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CONNECTED TRANSACTION LEASE AGREEMENT RELATING TO ELDERLY-CARE BUSINESS OF THE GROUP

THE LEASE AGREEMENT

On 31 December 2021, Guangzhou Haiyuehui (a subsidiary of the Company) entered into the Lease Agreement with the Landlord in relation to the leasing of the Lease Property for a term of 12 years for the development of elderly-care business of the Group, commencing on the Commencement Date.

In accordance with HKFRS 16, the Group is required to recognize (i) the Lease Property as right-of-use asset, and as a result, the entry into of the Lease Agreement and the transactions contemplated thereunder will be regarded as acquisitions of assets by the Group pursuant to the Listing Rules; and (ii) the Variable Lease Payment as expenses incurred by the Group over the term of the Lease Agreement.

LISTING RULES IMPLICATIONS

The Landlord is a connected person of the Company under the Listing Rules as it is a subsidiary of GZYYX, the controlling shareholder of the Company. Under Chapter 14A of the Listing Rules, the transactions contemplated under the Lease Agreement and the Fixed Lease Payment constitute a one-off connected transaction of the Company, whereas the Variable Lease Payment will be regarded as a continuing connected transaction of the Company under Rule 14A.31 of the Listing Rules.

As the highest applicable percentage ratio in respect of the value of the right-of-use asset under the Lease Agreement exceeds 0.1% but is less than 5%, the transactions contemplated under the agreement and the Fixed Lease Payment thereunder are subject to the reporting and announcement requirements but are exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the highest total amount of the Variable Lease Payment for a year during the lease term is less than 0.1%, the Variable Lease Payment under the Lease Agreement constitutes a de minimis transaction pursuant to Rule 14A.76(1) of the Listing Rules and is fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, as the term of the Lease Agreement exceeds three years, the Company has appointed the Independent Financial Adviser to explain the reason for the longer tenor and to confirm that it is a normal business practice for agreement(s) of this type to be of such a duration.

INTRODUCTION

Since 2017, Yuexiu Property has been accelerating its blueprint in the health and wellness sector in response to national policy in China and has established Yuexiu Health and Wellness (越秀康養) for the operation of elderly-care business. The Group has been actively seeking new opportunities to find suitable properties for the development of health and wellness projects. As the Group considers that the Lease Property is situated at a prime location, it believes that the Lease Property is well-suited to support health and wellness projects.

The Board is pleased to announce that on 31 December 2021 Guangzhou Haiyuehui (a subsidiary of the Company) entered into the Lease Agreement with the Landlord in relation to the leasing of the Lease Property, the principal terms of which are as follows:

THE LEASE AGREEMENT

Premises & usage: The office building situated at No. 148, Xiwan Road, Liwan District, Guangzhou, PRC (the “**Lease Property**”)

Total construction area: 9776.8 sq. m.

Above-ground floor area: 6733.9 sq. m.

Usage: for elderly-care and medical services use

Term: 12 years commencing from the Commencement Date

Rent-free Period: 5 months period (the “**Rent-free Period**”) immediately preceding 31 December 2021

The annual rental payable (in each case including management service fees and other outgoing charges and expenses) is as follows:

Annual rental payable (in each case including management service fees):	First rental year (inclusive of the aforesaid the Rent-free Period):	RMB2,320,000
	Second rental year:	RMB3,980,000
	Third rental year:	At minimum RMB4,020,000 or a maximum of RMB4,059,600 (if the Occupancy Rate is more than 60%)
	Fourth rental year:	At minimum RMB4,100,000 or a maximum of RMB4,181,388 (if the Occupancy Rate is more than 80%)
	Fifth to 12th rental year:	The higher of: (i) an increment of 3% from the previous year; or (ii) an increment equivalent to the weighted average annual rate of increase in the per-unit fee for nursing home bed, which in any event will not exceed an annual cap of RMB6,300,000.

The annual rental is determined after arm's length negotiations between the Landlord and Guangzhou Haiyuehui after taking into consideration the historical and prevailing market rental for comparable premises in the vicinity of the Lease Property.

In accordance with HKFRS, the Fixed Lease Payment is capital in nature and the Lease Property will be recognized as right-of-use assets of the Group on 31 December 2021 for an amount of approximately RMB38,396,658. The Variable Lease Payment is linked to the Occupancy Rate, and will be recognized as expenses of the Group over the term of the Lease Agreement. The rental payments under the Lease Agreement is expected to be satisfied by internal resources of the Group in its ordinary and usual course of business.

