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LEGEND STRATEGY INTERNATIONAL HOLDINGS GROUP COMPANY LIMITED

枋濬國際集團控股有限公司

(a company incorporated in the Cayman Islands with limited liability)

(Stock Code: 1355)

**VERY SUBSTANTIAL ACQUISITION
IN RELATION TO
PROPOSED LEASE OF PREMISES IN THE PRC**

THE LEASE AGREEMENT

The Board is pleased to announce that Shenzhen Legend, being an indirect wholly-owned subsidiary of the Company would like to establish a new accommodation project in Bao'an District, Shenzhen, Guangdong Province, the PRC and proposes to enter into the Lease Agreement, as tenant, with Shenzhen Zhaohua, as landlord, for the lease of the Premises for an initial term of 15 years commencing from 1 December 2022 to 30 November 2037, both days inclusive, after obtaining the approval of the Shareholders at the EGM currently expected to be convened within the Exclusivity Period (i.e. second quarter of 2022).

LISTING RULES IMPLICATIONS

Pursuant to HKFRS 16, the entering into of the Lease Agreement as tenant will require the Group to recognise a right-of-use asset. Therefore, the Lease Agreement, if entered, will be regarded as acquisition of asset by the Company under the Listing Rules. Since the total rentable area under the Lease Agreement is subject to measurement upon completion of construction of the Premises which may have an impact on the total rent payable, it is expected that the maximum value of right-of-use asset to be recognised by the Group would be approximately RMB99.4 million under the Lease Agreement (without taking into account any variable lease payment such as turnover pursuant to the Lease Agreement).

As one of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Lease Agreement is more than 100%, the Lease Agreement, if entered, will constitute 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 EGM 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 and the transactions contemplated thereunder. As such, no Shareholder nor his/her associates would be required to abstain from voting at the EGM on the resolution(s) to approve the same.

As additional time is required for preparing the information to be included in the circular which contains, among other things, (i) further information on the Lease Agreement and the transactions contemplated thereunder; and (ii) the notice of the EGM, the Company expects that the circular will be despatched to the Shareholders on or before 25 May 2022 in accordance with the Listing Rules.

The Lease Agreement is subject to the fulfilment of various conditions precedent and therefore the Lease Agreement together with the transactions contemplated thereunder may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

Reference is made to the announcements of the Company dated 24 December 2021 and 7 April 2022 in relation to, among other things, the entering into of the First Letter of Intent and the Second Letter of Intent respectively for the lease of the Premises and extension of the Exclusivity Period to 30 June 2022. The Board is pleased to announce that Shenzhen Legend, being an indirect wholly-owned subsidiary of the Company would like to establish a new accommodation project in Bao'an District, Shenzhen, Guangdong Province, the PRC and proposes to enter into the Lease Agreement, as tenant, with Shenzhen Zhaohua, as landlord, for the lease of the Premises for an initial term of 15 years commencing from 1 December 2022 to 30 November 2037, both days inclusive, after obtaining the approval of the Shareholders at the EGM currently expected to be convened within the Exclusivity Period (i.e. second quarter of 2022). The principal terms of the Lease Agreement are set out below:

THE LEASE AGREEMENT

Parties	:	(i) Shenzhen Legend, as tenant; and (ii) Shenzhen Zhaohua, as landlord To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Shenzhen Zhaohua and its ultimate beneficial owner(s) are Independent Third Parties
Premises	:	Certain portion on 1st floor to 13th floor of building No.5 under development, namely Block D1, of project 會展灣里岸廣場 (transliterated as Exhibition Bay Li An Square*), Bao'an Airport New City, Bao'an District, Shenzhen, Guangdong Province, the PRC
Use	:	Commercial use
Total rentable area	:	Approximately 9,583 sq.m. subject to measurement upon completion of construction of the Premises
Rent free area	:	Certain area on 13th floor and basement floor
Initial term	:	From 1 December 2022 to 30 November 2037, both days inclusive, and unless both parties propose not to continue the lease after the initial term within last six months of the term, it shall be extended for another five years (i.e. from 1 December 2037 to 30 November 2042)

If the Company decides to extend the term, it will comply with the relevant requirements of the Listing Rules.

Rent and payment terms : Shenzhen Legend shall pay the rents on three-month basis based on the fixed rent and turnover rent whichever is higher which include property management fee, tax relevant to the lease but exclusive of business taxes and other business-related expenses (such as water, electricity, gas, telephone charges, etc.) arising from business activities of Shenzhen Legend.

