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杉杉品牌運營股份有限公司

Shanshan Brand Management Co., Ltd.

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1749)

VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE EXPECTED ENTRY INTO THE LAND USE RIGHTS GRANT CONTRACT AND THE INVESTMENT AGREEMENT

THE EXPECTED ENTRY INTO THE LAND USE RIGHTS GRANT CONTRACT AND THE INVESTMENT AGREEMENT

The Board is pleased to announce that the Company intends to acquire the land use rights of the Land, located in Wangchun Industrial Park, Haishu District, Ningbo City, Zhejiang Province, the PRC, through the Auction for the purpose of the Project. In order to participate in the bidding at the Auction, the Company is required to make the payment for the Deposit of RMB9 million by 4 p.m. on 27 November 2023.

In the event that the Company successfully bids for the Land at the Auction, subject to Shareholders' approval at the EGM, it will enter into (i) the Land Use Rights Grant Contract in relation to the acquisition of the land rights use of the Land with the Ningbo Natural Resources and Planning Bureau; and (ii) the Investment Agreement with the Ningbo Wangchun Industrial Park Committee in relation to the Project.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the total cost of the Project under the Investment Agreement, which include the investment amount under the Investment Agreement and the Land Cost under the Land Use Rights Grant Contract, exceed(s) 100%, the proposed entry into the Land Use Rights Grant Contract and the Investment Agreement constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

GENERAL

The EGM will be convened and held by the Company for the purpose of considering and, if thought fit, approving the Land Use Rights Grant Contract, the Investment Agreement and the transactions contemplated thereunder.

A circular containing, among other things, further details of the Land Use Rights Grant Contract, the Investment Agreement, the transactions contemplated and the valuation of the Land will be despatched to the Shareholders on or before 2 December 2023. A notice convening the EGM will be despatched to the Shareholders in accordance with the Articles of Association, the Listing Rules and the applicable requirements under PRC laws and regulations.

INTRODUCTION

The Board is pleased to announce that the Company intends to acquire the land use rights of the Land, located in Wangchun Industrial Park, Haishu District, Ningbo City, Zhejiang Province, the PRC, through the Auction for the purpose of the Project.

In order to participate in the bidding at the Auction, the Company is required to make the payment for the Deposit of RMB9 million by 4 p.m. on 27 November 2023. The registration of the Auction commenced at 4 p.m. on 14 November 2023 and will end at 4 p.m. on 27 November 2023. The Auction will commence at 9 a.m. on 29 November 2023.

THE LAND

The Land is a parcel of land with a total land area of 28,656 sq.m. (i.e. approximately 43 mu) located in Wangchun Industrial Park, Haishu District, Ningbo City, Zhejiang Province, the PRC (寧波市海曙區望春工業園區). It is designated for industrial use with the term of 50 years.

The Land, upon successfully acquired by the Company through the Auction, will be used for the purpose of the Project, which involves construction of a comprehensive building with a product research and development center therein, a high-end digital intelligent manufacturing plant and a digital intelligent warehouse for the formal and business casual menswear of the Company.

The starting bid price of the land use right of the Land is RMB40,118,400 (i.e. 1,400 per sq.m.). The exact consideration of the Land is unknown as at the date of this announcement and can only be ascertained upon completion of the bidding at the Auction. The bidder with the highest bid will be the winner of the Auction and will enter into the Land Use Rights Grant Contract with the Ningbo Natural Resources and Planning Bureau.

In the event that the Company successfully bids for the Land at the Auction, subject to Shareholders' approval at the EGM, it will enter into (i) the Land Use Rights Grant Contract in relation to the acquisition of the land rights use of the Land with the Ningbo Natural Resources and Planning Bureau; and (ii) the Investment Agreement with the Ningbo Wangchun Industrial Park Committee in relation to the Project. It is expected that the Land Cost (after netting off the Deposit) will be payable by the Company within 10 working days from the date of the Land Use Rights Grant Contract.

