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信基沙溪集团股份有限公司
XINJI SHAXI GROUP CO., LTD

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3603)

CONNECTED TRANSACTION
RENEWAL OF TENANCY AGREEMENT

Reference is made to the section headed “Connected Transactions — B. One-off Connected Transactions — Tenancy Agreements — the Household Market Tenancy Agreement” of the Prospectus.

On 18 November 2020, Guangdong Xinji Household (an indirect wholly-owned subsidiary of the Company), as tenant, entered into the 2021 Household Market Tenancy Agreement with Panyu Real Estate, as landlord, to renew the lease of the Premises for a term of five (5) years commencing from 1 December 2021 and ending on 30 November 2026 (both days inclusive).

IMPLICATIONS UNDER THE LISTING RULES

In accordance with HKFRS 16 “Leases”, the Group is required to recognise the tenancy of the Premises as right-of-use assets. Hence the entering into of the 2021 Household Market Tenancy Agreement and the transaction contemplated thereunder will be regarded as an acquisition of assets by the Group.

As at the date of this announcement, Panyu Real Estate is co-owned by Mr. Cheung (the chairman, an executive Director and a controlling shareholder of the Company), Mr. Mei (an executive Director and a controlling shareholder) and Mr. Zhang (an executive Director and a controlling shareholder). Accordingly, Panyu Real Estate is an associate of Mr. Cheung, Mr. Mei and Mr. Zhang and a connected person of the Company, and the entering into of the 2021 Household Market Tenancy Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the estimated value of the right-of-use assets to be recognised by the Group under the 2021 Household Market Tenancy Agreement is more than 0.1% and less than 5%, the entering into of the 2021 Household Market Tenancy Agreement falls within the ambit of Rule 14A.76(2) of the Listing Rules and is subject to the reporting and announcement requirements but is exempt from the circular (including independent financial advice) and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the section headed “Connected Transactions — B. One-off Connected Transactions — Tenancy Agreements — the Household Market Tenancy Agreement” of the Prospectus. On 18 November 2020, Guangdong Xinji Household (an indirect wholly-owned subsidiary of the Company), as tenant, entered into the 2021 Household Market Tenancy Agreement with Panyu Real Estate, as landlord, to renew the lease of the Premises for a term of five (5) years commencing from 1 December 2021 and ending on 30 November 2026 (both days inclusive).

THE 2021 HOUSEHOLD MARKET TENANCY AGREEMENT

Landlord	:	Panyu Real Estate
Tenant	:	Guangdong Xinji Household
Premises	:	Ground Floor and mezzanine of Building 3-5, Fuli Plaza, 105 National Road, Panyu District, Guangzhou, the PRC
Lease term	:	five (5) years commencing from 1 December 2021 and ending on 30 November 2026 (both days inclusive)
Annual Rental	:	RMB6,143,448 (tax inclusive) with an annual increase of 5% from the second year onwards

The Group estimates that the value of the right-of-use assets to be recognised by the Group under the 2021 Household Market Tenancy Agreement shall be approximately RMB29.4 million. The value of right-of-use assets is based on the preliminary assessment of the Board and subject to adjustment.

INFORMATION OF THE PARTIES TO THE 2021 HOUSEHOLD MARKET TENANCY AGREEMENT

The Group is principally engaged in the operation of shopping malls for hospitality supplies and home furnishings in the PRC.

Guangdong Xinji Household is a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company. It is principally engaged in the operation of the shopping mall for home furnishings which is located on the Premises.

Panyu Real Estate is a limited liability company established in the PRC which is co-owned by Mr. Cheung, Mr. Mei and Mr. Zhang. It is principally engaged in the property development business.

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE 2021 HOUSEHOLD MARKET TENANCY AGREEMENT

The Premises are currently operated by Guangdong Xinji Household as a home furnishings shopping mall. As the 2018 Household Market Tenancy Agreement will expire on 30 November 2021, Guangdong Xinji Household and Panyu Real Estate have agreed to renew the tenancy of the Premises in 2020 to continue the Group's present usage of the Premises as shopping mall for its usual and ordinary course of business. As Guangdong Xinji Household is entitled to receive rental income from the sub-tenants of the Premises during the term of the 2021 Household Market Tenancy Agreement, the Directors are of the view that the renewal of the tenancy of the Premises will provide a stable source of income for the Group.

