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LIPPO CHINA RESOURCES LIMITED

力寶華潤有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 156)

ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTIONS

On 14 December 2020, the Franchisees, each an indirect non-wholly owned subsidiary of the Company, entered into the Franchise Agreements with the Franchisor, pursuant to which the Franchisor agrees to grant to the Franchisees the exclusive right and licence to carry on the business of establishing and operating the Outlets within Hong Kong during the Term.

Since the Franchisor is a connected person of the Company under the Listing Rules, the Franchise Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios set out in rule 14.07 of the Listing Rules calculated with reference to the Annual Caps under the Franchise Agreements in aggregate is less than 5% for the Company, and the transactions contemplated thereunder are in accordance with normal commercial terms, the Franchise Agreements are exempt from the independent shareholders' approval requirement, but shall be subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

On 14 December 2020, the Franchisees, each an indirect non-wholly owned subsidiary of the Company, entered into the Franchise Agreements with the Franchisor, pursuant to which the Franchisor agrees to grant to the Franchisees the exclusive right and licence to carry on the business of establishing and operating the Outlets within Hong Kong during the Term.

The terms of the Franchise Agreements are substantially the same but relate to different brands. The Chatterbox Café Franchise Agreement relates to the franchise for the operation of the restaurants under the brand "Chatterbox Café", and the Chatterbox Express Franchise Agreement relates to the franchise for the operation of the restaurants under the brand "Chatterbox Express".

Summarised below are the principal terms of each of the Franchise Agreements:

THE FRANCHISE AGREEMENTS

Date: 14 December 2020

Parties: Franchisor: Chatexpress Pte. Ltd.
Franchisees: Cuisine Continental (HK) Limited and
Cuisine Continental Group (HK) Limited

Subject matter: The Franchisor grants to each of the Franchisees, amongst other things, an exclusive licence to establish and operate the Outlets, and to conduct the business of operating casual dining restaurants and food delivery business at and from the Outlets and the Channels, within Hong Kong, for the Term, utilising the Franchisor's intellectual property rights, systems and procedures, in accordance with the terms and conditions as provided under the Franchise Agreements.

Term: An initial term of seven years commencing from 1 January 2021, being the effective date, with an option for the Franchisees to extend for another seven years upon expiration of the initial term.

Payments to be made by the Franchisees to the Franchisor under the Franchise Agreements: The Franchisees shall pay to the Franchisor royalty fees which shall be the sum equivalent to the proportion of net revenue of the Franchisees, as stated in the following table:

Year of operation	Proportion of net revenue
From 1 January 2021 to 31 December 2021	2.5%
From 1 January 2022 to 31 December 2022	3.0%
From 1 January 2023 to 31 December 2023	3.5%
From 1 January 2024 to 31 December 2024	4.0%
From 1 January 2025 to 31 December 2025	4.0%
From 1 January 2026 to 31 December 2026	4.0%
From 1 January 2027 to 31 December 2027	4.0%

For the purpose of calculating the royalty fees, net revenue of the Franchisees includes any and all revenue and proceeds received and receivable by the Franchisees in relation to the conduct of the franchise business and the operation of the Outlets and Channels, but excluding value added taxes (if any).

The royalty fees are billed monthly and shall be payable by the Franchisees to the Franchisor in Singapore dollars.

The royalty fees payable under the Franchise Agreements were arrived at by arm's length negotiation between the Franchisees and Franchisor, after a review of the range of royalty fees charged under franchise arrangements for similar businesses in the Asia-Pacific region based on available market information and research by an independent third party.

In addition, the Franchisees shall reimburse the Franchisor all per diem allowances, airfare, accommodation, insurance, permits/visas and other related out of pocket expenses incurred by the Franchisor or its personnel for certain matters relating to the performance of the Franchise Agreements, including for audits carried out by, and trainings provided by, the Franchisor as well as any travels of the Franchisor's personnel as may be requested by the Franchisees.

