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佳華百貨控股有限公司

Jiahua Stores Holdings Limited

(incorporated in the Cayman Islands with limited liability)

(stock code: 00602)

MAJOR AND CONNECTED TRANSACTIONS IN RELATION TO ENTERING INTO THE LONG TERM LEASE AGREEMENTS

LONG TERM LEASE AGREEMENTS

On 15 February 2019 (after trading hours), Tenant A and Tenant B entered into the Long Term Lease Agreements (including the Lease Agreement I, Lease Agreement II and Lease Agreement III) with Landlord A and Landlord B (as the case maybe) with a term commencing from 1 March 2019 to 28 February 2027 (both days inclusive) to renew the Existing Lease Agreements which will be expired by 28 February 2019 and to lease Premises III for the operation of the Group's second shopping mall.

LISTING RULES IMPLICATIONS

Pursuant to HKFRS 16, the entering into of the Long Term Lease Agreements as a lessee will require the Group to recognise the Premises as the right-of-use assets in which the aggregate considerations of approximately RMB224.7 million, thus the entering into the Long Term Lease Agreements and the transactions contemplated thereunder will be regarded as deemed acquisition of asset by the Group. As certain applicable percentages taking into account the Premises as deemed acquisition of right-of-use assets exceeds 25% and each of them is less than 100%, the Long Term Lease Agreements and the transactions contemplated thereunder constitute a major transaction for the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement and the Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the date of this announcement, Mr. Zhuang, the controlling Shareholder, executive Director and Chairman of the Company is interested in 535,485,000 Shares representing approximately 51.61% of the total issued Shares of the Company and is a connected person of the Company. As Landlord A and Landlord B are companies beneficially owned by Mr. Zhuang and Mrs. Zhuang, his spouse, Landlord A and Landlord B are therefore also connected persons of the Company under the Listing Rules. Accordingly, the Long Term Lease Agreements and transactions contemplated thereunder also constitute a connected transaction for the Company and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the terms of the Long Term Lease Agreements, and Vinco Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Long Term Lease Agreements and the transactions contemplated thereunder. In view of the interest of Mr. Zhuang and Mrs. Zhuang in Landlord A and Landlord B, Mr. Zhuang, Mrs. Zhuang and their respective associates (including Mr. Zhuang Xiao Xiong, son of Mr. Zhuang and Mrs. Zhuang, Mr. Chong Siu Po, son of Mr. Zhuang and Mrs. Zhuang, and Ms. Zhuang Xiao Yun, daughter of Mr. Zhuang and Mrs. Zhuang) will abstain from voting in relation to the resolution(s) to approve the Long Term Lease Agreements at the EGM.

GENERAL

A circular containing, amongst other things, further information on the terms of the Long Term Lease Agreements, a letter from the Independent Board Committee, an opinion of the Independent Financial Adviser, together with a notice to convene an extraordinary general meeting to approve the Long Term Lease Agreements, is expected to be issued to the Shareholders as soon as possible and in any event, no later than 28 February 2019.

INTRODUCTION

On 15 February 2019 (after trading hours), Tenant A and Tenant B entered into the Long Term Lease Agreements (including the Lease Agreement I, Lease Agreement II and Lease Agreement III) with Landlord A and Landlord B (as the case maybe) with a term commencing from 1 March 2019 to 28 February 2027 (both days inclusive) to renew the Existing Lease Agreements which will be expired by 28 February 2019 and to lease Premises III for the operation of the Group's second shopping mall.

The principal terms of the Long Term Lease Agreements proposed to be entered into are summarized as follows.

THE LONG TERM LEASE AGREEMENTS

1. Lease Agreement I

Date of execution:	15 February 2019
Parties:	Landlord A as landlord Tenant A as tenant
Premises:	Songgang Jiahua Shopping Mall, located at Songming Dadao, Songgang Jiedao, Baoan District, Shenzhen City, Guangdong Province, the PRC with a total area of 23,134 sq.m.
Term:	Commencing from 1 March 2019 to 28 February 2027 (both days inclusive)
Rent:	Commencing from 1 March 2019, rent will be charged at an initial monthly rent of RMB35 per sq.m. per month (in total approximately RMB809,690 per month), with a 5% increment on the monthly rent every 3 years

