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GXG

Mulsanne Group Holding Limited

慕尚集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1817)

CONNECTED TRANSACTION THE 2020 WENMO GARMENT LEASE AGREEMENT

The Board announces that on 2 July 2020, Chisage Mulsanne (an indirect wholly-owned subsidiary of the Company), as tenant, entered into the 2020 Wenmo Garment Lease Agreement with Wenmo Garment (a company controlled by Mr. Yang, a non-executive Director), as landlord, in relation to the lease of certain premises located at the west of Haiying Road, Binhai Industrial Park, Xiangshan, Ningbo, PRC, with gross floor area of approximately 57,000 square metres. The 2020 Wenmo Garment Lease Agreement shall be for a term of ten years commencing from 1 November 2020 and expiring on 31 October 2030.

LISTING RULES IMPLICATIONS

Wenmo Garment is a company with Mr. Yang controlling the exercise of 30% or more of the voting power at the general meetings. Hence, Wenmo Garment is an associate of Mr. Yang and a connected person of the Company. Accordingly, the transaction contemplated under the 2020 Wenmo Garment Lease Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

In accordance with International Financial Reporting Standard (IFRS) 16 “Leases”, the Company will recognise a right-of-use asset on its balance sheet in connection with the lease under the 2020 Wenmo Garment Lease Agreement. Accordingly, the entering into of the 2020 Wenmo Garment Lease Agreement will be regarded as an acquisition of a capital asset and a one-off connected transaction of the Company under Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio set out in Rule 14.07 of the Listing Rules in respect of the total value of right-of-use assets relating to the lease under the 2020 Wenmo Garment Lease Agreement is above 0.1% but below 5%, the transaction contemplated thereunder is only subject to the reporting, annual review and announcement requirements set out in the Listing Rules but is exempt from independent shareholders’ approval requirement under the Listing Rules.

Given that the duration of the 2020 Wenmo Garment Lease Agreement exceeds three years, pursuant to Rule 14A.52 of the Listing Rules, the Company has appointed Maxa Capital as the Independent Financial Adviser to explain why the 2020 Wenmo Garment Lease Agreement requires a longer period and to confirm that it is normal business practice for agreement of this type to be of such duration.

The Board announces that on 2 July 2020, Chisage Mulsanne, as tenant, entered into the 2020 Wenmo Garment Lease Agreement with Wenmo Garment, as landlord, in relation to the lease of certain premises located at the west of Haiying Road, Binhai Industrial Park, Xiangshan, Ningbo, PRC.

THE 2020 WENMO GARMENT LEASE AGREEMENT

- Date:** 2 July 2020
- Parties:** (i) Chisage Mulsanne, as tenant
(ii) Wenmo Garment, as landlord
- Leased Properties:** Certain premises located at the west of Haiying Road, Binhai Industrial Park, Xiangshan, Ningbo, PRC, with gross floor area of approximately 57,000 square metres.
- Term:** Commencing from 1 November 2020 and expiring on 31 October 2030. A party may terminate the agreement before the expiry of its term by giving a three months' written notice to another party. Chisage Mulsanne may by giving Wenmo Garment a two months' written notice before the expiry of the term of the agreement, requesting for the renewal of the lease. Chisage Mulsanne and Wenmo Garment shall enter into a lease agreement for such renewal.
- Rental:** Taking into account the renovation periods (i) from 1 November 2020 to 31 January 2021 and (ii) from 1 January 2025 to 31 March 2025, during which Chisage Mulsanne may carry out renovation works at the Premises on a rent-free basis, the annual rentals payable by Chisage Mulsanne to Wenmo Garment are as follows:

Tenancy Period	Annual Rental <i>(in approximate RMB)</i>
1 November 2020 to 31 December 2020	0
1 January 2021 to 31 December 2021	7,333,333
1 January 2022 to 31 December 2022	8,000,000
1 January 2023 to 31 December 2023	8,000,000
1 January 2024 to 31 December 2024	8,240,000
1 January 2025 to 31 December 2025	6,365,400
1 January 2026 to 31 December 2026	8,487,200
1 January 2027 to 31 December 2027	8,487,200
1 January 2028 to 31 December 2028	8,741,816
1 January 2029 to 31 December 2029	9,004,070
1 January 2030 to 31 October 2030	7,728,494

The annual rentals of the transaction under the 2020 Wenmo Garment Lease Agreement were arrived at after arm's length negotiations. Such rentals have been determined by Chisage Mulsanne and Wenmo Garment with reference to the location and size of the Premises, the prevailing market rates of comparable premises, the relevant taxes payable and the potential increase in market value of the Premises.

