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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Xinji Shaxi Group Co., Ltd, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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**信基沙溪集团股份有限公司**  
**XINJI SHAXI GROUP CO., LTD**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3603)**

**(1) MAJOR AND CONNECTED TRANSACTION  
IN RELATION TO RENEWAL OF TENANCY AGREEMENT  
AND  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



**綽耀資本**  
**REDSOLAR**

A notice convening an extraordinary general meeting (the “EGM”) of the Company to be held at the Conference Room, 2nd Floor, Xinjicheng Club, No. 250, Intersection of Nanda Road, Panyu District, Guangzhou, PRC on Friday, 17 March 2023 at 10:00 a.m. is set out on pages EGM-1 and EGM-2 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the Stock Exchange’s website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company’s website ([www.xjsx.net.cn](http://www.xjsx.net.cn)). Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event no later than Wednesday, 15 March 2023 at 10:00 a.m. (Hong Kong time) (being not less than 48 hours before the time of the EGM) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjournment thereof if they so wish.

24 February 2023

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## DEFINITIONS

*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“2021 Household Market Tenancy Agreement”	the tenancy agreement dated 18 November 2020 and entered into between Guangdong Xinji Household and Panyu Real Estate in respect of the renewal of the lease of the Premises for the period from 1 December 2021 to 30 November 2026 (both days inclusive)
“2021 Household Market Tenancy Agreement Expiry Date”	the date on which the 2021 Household Market Tenancy Agreement expires pursuant to the terms of the Termination Agreement, being (i) 30 November 2022; or (ii) the date immediately prior to the Effective Date, whichever is later
“2022 Household Market Tenancy Agreement”	the tenancy agreement dated 28 October 2022 and entered into between Guangdong Xinji Household and Panyu Real Estate in respect of the renewal of the lease of the Premises for the period from the Effective Date to 14 June 2038 (both days inclusive)
“2022 Interim Report”	the interim report of the Company for the six months ended 30 June 2022
“Announcement”	the announcement of the Company dated 28 October 2022
“associates”	has the meaning ascribed to it under the Listing Rules
“Beijing Chengwaicheng”	Beijing Chengwaicheng Home Furnishing Market Co., Ltd.* (北京城外誠家居市場有限公司), a company established in the PRC with limited liability
“Board”	the board of Directors
“Company”	Xinji Shaxi Group Co., Ltd (信基沙溪集團股份有限公司), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 3603)
“Comparable Transactions”	an exhaustive list of five comparable transactions identified by the Independent Financial Adviser that are comparable with the 2022 Household Market Tenancy Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

## DEFINITIONS

“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, in the context of this circular, refers to the group of controlling shareholders of the Company, namely Honchuen Investment, Zuoting Investment, Weixin Development, Mr. Cheung, Mr. Mei and Mr. Zhang
“COVID-19 Pandemic”	the Coronavirus (COVID-19) pandemic
“Director(s)”	the director(s) of the Company
“Effective Date”	the date on which the 2022 Household Market Tenancy Agreement becomes effective pursuant to the terms thereof, being (i) 1 December 2022; or (ii) the date on which all the conditions precedent under the 2022 Household Market Tenancy Agreement have been fulfilled (or as the case may be, waived), whichever is later
“EGM”	the extraordinary general meeting of the Company to be held at the Conference Room, 2nd Floor, Xinjicheng Club, No. 250, Intersection of Nanda Road, Panyu District, Guangzhou, PRC on Friday, 17 March 2023 at 10:00 a.m. for the Independent Shareholders to consider and, if thought fit, approve the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder
“Foshan Xinji Plaza”	Foshan Xinji Plaza Management Co., Ltd.* (佛山信基廣場經營管理有限公司), a company established in the PRC with limited liability
“Foshan Xinji Youxiang”	Foshan Xinji Youxiang Commercial Service Co., Ltd.* (佛山信基優享商業服務有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“Guangdong Xinji Household”	Guangdong Xinji Household Company Limited* (廣東信基家居有限公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company
“Guangzhou Real Estate”	Guangzhou Xinji Real Estate Development Co., Ltd.* (廣州市信基置業房地產開發有限公司), a company established in the PRC with limited liability

