

英文版

Executive Directors:

Mr. Zhuang Lu Kun (*Chairman*)
Mr. Zhuang Pei Zhong
Mr. Zhuang Xiao Xiong

Non-executive Director:

Madam Yan Xiao Min

Independent non-executive Directors:

Mr. Chin Kam Cheung
Mr. Sun Ju Yi
Mr. Ai Ji
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23 September 2024

To the Shareholders,

Dear Sirs or Madams,

**MAJOR TRANSACTION
IN RELATION TO THE LONG-TERM LEASE AGREEMENT**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 13 July 2024 in relation to the entering into of the Long-Term Lease Agreement.

On 13 July 2024, the Tenant entered into the Long-Term Lease Agreement with the Independent Landlord in respect of the leasing of the Premises for the operation of the Group's retail store.

The purpose of this circular is to provide you with further details of the Long-Term Lease Agreement and the transaction contemplated thereunder, the valuation report on the market rent of the Premises, and other information as required under the Listing Rules.

2. THE LONG-TERM LEASE AGREEMENT

The principal terms of the Long-Term Lease Agreement being entered into are summarized as follows:

Parties: (i) The Independent Landlord as the landlord of the Premises;
and

(ii) The Tenant as the tenant of the Premises

Premises: The Premises comprised of certain retail spaces located at Shop No. B1-28/B1-29/B1-30, B1/F, Jiangnan Times Square (the "Site"), No. 4033, Banxuegang Avenue, Bantian Street, Longgang District, Shenzhen, Guangdong Province, the PRC (深圳市龍崗區坂雪崗大道4033號江南時代廣場B1層B1-28/B1-29/B1-30號舖位) with a total area of 4,157 sq.m. owned by the Independent Landlord.

Term: 15 July 2024 to 14 July 2039 (both days inclusive)

Rent-free period: 15 July 2024 to 14 November 2024

Rent: An initial monthly rent of RMB145,495.00 per month.

Save for the following adjustments, the Independent Landlord shall not increase the rent during the Term:

A 6% increment on the initial monthly rent for every 3 years as shown in the table below:

Period	Rent per month
15 July 2024 to 14 July 2027	RMB145,495.00
15 July 2027 to 14 July 2030	RMB154,224.70
15 July 2030 to 14 July 2033	RMB163,478.18
15 July 2033 to 14 July 2036	RMB173,286.87
15 July 2036 to 14 July 2039	RMB183,684.09

Monthly rent is payable by way of bank transfer on the 20th day of each month for the following month and will be financed by internal resources of the Company.

Deposit: A rental deposit of RMB290,990.00 shall be payable by the Tenant to the Independent Landlord 5 days after the execution of the Long-Term Lease Agreement.

Other fees: During the Term, the Independent Landlord shall be responsible for the payment of taxes and fees related to the leasing of the Premises that should be paid by the Independent Landlord as stipulated by laws and regulations.

The Tenant shall be responsible for the water, electricity, TV, telephone, network and air-conditioning charges incurred by the Tenant due to the Tenant's use of the Premises.

Usage: Land use right of the land of which the Premises are situated on is stated as industrial use and later amended for commercial use.

The Tenant intends to rent the Premises for the operation of the Group's retail store.

The Directors have obtained a legal opinion from PRC lawyers confirming that the Premises are legally permissible for operation of retail stores.

Sub-let: The Tenant is not allowed to sublet, except where the Tenant has entered into contracts with suppliers for the opening of booths within the retail store, such as counter leasing contracts.

Decoration: On the premise of not affecting the structure of the building, the Independent Landlord agrees that the Tenant shall carry out decoration and renovation of the Premises, which shall be subject to approval of relevant departments in accordance with the regulations and shall also be approved by relevant departments and reported by the Independent Landlord or Tenant (as entrusted by the Independent Landlord).