Annual Caps and Basis of Annual Caps

Based on the terms under the Franchise Agreements, the following table sets out the Annual Caps in respect of the aggregate transaction amounts to be made by the Franchisees to the Franchisor under the Franchise Agreements for each of the financial years ending 31 December 2027, which are calculated based on the sum of the estimated maximum aggregate amounts of the royalty fees and expenses to be reimbursed to the Franchisor by the Franchisees under the Franchise Agreements:

For the financial years ending 31 December	Annual Caps HK\$'000
2021	3,000
2022	5,000
2023	8,000
2024	10,000
2025	11,000
2026	11,000
2027	12,000

The Annual Caps were determined based on the estimated maximum amounts of the royalty fees to be paid to and expenses to be reimbursed to the Franchisor by the Franchisees. The estimated maximum amounts of the royalty fees have been ascertained by reference to the estimated net revenue of the Outlets, taking into consideration historical revenue of the Outlets operated by the Franchisees in Hong Kong, the estimated number of stores based on the Franchisees' store expansion plan and the Franchisees' business plans and strategies with respect to the establishment, development and operation of the Outlets. The estimated maximum amounts of expenses to be reimbursed were determined by reference to the estimated costs and expenses to be incurred by the Franchisor for the relevant matters under the Franchise Agreements, taking into account inflation.

The Group has opened an “Chatterbox Café” outlet in Hong Kong in September 2019 and an “Chatterbox Express” outlet in Hong Kong in October 2020. The historical payments made by the Franchisees to the Franchisor for the year ended 31 March 2020 and eight months ended 30 November 2020 were approximately HK\$552,000 and HK\$566,000 respectively. Such payments were made pursuant to the initial agreements entered into between the Franchisor and Franchisees relating to the franchising of the Outlets in Hong Kong, which covered the period from 1 September 2019 to 31 December 2020. Each of the applicable percentage ratios for such transactions previously fell within the de minimis threshold as stipulated under rule 14A.76 of the Listing Rules and were fully exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Opinion from the Independent Financial Adviser

Pursuant to rule 14A.52 of the Listing Rules, as the term of the Franchise Agreements exceeds three years, the Company have appointed an independent financial advisor, Dakin, to advise the reasons for the Franchise Agreements to have a term exceeding three years and to confirm that it is normal business practice for agreements of this type to be of a duration longer than three years.

In assessing the reasons for the term of the Franchise Agreements to be longer than three years, Dakin has considered the following factors:

- the existing operations of “Chatterbox Café” and “Chatterbox Express” are still in the initial starting period such that a relatively longer franchise period is needed to allow sufficient time for the Group to leverage the benefits of an established foreign brand “Chatterbox”, build customers’ loyalty so as to consolidate a position in the domestic food retail market, recuperate its initial investments, fine-tune its business expansion plan that would allow it to systematically meet the challenges of growth and maintain the overall competitiveness of the food retail business by opening restaurants under the brands of “Chatterbox Café” and “Chatterbox Express” in Hong Kong (the “**Franchise Business**”); and
- the exclusive franchise arrangements contemplated under the Franchise Agreements (the “**Exclusive Franchise Arrangements**”) with longer duration will (i) grant the Franchisees the right and licence over a relatively long period of time to operate and expand the Outlets under the Franchise Agreements without disruption and ensure continuity and stability with respect to the use of the established brand name “Chatterbox” to expand the Group’s food retail business in Hong Kong; (ii) enable the Group to capitalise on its overall investments in the Franchise Business (including the set-up costs along with the royalty fees payable and other ongoing financial obligations under the Franchise Agreements, such as expenses to be spent on staff trainings and the upkeep of the Outlets that cannot be recovered or easily put to other uses); and (iii) avoid any potential issues or unnecessary business interruption that may arise from re-negotiating the terms of the Exclusive Franchise Arrangements with the Franchisor from time to time, in particular that the royalty fees payable under the Franchise Agreements is subject to the actual business performance of the Outlets on a monthly basis.

In light of the above, Dakin considers it to be reasonable that the Franchise Agreements require a relatively longer franchise period of more than three years that is expected to facilitate business longevity, thereby helping the Group to secure a higher chance for success in the Franchise Business.

In order to assess whether it is a normal business practice for the agreements of similar nature with the Franchise Agreements to have a duration longer than three years, Dakin has made references to the franchise period of the franchise-related transactions which are of similar nature of the Exclusive Franchise Arrangements entered into by other Hong Kong listed companies engaging in the food and beverage industry, and carried out a comparable analysis accordingly. Based on the selection criteria adopted for the comparable analysis (that are, the franchise arrangement is (i) related to restaurant operation in Hong Kong; and (ii) subject to a franchise agreement (whether initial or supplemental) executed during the period from 1 January 2016 to 14 December 2020, being the date of the Franchise Agreements, (the “**Review Period**”), regardless of the duration of its franchise period), Dakin, on a best effort basis, has identified seven franchise-related transactions that have the most relevance to the Franchise Business (the “**Comparable Transactions**”). All the Comparable Transactions have a franchise period longer than three years, and the Term is within the range of the franchise period of the Comparable Transactions between five years to 20 years.