## DEFINITIONS

“Guangzhou Shaxi Hotel”	Guangzhou Shaxi International Hospitality Supplies City Company Limited* (廣州沙溪國際酒店用品城有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Guangzhou Xinji Jiuxing”	Guangzhou Xinji Jiuxing Service Co., Ltd.* (廣州信基玖星服務有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Guangzhou Xinji Property”	Guangzhou Xinji Property Management Co., Ltd.* (廣州市信基物業管理有限公司), a company established in the PRC with limited liability
“Guangzhou Xinji Youxiang”	Guangzhou Xinji Youxiang Property Co., Ltd.* (廣州信基優享物業有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Honchuen Investment”	Honchuen Investment Limited, a company incorporated in the British Virgin Islands with limited liability, which is one of the controlling shareholders of the Company and wholly-owned by Mr. Cheung
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hubei Xinji Property”	Hubei Xinji Property Management Co., Ltd.* (湖北信基物業管理有限公司), a company established in the PRC with limited liability
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder

## DEFINITIONS

“Independent Financial Adviser” or “Red Solar Capital”	Red Solar Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed to make recommendations to the Independent Board Committee and the Independent Shareholders in respect of the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than those who have a material interest in the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder
“Independent Third Party(ies)”	any person or company and their respective ultimate beneficial owner(s) which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons
“Latest Practicable Date”	20 February 2023, being the latest practicable date prior to the despatch of this circular for ascertaining certain information referred to in this circular
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Cheung”	Mr. Cheung Hon Chuen (張漢泉), the chairman of the Board, an executive Director, and one of the controlling shareholders of the Company
“Mr. Mei”	Mr. Mei Zuoting (梅佐挺), an executive Director and one of controlling shareholders of the Company
“Mr. Zhang”	Mr. Zhang Weixin (張偉新), an executive Director and one of the controlling shareholders of the Company

## DEFINITIONS

“Non-Competition Undertaking”	the letter of undertaking dated 15 March 2022 and executed by each of Mr. Cheung, Mr. Mei and Mr. Zhang in favour of the Company pursuant to which Mr. Cheung, Mr. Mei and Mr. Zhang have undertaken to the Company that, among others, they will not, without the written consent of the Company, carry on or be engaged, concerned or interested directly or indirectly in carrying on any business that is carried on by the Group
“Offset Arrangement”	the offset arrangement under which the amount of annual rental fee payable by Guangdong Xinji Household for each rental period under the 2022 Household Market Tenancy Agreement shall be offset by part of the Prepaid Rental Fee that is equivalent to approximately 25% of the total rental fee payable for the relevant rental period
“Panyu Real Estate”	Guangzhou Panyu Xinji Real Estate Development Co., Ltd.* (廣州市番禺信基房產發展有限公司), a limited liability company established in the PRC which is co-owned by Mr. Cheung, Mr. Mei and Mr. Zhang
“percentage ratio(s)”	has the meaning ascribed to it in the Listing Rules
“PRC”	the People’s Republic of China, which for the purposes of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prepaid Rental Fee”	the prepaid rental fee in the amount of RMB51,397,185 payable by Guangdong Xinji Household to Panyu Real Estate under the 2022 Household Market Tenancy Agreement
“Premises”	Ground Floor and Mezzanine of Building 3-5, Fuli Plaza, 105 National Road, Panyu District, Guangzhou, the PRC with a total lettable area of approximately 21,832 square metres
“Profit Warning Announcement”	the announcement of the Company dated 15 August 2022 in relation to the profit warning of the Company for the six months ended 30 June 2022
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)

## DEFINITIONS

“Shanghai Yuan Shang”	Shanghai Yuan Shang Property Co., Ltd.* (上海遠緇物業有限公司) (formerly known as Shanghai Red Star Macalline Commercial Property Investment Co., Ltd.* (上海紅星美凱龍商用物業投資有限公司)), a company established in the PRC with limited liability
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shenyang Xinji Industrial”	Shenyang Xinji Industrial Centre Company Limited* (瀋陽信基實業有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Termination Agreement”	the agreement dated 28 October 2022 and entered into between Guangdong Xinji Household and Panyu Real Estate in respect of the termination of the 2021 Household Market Tenancy Agreement
“Valuation”	the valuation of the market rental fee of the Premises prepared by the Valuer
“Valuation Report”	the valuation report dated 24 February 2023 prepared by the Valuer on the valuation of the market rental fee of the Premises
“Valuer” or “Masterpiece”	Masterpiece Valuation Advisory Limited, an independent valuer
“Weixin Development”	Weixin Development Overseas Limited, which is one of the controlling shareholders of the Company and wholly-owned by Mr. Zhang
“Xinji Company”	Xinji Group Company Limited* (信基集團有限公司) (formerly known as Guangzhou Xinji Industrial Investment Company Limited* (廣州市信基實業投資有限公司)), a company established in the PRC with limited liability
“Yishen Commercial”	Guangzhou Yishen Commercial Operation Co., Ltd.* (廣州億築商業營運有限公司), a company established in the PRC with limited liability