Earnest Money & Security Deposit:	RMB330,000 as earnest money, payable within one month from the date of the Lease Agreement. RMB990,000 as security deposit, payable within one month after the date of delivery of the Lease Property as agreed between the relevant lessor and lessee pursuant to the Lease Agreement. The earnest money shall be automatically converted into security deposit when the latter is paid.
Delivery of property:	Upon fulfillment of the delivery standards. Guangzhou Haiyuehui shall be responsible for (among others) the fit-outs and renovations of the Lease Property.
Payment Term:	Payable monthly on 25th calendar day of the relevant month following receipt of rental invoice by Guangzhou Haiyuehui.
Termination:	The Landlord may unilaterally terminate the Lease Agreement by giving two years' prior written notice to Guangzhou Haiyuehui. However, Guangzhou Haiyuehui is only entitled to return the Lease Property after it has relocated all of the elderly residents and patients. Furthermore, the Landlord shall (i) refund the security deposit; (ii) pay an amount equivalent to six month's rent as penalty for breach of contract; and (iii) compensate Guangzhou Haiyuehui for its losses. If Guangzhou Haiyuehui wishes to terminate the lease, the Landlord shall be entitled to recover the Lease Property and forfeit the security deposit. If rental payment has been overdue for more than three months, the Landlord may terminate the Lease Agreement, recover the Lease Property and forfeit the security deposit.
Renewal:	If the Landlord decides not to renew the lease, it must give two years' prior written notice to Guangzhou Haiyuehui, in which case Guangzhou Haiyuehui will have a pre-emptive right to rent the premises on the same terms as those proposed to be offered to a third party tenant.

If Guangzhou Haiyuehui decides not to renew the lease, it must give 6 months' prior written notice to the Landlord. Provided that Guangzhou Haiyuehui has settled all payment under the Lease Agreement, the security deposit of RMB990,000 shall be refunded to Guangzhou Haiyuehui within 10 business days following the expiry of the lease.

If the parties are unable to agree on a renewed lease, Guangzhou Haiyuehui is entitled to a transitional period of two years after expiry of the lease to re-locate and settle the elderly residents and patients. During the transitional period, both parties shall be subject to the terms of the Lease Agreement, which shall continue to apply.

REASONS FOR AND BENEFITS OF ENTERING INTO THE LEASE AGREEMENT

The Lease Property is situated in a prime location, being in the core old town district of Guangzhou city. Combined with comprehensive transportation network, commercial and medical facilities, the Group considers that the Lease Property is well-suited to be used for health and wellness projects. The entering into of the Lease Agreement, which will be on normal commercial terms, will enable the Group to secure a sizable space in a suitable prime location for a reasonably long period of time for the operation of its health and wellness projects at the Lease Property. Having considered the above factors, the basis of determination of the rental payable under the Lease Agreement and the view of the Independent Financial Adviser as set out in this announcement, the Board (including the independent non-executive Directors) considers that the Lease Agreement and the transactions contemplated thereunder are fair and reasonable; and the Lease Transactions are in the ordinary and usual course of business of the Group.

INFORMATION OF THE COMPANY, GUANGZHOU HAIYUEHUI AND GZYX

The Company

The Company is incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 00123). The Group is principally engaged in property development and investment, deepening the implementation of the "1+4" national strategic layout and deep cultivation of the Greater Bay Area market, and focusing on expanding its business in Eastern China, Central China, Northern China and Southwestern China.

Guangzhou Haiyuehui

Guangzhou Haiyuehui is principally engaged in the provision of elderly-care and medical services.

GZYX

GZYX, through its various subsidiaries, engages in various businesses including (among others) financial business, property development, infrastructure and construction.

LISTING RULE IMPLICATIONS

In accordance with HKFRS 16, the Group is required to recognize (i) the Lease Property as right-of-use asset, and as a result, the entry into of the Lease Agreement and the transactions contemplated thereunder will be regarded as acquisitions of assets by the Group pursuant to the Listing Rules; and (ii) the Variable Lease Payment as expenses incurred by the Group over the term of the Lease Agreement.

The Landlord is a connected person of the Company under the Listing Rules as it is a subsidiary of GZYY, the controlling shareholder of the Company. As such, under Chapter 14A of the Listing Rules, the transactions contemplated under the Lease Agreement and the Fixed Lease Payment constitute a one-off connected transaction of the Company, whereas the Variable Lease Payment will be regarded as a continuing connected transaction of the Company under Rule 14A.31 of the Listing Rules.

As the highest applicable percentage ratio in respect of the value of the right-of-use asset under the Lease Agreement exceeds 0.1% but is less than 5%; the transactions contemplated under the agreement and the Fixed Lease Payment thereunder are subject to the reporting and announcement requirements but are exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the highest total amount of the Variable Lease Payment for a year during the lease term is less than 0.1%, the Variable Lease Payment under the Lease Agreement constitutes a de minimis transaction pursuant to Rule 14A.76(1) of the Listing Rules and is fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

As none of the Directors had a material interest in the Lease Agreement and the transactions contemplated thereunder, no Director abstained from voting on the relevant board resolutions of the Company.