The terms of the 2021 Household Market Tenancy Agreement were determined after arm's length negotiation between the parties and the rental was determined with reference to the prevailing market rates for similar premises in similar locations in the PRC, the rental increment of 5% for every year from 2022 to 2026 with reference to the expected inflation rate in the future, and the long tenure under the 2021 Household Market Tenancy Agreement. The Directors (excluding the Directors who are required to abstain from voting, but including the independent non-executive Directors) are of the view that the 2021 Household Market Tenancy Agreement was entered into on normal commercial terms, in the ordinary and usual course of business of the Group and that the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

In accordance with HKFRS 16 "Leases", the Group is required to recognise the tenancy of the Premises as right-of-use assets. Hence, the entering into of the 2021 Household Market Tenancy Agreement and the transaction contemplated thereunder will be regarded as an acquisition of assets by the Group.

As at the date of this announcement, Panyu Real Estate is co-owned by Mr. Cheung (the chairman, an executive Director and a controlling shareholder of the Company), Mr. Mei (an executive Director and a controlling shareholder) and Mr. Zhang (an executive Director and a controlling shareholder). Accordingly, Panyu Real Estate is an associate of Mr. Cheung, Mr. Mei and Mr. Zhang and a connected person of the Company, and the entering into of the 2021 Household Market Tenancy Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the estimated value of the right-of-use assets to be recognised by the Group under the 2021 Household Market Tenancy Agreement is more than 0.1% and less than 5%, the entering into of the 2021 Household Market Tenancy Agreement falls within the ambit of Rule 14A.76(2) of the Listing Rules and is subject to the reporting and announcement requirements but is exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Cheung, Mr. Mei and Mr. Zhang have abstained from voting on the relevant board resolutions of the Company for approving the 2021 Household Market Tenancy Agreement. To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, other than Mr. Cheung, Mr. Mei and Mr. Zhang, none of the Directors has material interest in the transaction contemplated under the 2021 Household Market Tenancy Agreement and none of them is required to abstain from voting on the relevant board resolutions.

DEFINITIONS

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

“Board”	the board of Directors
“Company”	Xinji Shaxi Group Co., Ltd (信基沙溪集团股份有限公司), a company incorporated under the laws of the Cayman Islands as an exempted company with limited liability whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 3603)
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Guangdong Xinji Household”	Guangdong Xinji Household Company Limited* (廣東信基家居有限公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“2018 Household Market Tenancy Agreement”	the tenancy agreement dated 1 December 2018 entered into between Guangdong Xinji Household and Panyu Real Estate in respect of the lease of the Premises during the period from 1 December 2018 to 30 November 2021 (both days inclusive)
“2021 Household Market Tenancy Agreement”	the tenancy agreement dated 18 November 2020 entered into between Guangdong Xinji Household and Panyu Real Estate in respect of the lease of the Premises during the period from 1 December 2021 to 30 November 2026 (both days inclusive)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Mr. Cheung”	Mr. Cheung Hon Chuen (張漢泉), the chairman, an executive Director and a controlling shareholder
“Mr. Mei”	Mr. Mei Zuoting (梅佐挺), an executive Director and a controlling shareholder
“Mr. Zhang”	Mr. Zhang Weixin (張偉新), an executive Director and a controlling shareholder
“Panyu Real Estate”	Guangzhou Panyu Xinji Real Estate Development Co., Ltd.* (廣州市番禺信基房產發展有限公司), a limited liability company established in the PRC which is co-owned by Mr. Cheung, Mr. Mei and Mr. Zhang
“PRC”	the People’s Republic of China, which for the sole purpose of this announcement, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region of the PRC and Taiwan
“Premises”	Ground Floor and mezzanine of Building 3-5, Fuli Plaza, 105 National Road, Panyu District, Guangzhou, the PRC
“Prospectus”	the prospectus of the Company dated 25 October 2019
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

By order of the Board
Xinji Shaxi Group Co., Ltd
Cheung Hon Chuen
Chairman

Guangzhou, the PRC, 18 November 2020

As at the date of this announcement, the Board comprises Mr. Cheung Hon Chuen as chairman and executive Director; Mr. Mei Zuoting, Mr. Zhang Weixin and Ms. Jin Chunyan as executive Directors; Mr. Yu Xuecong, Mr. Wu Jianxun and Mr. Lin Lie as non-executive Directors; and Dr. Liu Eping, Mr. Chen Tusheng, Mr. Tan Michael Zhen Shan and Mr. Zheng Decheng as independent non-executive Directors.

* For identification purpose only