## DEFINITIONS

“Zuoting Investment” Zuoting Investment limited, a company incorporated in the British Virgin Islands with limited liability, which is one of the controlling shareholders of the Company and wholly-owned by Mr. Mei

“%” per cent.

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “\*” and the Chinese translation of company names in English which are marked with “\*” is for identification purpose only.

LETTER FROM THE BOARD



**信基沙溪集团股份有限公司**  
**XINJI SHAXI GROUP CO., LTD**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3603)**

*Executive Directors:*

Mr. Cheung Hon Chuen  
Mr. Mei Zuoting  
Mr. Zhang Weixin

*Non-executive Directors:*

Mr. Yu Xuecong  
Mr. Lin Lie  
Ms. Wang Yixue

*Independent non-executive Directors:*

Dr. Zeng Zhaowu  
Mr. Tan Michael Zhen Shan  
Dr. Zheng Decheng

*Registered office:*

71 Fort Street  
PO Box 500  
George Town  
Grand Cayman KY1-1106  
Cayman Islands

*Principal place of business in*

*Hong Kong:*  
Rooms 301-303  
3/F Golden Gate Commercial Building  
136-138 Austin Road  
Tsim Sha Tsui  
Kowloon, Hong Kong

24 February 2023

*To the Shareholders*

Dear Sir or Madam,

**(1) MAJOR AND CONNECTED TRANSACTION  
IN RELATION TO RENEWAL OF TENANCY AGREEMENT;  
AND  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to (i) the Company's announcement dated 18 November 2020 in relation to the 2021 Household Market Tenancy Agreement; (ii) the Announcement in relation to, among others, the Termination Agreement and the 2022 Household Market Tenancy Agreement; and (iii) the Company's announcements dated 18 November 2022 and 31 January 2023 in relation to the delay in despatch of the circular and extension of long stop date.

On 18 November 2020, Guangdong Xinji Household, an indirect wholly-owned subsidiary of the Company, as tenant, entered into the 2021 Household Market Tenancy Agreement with Panyu Real Estate, as landlord, to renew the lease of the Premises for a term of five years commencing from 1 December 2021 and ending on 30 November 2026 (both days inclusive).

## LETTER FROM THE BOARD

On 28 October 2022, Guangdong Xinji Household, as tenant, entered into the Termination Agreement with Panyu Real Estate, as landlord, pursuant to which Guangdong Xinji Household and Panyu Real Estate agreed to revise the expiry date of the lease term under the 2021 Household Market Tenancy Agreement from 30 November 2026 to the 2021 Household Market Tenancy Agreement Expiry Date.

On 28 October 2022, Guangdong Xinji Household, as tenant, entered into the 2022 Household Market Tenancy Agreement with Panyu Real Estate, as landlord, to renew the lease of the Premises for the period from the Effective Date to 14 June 2038 (both days inclusive).

On 31 January 2023, Panyu Real Estate and Guangdong Xinji Household entered into an extension letter pursuant to which the parties agreed to extend the latest date for the fulfilment or waiver (as the case may be) of certain conditions precedent set out in the 2022 Household Market Tenancy Agreement to 30 April 2023 (or such later date as Panyu Real Estate and Guangdong Xinji Household may agree in writing).

The purpose of this circular is to provide you with, among other things, (i) details of the 2022 Household Market Tenancy Agreement; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the 2022 Household Market Tenancy Agreement; and (iv) a notice to convene the EGM.

### TERMINATION AGREEMENT

Date : 28 October 2022

Landlord : Panyu Real Estate

Tenant : Guangdong Xinji Household

Premises : Ground Floor and Mezzanine of Building 3-5, Fuli Plaza, 105 National Road, Panyu District, Guangzhou, the PRC.

Principal terms : Guangdong Xinji Household and Panyu Real Estate agreed to revise the expiry date of the lease term under the 2021 Household Market Tenancy Agreement from 30 November 2026 to the 2021 Household Market Tenancy Agreement Expiry Date.