Dakin, to the best of their knowledge, considers that the Comparable Transactions represent an exhaustive list of franchise arrangements in relation to the operation of restaurants entered into by other Hong Kong listed companies during the Review Period based on the said selection criteria, and therefore serve as fair and representative samples for the purpose of the comparable analysis. Dakin also considers the Review Period of selecting the Comparable Transactions (being a period that covered market transactions undertaken by listed companies on the Stock Exchange which took place throughout almost five years preceding the date of each of the Franchise Agreements) to be a reasonable period to select comparable transactions in order to draw a meaningful comparison with the Term.

Having considered the above, Dakin is of the view that it is a normal business practice for each of the Franchise Agreements to be of a duration longer than three years.

REASONS FOR ENTERING INTO THE FRANCHISE AGREEMENTS

The Franchisor and its affiliates have been operating a restaurant business under the name "Chatterbox" since 1971. In recent years, the Franchisor and its affiliates have established the Chatterbox Café and Chatterbox Express brands to bring the well-known local flavours of Chatterbox by Mandarin Orchard Singapore to a wider audience. The Group has opened an “Chatterbox Café” outlet in Hong Kong in September 2019 and an “Chatterbox Express” outlet in Hong Kong in October 2020, which have received positive responses. The Franchise Agreements formally establish the franchise arrangements between the Franchisor and the Franchisees, and enable the Franchisees to use the know-hows from the Franchisor to expand the food retail business by opening restaurants under the brands of “Chatterbox Café” and “Chatterbox Express” in Hong Kong. The Franchisees are also currently operating restaurants under the brands “Alfafa” and “Delifrance”. The operation of the Chatterbox Café and Chatterbox Express provided a new cuisine but leveraged on the Group’s existing expertise. The diversity provides the Group with better position for its development and growth strategy of its food retail business.

The Directors (including the independent non-executive Directors) consider that the Franchise Agreements have been entered into in the ordinary and usual course of business of the Group, and that the Franchise Agreements were entered into after arm's length negotiations on normal commercial terms, and that the terms of the Franchise Agreements (including the Annual Caps) are fair and reasonable, and in the interest of the Company and its shareholders as a whole.

INFORMATION ON FRANCHISOR, FRANCHISEES AND THE COMPANY

The principal business activity of the Franchisor is an operator of restaurants, cafés, bars, fast food outlets and franchising activities.

The principal business activities of the Franchisees are selling of food and beverages and the operation of restaurants and the wholesale business.

The principal business activity of the Company is investment holding. The principal business activities of the subsidiaries, associates, joint ventures and joint operation of the Company include investment holding, property investment, property development, food businesses, healthcare services, property management, mineral exploration and extraction, fund management, securities investment, treasury investment and money lending.

LISTING RULES IMPLICATIONS

The Franchisees are both wholly owned by Superfood Retail Limited, which in turn is a 50.3% subsidiary of the Company and is owned as to 49.7% by Oddish Ventures Pte. Ltd., an indirect wholly-owned subsidiary of OUE. As at the date of this announcement, the Franchisor is a company wholly-owned by OUE. A principal joint venture of HKC is indirectly interested in approximately 69.78% of the issued shares in OUE (excluding treasury shares). Accordingly, OUE is a joint venture of HKC. HKC is a 73.95% owned subsidiary of Lippo which in turn is a controlling shareholder of the Company. Lippo is interested in approximately 74.99% of the total issued shares in the Company. Accordingly, the Franchisor is a connected person of the Company. Therefore, the transactions under the Franchise Agreements constitute continuing connected transactions for the Company under rule 14A.31 of the Listing Rules.

Dr. Stephen Riady, the chairman and executive Director, is a controlling shareholder of Lippo. Accordingly, Dr. Stephen Riady is deemed to be interested in the Franchise Agreements and has abstained from voting on the relevant Board resolutions of the Company. Save for the above, none of the Directors has any material interest in the Franchise Agreements, and none of them is required to abstain from voting on the Board resolutions of the Company approving the Franchise Agreements and the transactions contemplated thereunder.