THE INVESTMENT AGREEMENT

The Investment Agreement mainly set out certain undertakings by the Company in relation to the development of the Land. Pursuant to the Investment Agreement, the Company will undertake to ensure the following, inter alia,

- (i) within 6 months from the signing of the Land Use Rights Grant Contract, construction work will commence; if the construction work is not commenced in time, the Company shall submit a written application for extension to the Haishu branch of the Ningbo Natural Resources and Planning Bureau 30 natural days in advance, and shall complete the relevant procedures for extension after obtaining consent from the regional land management (land tender, auction and offering for sale) working group, with an extension period of not more than 1 year; if such extension is approved, the time for project completion and reaching production targets shall be extended accordingly based on the extension period;
- (ii) within 30 months from the signing of the Land Use Rights Grant Contract, construction will be completed and operation will commence;
- (iii) the value of its fixed asset investment in relation to the Project (including the Land Cost) will be no less than RMB5.5 million per mu;
- (iv) its total annual tax payable will be no less than RMB0.9 million per mu (the “**Tax Target**”);
- (v) the investment value of research and development (“**R&D**”) expenses of 2.3% (which is calculated based on the amount of R&D investments divided by the primary business income of the Project multiplied by 100%);

- (vi) a building floor ratio of not less than 2.3 and not more than 2.6 (which is calculated based on the total construction area of the Project divided by the area of the Land);
- (vii) an added value per unit energy consumption of RMB88,000 per ton of coal and an added value of RMB26.44 million per ton of unit emission regarding the Project; and
- (viii) an output value of not less than RMB20 million per mu per annum.

In addition, the Company is also required to undertake to:

- (i) be principally responsible for the construction of the Project, which shall be implemented in a manner that is in compliance with the relevant regulations and in accordance with the terms of the Investment Agreement;
- (ii) follow the supervision and guidance of the Ningbo Wangchun Industrial Park Committee and relevant government departments, and make timely rectification when and upon receiving a notice of rectification upon inspection;
- (iii) obtain a written consent from the Ningbo Wangchun Industrial Park Committee where financing is made by the Company in respect of the land use rights of the Land. The Company further undertakes that the financing amount shall not exceed the Land Cost;
- (iv) not to transfer or lease out the land use rights of the Land and the buildings attached thereto to any third party prior to the completion of all four completion inspection reviews;
- (v) that it and the Shareholders shall not transfer the land use rights of the Land and the buildings attached thereto to any third party whether by way of equity transfer (including the transfer of equity of an accumulated holding of over 25% to any entity or individual other than a person under such transferor's direct obligation of care or maintenance such as the transferor's spouse, parents or children) or pledge of equity interests, prior to the completion of all four completion inspection reviews. In the event of an equity change under certain circumstances (other than in relation to the H Shares) in relation to the Company, such equity change shall be effected after the Company has obtained consent from the regional land management (land tender, auction and offering for sale) working group and has entered into a supplemental agreement; and

- (vi) in the event that the Tax Target cannot be fulfilled, compensate the Ningbo Wangchun Industrial Park Committee equivalent to the difference between the annual tax paid and the Tax Target within 30 days from the date of the completion inspection review; in the event of an overdue compensation payment, such shall be deemed as a default and the Investment Agreement shall be terminated in the manner as set out in the Investment Agreement.

The Ningbo Wangchun Industrial Park Committee may unilaterally terminate the Investment Agreement under the certain circumstances as set out in the Investment Agreement, and will request the Company and the Haishu branch of the Ningbo Natural Resources and Planning Bureau to terminate the Land Use Rights Grant Contract and complete the procedures for the recovery of the land use rights, and will recover the Land by paying to the Company the cost of the Land and a compensation of the market value of the building(s) on the Land.

The Project

The Project involves the construction of a digitalized intelligent manufacturing base for high-end clothing that incorporates a garment design and R&D center, digital intelligent warehouse and intelligent production line, strengthening the integrated application of smart, modular units including R&D and design, processing and manufacturing, internal management, marketing and promotion, warehousing and logistics, and customer service, with a view to empowering the Group for high-quality development and increasing market competitiveness.

Based on the Company's current plan taking into account the targeted indicators set out in the Investment Agreement and the preliminary valuation amount of the Land amounted to approximately RMB43 million, as valued by an independent professional valuer, the total investment amount of the Project is estimated to be approximately RMB280 million, which has covered the Land Cost, the estimated expenditure for the construction of a comprehensive building with a product R&D center therein, an intelligent manufacturing plant and a digital intelligent warehouse, and the estimated expenditure for the procurement of equipment and software, all of which will be funded by the internal resources of the Group and external financing.

