existing Tenancy Agreement and the lease of the New Leased Villas and Hotel Basement to Mingjia Lujiang Hotel will offer more accommodation options to its guests and, together with the lease of a portion of the basement of the Hotel as ancillary facilities, will complement the hotel operation by Mingjia Lujiang Hotel.

In addition to the factors stated above, in considering whether it is normal business practice for the New Tenancy Agreement and the Existing Tenancy Agreement (as amended by the Amendment Agreement) to have a term of about 104 months to 10 years, Halcyon Capital has also identified certain transactions (the "**Comparable Transactions**") entered into by companies whose shares are listed on the Stock Exchange or delisted from the Stock Exchange within 12 months from the date of this announcement involving the provision of accommodation services in the hospitality industry and noted that the term of the New Tenancy Agreement and the Existing Tenancy Agreement (as amended by the Amendment Agreement) of about 104 months to 10 years, falls within the range of duration of the Comparable Transactions which ranged from five to 20 years. Taking into account of the above, Halcyon Capital confirms that it is normal business practice for the New Tenancy Agreement and the Existing Tenancy Agreement (as amended by the Amendment Agreement) to be of such duration.

IMPLICATIONS UNDER THE LISTING RULES

Mingjia Lujiang Hotel is an indirect non-wholly-owned subsidiary of the JV Partner (a substantial shareholder of Xiamen JV) and Xiamen JV's entry into of the New Tenancy Agreement and the Amendment Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. However, as the aggregate maximum annual rental receivable under the Existing Tenancy Agreement (as amended by the Amendment Agreement) and the New Tenancy Agreement is not expected to exceed 5% of the applicable percentage ratios calculated under the Listing Rules, the transaction contemplated under the Existing Tenancy Agreement (as amended by the Amendment

Agreement) and the New Tenancy Agreement is only subject to the reporting, annual review and announcement requirements but exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules.

DEFINITIONS

In this announcement, the following terms shall have the meanings set opposite them unless the context otherwise requires:

“Amendment Agreement”	the amendment agreement dated 15 October 2021 entered into between Xiamen JV as landlord and Mingjia Lujiang Hotel as tenant and other related agreements in respect of the amendment of certain terms of the Existing Tenancy Agreement
“Board”	the board of Directors
“Company”	Chuang’s China Investments Limited (莊士中國投資有限公司), a company incorporated in Bermuda with limited liability, the shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 298)
“Directors”	the directors of the Company
“Dragon Rich”	Dragon Rich Investments Limited, a company incorporated in Hong Kong, which is indirectly held as to 85% by the Company with the balance of the 15% held by Lawdion Investments Limited, a company beneficially owned by Mr. Lam Wah Kwok
“Existing Tenancy Agreement”	collectively, the Hotel Agreement and the Supplemental Agreement
“Group”	the Company and its subsidiaries
“Halcyon Capital”	Halcyon Capital Limited, being a corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hotel”	a six-storey hotel with about 100 guest rooms and a basement of approximately 6,675 sq. m. located within the Project

“Hotel Agreement”	the tenancy agreement dated 19 January 2017 entered into between Xiamen JV as landlord and Lujiang Hotel as tenant in respect of the Hotel and a portion of the basement of approximately 4,439 sq. m., which has been subsequently assigned by Lujiang Hotel to its wholly-owned subsidiary, Mingjia Lujiang Hotel
“JV Partner”	廈門旅遊集團有限公司 (Xiamen Tourism Group Limited*), a company established in the PRC, which has a 30% interest in Xiamen JV
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Lujiang Hotel”	廈門鷺江賓館 (Xiamen Lujiang Harbourview Hotel*), a company established in the PRC and a non-wholly-owned subsidiary of the JV Partner
“Mingjia Lujiang Hotel”	廈門佻家鷺江酒店有限公司 (Xiamen Mingjia Lujiang Hotel Limited*), a wholly-owned subsidiary of Lujiang Hotel, established in the PRC for the operation of the 鷺江 • 佻家酒店 (Mega Lujiang Hotel) under the Existing Tenancy Agreement
“New Leased Villas and Hotel Basement”	16 villas of approximately 4,179.8 sq. m. in aggregate, and a portion of the basement of the Hotel of approximately 297.2 sq. m. located within the Project
“New Tenancy Agreement”	the new tenancy agreement dated 15 October 2021 entered into between Xiamen JV as landlord and Mingjia Lujiang Hotel as tenant and other related agreements in respect of the New Leased Villas and Hotel Basement
“PRC”	the People’s Republic of China
“Project”	the development project located in Siming District, Xiamen City, Fujian Province, the PRC, owned by Xiamen JV which comprises the Hotel and 30 villas
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed thereto in the Listing Rules
“Supplemental Agreement”	the supplemental tenancy agreement dated 30 April 2018 entered into between Xiamen JV as landlord and Mingjia Lujiang Hotel as tenant in respect of the Villas and Hotel Basement

“Villas and Hotel Basement”	three villas of approximately 990.3 sq. m. in aggregate adjacent to the Hotel, and a portion of the basement of the Hotel of approximately 983.7 sq. m. located within the Project
“Xiamen JV”	廈門佻家濱海度假村有限公司 (Xiamen Mingjia Binhai Resort Company Limited*), a company established in the PRC and is recorded as a joint venture in the consolidated financial statements of the Group, in which Dragon Rich has a 70% interest
“sq. m.”	square metres
“%”	percent

By order of the Board of
Chuang’s China Investments Limited
Albert Chuang Ka Pun
Chairman

Hong Kong, 15 October 2021

As at the date of this announcement, Mr. Albert Chuang Ka Pun, Miss Ann Li Mee Sum, Mr. Edwin Chuang Ka Fung, Mr. Geoffrey Chuang Ka Kam and Mr. Neville Charles Kotewall are the Executive Directors of the Company, Mr. Dominic Lai is the Non-Executive Director of the Company, and Mr. Abraham Shek Lai Him, Mr. Andrew Fan Chun Wah, Dr. Eddy Li Sau Hung and Dr. Ng Kit Chong are the Independent Non-Executive Directors of the Company.

For the purpose of this announcement, the translation of RMB into HK\$ is based on the approximate exchange rate of RMB1.0 = HK\$1.2. Such translation should not be construed as a representation that the amount in question has been, could have been or could be converted at any exchange rate or at all.

* *English translation only*