As each of the applicable percentage ratios set out in rule 14.07 of the Listing Rules calculated with reference to the Annual Caps under the Franchise Agreements in aggregate is less than 5% for the Company, and the transactions contemplated thereunder are in accordance with normal commercial terms, the Franchise Agreements are exempt from the independent shareholders' approval requirement, but shall be subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this announcement:

“Annual Caps”	the annual caps for the aggregate amounts to be payable by the Franchisees to the Franchisor in respect of the transactions under the Franchise Agreements as stated in the table under the section headed “Annual Caps and Basis of Annual Caps” in this announcement;
"Board"	the board of Directors;
"Channels"	the sale and fulfilment of products via approved online food ordering and delivery platforms and any other mode of trading other than the Outlets as expressly designated by Franchisor in accordance with the Franchise Agreements;
"Chatterbox Café Franchise Agreement"	the franchise agreement and letter agreement both dated 14 December 2020 entered into between the Franchisor and the Franchisees, with respect to the business of operating restaurants known as "Chatterbox Café";
"Chatterbox Express Franchise Agreement"	the franchise agreement and letter agreement both dated 14 December 2020 entered into between the Franchisor and the Franchisees, with respect to the business of operating restaurants known as "Chatterbox Express";
"Company"	Lippo China Resources Limited 力寶華潤有限公司, a company incorporated in Hong Kong with limited liability whose shares are listed on the Stock Exchange and an approximately 74.99% indirect subsidiary of Lippo;
"connected person"	has the meaning ascribed to such term under the Listing Rules;
"controlling shareholder"	has the meaning ascribed to such term under the Listing Rules;
"Dakin"	Dakin Capital Limited, 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), being the independent financial adviser appointed by the Company for the purposes of rule 14A.52 of the Listing Rules;
“Directors”	directors of the Company;
"Franchise Agreements"	the Chatterbox Café Franchise Agreement and the Chatterbox Express Franchise Agreement;

"Franchisees"	Cuisine Continental Group (HK) Limited and Cuisine Continental (HK) Limited, each being a company incorporated in Hong Kong with limited liability and are non-wholly owned subsidiaries of the Company;
"Franchisor"	Chatexpress Pte. Ltd., a company incorporated in the Republic of Singapore with limited liability and a wholly-owned subsidiary of OUE;
"Group"	the Company and its subsidiaries;
"HKC"	Hongkong Chinese Limited (香港華人有限公司*), a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange and an approximate 73.95% indirect subsidiary of Lippo;
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China;
"Lippo"	Lippo Limited 力寶有限公司, a company incorporated in Hong Kong with limited liability whose shares are listed on the Stock Exchange;
"Listing Rules" or "Rule"	Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time;
"OUE"	OUE Limited, a company incorporated in the Republic of Singapore with limited liability and listed on the Main Board of Singapore Exchange Securities Trading Limited and is a joint venture of HKC;
"Outlets"	with respect to the Chatterbox Café Franchise Agreement, the restaurants known as "Chatterbox Café" and with respect to the Chatterbox Express Franchise Agreement, the restaurants known as "Chatterbox Express", in each case, where the business of operating a casual dining restaurant and food delivery business will be conducted by the Franchisees (or any one of them), in accordance with the terms of the Franchise Agreements (as the case may be);
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Term"	an initial term of seven years commencing from 1 January 2021, with an option to extend for another seven years upon expiration of the initial term;
"HK\$"	Hong Kong dollar(s), the lawful currency of Hong Kong; and

"%"

per cent.

** for identification purpose*

By Order of the Board
LIPPO CHINA RESOURCES LIMITED
John Luen Wai Lee
Chief Executive Officer

Hong Kong, 14 December 2020

As at the date of this announcement, the Board of Directors of the Company comprises seven directors, of which Dr. Stephen Riady (Chairman), Messrs. John Luen Wai Lee (Chief Executive Officer) and James Siu Lung Lee as executive Directors, Mr. Leon Nim Leung Chan as non-executive Director and Messrs. Edwin Neo, King Fai Tsui and Victor Ha Kuk Yung as independent non-executive Directors.