The rental is payable in cash in advance every six (6) months and exclusive of charges for water, electricity, gas, telephone, internet, air conditioning, security and property management.

It is estimated that the Premises will be recognised as a right-of-use asset at a value of approximately RMB62,790,218. Such value, which is solely based on the preliminary assessment by the management of the Company according to the available information relating to the Premises, has not been audited by the auditors of the Company, and is therefore subject to change.

Deposit: RMB2,000,000 payable by Chisage Mulsanne to Wenmo Garment not later than 23 July 2020

Usage: Warehouse

Other key terms: Chisage Mulsanne is not permitted to assign, sublet or stop leasing the Premises (in whole or in part) under the 2020 Wenmo Garment Lease Agreement, unless otherwise consented by Wenmo Garment in writing.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2020 WENMO GARMENT LEASE AGREEMENT

The Premises have a gross floor area of approximately 57,000 square metres and are located at the west of Haiying Road, Binhai Industrial Park, Xiangshan, Ningbo, PRC, which is a convenient location near highways. The Premises will be used as warehouse to replace one of the Group's existing warehouses, the lease of which will expire by the end of 2020 and cannot be renewed. In view of its business expansion plan, the Group considers that the Premises are well-suited for centralizing the Group's warehouse storage and installation of advanced logistics equipment to optimize inventory and quality control and enhance operational efficiency. Provided that the expected useful life of such equipment is approximately ten years, and in order to prevent incurring expensive removal cost when the lease expires and avoid the possibility of interruptions to operations, the Group believes that it is beneficial and sustainable to lease the Premises for ten years.

Having considered that the rentals payable under the 2020 Wenmo Garment Lease Agreement reflect prevailing market rates and the opinion of the Independent Financial Adviser as set out in this announcement, the Directors (including the independent non-executive Directors but excluding Mr. Yu Yong and Mr. Yang who have abstained from voting) are of the view that the entering into of the 2020 Wenmo Garment Lease Agreement is in the interests of the Company and its shareholders as a whole.

As Mr. Yu Yong and Mr. Yang hold indirect shareholding interests in Wenmo Garment, Mr. Yu Yong and Mr. Yang have abstained from voting on the Board resolution approving the 2020 Wenmo Garment Lease Agreement.

The Directors (including independent non-executive Directors but excluding Mr. Yu Yong and Mr. Yang who have abstained from voting) are of the view that the 2020 Wenmo Garment Lease Agreement, which was entered into after arm's length negotiation between Chisage Mulsanne and Wenmo Garment and in the ordinary and usual course of business of the Group, reflects normal commercial terms and the terms as well as the annual rentals for the transaction thereunder are fair and reasonable.

LISTING RULES IMPLICATIONS

Wenmo Garment is a company with Mr. Yang controlling the exercise of 30% or more of the voting power at the general meetings. Hence, Wenmo Garment is an associate of Mr. Yang and a connected person of the Company. Accordingly, the transaction contemplated under the 2020 Wenmo Garment Lease Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

In accordance with International Financial Reporting Standard (IFRS) 16 "Leases", the Company will recognise a right-of-use asset on its balance sheet in connection with the lease under the 2020 Wenmo Garment Lease Agreement. Accordingly, the entering into of the 2020 Wenmo Garment Lease Agreement will be regarded as an acquisition of a capital asset and a one-off connected transaction of the Company under Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio set out in Rule 14.07 of the Listing Rules in respect of the total value of right-of-use assets relating to the lease under the 2020 Wenmo Garment Lease Agreement is above 0.1% but below 5%, the transaction contemplated thereunder is only subject to the reporting, annual review and announcement requirements set out in the Listing Rules but is exempt from independent shareholders' approval requirement under the Listing Rules.

OPINION OF THE INDEPENDENT FINANCIAL ADVISER

Given that the duration of the 2020 Wenmo Garment Lease Agreement exceeds three years, pursuant to Rule 14A.52 of the Listing Rules, the Company has appointed Maxa Capital as the Independent Financial Adviser to explain why the 2020 Wenmo Garment Lease Agreement requires a longer period and to confirm that it is normal business practice for agreement of this type to be of such duration.

