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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 TRANSACTION**

Reference is made to the announcement issued by the Company on 15 October 2021 in relation to the New Tenancy Agreement and the Amendment Agreement.

The Board wishes to announce that subsequent to the entry into of the New Tenancy Agreement, Xiamen JV (an indirect non-wholly-owned subsidiary of the Company for the purpose of the Listing Rules) as landlord further entered into the Four Villas Agreement with Mingjia Lujiang Hotel as tenant on 26 January 2022 for the lease of the Four Villas for a term of 10 years.

Mingjia Lujiang Hotel is indirectly wholly-owned by the JV Partner (a substantial shareholder of Xiamen JV) and Xiamen JV's entry into of the Four Villas Agreement constitutes continuing connected transaction for the Company under Chapter 14A of the Listing Rules. As the duration of the Four Villas Agreement exceeds 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 Four Villas Agreement is required and to confirm whether it is normal business practice for the Four Villas Agreement to be of such duration.

As the aggregate maximum annual rental receivable under the Existing Tenancy Agreement, the New Tenancy Agreement and the Four Villas Agreement is not expected to exceed 5% of the applicable percentage ratios calculated under the Listing Rules, the transaction contemplated under the Four Villas 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

Reference is made to the announcement issued by the Company on 15 October 2021 in relation to the New Tenancy Agreement and the Amendment Agreement.

The Board wishes to announce that subsequent to the entry into of the New Tenancy Agreement, Xiamen JV (an indirect non-wholly-owned subsidiary of the Company for the purpose of the Listing Rules) as landlord further entered into the Four Villas Agreement with Mingjia Lujiang Hotel as tenant on 26 January 2022 for the lease of the Four Villas for a term of 10 years.

## THE FOUR VILLAS AGREEMENT

A summary of the principal terms of the Four Villas Agreement is as follows:

Date: 26 January 2022

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 indirectly wholly-owned by the JV Partner and is principally engaged in the operation and management of hotel.

Premises: 4 villas (approximately 1,386.5 sq. m. in aggregate) within the Project.

Term: 10 years, commencing from 1 February 2022 to 31 January 2032.

Usage: As resort for the 4 villas.

Rental: RMB128,000 (equivalent to approximately HK\$153,600) per month for years 1 to 3, RMB134,400 (equivalent to approximately HK\$161,280) per month for years 4 to 6, RMB141,120 (equivalent to approximately HK\$169,344) per month for years 7 to 9, and RMB148,176 (equivalent to approximately HK\$177,811) per month for year 10, payable in advance every month.

There will be a five months rent-free period from 1 February 2022 to 30 June 2022.

Deposit: RMB384,000 (equivalent to approximately HK\$460,800) payable by Mingjia Lujiang Hotel to Xiamen JV before the date of the Four Villas Agreement.

Break Clause: Xiamen JV shall have the right to early terminate the Four Villas Agreement without cause by providing Mingjia Lujiang Hotel a sum equivalent to two months' rental for each remaining year of the term of the Four Villas Agreement (calculated from the termination date up to the expiration of the Four Villas 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 Four Villas 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 Four Villas Agreement.

## INFORMATION ON THE ULTIMATE BENEFICIAL OWNERS OF MINGJIA LUJIANG HOTEL

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Mingjia Lujiang Hotel is wholly-owned by Lujiang Hotel, both are principally engaged in the operation and management of hotel. Lujiang Hotel is wholly-owned by the JV Partner, which is principally engaged in tourism management and investment holding. The JV Partner is ultimately wholly-owned by 廈門市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of People's Government of Xiamen Municipal\*), which is principally engaged in the supervision and administration of state-owned assets in Xiamen Municipal.

## ANNUAL CAP AMOUNTS

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

### (A) On an aggregate basis

<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	12,480	12,480	14,976
2023	16,348	16,348	19,618
2024	16,392	16,392	19,671
2025	16,348	16,348	19,618
2026	16,348	16,348	19,618
2027 (Note)	14,394	14,394	17,274
2028	6,319	6,319	7,583
2029	6,302	6,302	7,563
2030	6,302	6,302	7,563
2031	6,302	6,302	7,563
2032	3,869	3,869	4,643

Note: The Existing Tenancy Agreement will expire in January 2027.

