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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)**

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

#### **THE LEASE AGREEMENT**

On 15 May 2023, Xianyang Century Ginwa, an indirect wholly-owned subsidiary of the Company, as lessee, entered into the Lease Agreement with the Lessor as lessor to lease the Premises for a term of 15 years and 9 months, 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 Century Ginwa 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 RMB209,722,000.

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. 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 15 June 2023 in accordance with the Listing Rules.

## **INTRODUCTION**

The Board is pleased to announce that on 15 May 2023, Xianyang Century Ginwa, an indirect wholly-owned subsidiary of the Company, as lessee, entered into the Lease Agreement with the Lessor as lessor to lease the Premises for a term of 15 years and 9 months, 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**

Date: 15 May 2023

Parties:

- (1) Shaanxi Jinfangyuan Industrial Development Co., Ltd.# (陝西金方圓實業開發有限公司) as lessor
- (2) Xianyang Century Ginwa Dingshang Trade and Commerce Company Limited# (咸陽世紀金花鼎尚商貿有限公司) 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.

The Premises to be leased: Partially leased housing on the basement level 1 to upper floor level 5 at Building No.1, part of the outer facade, outer square and ancillary facilities of Jinfangyuan Plaza, No. 29 Renmin West Road, Xianyang, Shaanxi, the PRC.

The actual gross floor area with title deed of the Premises is 48,582.47 m<sup>2</sup>, and the area of part of the outer facade, outer square and the ancillary facilities are based on the area divided by the interface as confirmed in writing by both Parties. The gross floor area agreed by the Parties for calculating the rental (area for calculating the rental) was 48,582.47 m<sup>2</sup> in accordance with the Lease Agreement. If, upon delivery, Xianyang Century Ginwa discovers that the actual use area of the Premises delivered by the Lessor has more than 5% difference from the total use area as agreed above, Xianyang Century Ginwa may decide either: (1) to continue to perform the Lease Agreement, but make an adjustment to the rent in the same proportion or as deemed appropriate by both Parties; or (2) to terminate the Lease Agreement. If Xianyang Century Ginwa decides to terminate the Lease Agreement, the Lessor shall immediately refund the rent, property fees, deposit and all fees paid but not actually incurred by Xianyang Century Ginwa, and shall be liable for breach of contract as agreed upon in other terms of the Lease Agreement.

Lease term and  
rent-free periods:

Pursuant to the Lease Agreement, the lease term shall be 15 years and 9 months from the date of the initial delivery of the Premises from the Lessor to Xianyang Century Ginwa (no later than 1 June 2023) and the initial written delivery documents being signed by the Parties upon the acceptance of the Premises as qualified by Xianyang Century Ginwa (the “**Lease Term**”). The first five months of the Lease Term is the first rent-free period (“**First Rent-free Period**”), while the four-month period commencing from the date when the prepayments for rent and property fees made by Xianyang Century Ginwa are fully offset is the second rent-free period (together with the First Rent-free Period, the “**Rent-free Periods**”).

In the event that the Lessor delays the delivery of the Premises, the Lease Term and Rent-free Periods will be extended accordingly.

Rental fee:

Xianyang Century Ginwa will not be required to pay the rent or property fees during the Rent-free Periods.

The property fees refer to the property management fees which is payable by Xianyang Century Ginwa to the property services company designated by the Lessor for the property management services during the Lease Term.

The total rental and property fees during the Lease Term are approximately RMB459,468,710 (tax inclusive). The initial rental and property fee rates are RMB40.00 per square meter per month (i.e. approximately RMB23,319,586 per year) and RMB10.00 per square meter per month (i.e. approximately RMB5,829,896 per year), respectively. Every five years is a price unit, and the standard of the rental and property fee rates per price unit are increased by Five per cent (5%) on the basis of the previous price unit standard, and the initial price unit is five years and nine months (including the Rent-free Periods of nine months).

Xianyang Century Ginwa will be responsible for the payment of utilities (such as water and electricity fees and air conditioning fees) incurred in relation to the Premises during the Rent-free Periods and Lease Term.