### 2022 HOUSEHOLD MARKET TENANCY AGREEMENT

Date : 28 October 2022

Landlord : Panyu Real Estate

Tenant : Guangdong Xinji Household

## LETTER FROM THE BOARD

- Premises : Ground Floor and Mezzanine of Building 3-5, Fuli Plaza, 105 National Road, Panyu District, Guangzhou, the PRC with a total lettable area of approximately 21,832 square meters.
- Lease term : The period commencing from the Effective Date, being (i) 1 December 2022; or (ii) the date on which all the conditions precedent under the 2022 Household Market Tenancy Agreement have been fulfilled (or as the case may be, waived), whichever is later, to 14 June 2038 (both days inclusive).
- Rental fee : Approximately RMB9.1 million for the first year with an annual increase of 5% from the second year onwards. The total rental fee payable throughout the lease term under the 2022 Household Market Tenancy Agreement shall be RMB205,588,741, details of which are set out below:

	<b>Rental period</b>	<b>Total rental fee for the period</b>	<b>Total rental fee after the Offset Arrangement</b>
1.	From 1 December 2022 to 30 November 2023	RMB9,054,924	RMB6,791,193
2.	From 1 December 2023 to 30 November 2024	RMB9,507,660	RMB7,130,745
3.	From 1 December 2024 to 30 November 2025	RMB9,983,052	RMB7,487,289
4.	From 1 December 2025 to 30 November 2026	RMB10,482,204	RMB7,861,653
5.	From 1 December 2026 to 30 November 2027	RMB11,006,316	RMB8,254,737
6.	From 1 December 2027 to 30 November 2028	RMB11,556,624	RMB8,667,468
7.	From 1 December 2028 to 30 November 2029	RMB12,134,460	RMB9,100,845
8.	From 1 December 2029 to 30 November 2030	RMB12,741,180	RMB9,555,885
9.	From 1 December 2030 to 30 November 2031	RMB13,378,236	RMB10,033,677

## LETTER FROM THE BOARD

	<b>Rental period</b>	<b>Total rental fee for the period</b>	<b>Total rental fee after the Offset Arrangement</b>
10.	From 1 December 2031 to 30 November 2032	RMB14,047,140	RMB10,535,355
11.	From 1 December 2032 to 30 November 2033	RMB14,749,500	RMB11,062,125
12.	From 1 December 2033 to 30 November 2034	RMB15,486,972	RMB11,615,229
13.	From 1 December 2034 to 30 November 2035	RMB16,261,332	RMB12,195,999
14.	From 1 December 2035 to 30 November 2036	RMB17,074,404	RMB12,805,803
15.	From 1 December 2036 to 30 November 2037	RMB17,928,120	RMB13,446,090
16.	From 1 December 2037 to 14 June 2038	RMB10,196,617	RMB7,647,463

The rental fee payable under the 2022 Household Market Tenancy Agreement shall be inclusive of taxes.

A daily default interest rate of 0.01% on the outstanding amount payable will be accrued in the event that Guangdong Xinji Household fails to pay the outstanding amount of rental fee on the due date.

For the avoidance of doubt, if the Effective Date falls on a date after 1 December 2022, the rental fee payable for the period from the Effective Date to 30 November 2023 shall be calculated on a pro-rata basis based on the actual number of days for which the 2022 Household Market Tenancy Agreement is subsisting during the relevant period.

## LETTER FROM THE BOARD

Payment terms : During the lease term, the rental fee shall be payable on an annual basis and is subject to the Offset Arrangement as set out below.

Guangdong Xinji Household shall prepay to Panyu Real Estate rental fee in the amount of RMB51,397,185, representing approximately 25% of the total amount of rental fee payable under the 2022 Household Market Tenancy Agreement, within five business days after the Effective Date. During the lease term, the amount of annual rental fee payable for each rental period shall be offset by part of the Prepaid Rental Fee that is equivalent to 25% of the total rental fee payable for the relevant rental period, and the balance of the rental fee payable for each rental period after the set-off shall be paid by Guangdong Xinji Household to Panyu Real Estate on an annual basis within 30 days after the commencement of the relevant rental period.