Deposit: A rental deposit of RMB1,619,380 payable by Tenant A to Landlord A upon effective of the lease agreement

Given the Lease Agreement I would renew the lease agreement previously entered into between Landlord A and Tenant A, pursuant to the previous lease agreement a rental deposit of RMB1,000,000 has been paid hence, payment of deposit will be the remaining amount of RMB619,380

Usage: For commercial and commercial ancillary purposes

Rights and responsibility: Should the Lease Agreement I be terminated by Tenant A as a result of compliance of the Listing Rules, Tenant A would not be responsible for any damages or payable to Landlord A

Without altering the structure of Premises I and the property usage, Tenant A may sub-let any part of Premises I

Conditions Precedent: Effective of Lease Agreement I is conditional upon the Company having fulfilled its obligations under the Listing Rules, including but not limited to obtaining approval from the Independent Shareholders

2. Lease Agreement II

Date of execution: 15 February 2019

Parties: Landlord A as landlord

Tenant A as tenant

Premises: Longhua Jiahua Shopping Mall, located at Renmin Road, Longhua Jiedao, Longhua District, Shenzhen City, Guangdong Province, the PRC with a total area of 24,549.25 sq.m.

Term:	Commencing from 1 March 2019 to 28 February 2027 (both days inclusive)
Rent:	Commencing from 1 March 2019, rent will be charged at an initial monthly rent of RMB35 per sq.m. per month (in total approximately RMB859,224 per month), with a 5% increment on the monthly rent every 3 years
Deposit:	A rental deposit of RMB1,718,447.5 payable by Tenant A to Landlord A upon effective of the lease agreement Given the Lease Agreement II would renew the lease agreement previously entered into between Landlord A and Tenant A, pursuant to the previous lease agreement a rental deposit of RMB1,000,000 has been paid hence, payment of deposit will be the remaining amount of RMB718,447.5
Usage:	For commercial and commercial ancillary purposes
Rights and responsibility:	Should the Lease Agreement II be terminated by Tenant A as a result of the compliance of the Listing Rules, Tenant A would not be responsible for any damages or payable to Landlord A Without altering the structure of Premises II and the property usage, Tenant A may sub-let any part of Premises II
Conditions Precedent:	Effective of Lease Agreement II is conditional upon the Company having fulfilled its obligations under the Listing Rules, including but not limited to obtaining approval from the Independent Shareholders

3. Lease Agreement III

Date of execution:	15 February 2019
Parties:	Landlord B as landlord Tenant B as tenant

Premises:	Guanlan Shopping Mall, various commercial portions of Block 1 of Phase 1 and Phase 2, Jiahua Lingyu Plaza located at Guanlan Dadao, Guanlan Jiedao, Longhua District, Shenzhen City, Guangdong Province, the PRC with a total area of 25,167.63 sq.m.
Term:	Commencing from 1 March 2019 to 28 February 2027 (both days inclusive); Rent-free period will be from 1 March 2019 to 31 August 2019
Rent:	An initial monthly rent of RMB45 per sq.m. per month (in total approximately RMB1,132,543 per month), with a 5% increment on the monthly rent every 3 years
Rent adjustment mechanism:	If Tenant B leases other premises, which are also located in the properties that Premises III located in, from independent third parties and the monthly rent per sq.m. charged by the independent third parties for such premises is lower than the monthly rent per sq.m. charged by Landlord B to Tenant B, the monthly rent per sq.m. for Premises III should be adjusted to be the same as the monthly rent per sq.m. charged by the independent third parties
Deposit:	A rental deposit of RMB1,132,543 payable by Tenant B to Landlord B upon effective of the lease agreement
Usage:	For commercial and commercial ancillary purposes
Rights and responsibility:	Should the Lease Agreement III be terminated by Tenant B as a result of Listing Rules compliance, Tenant B would not be responsible for any damages or payable to Landlord B Without altering the structure of Premises III and the property usage, Tenant B may sub-let any part of Premises III
Conditions Precedent:	Effective of Lease Agreement III is conditional upon the Company having fulfilled its obligations under the Listing Rules, including but not limited to obtaining approval from the Independent Shareholders

Saved as the conditions precedent above, the Long Term Lease Agreements are not subject to any other conditions precedent. As at the date of this announcement, none of the conditions precedent of the Long Term Lease Agreements has been fulfilled.