(i) Fixed rent

The fixed unit rent (tax inclusive) payable by Shenzhen Legend for lease of the Premises will be RMB80 per sq.m. per month and will increase by 6% for every three years during the term of the Lease Agreement. The rents shall be payable in advance and no later than ten days before the next three-month period begins

(ii) Turnover rent

The turnover rent for every three-month period is equal to 35% of Shenzhen Legend's turnover during the period. Shenzhen Legend shall provide its operating results for the last three-month period to Shenzhen Zhaohua within the first ten days of every next three-month period. For avoidance of doubt, the turnover of Shenzhen Legend counted towards for computation of the turnover rent pursuant to the Lease Agreement refers to any income arising from its hotel operation at the Premises, being the area proposed to be leased, including but not limited to room charges, catering income, banquet income, rental income and joint corporation income without making any adjustments for taxes and relevant costs

Shenzhen Legend should pay the fixed rent for every three-month period first and, if turnover rent exceeds the fixed rent for a particular three-month period, Shenzhen Legend should pay the difference within the first 30 days of the next three-month period

It is currently estimated that the total fixed rent for the 15 year initial term payable under the Lease Agreement would be approximately RMB147.8 million, which is subject to (i) the final rentable area to be measured after completion of the construction of the Premises; and (ii) the additional amounts (being difference between turnover rent and fixed rent), if any, pursuant to the terms and conditions of the Lease Agreement

The rent under the Lease Agreement is determined after arm's length negotiations between parties. In order to assess whether the fixed unit rent and turnover rent under the Lease Agreement are fair and reasonable, the Company has engaged Vincorn Consulting and Appraisal Limited, an independent valuer, to conduct valuation on the Premises. In determining the market rent of the Premises, the valuer has analysed rents and key terms under recent leases of comparable commercial properties in Shenzhen with similar tenure (being 10 to 15 years). The Company noted from the valuation that (i) (a) the expected maximum fixed monthly rent of approximately RMB774,000 (being RMB80 per sq.m. per month times 9,583 sq.m. and with 1% positive variance for possible deviation upon measurement of actual rentable area upon completion of construction of

the Premises) for the first three years under the Lease Agreement is comparable to the monthly market rent of approximately RMB770,000 as valued by the valuer, and (b) the unit fixed rent of RMB80 per sq.m. per month is within the range of these comparable leases from RMB65.0 to RMB90.0 per sq.m. per month; (ii) the market rent and expected rental escalation of 6% for every three years throughout the tenure are consistent with those under the Lease Agreement; and (iii) the turnover rent percentage under the Lease Agreement is within the range of these comparable leases from 30% to 40%. Therefore, the Company considers that the terms of the Lease Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

The consideration will be satisfied by internal resources of and facilities available to the Group.

Rent free period : 12 months from the commencement of the Lease Agreement, being 1 December 2022 and until 30 November 2023, both days inclusive

However, if the Lease Agreement is terminated during the term of the Lease Agreement by Shenzhen Legend, Shenzhen Zhaohua shall have the right to claim compensation in respect of the provision of rent free period on the basis that:

(i) if termination takes place during the rent free period

Compensation amount = Length of rent free period used by Shenzhen Legend (in month) x Fixed monthly rent for the first three years of the term of the Lease Agreement

(ii) if termination takes place after the rent free period

Compensation amount = Remaining term of the Lease Agreement ÷ Entire term of the Lease Agreement x Length of rent free period (i.e. 12 months) x Fixed monthly rent for the first three years of the term of the Lease Agreement

Deposit : Shenzhen Legend shall pay a deposit in the amount of RMB1,600,000 to Shenzhen Zhaohua before entering into of the Lease Agreement as guarantee of the due performance and observance by Shenzhen Legend of its obligations throughout the term of the Lease Agreement

Pursuant to the Lease Agreement, the non-refundable earnest money, if paid by Shenzhen Legend, in total amount of RMB1,600,000 pursuant to the Letters of Intent would become part of the deposit if the Lease Agreement is entered.

Conditions precedent : The commencement of the Lease Agreement shall be upon deliver of the Premises to Shenzhen Legend which is conditional to:

(i) Shenzhen Zhaohua will deliver the Premises to Shenzhen Legend in accordance with the delivery standards set out in the Lease Agreement and both parties agree with the final delivery standards, functions and actual area;

- (ii) Shenzhen Legend can use the Premises independently and without any disturbance, and will not be affected by any adjacent properties;
- (iii) the condition of the Premises upon delivery by Shenzhen Zhaohua to Shenzhen Legend does not involve any illegal structure which should meet the planning, fire safety, construction requirements or standards stipulated by the government, and should have passed a fire safety and completion acceptance and obtained the necessary administrative license, approval or filing, and comply with the relevant standards, requirements and technical specifications of hotel operation; and
- (iv) the Premises has not been seized, distrained, or restricted in use by the courts or other government agencies and is not subject to any restrictions on rights such as mortgage and pledge.