Conditions precedent : The 2022 Household Market Tenancy Agreement shall be conditional upon fulfilment or waiver (as the case may be) of the following conditions precedent:

- (a) Panyu Real Estate having provided all necessary support and assistance to Guangdong Xinji Household during the due diligence exercise on the Premises, including but not limited to the provision of relevant information and documents relating to the Premises, and Guangdong Xinji Household being satisfied with the due diligence results;
- (b) the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder having been approved by the shareholders of Panyu Real Estate in accordance with the relevant laws and regulations and its articles of association;
- (c) all necessary consents, approvals or authorisations required to be obtained by the Company in respect of the 2022 Household Market Tenancy Agreement (including but not limited to the approvals of the Board and the Independent Shareholders), having been obtained and remains valid;
- (d) there being no obligations and undertakings under the 2022 Household Market Tenancy Agreement or the transaction documents thereunder having been violated by Panyu Real Estate; and

## LETTER FROM THE BOARD

- (e) the warranties and representations given by Panyu Real Estate in the 2022 Household Market Tenancy Agreement remaining true, accurate and not misleading and there being no fact, matter or circumstance which would render the warranties and representations untrue or inaccurate in any respect.

Each of Panyu Real Estate and Guangdong Xinji Household shall use its best endeavours to procure the fulfilment of the conditions above. Guangdong Xinji Household may at any time prior to the Effective Date waive any of the conditions above (except for condition (c)) in writing. In the event any of the conditions above are not fulfilled (or as the case may be, waived) by 31 January 2023 (or such later date as Panyu Real Estate and Guangdong Xinji Household may agree in writing), all rights, obligations and liabilities of Panyu Real Estate and Guangdong Xinji Household shall cease and terminate and neither Panyu Real Estate nor Guangdong Xinji Household shall have any claim against the other in respect of the 2022 Household Market Tenancy Agreement save for any antecedent breach and/or any rights or obligations which may have accrued under the 2022 Household Market Tenancy Agreement prior to such termination.

As at the Latest Practicable Date, save for conditions (a) and (b), none of the above conditions have been fulfilled.

Termination : The Premises is currently subject to a legal charge/mortgage. If Guangdong Xinji Household cannot continue to use, occupy or sub-lease the Premises (in whole or in part) during the term of the 2022 Household Market Tenancy Agreement due to (i) realisation of the legal charge/mortgage rights over the Premises; or (ii) the default of Panyu Real Estate, Guangdong Xinji Household shall have the right to terminate the 2022 Household Market Tenancy Agreement. Panyu Real Estate shall within 10 business days after receiving the written notice from Guangdong Xinji Household refund to Guangdong Xinji Household the unused Prepaid Rental Fee together with interest on such unused Prepaid Rental Fee calculated at four times the prevailing loan prime rate of the People's Bank of China from the date of payment of such Prepaid Rental Fee.

## LETTER FROM THE BOARD

If (a) any event of force majeure occurs, including but not limited to earthquake, war, fire or flood; or (b) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) resulting in any of the parties unable to perform its respective obligations under the 2022 Household Market Tenancy Agreement, Panyu Real Estate shall within 10 business days after receiving the written notice from Guangdong Xinji Household refund to Guangdong Xinji Household the unused Prepaid Rental Fee together with interest on such unused Prepaid Rental Fee calculated at the prevailing loan prime rate of the People's Bank of China from the date of payment of such Prepaid Rental Fee. In these circumstances, all rights, obligations and liabilities of Panyu Real Estate and Guangdong Xinji Household under the 2022 Household Market Tenancy Agreement shall cease and terminate and neither Panyu Real Estate nor Guangdong Xinji Household shall have any claim against the other in respect of the 2022 Household Market Tenancy Agreement.

A daily default interest rate of 0.05% on the outstanding amount payable will be accrued in the event that Panyu Real Estate fails to refund the unused Prepaid Rental Fee and/or pay the interest accrued thereon to Guangdong Xinji Household on the due date.

### **THE RIGHT-OF-USE ASSET**

The unaudited value of the right-of-use asset to be recognised by the Company under the terms of the 2022 Household Market Tenancy Agreement amounted to not more than RMB154,615,330, which is the present value of total consideration payable throughout the lease term under the 2022 Household Market Tenancy Agreement in accordance with HKFRS 16. Incremental borrowing rate of 4.30% is applied to compute the present value of total consideration payable under the 2022 Household Market Tenancy Agreement.