When determining the basis of the 5% increment on the monthly rent for every 3 years, the Company have 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 increment clauses were also incorporated to such lease agreements.

Furthermore, the Company also made reference to the growth in consumer price index of the Guangdong, the PRC in the past three years and noted that Guangdong recorded a growth in consumer price index of approximately 1.5%, 2.3% and 1.5% in 2015, 2016 and 2017 respectively. Taking into account the above mentioned factors, the Directors (excluding the independent non-executive Director) considered that a 5% increment on the monthly rent for every 3 years which is equivalent to a compound annual growth rate of approximately 1.64% to be acceptable.

The terms of the Long Term Lease Agreements (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 of the Premises (which was endorsed by a fair rent letter dated 7 January 2019 prepared by Chung Hin Appraisal Limited, an independent property valuer that such monthly rent as of the date of the valuation certificate is reasonable in the market and on normal commercial terms).

Pursuant to HKFRS16, premises leased under the Long Term Lease Agreements will be recognised as right-of-use assets, in which the aggregate considerations of approximately RMB224.7 million for recognizing the Premises as right-of-use assets pursuant to the Long Term Lease Agreements would be calculated with reference to the aggregated present value of the fixed lease payments as discounted by a discount rate of 4.9% which is equivalent to the Company's borrowing rate (i.e. the People's Bank of China's benchmark lending rate for a term of more than 5 years) during the entire terms of the Long Term Lease Agreements.

REASONS FOR AND BENEFITS OF ENTERING INTO THE LONG TERM LEASE AGREEMENTS

The Group is principally engaged in property investment and operation and management of retail stores 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 date of this announcement, there were 10 retail stores and 1 shopping mall under the Group's operation. It has been the Group's strategy to ride on the strength of old stores operated by the Group via continuous upgrading renovation and redistribution of sales floor. In addition, the Group has continued explored new location to open up new stores, new commercial retail model, including shopping mall, trial experience and internet plus.

The Group had been leasing Premises I and Premises II for more than 10 years from Landlord A. Given the lease agreements entered into with Landlord A in relation the Premises I and Premises II will expire by 28 February 2019, the Group intended to continue to lease Premises I and Premises II for the continue operation of two of the Group's retail stores in Shenzhen.

Furthermore, the Group has continued to focus on the development in areas such as Guangdong (including Shenzhen) by considering suitable locations for increasing the presents of the Group's shopping mall operation. The Group, in view of the ideal location and the size of Premises III which is suitable for opening the second shopping mall of the Group, considers renting of Premises III will enhance the retail network of the Group.

In view of such, the Directors (excluding the independent non-executive Directors) are of the view that the transactions contemplated under the Long Term Lease Agreements 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 Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PREMISES, THE TENANTS AND THE LANDLORDS

Premises I is located in Songgang Jiahua Shopping Mall, located at Songming Dadao, Songgang Jiedao, Baoan District, Shenzhen City, Guangdong Province, the PRC. Premises I was developed by Landlord A in 2004 at a total cost of approximately RMB69.0 million. The current appraised value of the Premises I is approximately RMB76.9 million, as assessed by an independent professional valuer as at 31 January 2019. As at the date of this announcement, the Group operated a retail store in Premises I.

Premises II is located in Longhua Jiahua Shopping Mall, located at Renmin Road, Longhua Jiedao, Longhua District, Shenzhen City, Guangdong Province, the PRC. Premises II was developed by Landlord A in 2004 at a total cost of approximately RMB78.0 million. The current appraised value of the Premises II is approximately RMB84.9 million, as assessed by an independent professional valuer as at 31 January 2019. As at the date of this announcement, the Group operated a retail store in Premises II.

Premises III is located in Guanlan Shopping Mall, various commercial portions of Block 1 of Phase 1 and Phase 2, Jiahua Lingyu Plaza located at Guanlan Dadao, Guanlan Jiedao, Longhua District, Shenzhen City, Guangdong Province, the PRC. Premises III was developed by Landlord B in 2018 at a total cost of approximately RMB116.0 million. The current appraised value of the Premises III is approximately RMB95.6 million, as assessed by an independent professional valuer as at 31 January 2019. Upon effective of the Lease Agreement III, the Group intended to operate the second shopping mall of the Group in Premises III.