**(B) On a separate basis**

*(i) Existing Tenancy Agreement*

<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	10,046	10,046	12,055
2023	10,046	10,046	12,055
2024	10,074	10,074	12,089
2025	10,046	10,046	12,055
2026	10,046	10,046	12,055
2027	8,092	8,092	9,711

*(ii) New Tenancy Agreement*

<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	2,180	2,180	2,616
2023	4,736	4,736	5,683
2024	4,748	4,748	5,698
2025	4,736	4,736	5,683
2026	4,736	4,736	5,683
2027	4,736	4,736	5,683
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

(iii) *Four Villas Agreement*

<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	254	254	305
2023	1,566	1,566	1,880
2024	1,570	1,570	1,884
2025	1,566	1,566	1,880
2026	1,566	1,566	1,880
2027	1,566	1,566	1,880
2028	1,570	1,570	1,884
2029	1,566	1,566	1,880
2030	1,566	1,566	1,880
2031	1,566	1,566	1,880
2032	1,313	1,313	1,576

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, the New Tenancy Agreement and the Four Villas Agreement.

**REASONS FOR, AND BENEFITS OF, ENTERING INTO THE FOUR VILLAS 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 announcement of the Company dated 15 October 2021, 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), and another 16 villas were leased to Mingjia Lujiang Hotel for a term of 10 years under the New Tenancy Agreement. 5 furnished villas remain to be leased out and Xiamen JV only leased out 1 of them to an independent third party subsequent to the entry into of the New Tenancy Agreement.

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, 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 remaining 4 villas in a

short period of time. Mingjia Lujiang Hotel, as backed by the Xiamen tourism authority, has showed its interest to lease the Four Villas in order to have the economies of scale in its business and operation in the site, and to strengthen its brand name within the Project.

Xiamen JV considered that Mingjia Lujiang Hotel is reliable and financially sound. The Hotel and the 30 villas in the Project will be fully leased after the entry into of the Four Villas Agreement and these will provide steady recurrent income stream to Xiamen JV. The Four Villas 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.

Given that the terms of the Four Villas 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 Four Villas 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 Four Villas Agreement, none of them has abstained from voting on the Board resolutions approving the Four Villas Agreement.

#### **OPINION FROM THE INDEPENDENT FINANCIAL ADVISER**

As the duration of the Four Villas Agreement exceeds 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 Four Villas Agreement is required and to confirm whether it is normal business practice for the Four Villas 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. 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. As advised by the management of the Company, the Four Villas have been fully furnished. 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. The outbreak of Covid-19 in the PRC in early 2022 has also affected a number of areas in the PRC. Although the Four Villas 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;

- (ii) 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 Four Villas was 12 years;
- (iii) prior to the default of the ex-tenant of the subject villas under the Four Villas Agreement, 27 villas of the Project 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. Meanwhile, the Group has further leased 16 villas to Mingjia Lujiang Hotel for a term of 10 years commencing from 15 October 2021 and one villa to an independent third party for a term of 10 years commencing from 29 October 2021. 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
- (iv) the Four Villas are situated in the Project together with the Hotel and the 19 villas leased to Mingjia Lujiang Hotel for a term of 104 months to 10 years under the relevant lease agreements. Halcyon Capital concurs with the management of the Company that the term of the Four Villas Agreement is in line with the existing lease agreements entered into with Mingjia Lujiang Hotel for the Project and the lease of the Four Villas to Mingjia Lujiang Hotel will offer more accommodation options to its guests and 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 Four Villas Agreement to have a term of 10 years, Halcyon Capital has also identified certain transactions (the “**Comparable Transactions**”) entered into by companies which 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 Four Villas Agreement of 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 Four Villas Agreement to be of such duration.

## **IMPLICATIONS UNDER THE LISTING RULES**

Mingjia Lujiang Hotel is indirectly wholly-owned by the JV Partner (a substantial shareholder of Xiamen JV) and Xiamen JV’s entry into of the Four Villas Agreement constitutes continuing connected transaction for the Company under Chapter 14A of the Listing Rules. However, as the aggregate maximum annual rental receivable under the Existing Tenancy Agreement, the New Tenancy Agreement and the Four Villas Agreement is not expected to exceed 5% of the applicable percentage ratios calculated under the Listing Rules, the transaction contemplated under the Four Villas 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, and as amended by the Amendment Agreement
“Four Villas”	4 villas of approximately 1,386.5 sq. m. in aggregate located within the Project
“Four Villas Agreement”	the new tenancy agreement dated 26 January 2022 entered into between Xiamen JV as landlord and Mingjia Lujiang Hotel as tenant and other related agreements in respect of the Four Villas
“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 wholly-owned by 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, 26 January 2022

*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*