## LETTER FROM THE BOARD

### INFORMATION ON THE PARTIES

#### Guangdong Xinji Household

Guangdong Xinji Household is a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company. It is principally engaged in the operation of the shopping mall for home furnishings which is located on the Premises.

#### Panyu Real Estate

Panyu Real Estate is a limited liability company established in the PRC which is co-owned by Mr. Cheung, Mr. Mei and Mr. Zhang. It is principally engaged in the property development business.

### REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE TERMINATION AGREEMENT AND THE 2022 HOUSEHOLD MARKET TENANCY AGREEMENT

The Group is principally engaged in the operation of shopping malls for hospitality supplies and home furnishings which generated rental revenue in the PRC, with six main business segments, namely (i) shopping malls including three shopping malls for hospitality supplies and two shopping malls for home furnishings; (ii) subleasing apartments; (iii) property management projects; (iv) managed shopping mall; (v) online shopping mall for sales of hospitality supplies and home furnishings; and (vi) exhibition management business.

The Premises are currently operated by Guangdong Xinji Household as a home furnishings shopping mall and Guangdong Xinji Household receives rental income from the sub-tenants of the Premises. In recent months, certain existing and prospective sub-tenants have indicated to Guangdong Xinji Household during the process of renewal or entering into of sub-leasing arrangements for the Premises that the respective lease term should ideally be ranging from approximately three to five years. As at the Latest Practicable Date, Guangdong Xinji Household has reached an agreement with three existing sub-tenants of the Premises for the renewal of sub-leasing arrangements. The gross profit margin attainable by Guangdong Xinji Household from the said three sub-tenants is expected to increase from approximately 41% under the existing sub-leasing arrangements to approximately 52% under the proposed new sub-leasing arrangements. As the 2021 Household Market Tenancy Agreement was originally going to be expired on 30 November 2026, Guangdong Xinji Household approached Panyu Real Estate in advance to explore the possibility of extending the lease term for the Premises until 14 June 2038 when the land use right of the Premises held by Panyu Real Estate would expire. Panyu Real Estate subsequently informed Guangdong Xinji Household that it was willing to consider extending the lease term for the Premises to Guangdong Xinji Household until 14 June 2038 on the basis that the rental fee for the Premises in respect of the new tenancy agreement should reflect the current and expected future market conditions.

During the process of negotiating the terms of the 2021 Household Market Tenancy Agreement in or around November 2020, the businesses of the sub-tenants of the Premises were adversely impacted by the continued outbreak of the COVID-19 Pandemic following

## LETTER FROM THE BOARD

the various lockdown measures, including travel restrictions, quarantine measures and/or compulsory suspension of work, imposed in the PRC to curb the spread of the COVID-19 Pandemic. Further, the customer flow to the Premises since 2020 had been affected by the ongoing road construction work carried out in the vicinity of the Premises leading to lower visibility of the shopping mall and causing inconvenience to customers visiting the shopping mall. Hence, Guangdong Xinji Household and Panyu Real Estate agreed on a lower rental fee for the Premises under the 2021 Household Market Tenancy Agreement.

On the other hand, the PRC Government has recently eased its lockdown measures and quarantine rules in response to the COVID-19 Pandemic in comparison with the large-scale lockdown measures initially imposed in the PRC. Therefore, the shopping mall at the Premises will likely benefit from the easing of lockdown measures and gradually resume to normal operations. Further, based on the latest information available to the Company, the road construction work currently being carried out in the vicinity of the Premises is expected to be completed in or around December 2023, which will further increase the customer flow to the shopping mall. Hence, the prevailing market rental fee for the Premises and similar premises in comparable locations in the PRC is expected to increase gradually in the foreseeable future. In light of the above, Guangdong Xinji Household and Panyu Real Estate agreed to terminate the 2021 Household Market Tenancy Agreement before its original expiry date and to renew the tenancy of the Premises for a longer lease term until 14 June 2038 at rental fees that reflect the current and expected future market conditions. The Group will continue its present usage of the Premises as shopping mall for its usual and ordinary course of business. As Guangdong Xinji Household is entitled to receive rental income from the sub-tenants of the Premises during the term of the 2022 Household Market Tenancy Agreement, the Directors are of the view that the renewal of the tenancy of the Premises will provide a stable source of income for the Group.