Tenant A and Tenant B are wholly-owned subsidiaries of the Company and are principally engaged in operation and management of retail stores and shopping mall and other related business in the PRC.

Landlord A and Landlord B are principally engaged in property development and property management in the PRC. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Landlord A is held as to 90% by Mr. Zhuang and 10% by Mrs. Zhuang as at the date of this announcement and Landlord B is held as to 18% by Mrs. Zhuang and 82% by Landlord A as at the date of this announcement.

FINANCIAL INFORMATION OF THE PREMISES

Pursuant to HKFRS16, premises leased under the Long Term Lease Agreements will be recognised as right-of-use assets, in which the aggregate value of approximately RMB224.7 million for recognizing the Premises as right-of-use assets pursuant to the Long Term Lease Agreements would be calculated with reference to the aggregated present value of the fixed lease payments as discounted by a discount rate of 4.9% which is equivalent to the Company's borrowing rate (i.e. the People's Bank of China's benchmark lending rate for a term of more than 5 years) during the entire terms of the Long Term Lease Agreements. The Group along with the recognition of the right-of-use asset of RMB224.7 million, a lease liability also amounted to RMB224.7 million will be recognised by the Group.

Set out below is the unaudited profit and loss statements of identifiable net income stream attributable to each of the right-of-use assets to be acquired for the two years ended 31 December 2018:

Premises I

	For the year ended	
	31 December	
	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	101,039	91,051
Profit before income tax expenses	14,145	13,225
Profit after income tax expenses	10,609	9,919

Premises II

	For the year ended	
	31 December	
	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	75,543	74,065
Profit before income tax expenses	9,004	10,168
Profit after income tax expenses	6,753	7,626

Premises III

As the Group had yet to take possession of Premises III, a premise that will be newly leased by the Group to operate the Group's new shopping mall, thus no revenue has been generated from Premises III as at the date of this announcement. Accordingly, Premises III do not have identifiable income stream for the 2 preceding financial years.

LISTING RULES IMPLICATIONS

Pursuant to HKFRS 16, the entering into of the Long Term Lease Agreements as a lessee will require the Group to recognise the Premises as the right-of-use assets in which the aggregate considerations of approximately RMB224.7 million, thus the entering into the Long Term Lease Agreements and the transactions contemplated thereunder will be regarded as deemed acquisition of asset by the Group. As certain applicable percentages taking into account the Premises as deemed acquisition of right-of-use assets exceeds 25% and each of them is less than 100%, the Long Term Lease Agreements and the transactions contemplated thereunder constitute a major transaction for the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement and the Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the date of this announcement, Mr. Zhuang, the controlling Shareholder, executive Director and Chairman of the Company is interested in 535,485,000 Shares representing approximately 51.61% of the total issued Shares of the Company and is a connected person of the Company. As Landlord A and Landlord B are companies beneficially owned by Mr. Zhuang and Mrs. Zhuang, his spouse, Landlord A and Landlord B are therefore also connected persons of the Company under the Listing Rules. Accordingly, the Long Term Lease Agreements and transactions contemplated thereunder also constitute a connected transaction for the Company and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Zhuang and Mr. Zhuang Xiao Xiong, who have material interests in the Long Term Lease Agreements and the transactions contemplated thereunder, have abstained from voting on the relevant Board resolutions approving the Long Term Lease Agreements and the transactions contemplated thereunder.

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the terms of the Long Term Lease Agreements, and Vinco Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Long Term Lease Agreements and the transactions contemplated thereunder. In view of the interest of Mr. Zhuang and Mrs. Zhuang in Landlord A and Landlord B, Mr. Zhuang, Mrs. Zhuang and their respective associates (including Mr. Zhuang Xiao Xiong, son of Mr. Zhuang and Mrs. Zhuang, Mr. Chong Siu Po, son of Mr. Zhuang and Mrs. Zhuang, and Ms. Zhuang Xiao Yun, daughter of Mr. Zhuang and Mrs. Zhuang) will abstain from voting in relation to the resolution(s) to approve the Long Term Lease Agreements at the EGM.