As set out in the Lease Agreement, the provisional date of delivery of the Premises is 1 December 2022. If Shenzhen Zhaohua fails to deliver the Premises to Shenzhen Legend by the aforesaid provisional delivery date, the commencement date, rent free period and rental payment dates will be postponed.

Since the total rentable area under the Lease Agreement is subject to measurement upon completion of construction of the Premises which may have an impact on the total rent payable, it is expected that the maximum value of the right-of-use asset to be recognised by the Group under the Lease Agreement would be approximately RMB99.4 million which is the present value of aggregated fixed lease payments, plus any initial direct costs and estimated reinstatement cost with the lease (if any) in accordance with HKFRS 16. A discount rate of 5.30% per annum is applied to compute the present value of aggregate lease payments under the Lease Agreement.

REASONS FOR AND BENEFITS OF PROPOSED LEASE OF THE PREMISES

Shenzhen Zhaohua is a company established in the PRC with limited liability and owned as to approximately 50% by each of 招商局蛇口工業區控股股份有限公司 (transliterated as China Merchants Shekou Industrial Zone Holdings Co., Ltd.*, “CMSIZ”) and Shenzhen Overseas Chinese Town Co., Ltd. (“SZOCT”).

CMSIZ is a listed company in Shenzhen Stock Exchange (stock code: 001979.SZ) and owned as to approximately 58.14% by China Merchants Group Limited (招商局集團有限公司) and approximately 5.17% by China Merchants Steam Navigation Company Limited (招商局輪船有限公司), a company controlled by China Merchants Group Limited as at the date of this announcement.

SZOCT is a listed company in Shenzhen Stock Exchange (stock code: 000069.SZ) and owned as to approximately 47.01% by Overseas Chinese Town Holdings Company Limited (華僑城集團有限公司) and approximately 7.29% by Qian Hai Life Insurance CO., LTD (前海人壽保險股份有限公司) as at the date of this announcement.

Both CMSIZ and SZOCT are state-owned enterprises. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, Shenzhen Zhaohua and its ultimate beneficial owner(s) are Independent Third Parties.

The Group is principally engaged in accommodation operations, provision of accommodation

consultations and accommodation facilities management services and other related business. As at the date of this announcement, the Company has five leased-and-operated accommodation projects under operation in Shenzhen, Huizhou, Chengdu and Wuhan, the PRC.

Shenzhen Legend is an indirect wholly-owned subsidiary of the Company and the business scope of which is provision of hotel management services as at the date of this announcement.

During the year ended 31 December 2021, the Company recorded a revenue of approximately RMB70.6 million representing a growth of approximately 39.3% as compared to approximately RMB50.7 million for the year ended 31 December 2020. According to the annual results announcement of the Company for the year ended 31 December 2021 (the “**2021 Annual Results Announcement**”), such increase in revenue was mainly attributable to the revenue from accommodation facilities management and accommodation consultation services. The occupancy rate of the Group increased from approximately 71.0% for the year ended 31 December 2020 to approximately 74.0% for the year ended 31 December 2021 whereas average room revenue per available room night of the Group increased from approximately RMB194.2 for the year ended 31 December 2020 to approximately RMB208.7 for the year ended 31 December 2021. According to the 2021 Annual Results Announcement, the total available room nights of the Group increased by approximately 39.6% in 2021 mainly due to the commencement of operation of Chengdu branch and Wuhan branch.

According to the 2021 Annual Results Announcement, the Group has expanded its service scope by focusing on accommodation consulting and management services, including diversified and high-quality products and services in a targeted manner such as hostels, elderly apartments and elderly resorts so as to expand its market share. The Premises is being constructed in a parcel of land within Bao’an Airport New City which is in close proximity to Bao’an International Airport, Shenzhen World Exhibition & Convention Center (深圳國際會展中心) and coastline of Greater Bay Area. It is expected that the accommodation project in the Premises would provide approximately 144 rooms, conference room(s), restaurant(s) and gymnasium. Due to the strategic location of the Premises and the prospect of Greater Bay Area, the Company considers the lease of the brand new Premises as an appealing opportunity to expand its accommodation business. The Company currently expects that the development of the Premises would complete in around the fourth quarter of 2022.

