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**CENTURY GINWA RETAIL HOLDINGS LIMITED**

**世紀金花商業控股有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 162)**

**VERY SUBSTANTIAL ACQUISITION  
IN RELATION TO  
THE LEASE AGREEMENT**

**THE LEASE AGREEMENT**

In view of the expiry on 15 July 2021 of the Previous Lease Agreement in respect of the lease of the Premises at which the Group operates a department store, on 16 November 2021, Xianyang Subsidiary, an indirect wholly-owned subsidiary of the Company, as lessee and the Lessor as lessor entered into the Lease Agreement for the renewal of the lease of the Premises for a term of ten years, subject to the Shareholders' approval to be obtained at the SGM.

**IMPLICATIONS UNDER THE LISTING RULES**

Pursuant to HKFRS 16, the entering into of the Lease Agreement by Xianyang Subsidiary as lessee will require the Group to recognize right-of-use asset on its consolidated statement of financial position in relation to the Premises. Therefore, the entering into of the Lease Agreement will be regarded as an acquisition of asset by the Group under the Listing Rules. The value of right-of-use asset to be recognized by the Group under the Lease Agreement amounts to approximately RMB176.42 million.

As one of the applicable percentage ratios as defined under the Listing Rules in respect of the acquisition of right-of-use asset to be recognized by the Group under the Lease Agreement is more than 100%, the entering into of the Lease Agreement constitutes a very substantial acquisition of the Company and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

## **GENERAL**

The SGM will be convened and held by the Company to seek the Shareholders' approval of the Lease Agreement and the transactions contemplated thereunder. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has any material interest in the Lease Agreement. As such, no Shareholder nor his close associates would be required to abstain from voting at the SGM on the resolution to approve the same.

As additional time is required for preparing the information below to be included in the circular which contain, among other things, (i) further information on the Lease Agreement and the transactions contemplated thereunder and (ii) the notice of the SGM, the Company expects that the circular will be despatched to the Shareholders on or before 7 December 2021 in accordance with the Listing Rules.

## **INTRODUCTION**

In view of the expiry on 15 July 2021 of the Previous Lease Agreement in respect of the lease of the Premises at which the Group operates a department store, on 16 November 2021, Xianyang Subsidiary, an indirect wholly-owned subsidiary of the Company, as lessee and the Lessor as lessor entered into the Lease Agreement for the renewal of the lease of the Premises for a term of ten years, subject to the Shareholders' approval to be obtained at the SGM. The principal terms of the Lease Agreement are set out below.

## **THE LEASE AGREEMENT**

- Parties : (1) Shaanxi Dongyin Industrial Co., Ltd.#(陝西東銀實業有限公司) as lessor
- (2) Xianyang Century Ginwa Trade and Commerce Company Limited#(咸陽世紀金花商貿有限公司) as lessee

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Lessor and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

- Premises : Basement level 1 to upper floor level 5 and other areas of the main building of, and level 2 to level 4 of the complex of, Dongyin Building, No. 3 Renminzhonglu, Qindu District, Xianyang, the PRC.

Under the Lease Agreement, the front, northern and southern façades of Dongyin Building shall also be leased to Xianyang Subsidiary for display of signage, logo of the Department Store and advertisement.

Whilst the actual leased floor area of the Premises is 25,438.62 m<sup>2</sup>, the Parties have agreed that the floor area for the purposes of calculation of rental fee under the Lease Agreement is 25,200.00 m<sup>2</sup>.

- Transitional period : The Parties have agreed that the rental fee for the period from 16 July 2021 to 15 September 2021 (both dates inclusive) shall be calculated at the same rate as that for the last month of the term provided under the Previous Lease Agreement.
- Term : A term of ten (10) years commencing from 16 September 2021 and ending on 15 September 2031.
- Rental fee: : The rental fee payable under the Lease Agreement is inclusive of management fee and taxes.

During the 10-year term commencing from 16 September 2021, the rental fee is approximately RMB238,654,080 in total and shall be calculated at the following rates:

- (1) for the period from 16 September 2021 to 15 September 2023, at the rate of RMB70.00 per m<sup>2</sup> per month (i.e. RMB21,168,000 per annum);
- (2) for the period from 16 September 2023 to 15 September 2025, at the rate of RMB74.20 per m<sup>2</sup> per month (i.e. RMB22,438,080 per annum);
- (3) for the period from 16 September 2025 to 15 September 2027, at the rate of RMB78.65 per m<sup>2</sup> per month (i.e. RMB23,783,760 per annum);
- (4) for the period from 16 September 2027 to 15 September 2029, at the rate of RMB83.37 per m<sup>2</sup> per month (i.e. RMB25,211,088 per annum); and

(5) for the period from 16 September 2029 to 15 September 2031, at the rate of RMB88.38 per m<sup>2</sup> per month (i.e. RMB26,726,112 per annum).