Taking into account the above, the Directors (excluding the Directors who are required to abstain from voting, but including the independent non-executive Directors) are of the view that the Termination Agreement is entered into on normal commercial terms, in the ordinary and usual course of business of the Group and that the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The terms of the 2022 Household Market Tenancy Agreement were determined after arm's length negotiation between the parties and the rental fee was determined with reference to (i) the prevailing market rental fee for similar premises in comparable locations in the PRC of approximately RMB1,030,000 per month (i.e. equivalent to approximately RMB12.4 million per year) based on the Valuation prepared by the Valuer; (ii) the annual rental increment of 5% for each rental period throughout the lease term under the 2022 Household Market Tenancy Agreement with reference to the combined effect of (a) the expected annual inflation rate of approximately 2% per year based on the average Consumer Price Index in the PRC in 2022 of approximately 2%; and (b) Guangdong Xinji Household's expected future demand for an annual rental increment of at least 3% from its sub-tenants throughout the lease term; and (iii) the long tenure under the 2022 Household Market Tenancy Agreement. The total rental fee of approximately RMB9.1 million for the first year under the 2022 Household Market Tenancy Agreement

## LETTER FROM THE BOARD

represents (i) a discount of approximately 26.6% to the prevailing market rental fee of approximately RMB12.4 million per year based on the Valuation prepared by the Valuer; and (ii) an increase of more than 49% as compared to the annual rent of approximately RMB6.1 million for the period from 1 December 2021 to 30 November 2022 under the 2021 Household Market Tenancy Agreement. The substantial increment in the annual rental fee is primarily attributable to the recent change in the PRC Government's policy of easing its lockdown measures and quarantine rules in relation to the COVID-19 Pandemic, which in turn will enable the shopping mall at the Premises to gradually resume to normal operations. The Board considered that the substantial increment in the proposed annual rental fee is fair and reasonable given that there has been a change in market conditions and that the proposed annual rental fee of approximately RMB9.1 million for the first year under the 2022 Household Market Tenancy Agreement represents a discount of approximately 26.6% to the prevailing market rental fee of approximately RMB12.4 million per year.

The 2022 Household Market Tenancy Agreement has a long lease term of approximately 16 years. The Board considered that generally a long tenure lease for properties intended to be used as shopping centre, shopping mall or department store is in line with industry norm taking into account the following commercial considerations: (i) longer time is generally required for the operators of shopping centre, shopping mall or department store to achieve investment breakeven and subsequent investment return considering the substantial amount of initial and fixed costs involved in operating a shopping centre, shopping mall or department store; and (ii) the operators of shopping centre, shopping mall or department store tend to remain in the same location to maintain end-customers' and tenants'/sub-tenants' loyalty, to save on the fixed costs that could be incurred for relocation which may be substantial, and to save on the administrative and time costs that could be incurred for finding new tenants/sub-tenants to fill vacancies in a property at a new location as not every existing tenant/sub-tenant may choose to continue with the lease agreement/sub-lease agreement if the shopping centre, shopping mall or department store were relocated. Further, the Board noted that the tenure under the Comparable Transactions ranged from 2 years to 20 years, with a majority being 10 years or longer. The tenure under the 2022 Household Market Tenancy Agreement, being approximately 16 years, falls within such range of tenure under the Comparable Transactions. Hence, the Board considered that the long lease term under the 2022 Household Market Tenancy Agreement is in line with industry norm, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

Under the terms of the 2022 Household Market Tenancy Agreement, Guangdong Xinji Household shall prepay to Panyu Real Estate rental fee in the amount of RMB51,397,185, representing approximately 25% of the total amount of rental fee payable under the 2022 Household Market Tenancy Agreement, within five business days after the Effective Date. The prepaid rent arrangement was proposed by Panyu Real Estate to Guangdong Xinji Household as an incentive to Panyu Real Estate for agreeing to extend the lease term of the Premises to Guangdong Xinji Household until 14 June 2038. In return, Panyu Real Estate offered Guangdong Xinji Household a substantial discount on the rental fee of the Premises throughout the lease term in comparison with the prevailing market rental fee for similar premises in comparable locations in the PRC. In fact, the total rental fee of approximately RMB9.1 million for the first year under the 2022 Household