Taking into account (i) the opportunities for the Group to expand its accommodation business in the PRC which will enhance the scale and profile of the Group’s accommodation business; (ii) the strategic location of the Premises; and (iii) the revenue stream of the Group is expected to be broadened by the operation of the new accommodation project in the Premises, the Directors consider that the entering into of the Lease Agreement is in ordinary and usual course of business of the Group and in the interests of the Company and its shareholders as a whole and the terms and conditions thereunder are fair and reasonable and on normal commercial terms.

LISTING RULES IMPLICATIONS

Pursuant to HKFRS 16, the entering into of the Lease Agreement as tenant will require the Group to recognise a right-of-use asset. Therefore, the Lease Agreement, if entered, will be regarded as acquisition of asset by the Company under the Listing Rules. Since the total rentable area under the Lease Agreement is subject to measurement upon completion of construction of the Premises which may have an impact on the total rent payable, it is expected that the maximum value of right-of-use asset to be recognised by the Group would be approximately RMB99.4 million under the Lease Agreement (without taking into account any variable lease payment such as turnover pursuant to the Lease Agreement).

As one of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Lease Agreement is more than 100%, the Lease Agreement, if entered, will constitute 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 EGM 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 and the transactions contemplated thereunder. As such, no Shareholder nor his/her associates would be required to abstain from voting at the EGM on the resolution(s) to approve the same.

As additional time is required for preparing the information to be included in the circular which contains, among other things, (i) further information on the Lease Agreement and the transactions contemplated thereunder; and (ii) notice of the EGM, the Company expects that the circular will be despatched to the Shareholders on or before 25 May 2022 in accordance with the Listing Rules.

DEFINITIONS

Unless the context otherwise requires, the following expressions shall have the following meanings in this announcement:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Legend Strategy International Holdings Group Company Limited (枋濬國際集團控股有限公司), a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on Main Board of the Stock Exchange (stock code: 1355)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held and convened to consider and approve the Lease Agreement and the transactions contemplated thereunder
“Exclusivity Period”	an period which Shenzhen Zhaohua agreed pursuant to the Letter of Intents that it will not liaise or enter into any legal documents with any parties other than Shenzhen Legend in relation to the sales and lease of and cooperation in the Premises, being from the date of the First Letter of Intent, 24 December 2021 to 30 June 2022
“Group”	the Company and its subsidiaries
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Third Party(ies)”	person(s) who is(are) third party(ies) independent of the Company and connected persons of the Company
“Lease Agreement”	the lease agreement to be entered into between Shenzhen Legend, as tenant, and Shenzhen Zhaohua, as landlord, in respect of the proposed lease of the Premises for an initial term of 15 years commencing from 1 December 2022 to 30 November 2037 subject to the Shareholders’ approval at the EGM
“First Letter of Intent”	a letter of intent dated 24 December 2021 entered into between Shenzhen Legend and Shenzhen Zhaohua in relation to the possible lease of the Premises
“Letters of Intent”	the First Letter of Intent and the Second Letter of Intent
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Premises”	certain portion of a building under development in Bao’an District, Shenzhen, Guangdong Province, the PRC that Shenzhen Legend proposes to lease pursuant to the Lease Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Second Letter of Intent”	a letter of intent dated 7 April 2022 entered into between Shenzhen Legend and Shenzhen Zhaohua in relation to the possible lease of the Premises
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shenzhen Legend”	深圳枋濬酒店管理有限公司 (transliterated as Shenzhen Legend Strategy Hotel Management Company Limited*), an indirect wholly-owned subsidiary of the Company
“Shenzhen Zhaohua”	深圳市招華會展實業有限公司 (transliterated as Shenzhen Zhaohua Exhibition Industry Company Limited*)
“sq.m.”	square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

By order of the Board
**Legend Strategy International Holdings Group
Company Limited**
Yuan Fuer
Chairman

Hong Kong, 14 April 2022

As at the date of this announcement, the Board comprises:

Executive Directors:

Mr. Chen Wu (*Chief Executive Officer*)

Mr. Chung Tin Yan

Non-executive Directors:

Mr. Yuan Fuer (*Chairman*)

Mr. Hu Xinglong

Independent non-executive Directors:

Mr. Wu Jilin

Mr. Du Hongwei

Ms. Li Zhou

**For identification purposes only*