Xianyang Subsidiary shall be responsible for paying the utility costs such as water and electricity and the air-conditioning charges incurred in respect of the Premises, which shall be governed by a separate property service agreement to be entered into between Xianyang Subsidiary and the property company which manages the Premises.

Payment terms : During the Term, the rental fee shall be payable 30 days in advance of each calendar month and is subject to the offset arrangement described below.

Pursuant to the Lease Agreement, Xianyang Subsidiary shall prepay rental fee to the Lessor in the amount of RMB42,336,000. During the 72-month period from 16 September 2021 to 15 September 2027, the amount of monthly rental fee payable shall be offset by the prepaid rental fee on an average monthly basis (i.e. the prepayment amount of RMB42,336,000 divided by 72 months), the balance of the monthly rental fee payable after the set-off shall be paid by Xianyang Subsidiary 30 days in advance of each calendar month.

Security deposit : An interest-free security deposit in the sum of RMB5,000,000 shall be placed with the Lessor to secure the due observance and performance by Xianyang Subsidiary of its obligations under the Lease Agreement.

The security deposit paid under the Previous Lease Agreement in the amount of RMB1,500,000 shall, instead of being refunded to Xianyang Subsidiary upon the expiry of the Previous Lease Agreement, be re-assigned as partial payment of the security deposit under the Lease Agreement. The balance of the security deposit in the amount of RMB3,500,000 shall be settled by Xianyang Subsidiary in a one-off payment by 15 June 2027.

- Overdue payment : Any overdue payment of rental fee or security deposit will be subject to a daily penalty fee of 0.05% of the overdue amount.
- If a payment is overdue for more than 30 days, the Lessor has the right to terminate the Lease Agreement unilaterally and the termination shall take effect immediately upon the Lessor's delivery of the termination notice. Within 30 days after Xianyang Subsidiary's receipt of the termination notice, Xianyang Subsidiary and its suppliers shall vacate from the Premises, and Xianyang Subsidiary shall pay rental fee to the Lessor in accordance with the terms of the Lease Agreement until the date of actual vacation.
- If the vacation does not take place within the 30-day time limit, Xianyang Subsidiary shall pay the Lessor an amount twice the rental fee from the date of expiry of the time limit until the date of actual vacation as compensation in accordance with the Lease Agreement. The non-removable fittings installed within the Premises which are contributed by Xianyang Subsidiary shall also be forfeited.
- Right of first refusal : In the event that the Lessor proposes to sell the whole or any portion of the Premises to any third party, the Lessor shall provide written notice of the proposed sale to Xianyang Subsidiary and Xianyang Subsidiary shall have a right of first refusal to purchase such portion of the Premises for 30 days after its receipt of the Lessor's notice.
- Termination : The Parties agree not to terminate the Lease Agreement unilaterally within the first five years of the Term. If either Party terminates the lease agreement unilaterally within such period, the defaulting party shall pay the non-defaulting party an amount twice the security deposit, i.e. RMB10,000,000 as penalty.
- If Xianyang Subsidiary intends to terminate the Lease Agreement after the fifth year of the Term, it must notify the Lessor in writing six months in advance. The security deposit placed with the Lessor shall be refunded to Xianyang Subsidiary without interest after deducting the fees owed to the Lessor. The non-removable fittings installed within the Premises which are contributed by Xianyang Subsidiary shall also be forfeited.

In the event that Xianyang Subsidiary decides to exercise its right of first refusal as described above in the future, Xianyang Subsidiary and the Lessor shall enter into a formal agreement setting out the specific terms of the purchase of such portion of the Premises, and the Company shall comply with all applicable requirements under the Listing Rules.

The Lease Agreement shall take effect upon the fulfilment of the Parties having obtained their respective internal approvals in respect of the Lease Agreement, which shall include the Company, being the controlling shareholder of Xianyang Subsidiary, having convened the SGM in accordance with the relevant requirements of the Listing Rules and obtained the Shareholders' approval in respect of the Lease Agreement and the transactions contemplated by passing ordinary resolution by way of poll at the SGM. If a Party is not able to obtain its internal approvals in respect of the Lease Agreement, the Lease Agreement shall cease to have any force and shall not take effect, and the Parties shall not have any claim against each other and shall be restored to their original positions as if the Lease Agreement had not been entered into. The restoration may involve the refund of any prepaid fee, such as the rental fee and security deposit (if so prepaid) and the delivery of vacant possession of the Premises back to the Lessor, and the Parties shall resolve such matters that have occurred in accordance with the Civil Code under PRC law.