- Renewal: If the Tenant decides to continue to rent the Premises upon the expiration of the Term, the Tenant shall submit a written application for lease renewal to the Independent Landlord 90 days prior to the date of expiration of the Term. Subject to the same conditions, the Tenant shall have the priority of renewing the lease.
- First right of purchase: The Independent Landlord shall notify the Tenant in advance of the sale of the Premises during the Term and the Tenant shall have the first right of purchase under the same conditions of price and payment method to purchase the Premises. However, if the Independent Landlord sells the entire or part of the Site (which the Premises form part of), the Tenant will not be entitled to the first right of purchase.
- Return of the Premises: Within 7 days after the expiration of the Term or the termination of the Long-Term Lease Agreement, the Tenant shall vacate and move out of the Premises in a timely manner, and return the Premises and ancillary facilities to the Independent Landlord.
- Termination: The Long-Term Lease Agreement may be terminated by mutual agreement between the Tenant and the Independent Landlord.
- The Independent Landlord has the right to terminate the Long-Term Lease Agreement and take possession of the Premises in the event the Tenant caused any of the following circumstances, (i) non-payment or failure to pay as agreed in accordance to the terms of the Long-Term Lease Agreement, the rent or other charges for a period of up to 30 days; (ii) refusal to sign the confirmation letter for delivery of the Premises when the Premises have met the agreed delivery standards without justifiable reasons; (iii) unauthorized demolition and alteration of the main structure of the building; (iv) unauthorized change of the usage of the Premises; (v) unauthorized subletting of the Premises to a third party; and (vi) using the Premises to engage in illegal activities.

The Tenant has the right to terminate the contract unilaterally if the Independent Landlord caused any of the following circumstances, including (i) failure to deliver the Premises as scheduled for over 7 days; (ii) the Independent Landlord does not have the right to lease the Premises or the Premises delivered do not comply with the contractual terms and conditions, and will seriously hinder the Tenant's use of the Premises or endanger the Tenant's safety or health; and (iii) the Tenant cannot use the Premises normally because the Independent Landlord does not undertake the agreed maintenance obligations or does not pay the costs that should be borne by the Independent Landlord.

Both the Independent Landlord and the Tenant have the right to terminate the contract under the following circumstances, including (i) the Premises are expropriated and demolished for reasons of public interest or urban construction; (ii) the Premises are damaged or lost due to force majeure such as earthquake, fire, etc., or are classified as dangerous and unusable; and (iii) should the Tenant being informed the Premises are subjected to mortgage and being penalized by relevant parties during the Term.

The terms of the Long-Term Lease Agreement (including the rent) were determined after arm's length negotiations between the parties, with reference to standard terms of the lease agreements adopted for lease of similar properties and taking into account the initial market rental rate of the Premises (which was endorsed by a fair rent letter dated 13 July 2024 prepared by Valor Appraisal & Advisory Limited, an independent professional property valuer that such monthly rent as of the date of the valuation certificate is reasonable in the market and on normal commercial terms).

When determining the basis of the 6% increment on the monthly rent for every 3 years, the Company has taken into consideration the terms of the lease agreements entered into by the Group with other parties in relation to the leasing out of the Group's investment properties and noted that such increment adjustment clauses were also incorporated to such lease agreements.

When determining the basis of the 6% increment on the monthly rent for every 3 years, the Company has taken into consideration the terms of the lease agreements entered into by the Group with independent third parties in relation to the leasing out of the Group's investment properties and noted that such increment adjustment clauses were also incorporated to such lease agreements. According to the management of the Group, the percentage of adjustment depends on among other things, the size of the rental property as well as the initial rent. When estimating the 6% increment, the Company took into consideration the increment percentage of lease agreements which were entered into with independent third parties, of which the increment percentage was set at comparable level or more than 6%.

3. METHODS AND PROCEDURES ADOPTED BY THE COMPANY TO DETERMINE THE PRICING AND TERMS OF THE LONG-TERM LEASE AGREEMENT

The Group would perform due diligence on properties prior to leasing them so as to ensure that the landlord is the real owner and has the right to lease the property in accordance with the PRC laws, rules and regulations.