GENERAL

A circular containing, amongst other things, further information on the terms of the Long Term Lease Agreements, a letter from the Independent Board Committee, an opinion of the Independent Financial Adviser, together with a notice to convene an extraordinary general meeting to approve the Long Term Lease Agreements, is expected to be issued to the Shareholders as soon as possible and in any event, no later than 28 February 2019.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	Jiahua Stores Holdings Limited (佳華百貨控股有限公司) (stock code: 602), an exempted company incorporated in Cayman Islands on 4 September 2006 and the issued shares of which are listed on the main board of the Stock Exchange
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and to approve the Long Term Lease Agreements and the transactions contemplated thereunder

“Existing Lease Agreements”	Existing Lease Agreement I and Existing Lease Agreement II
“Existing Lease Agreement I”	the existing lease agreement dated 18 November 2004 entered into between Landlord A and Tenant A in respect of the leasing of Premises I
“Existing Lease Agreement II”	the existing lease agreement dated 5 April 2005 entered into between Landlord A and Tenant A in respect of the leasing of Premises II
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in relation to the Long Term Lease Agreements and the transaction contemplated thereunder
“Independent Financial Adviser” or “Vinc Capital”	Vinco Capital Limited, wholly-owned subsidiary of Vinco Financial Group Limited (stock code: 8340), a licensed corporation to carry out business in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Long Term Lease Agreements and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than Mr. Zhuang and his associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Landlord A”	Shenzhen Baijiahua Group Company Limited (深圳市百佳華集團有限公司), a company incorporated in the PRC with limited liability, which is held as to 90% by Mr. Zhuang and 10% by Mrs. Zhuang as at the date of this announcement
“Landlord B”	Shenzhen Jiahua Real Estate Development Company Limited (深圳市佳華房地產開發有限公司), a company incorporated in the PRC, which is held as to 18% by Mrs. Zhuang and 82% by Landlord A as at the date of this announcement
“Lease Agreement I”	the lease agreement to be entered into between Landlord A and Tenant A in respect of the renewal of the Existing Lease Agreement I for the leasing of Premises I
“Lease Agreement II”	the lease agreement to be entered into between Landlord A and Tenant A in respect of the renewal of the Existing Lease Agreement II for the leasing of Premises II
“Lease Agreement III”	the lease agreement to be entered into between Landlord B and Tenant B in respect of the leasing of Premises III
“Long Term Lease Agreements”	Lease Agreement I, Lease Agreement II and Lease Agreement III
“Mr. Zhuang”	Mr. Zhuang Lu Kun, an executive Director
“Mrs. Zhuang”	Mrs. Zhuang Su Lan, spouse of Mr. Zhuang
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Premises”	Premises I, Premises II and Premises III
“Premises I”	Songgang Jiahua Shopping Mall, located at Songming Dadao, Songgang Jiedao, Baoan District, Shenzhen City, Guangdong Province, the PRC

“Premises II”	Longhua Jiahua Shopping Mall, located at Renmin Road, Longhua Jiedao, Longhua District, Shenzhen City, Guangdong Province, the PRC
“Premises III”	Guanlan Shopping Mall, various commercial portions of Block 1 of Phase 1 and Phase 2, Jiahua Lingyu Plaza located at Guanlan Dadao, Guanlan Jiedao, Longhua District, Shenzhen City, Guangdong Province, the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	Shares of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tenant A”	Shenzhen Baijiahua Department Stores Company Limited (深圳市百佳華百貨有限公司), a company incorporated in the PRC, a wholly-owned subsidiary of the Company
“Tenant B”	Shenzhen Baijiahua Business Management Limited (深圳市百佳華商業管理有限公司), a company incorporated in the PRC, a wholly-owned subsidiary of the Company
“%”	per cent.

By Order of the Board
Jiahua Store Holdings Limited
Zhuang Lu Kun
Chairman

Shenzhen, the PRC, 15 February 2019

As at the date of this announcement, (a) the executive Directors are Mr. Zhuang Lu Kun, Mr. Zhuang Pei Zhong and Mr. Zhuang Xiao Xiong; (b) the independent non-executive Directors are Mr. Chin Kam Cheung, Mr. Sun Ju Yi and Mr. Ai Ji.