The rental fee and its payment arrangement were determined after arm's length negotiations between the Parties with reference to (i) the historical transaction amount under the Previous Lease Agreement; and (ii) the prevailing market rent for comparable premises in the vicinity of the Premises, which was RMB67.17 per m<sup>2</sup> per month as valued by an independent professional valuer. The rental fee is expected to be funded through the internal resources of the Group.

## **THE RIGHT-OF-USE ASSET**

The unaudited value of the right-of-use asset to be recognized by the Group under the Lease Agreement amounts to approximately RMB176.42 million which is calculated with reference to the present value of the total rental fee payable under the Lease Agreement and adjustment to fair value at initial recognition of the rental payment in accordance with HKFRS 16. Incremental borrowing rate of 7.02% is applied to compute the present value of total rental fee payable under the Lease Agreement. Shareholders should note that the above figures are unaudited and may be subject to adjustment.

## **INFORMATION ON THE PARTIES**

### **The Lessor**

The Lessor was established under PRC laws with limited liability. The Lessor principally engages in the business management, property leasing and property management. As at the date of this announcement, to the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, the Lessor was owned as to 51% by Zhang Yong (張勇) and as to 49% by Tan Qifang (譚啟芳).

### **Xianyang Subsidiary**

Xianyang Subsidiary was established under PRC laws with limited liability and is an indirect wholly-owned subsidiary of the Company. It principally engages in the operation of department stores and supermarkets.

## **REASONS FOR AND BENEFITS OF ENTERING INTO OF THE LEASE AGREEMENT**

The Group principally engages in the operation of department stores, a shopping mall and supermarkets in the PRC.

The Department Store has been in business for more than 16 years since its opening in October 2005. The Group has been operating the Department Store since the Company's acquisition of Ideal Mix Limited as further described in the announcement of the Company dated 31 January 2011 and the circular of the Company dated 26 April 2011. The Department Store is located on Renminzhonglu, Xianyang, which is in the prosperous downtown area of Xianyang. The core business district with the largest people flow in Xianyang is within the 500 metre radius of the Department Store, with many large-scale commercial enterprises and a good business atmosphere. For the nine months ended 31 December 2020, the annual sales of the Department Store accounted for 10.26% of the total revenue of the Group. The Department Store, with its long-term business accumulation, is the core asset of Xianyang Subsidiary and in the forefront amongst comparable operators in Shaanxi Province in terms of indicators such as people flow, sales and floor area efficiency. The lease in respect of the Premises under the Previous Lease Agreement already expired on 15 July 2021. In view of the outstanding performance in operating the Premises and the expiry of the Previous Lease Agreement, the Group has been in negotiation with the Lessor to renew the lease of the Premises since February 2021 in order to continue its operation at the Premises. However, as the Lessor had initially made it clear that it wished to operate the Premises itself and would not renew the lease with Xianyang Subsidiary, and it was only after active coordination by the local government that the Lessor reconsidered renewing the lease with Xianyang Subsidiary. The rental payment under the Previous Lease Agreement was RMB13,574,972, RMB13,724,912 and RMB8,057,220 for the two years ended 31 December 2020 and for the period from 1 January 2021 to 15 July 2021, respectively. The Directors noted that there was a substantial increase in rental payment under the Lease Agreement as compared with the Previous Lease Agreement with the rental prepayment of RMB42,336,000, and the term of the Lease Agreement is shorter than the Previous Lease Agreement (i.e. a 15-year term). Therefore, in evaluating the options of renewal of lease of the Premises under the Lease Agreement or leasing new premises for relocating the Department Store, the Directors have considered (i) the prime location of the Premises and the lack of availability of new premises which are comparable to the Premises in the vicinity for relocating the Department Store, (ii) the estimated costs of approximately RMB70.44 million associated with the relocation of the Department Store including but not limited to assets impairment costs for write-off of the existing leasehold improvements and furniture and fixtures, compensation costs to be paid to sub-lessees as a result of early termination of the sub-leasing arrangement of the Premises, and renovation cost for the premises at a new location under the new lease, (iii) the customer stickiness gained from operating the Department Store at the same location since 2005 and the likelihood of retaining the same customer base should the Department Store relocate, (iv) the ensured stability and continuity of the operations of the Department Store should the lease of the Premises be renewed; (v) the loss of profits for operating the Department Store at a new location before reaching the optimal operating level similar to the existing Department Store at the Premises should the Department Store be relocated; and (vi) the continuity of the existing synergy effect created between the Premises and the commercial properties owned by Xianyang Subsidiary which are located in the Datang Shopping Center adjacent to the Premises, which had been used as a supermarket, and are of the view that the terms of the Lease Agreement are fair and reasonable and it is in the interests of the Company and Shareholders to enter into the Lease Agreement.