Payment terms:

Within seven business days after the Lease Agreement becomes effective, Xianyang Century Ginwa shall pay the Lessor a performance bond of RMB5,000,000 (the “**Performance Bond**”) and the prepayments for rent and property fees of RMB20,000,000 (the “**Prepayments**”) by way of bank transfer, which shall be offset from the next day after the expiry of the First Rent-free Period. The nature of the Performance Bond is to secure the performance by Xianyang Century Ginwa of its obligations under the Lease Agreement. In the event that it fails to perform its obligations under the Lease Agreement, the Lessor has the right to deduct from the Performance Bond the expenses and losses incurred therefrom.

In the event that the Lease Term expires or the Lease Agreement is discharged or terminated and both Parties perform a repayment obligation, subject to the other terms of the Lease Agreement, the Performance Bond shall be refunded to Xianyang Century Ginwa within five business days.

During the Lease Term, rent and property fees are payable on a monthly basis (the “**Payment Term of Rent**”). Xianyang Century Ginwa shall pay the rent and property fees for the next Payment Term of Rent 10 days prior to the expiry of the current Payment Term of Rent.

If Xianyang Century Ginwa defaults on the payment of rent, property fees and utilities fees without any justifiable reason and fails to settle the overdue payment within 10 business days after receiving the written notice from the Lessor, Xianyang Century Ginwa shall pay a daily default penalty fee of 0.03% of the overdue amount.

Right of first refusal:

In the event that the Lessor intends to sell the Premises in whole or in part to any third party during the Lease Term or within sixty (60) days after the expiry or termination of the Lease Term, the Lessor shall notify Xianyang Century Ginwa of the proposed sale and Xianyang Century Ginwa shall have the priority to purchase such portion of the Premises and shall decide whether to purchase it within fifteen (15) days after receiving such notice, and shall be deemed to have waived the right of first refusal if no reply is made within such period.

Renewal or termination of the Lease Agreement:

Both Parties shall agree six months before the expiry of the Lease Term on whether to renew the Lease Agreement. Prior to the expiry of the Lease Term, Xianyang Century Ginwa has the priority to lease the Premises under equal commercial conditions. During the valid term of the Lease Agreement, the Lessor agrees that Xianyang Century Ginwa would be given priority to the leasing of any property adjacent to the Premises on commercial terms equivalent to those of a third party.

The Lease Agreement may be terminated in certain circumstances and the non-breaching Party has the right to unilaterally terminate the Lease Agreement in advance and require the breaching Party to compensate for any loss incurred.

In the event of any of the following circumstances, the Lease Agreement shall terminate and neither Party shall be liable to each other:

- (1) The land use right of the land occupied by the Premises has been withdrawn in advance according to law.
- (2) The housing or the land within the surrounding red-line of the Premises is legally occupied or requisitioned by the government for the purpose of social public interests or urban construction, which makes it impossible for the Xianyang Century Ginwa to continue to use the Premises.
- (3) The Premises is damaged, defected or identified as a dangerous housing (unless either Party is responsible for the fault).

Effective date of the Lease Agreement:

The Lease Agreement shall be formed after being signed and sealed by the legal or authorised representative of both Parties, and shall become effective after the Lessor has obtained the full ownership right or sublease right of the Premises and the Company has fulfilled its relevant disclosure and approval obligations (including but not limited to approval at general meetings) under the relevant regulatory requirements of a listed company.

In the event that Xianyang Century Ginwa decides to terminate, amend or renew the Lease Agreement in the future or exercise its right of first refusal as mentioned above, the Company shall comply with all applicable requirements under the Listing Rules.

The rental fee and its payment arrangement were determined after arm's length negotiations between the Parties with reference to (i) the prevailing market rent of the Premises, being RMB40.16 per square metre per month as at 31 March 2023 as valued by an independent professional valuer by using market comparison approach after considering comparable properties that are adjacent to the Premises; (ii) the leasable area, geographical location and surrounding conditions of the Premises; and (iii) the rental increment of 5% per five years, which is determined by taking into account the growth trend of the rental fee in the commercial property market in Xianyang City and Shaanxi Province. The rental fee is expected to be funded through the internal resources of the Group.