The entry into the Land Use Rights Grant Contract and the Investment Agreement is subject to Shareholders' approval. In the event that the Shareholders resolve not to approve the proposed transactions at the EGM, the Company will not proceed to enter into the Land Use Rights Grant Contract and the Investment Agreement with the Ningbo Natural Resources and Planning Bureau and Ningbo Wangchun Industrial Park Committee, respectively. In order to fully release the Company of its liability and obligation in relation to the bidding of the Land if this occurs, on 16 November 2023, Mr. Luo executed an undertaking in favour of the Company, pursuant to which Mr. Luo has undertaken to take all necessary actions to fully release the Company's liability and obligation in relation to the bidding of the Land and to fully indemnify the Company for any loss, damages, costs, and other form of liabilities suffered by the Company in connection with the failure on the part of the Company in proceeding to the signing of the Land Use Rights Grant Contract and the Investment Agreement should the Shareholders resolve not to approve the proposed transactions at the EGM.

As at the date of this announcement, the Company has obtained written approval from each of Ningbo Liankangcai Brand Management Co., Ltd., Shaanxi Maoye Gongmao Co., Ltd., Ms. Zhao Yongzhi, Mr. Luo and Mr. Zhang Jincan, who holds approximately 18%, 10%, 9.6%, 8.5% and 5% (collectively approximately 51.1%) of the issued share capital of the Company respectively that they have approved the Land Use Rights Grant Contract, the Investment Agreement and the transactions contemplated thereunder and will vote for the relevant resolution(s) to be proposed at the EGM.

REASONS FOR AND BENEFITS OF ENTRY INTO THE LAND USE RIGHTS GRANT CONTRACT AND THE INVESTMENT AGREEMENT

The Company's principal business is the design, marketing and sales of formal and casual business menswear in the PRC under the brands "FIRS" and "SHANSHAN". For many years, it has been primarily using original equipment manufacturers (the "OEM") to produce its garment products. Having considered the problems associated with the OEM model including, among others, quality control on the products, delivery time, leakage of information during the production and sale of surplus products by OEM factories to the market causing market confusion, the Company intends to acquire the Land from the Ningbo Natural Resources and Planning Bureau for the purpose of the Project. After the completion of the Project, the Company expects that its high-end, original suits and shirt products for men will be produced at the Project's new digital intelligent manufacturing plant, and expects to continue to use the OEM model for the remaining garment products.

It is expected that the Project will propel the Company to further its future plans, which include (i) establishing a digital intelligent warehouse to improve inventory management and meet the needs of online and offline business models; (ii) establishing a clothing design and R&D center to improve R&D capabilities and innovate in product design; and (iii) establishing a new retail operation center and a new retail live broadcast base to improve marketing and sales strategies, increase online omni-channel coverage, and enhance the brand's online and offline influence, popularity, and market share and simultaneously building a digital brand experience hall to empower offline channels and promote the rapid development of online and offline pan-retailing into diversified business forms together with the immersive experience of consumers.

The Board is of the view that the Land Use Rights Grant Contract and the Investment Agreement will be entered into on normal commercial terms, and that the terms of the Land Use Rights Grant Contract and the Investment Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PARTIES

The Company and the Group

The Company is a joint stock company incorporated in the PRC with limited liability whose H Shares are listed and traded on the Stock Exchange. The Group is principally engaged in the design, marketing and sale of formal and casual business menswear in the PRC.

Ningbo Wangchun Industrial Park Committee

Ningbo Wangchun Industrial Park Committee is a local government authority in the PRC and is in charge of, inter alia, planning, promoting and coordinating investment projects in Wangchun Industrial Park, Haishu District, Ningbo City, Zhejiang Province, the PRC.

Ningbo Natural Resources and Planning Bureau

Ningbo Natural Resources and Planning Bureau is a PRC governmental authority and the seller and transferor of the Land.