The Company had conducted due diligence on the relevant premises before entering into the Long-Term Lease Agreement and has already conducted due diligence on the relevant premises under the Long-Term Lease Agreement. The Directors were satisfied that the relevant parties have the authority to enter into the Long-Term Lease Agreement and have the right to lease the Premises in accordance with the PRC laws, rules and regulations.

The terms of the Long-Term Lease Agreement (including the monthly rent) were determined after arm's length negotiations between the Group and the respective lessors with reference to the prevailing market price of similar properties in the vicinity.

In determining whether the rents under the Long-Term Lease Agreement were comparative to market level of similar properties in the locality, prior to entering into any property lease agreement, an independent professional valuer, Valor Appraisal & Advisory Limited, has been appointed by the Group to conduct relevant market research and to form an opinion that the rent charged in the relevant lease agreement will be in line with market price.

4. FINANCIAL INFORMATION OF THE PREMISES AND FINANCIAL EFFECTS OF THE LONG-TERM LEASE AGREEMENT OF THE GROUP

Pursuant to HKFRS 16, the right to use the Premises leased under the Long-Term Lease Agreement will be recognised as a right-of-use assets. Upon commencement of the lease, the value of the right-of-use assets would be calculated with reference to the aggregated present value of the fixed lease payments as discounted by a discount rate which is the theoretical incremental borrowing rate of the Company of approximately 9.133%. Along with the recognition of the estimated value of the right-of-use assets of approximately RMB14.38 million for the Premises, an estimated lease liability amounted to approximately RMB14.38 million for the Premises will be recognized by the Group on the date of commencement of the rental period. The right-of-use assets and lease liability will be recognized at the discount rate prevailing at the point of recognition.

No material income has been generated in respect of the Premises in the past three financial years, as the Premises has recently commenced operation.

5. REASONS FOR AND BENEFITS OF ENTERING INTO THE LONG-TERM LEASE AGREEMENT

The Group is principally engaged in property investment and operation and management of retail stores and shopping malls in the PRC. The Group commenced tapping into the operation of

shopping malls in 2017 by opening its first shopping mall in Shenzhen. As at the Latest Practicable Date, there were [9] retail stores and [3] shopping malls under the Group's operation.

To further expand the retail network of the Group, the Group entered into the Long-Term Lease Agreement with the Independent Landlord, to rent the relevant retail spaces for the opening of a new retail store in Longgang District, Shenzhen, Guangdong Province, the PRC.

In view of such, the Directors are of the view that the transaction contemplated under the Long-Term Lease Agreement are conducted (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and that (iii) the terms contemplated under the Long-Term Lease Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. LISTING RULES IMPLICATIONS

Pursuant to HKFRS 16, the entering into of the Long-Term Lease Agreement as a lessee will require the Group to recognise the right-of-use of the Premises as the right-of-use assets of an estimated aggregate value of approximately RMB14.38 million on its consolidated statement of financial position. Thus, the entering into the Long-Term Lease Agreement will be regarded as acquisition of assets by the Group under the Listing Rules.

As the highest applicable percentage ratio under the Listing Rules in respect of recognizing the right-of use assets by the Group pursuant to HKFRS 16 based on the consideration under the Long-Term Lease Agreement is more than 25% or more but is less than 100%, the entering into of the Long-Term Lease Agreement constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Under Rule 14.44 of the Listing Rules, shareholders' approval for the Transaction may be obtained by way of written shareholders' approval in lieu of holding a general meeting if (1) no shareholder is required to abstain from voting if the company were to convene a general meeting for the approval of the transactions; and (2) written shareholders' approval has been obtained from a shareholder or a closely allied group of shareholders who together hold more than 50% of the voting rights at that general meeting to approve the transaction.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Shareholders has material interest in the Long-Term Lease Agreement and the transaction contemplated thereunder, and no Shareholder would be required to abstain from voting at a general meeting of the Company for approving the same if the Company were to convene such a general meeting.