With reference to and taking into account the following factors, the Company believes that the Prepayments arrangement is in line with market practice for the lease of similar properties: (i) The market average prepayment in the lease of similar properties accounted for 3% to 34% of the total rent (inclusive of property fees, where applicable) during the lease term according to the market information collected and analysed by an independent professional valuer. Pursuant to the Lease Agreement, the Prepayments payable by Xianyang Century Ginwa accounts for approximately 4% of the total rental and property fees during the Lease Term, which falls within the abovementioned category; (ii) Commercial property is an asset-heavy investment, and the capital turnover of the lessor depends entirely on stable rental income. Therefore, the lessor generally supplements the lack of income during the transition period for replacement of the lessee and maintain capital turnover by way of prepayments; and (iii) The lease term of commercial property is usually long. In order to increase the cost of and reduce the risk of default by the lessee, the lessor usually requires a relatively high prepayment in the agreement with a long lease term.

## **INFORMATION ON THE PARTIES**

### **The Lessor**

the Lessor is a limited liability company established under the laws of the PRC which is principally engaged in the businesses of development and sale of real estate, property management and leasing of housing. As at the date of this Announcement, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Lessor is owned as to approximately 50% by each of Shaanxi Zhonghao Industrial Co., Ltd.# (陝西中昊實業有限責任公司) and Shaanxi Fangyuan Industrial Group Co., Ltd.# (陝西方圓實業集團股份有限公司), and its ultimate beneficial owner is Zhang Jijun.

### **Xianyang Century Ginwa**

Xianyang Century Ginwa was established under PRC laws with limited liability and is an indirect wholly-owned subsidiary of the Company. It's principally engaged in the operation of department stores.

## **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. Jinfangyuan Plaza Shopping Center is located at a prime commercial location and the consumption capacity of its surrounding customers is relatively strong. The entering into of the Lease Agreement to operate the Premises as a new full-customer intelligent comprehensive shopping mall will be in line with the strategic plan of the Company and thus will provide a meaningful supplement to the Company's existing small-scale commercial projects which are under the traditional department store business model. It will benefit the Company's brand positioning in the Xianyang market and will be beneficial to the overall performance results of the Group.



After considering the abovementioned factors, the Directors are of the view that the Lease Agreement has been entered into on normal commercial terms in the ordinary and usual course of business of the Company, and the terms thereof (including the Prepayments arrangement) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

## **THE FINANCIAL IMPACT OF THE TRANSACTION CONTEMPLATED UNDER THE LEASE AGREEMENTS**

The value of the right-of-use asset to be recognized by the Group under the Lease Agreement amounts to approximately RMB209,722,000 which is calculated with reference to the present value of the total rental fee payable under the Lease Agreement and the lease payments made in accordance with HKFRS 16 on or before the commencement date. Incremental borrowing rate of 6.81% is applied to compute the present value of total rental fee payable under the Lease Agreement.

## **IMPLICATIONS UNDER THE LISTING RULES**

Pursuant to HKFRS 16, the entering into of the Lease Agreement by Xianyang Century Ginwa 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 RMB209,722,000.

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 15 June 2023 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
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HKFRS 16”	Hong Kong Financial Reporting Standard 16 Leases issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Lease Agreement”	Xianyang Century Ginwa as lessee and the Lessor as lessor entered into a lease agreement dated 15 May 2023 in relation to the lease of the Premises for a term of 15 years and 9 months
“Lessor”	Shaanxi Jinfangyuan Industrial Development Co., Ltd.# (陝西金方圓實業開發有限公司), a company established in the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Parties”	the Lessor and Xianyang Century Ginwa, each a “Party”
“PRC”	the People’s Republic of China

“the Premises”	Partially leased housing on the basement level 1 to upper floor level 5 at Building No.1, part of the outer facade, outer square and ancillary facilities located at Jinfangyuan Plaza, 29 Renmin West Road, Qindu District, Xianyang, Shaanxi
“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
“Xianyang Century Ginwa”	Xianyang Century Ginwa Dingshang Trade and Commerce Company Limited <sup>#</sup> (咸陽世紀金花鼎尚商貿有限公司), a company established under PRC laws and an indirect wholly-owned subsidiary of the Company
“%”	per cent
“m <sup>2</sup> ”	square metres

<sup>#</sup> *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**  
**Yao Jiangang**  
*Chairman*

Hong Kong, 15 May 2023

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