As at the date of this announcement, to the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, each of the Ningbo Wangchun Industrial Park Committee, the Ningbo Natural Resources and Planning Bureau and their respective ultimate beneficial owners is an Independent Third Party.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the total cost of the Project under the Investment Agreement, which include the investment amount under the Investment Agreement and the Land Cost under the Land Use Rights Grant Contract, exceed(s) 100%, the proposed entry into the Land Use Rights Grant Contract and the Investment Agreement constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

GENERAL

The EGM will be convened and held by the Company for the purpose of considering and, if thought fit, approving the Land Use Rights Grant Contract, the Investment Agreement and the transactions contemplated thereunder.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, no Shareholder has a material interest in the Land Use Rights Grant Contract, the Investment Agreement and the transactions contemplated thereunder. As such, no Shareholder is required to abstain from voting on the resolution to approve the Land Use Rights Grant Contract, the Investment Agreement and the transactions contemplated thereunder at the EGM.

A circular containing, among other things, further details of the Land Use Rights Grant Contract, the Investment Agreement, the transactions contemplated and the valuation of the Land will be despatched to the Shareholders on or before 2 December 2023. A notice convening the EGM will be despatched to the Shareholders in accordance with the Articles of Association, the Listing Rules and the applicable requirements under PRC laws and regulations.

DEFINITIONS

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

“Articles of Association”	the articles of association of the Company
“Auction”	an open auction for the land use rights of the Land to be held on 29 November 2023 by the Ningbo Natural Resources and Planning Bureau
“Board”	the board of Directors
“Company”	Shanshan Brand Management Co., Ltd.* (杉杉品牌運營股份有限公司), a joint stock company with limited liability established under the laws of the PRC
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules
“Deposit”	a bidding deposit of RMB9 million in connection with the Auction
“Directors”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held and convened to consider and, if though fit, to approve the Land Use Rights Grant Contract, the Investment Agreement and the transactions contemplated thereunder by the Shareholders
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Third Party(ies)”	any individual(s) or company(ies) who/which, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are third party(ies) independent of and not connected with (within the meaning under the Listing Rules) any Directors, chief executive or substantial shareholders of the Company (as defined in the Listing Rules), its subsidiaries or any of their respective associates (as defined in the Listing Rules)
“Investment Agreement”	the standard investment and construction agreement of Haishu District enterprise investment industrial project anticipated to be entered into between the Ningbo Wangchun Industrial Park Committee and the Company in relation to the Project
“Land”	a parcel of land with a total land area of 28,656 square meters located in Wangchun Industrial Park, Haishu District, Ningbo City, Zhejiang Province, the PRC (寧波市海曙區望春工業園區)
“Land Cost”	the cost of the Land to be paid under the Land Use Rights Grant Contract
“Land Use Rights Grant Contract”	the land use rights grant contract (國有建設用地使用權出讓合同) anticipated to be entered into between the Company and the Ningbo Natural Resources and Planning Bureau for the Land
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mr. Luo”	Mr. Luo Yefei, an executive Director and a substantial shareholder of the Company
“mu”	a measuring unit which is equal to approximately 666.66 square meters
“Ningbo Natural Resources and Planning Bureau”	the Ningbo Natural Resources and Planning Bureau* (寧波市自然資源和規劃局)
“Ningbo Wangchun Industrial Park Committee”	Ningbo Wangchun Industrial Park Committee* (寧波望春工業園區管理委員會)

“PRC”	the People’s Republic of China, which for the sole purpose of this announcement excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Project”	the proposed investment by the Group to construct a comprehensive building with a product R&D center therein, a high-end digital intelligent manufacturing plant and a digital intelligent warehouse for its formal and business casual menswear on the Land
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholder(s) of the Company
“sq. m.”	square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the same meaning as ascribed to it under the Listing Rules
“%”	per cent.

By order of the Board
Shanshan Brand Management Co., Ltd.
Luo Yefei
Chairman

Ningbo, the PRC, 16 November 2023

As at the date of this announcement, the executive Directors are Mr. Luo Yefei (Chairman), Mr. Cao Yang (Vice Chairman), Ms. Yan Jingfen and Ms. Zhou Yumei; the non-executive Directors are Mr. Du Peng and Mr. Shen Jinxin; and the independent non-executive Directors are Mr. Chow Ching Ning, Mr. Wang Yashan and Mr. Wu Xuekai.

* *for identification only*