As at the Latest Practicable Date, Mr. Zhuang and Mrs. Zhuang together held 535,485,000 Shares which represent approximately 51.61% of the total issued shares of the Company and voting rights in general meetings of the Company. As no Shareholder is required to abstain from voting on the Transaction if the Company were to convene a general meeting for the approval of

the Transaction, the Transaction has been approved by written shareholders' approvals from Mr. Zhuang and Mrs. Zhuang.

7. INFORMATION ON THE GROUP

The Group is principally engaged in property investment and operation and management of retail stores and shopping malls in the PRC. The Group commenced tapping into the operation of shopping mall in 2017 by opening its first shopping mall in Shenzhen. As at the Latest Practicable Date, there are [9] retail stores and [3] shopping malls under the Group's operation.

8. INFORMATION ON THE PREMISES, THE TENANT AND THE INDEPENDENT LANDLORD

The Premises

The Premises are located at B1 Floor, Jiangnan Times Square, No. 4033, Banxuegang Avenue, Bantian Street, Longgang District, Shenzhen, Guangdong Province, the PRC. The Premises will be recognized as a right-of-use assets with estimated value of approximately RMB14.38 million as assessed by an independent professional valuer, Valor Appraisal & Advisory Limited.

No material income has been generated in respect of the Premises in the past three financial years, as the Premises has recently commenced operation.

The Tenant

The Tenant is a wholly owned subsidiary of the Company and a wholly foreign-owned enterprise incorporated in the PRC with limited liability and is principally engaged in the operation and management of retail stores in the PRC.

The Independent Landlord

The Independent Landlord is principally engaged in technology development and sales of light environmental protection packaging products, heavy environmental protection packaging products, packaging materials and technology development of integrated packaging solutions in the PRC. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Independent Landlord is held as to approximately 25.6%, 23.4%, 21.8%, 19.2% and 10.0% by Mr. Dong Feiyue, Mr. Yan Yibin, Ms. Chen Ning, Mr. Luo Youfu and Mr. Pan Minghe respectively as at the Latest Practicable Date.

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

Written Shareholders' Approval

[The Directors confirm that, to the best of their knowledge, information and belief after having made all reasonable enquiries, no Shareholder has any material interest in the Long-Term Lease Agreement and the transaction contemplated thereunder and therefore no Shareholder would be required to abstain from voting if the Company were to convene a general meeting for the approval of the Long-Term Lease Agreement. Accordingly, pursuant to Rule 14.44 of the Listing Rules, written shareholders' approval will be accepted in lieu of holding a general meeting for approving the Long-Term Lease Agreement.

The Company has received a written approval from Mr. Zhuang and Mrs. Zhuang, who together held 535,485,000 Shares which represented approximately 51.61% of the total issued shares of the Company and voting rights in general meetings of the Company as at the Latest Practicable Date to approve the Long-Term Lease Agreement. As such, the Company would not convene a general meeting for the purpose of seeking the approval of the Shareholders on the entering into of the Long-Term Lease Agreement and the transaction contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.]

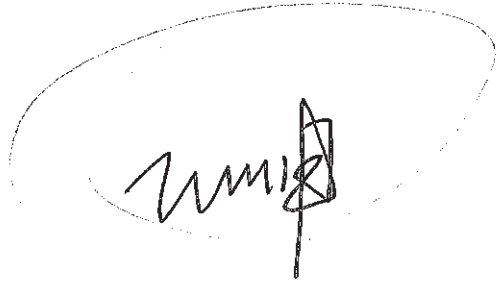
9. RECOMMENDATION

[The Directors (including the independent non-executive Directors) are of the view that the entering into of the Long-Term Lease Agreement and the transaction contemplated thereunder is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

Had a general meeting been convened for approval of the Long-Term Lease Agreement, the Directors (including the independent non-executive Directors) would recommend the Shareholders to vote in favour of the Long-Term Lease Agreement.]

10. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendices to this circular.



Yours faithfully,
For and on behalf of the Board
Jiahua Stores Holdings Limited
Mr. Zhuang Lu Kun
Chairman