As explained above, the original intention of the Lessor was to operate the Premises itself rather than leasing it to the Group upon the expiry of the Previous Lease Agreement. It was after a considerable amount of time in negotiation with the Lessor that the Lessor agreed to enter into the Lease Agreement at the current terms including the rental prepayment arrangement. Although it is a common practice for properties leasing in general to have the rental fee settled in advance on a monthly basis or quarterly basis without other substantial rental prepayment, the Board noted that there are individual cases which lessors leasing out premises occupying a large site area for a long term to have required a substantial amount of rental prepayment. As the terms of the Lease Agreement have been agreed after arm's length negotiation between the Parties and having taken into account the aforementioned reasons, the Directors consider that the terms of the Lease Agreement (including the rental prepayment arrangement) are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **IMPLICATIONS UNDER THE LISTING RULES**

Pursuant to HKFRS 16, the entering into of the Lease Agreement by Xianyang Subsidiary as lessee will require the Group to recognize right-of-use asset on its consolidated statement of financial position in relation to the Premises. Therefore, the entering into of the Lease Agreement will be regarded as an acquisition of asset by the Group under the Listing Rules. The value of right-of-use asset to be recognized by the Group under the Lease Agreement amounts to approximately RMB176.42 million.

As one of the applicable percentage ratios as defined under the Listing Rules in respect of the acquisition of right-of-use asset to be recognized by the Group under the Lease Agreement is more than 100%, the entering into of the Lease Agreement constitutes a very substantial acquisition of the Company and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

## **GENERAL**

The SGM will be convened and held by the Company to seek the Shareholders' approval of the Lease Agreement and the transactions contemplated thereunder. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has any material interest in the Lease Agreement. As such, no Shareholder nor his close associates would be required to abstain from voting at the SGM on the resolution to approve the same.

As additional time is required for preparing the information below to be included in the circular which contain, among other things, (i) further information on the Lease Agreement and the transactions contemplated thereunder and (ii) the notice of the SGM, the Company expects that the circular will be despatched to the Shareholders on or before 7 December 2021 in accordance with the Listing Rules.



## DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Board”	the board of Directors
“close associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Company”	Century Ginwa Retail Holdings Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the main board of the Stock Exchange (stock code: 162)
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“Department Store”	Renmin Road Department Store (人民路百貨), the department store (a fashion department store) which Xianyang Subsidiary currently operates at the Premises
“Director(s)”	the director(s) 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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Lease Agreement”	the lease agreement dated 16 November 2021 entered into between Xianyang Subsidiary as lessee and the Lessor as lessor in respect of the lease of the Premises for a term of ten years commencing from 16 September 2021
“Lessor”	Shaanxi Dongyin Industrial Co., Ltd. (陝西東銀實業有限公司), a company established under PRC laws

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Parties”	the Lessor and Xianyang Subsidiary, each a “Party”
“PRC”	the People’s Republic of China
“Premises”	Basement level 1 to upper floor level 5 and other areas of the main building of, and level 2 to level 4 of the complex of, Dongyin Building, No. 3 Renminzhonglu, Qindu District, Xianyang, the PRC, and certain façades of Dongyin Building
“Previous Lease Agreement”	the lease agreement dated 19 July 2006 in respect of the lease of the Premises for a term commencing from 16 July 2006 to 15 July 2021
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Lease Agreement and the transactions contemplated thereunder
“Share(s)”	the ordinary share(s) of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Term”	the official term of the Lease Agreement commencing from 16 September 2021 for 10 years
“Xianyang Subsidiary”	Xianyang Century Ginwa Trade and Commerce Company Limited#( 咸陽世紀金花商貿有限公司 ), a company established under PRC laws and an indirect wholly-owned subsidiary of the Company

“%” per cent

“m<sup>2</sup>” square metres

# *The English transliteration of the Chinese names in this announcement, where indicated, is included for information only, and should not be regarded as the official English names of such Chinese names.*

By order of the Board  
**Century Ginwa Retail Holdings Limited**  
**Huang Shunxu**  
*Chairman*

Hong Kong, 16 November 2021

*As at the date of this announcement, the Board comprises three executive directors, being Mr. Huang Shunxu, Mr. Qin Chuan and Ms. Wan Qing; two non-executive directors, being Mr. Li Yang and Mr. Chen Shuai, and three independent non-executive directors, being Mr. Tsang Kwok Wai, Mr. Ruan Xiaofeng and Ms. Song Hong.*