In assessing the reasons for the term of the 2020 Wenmo Garment Lease Agreement to be longer than three years, Maxa Capital has discussed with the management of the Company and considered the following factors:

- (i) The management of the Company advised that it is not unusual for the Group to enter into long-term leases of over three years. The Group previously entered into two property lease agreements with independent third parties with terms of five years and six years respectively.
- (ii) The management of the Company advised that the location of the Premises is convenient as it is near highways and will be used as warehouse to replace one existing warehouse, the lease of which will expire by the end of 2020 and cannot be renewed. It is expected that a significant amount of electronic equipment and warehousing logistics equipment will be installed in the Premises and the expected useful life of such equipment is approximately ten years. In order to prevent incurring expensive removal cost when the lease expires and avoid the possibility of interruptions to operations, the Group believes that it is beneficial and sustainable to lease the Premises for ten years.

In considering whether it is normal business practice for agreements of similar nature with the 2020 Wenmo Garment Lease Agreement (i.e. lease of property) to be of such a duration, Maxa Capital has conducted a search on lease arrangements entered into and announced by companies listed on the Stock Exchange during the period of one year prior to the date of the 2020 Wenmo Garment Lease Agreement, which involves leasing of properties with duration of more than three years. On a best-effort basis, Maxa Capital has identified an exhaustive list of six comparable leases which fall within the abovementioned selection criteria. Maxa Capital is of the view that such review period provides it with an adequate information of recent terms agreed under property leases. The terms of such comparable leases ranged from four to ten years, with an average of approximately nine years. In addition, Maxa Capital has also reviewed the two property lease agreements entered into between the Company and independent third parties with terms of five years and six years respectively, which are similar in nature to the 2020 Wenmo Garment Lease Agreement.

Taking into account of the above, Maxa Capital is of the view that the duration of the 2020 Wenmo Garment Lease Agreement, which is longer than three years, is required and it is normal business practice for the 2020 Wenmo Garment Lease Agreement to be of such duration.

GENERAL INFORMATION

The Company is an investment holding company. The principal activity of the Group is design, manufacture, marketing and sale of apparel products of menswear, sportswear and other fashion segments in the PRC.

Chisage Mulsanne is an indirect wholly-owned subsidiary of the Company. As one of the principal operating subsidiaries of the Company, it is principally engaged in design, marketing and sale of apparel products of menswear.

Wenmo Garment is a wholly-owned subsidiary of Ningbo Chisage Wenmo Branding Management Co., Ltd., which is in turn held by Ningbo Jessica Investment Management Partnership (Limited Partnership) as to 53%. Ningbo Jessica Investment Management Partnership (Limited Partnership) is held by Chisage Holding Group Co., Ltd. (a company indirectly controlled by Mr. Yang), Mr. Yu Yong (an executive Director) and other shareholders as to 63.16%, 20.60% and 16.24%, respectively. Accordingly, Mr. Yang is a controlling shareholder of Wenmo Garment. Wenmo Garment is principally engaged in manufacture and sale of apparel products.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“2020 Wenmo Garment Lease Agreement”	the lease agreement dated 2 July 2020 and entered into between Chisage Mulsanne as tenant and Wenmo Garment as landlord in relation to the Premises
“Board”	the board of Directors of the Company
“Chisage Mulsanne”	Ningbo Chisage Mulsanne Holding Co., Ltd. (寧波中哲慕尚控股有限公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company
“Company”	Mulsanne Group Holding Limited, a company incorporated in the Cayman Islands with limited liability whose issued shares are listed on the Stock Exchange
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Independent Financial Adviser” or “Maxa Capital”	Maxa Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Mr. Yang”	Mr. Yang Herong, a non-executive Director
“PRC”	the People’s Republic of China which, for the purpose of this announcement only, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“Premises”	Certain premises located at the west of Haiying Road, Binhai Industrial Park, Xiangshan, Ningbo, PRC, with gross floor area of approximately 57,000 square metres
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Wenmo Garment”	Ningbo Wenmo Garment Co., Ltd. (寧波文墨製衣有限公司), a limited liability company established in the PRC and controlled by Mr. Yang
“%”	per cent

By Order of the Board
Mulsanne Group Holding Limited
HUANG Hanji
Chairman

Hong Kong, 2 July 2020

As at the date of this announcement, the Board comprises Mr. YU Yong as executive Director; Mr. HUANG Hanji, Mr. YANG Herong, Mr. LIN Lin, Mr. WANG Jun and Mr. Chintamani Aniruddha BHAGAT as non-executive Directors; and Mr. GU Jiong, Mr. YUAN Tao and Mr. Paolo BODO as independent non-executive Directors.