Pursuant to Rule 14A.52 of the Listing Rules, as the term of the Lease Agreement is more than three years, the Company has appointed the Independent Financial Adviser to explain the reason for a longer tenor and to confirm that it is a normal business practice for agreement(s) of this type to be of such a duration. In assessing this point, the Independent Financial Adviser has discussed the principal reasons for a longer term under the Lease Agreement with the management of the Company and is of the view that:

- (i) in view of the increasing demand for elderly residential care services, it is normal and customary for an operator, like Guangzhou Haiyuehui, to enter into a long lease with the lessor to ensure smooth and stable operation and enable the operator to optimize the potential return on its investments (which includes initial set up costs and interior decoration);
- (ii) a comparatively long duration will facilitate the Group's marketing initiatives and extend the period of income to be generated from the elderly residential care business, so that the Group could better plan the long-term strategy in relation to the business;
- (iii) a term of longer than 3 years is required for the Lease Agreement for the purpose of elderly residential care homes; and
- (iv) the 12-year tenure under the Lease Agreement is a normal commercial term for a transaction of this nature and it is normal business practice for an agreement of this type to be of such a duration.

DEFINITIONS

Unless the context otherwise requires, the terms used in this announcement shall have the following meanings:

“Board”	the board of the Directors
“Commencement Date”	the commencement date of the Lease Agreement, being the same day as the commencement date of the Rent-free Period
“Company”	Yuexiu Property Company Limited, a limited liability company incorporated under the laws of Hong Kong and the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 00123)
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Fixed Lease Payment”	the amount payable by Guangzhou Haiyuehui (as lessee) to the Landlord (as lessor) for the right to use the Lease Property during the term of the Lease Agreement, excluding any variable lease payment
“GCCD”	廣州市城市建設開發有限公司 (Guangzhou City Construction & Development Co. Ltd.), a company incorporated in the PRC, which is indirectly owned as to 95% by the Company
“Group”	the Company and its subsidiaries, and “member of the Group” means any one of them
“Guangzhou Haiyuehui”	廣州越秀海樾薈健康養老服務有限公司 (Guangzhou Yuexiu Haiyuehui Health Elderly Services Co., Ltd.*), a company incorporated in the PRC with limited liability, which is indirectly wholly-owned by GCCD
“GZYX”	廣州越秀集團股份有限公司 (Guangzhou Yue Xiu Holdings Limited*), a company incorporated in the PRC with limited liability, which is majority owned by the Guangzhou Municipal People’s Government of the PRC and is the ultimate controlling shareholder of the Company
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants from time to time

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Financial Adviser”	Somerley Capital Limited, a licensed corporation permitted under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, the independent financial adviser appointed to explain the reason for the longer tenor in respect of the Lease Agreement, and to confirm that it is a normal business practice for agreement(s) of this type to be of such a duration
“Landlord”	廣州水泥股份有限公司 (Guangzhou Cement Co., Ltd.*), the sole legal owner of, among others, all the property rights over the Lease Property, which is a company incorporated in the PRC with limited liability and a subsidiary of GZYX
“Lease Agreement”	the property lease agreement dated 31 December 2021 entered into between the Landlord and Guangzhou Haiyuehui, including its appendices and confirmation letters and other documents supplemental to it
“Lease Property”	has the meaning ascribed to it in the section headed “The Lease Agreement” in this announcement
“Lease Transactions”	the transactions contemplated under the Lease Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Occupancy Rate”	the overall occupancy rate for the nursing home facilities in Golden Ram building located at No. 148, Xiwan Road, Liwan District, Guangzhou, PRC
“PRC”	the People’s Republic of China, and for the purposes of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Rent-free Period”	has the meaning ascribed to it in the section headed “The Lease Agreement” in this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“sq.m.”	square metre(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Variable Lease Payment” the amounts payable by Guangzhou Haiyuehui to the Landlord for the right to use the Lease Property during the term of the lease that varies due to changes in circumstances occurring after the Commencement Date

“Yuexiu Health and Wellness” 廣州越秀康養產業投資控股有限公司 (Guangzhou Yuexiu Health and Wellness Industry Investment Holdings Co., Ltd.*), a company incorporated in the PRC with limited liability, which is wholly-owned by GCCD

* for identification purposes only

By Order of the Board
Yuexiu Property Company Limited
Yu Tat Fung
Company Secretary

Hong Kong, 31 December 2021

As at the date of this announcement, the Board comprises:

Executive Directors: **LIN Zhaoyuan (Chairman), LIN Feng, LI Feng, CHEN Jing and LIU Yan**

Non-executive Director: **OUYANG Changcheng**

Independent Non-executive Directors: **YU Lup Fat Joseph, LEE Ka Lun and LAU Hon Chuen Ambrose**