## LETTER FROM THE BOARD

Market Tenancy Agreement represented a discount of approximately 26.6% to the prevailing market rental fee of approximately RMB12.4 million per year based on the Valuation prepared by the Valuer. Further, Guangdong Xinji Household would be able to enjoy a longer lease term and thus the reduced costs that could be incurred if the tenants/sub-tenants were to relocate every few years. The Board noted that prepaid rent arrangements were not uncommon in the market for relatively longer-term leases and that two out of the five Comparable Transactions contained prepaid rent arrangements. In view of the above, the Board considered that the prepaid rent arrangement under the 2022 Household Market Tenancy Agreement is in line with industry norm, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

In light of the above, the Directors (including the independent non-executive Directors who have expressed their views after taking into account the opinion and advice from the Independent Financial Adviser but excluding Mr. Cheung, Mr. Mei and Mr. Zhang who are required to abstain from voting on the Board resolutions) are of the view that the 2022 Household Market Tenancy Agreement is entered into on normal commercial terms, in the ordinary and usual course of business of the Group, and that the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **FINANCIAL EFFECTS OF THE TRANSACTIONS CONTEMPLATED UNDER THE 2022 HOUSEHOLD MARKET THE TENANCY AGREEMENT**

The unaudited value of the right-of-use asset to be recognised by the Company under the terms of the 2022 Household Market Tenancy Agreement amounted to not more than RMB154,615,330, which is the present value of total consideration payable throughout the lease term under the 2022 Household Market Tenancy Agreement in accordance with HKFRS 16. Incremental borrowing rate of 4.30% is applied to compute the present value of total consideration payable under the 2022 Household Market Tenancy Agreement.

Upon commencement of the lease term under the 2022 Household Market Tenancy Agreement, the consolidated total assets of the Group will increase by not more than RMB154,615,330, and a corresponding amount of lease liabilities of not more than RMB154,615,330 will be recognized at the same time.

The right-of-use asset will be depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Interest expenses on the lease liabilities will be recognised at the rate of 4.30% per annum. After the commencement date of the lease, the lease liabilities are adjusted by interest accretion and lease payments.

### **IMPLICATIONS UNDER THE LISTING RULES**

In accordance with HKFRS 16 “Leases”, the Group is required to recognise the tenancy of the Premises as right-of-use assets. Hence, the entering into of the 2022 Household Market Tenancy Agreement and the transaction contemplated thereunder will be regarded as an acquisition of assets by the Group.

As one or more of the applicable percentage ratios in respect of the estimated value of the right-of use assets to be recognised by the Group under the 2022 Household Market

## LETTER FROM THE BOARD

Tenancy Agreement is more than 25% and less than 100%, the entering into of the 2022 Household Market Tenancy Agreement constitutes a major transaction on the part 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.

As at the Latest Practicable Date, Panyu Real Estate is co-owned by (i) Mr. Cheung, being the chairman of the Board, an executive Director and one of the controlling shareholders; (ii) Mr. Mei, being an executive Director and one of the controlling shareholders; and (iii) Mr. Zhang, being an executive Director and one of the controlling shareholders. Accordingly, Panyu Real Estate is an associate of Mr. Cheung, Mr. Mei and Mr. Zhang and a connected person of the Company, and the entering into of the 2022 Household Market Tenancy Agreement constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular, independent financial advice and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Cheung, Mr. Mei and Mr. Zhang have abstained from voting on the relevant board resolutions of the Company for approving the 2022 Household Market Tenancy Agreement. To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, other than Mr. Cheung, Mr. Mei and Mr. Zhang, none of the other Directors has material interest in the transaction contemplated under the 2022 Household Market Tenancy Agreement and none of them is required to abstain from voting on the relevant board resolutions.

### GENERAL

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on the terms of the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder. Red Solar Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve by way of poll, among other matters, the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder. As Mr. Cheung, Mr. Mei and Mr. Zhang and their associates, including Honchuen Investment, Zuoting Investment and Weixin Development, have material interests in the 2022 Household Market Tenancy Agreement, each of them is required to abstain from voting at the EGM on the resolution(s) approving the same. Save for the aforementioned and to the best knowledge, information and belief of the Directors, no other Shareholder has a material interest in the 2022 Household Market Tenancy Agreement and is required to abstain from voting on the resolution(s) approving the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder at the EGM.

## LETTER FROM THE BOARD

### EGM

A notice convening the EGM to be held at the Conference Room, 2nd Floor, Xinjicheng Club, No. 250, Intersection of Nanda Road, Panyu District, Guangzhou, PRC on Friday, 17 March 2023 at 10:00 a.m. is set out on pages EGM-1 and EGM-2 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.xjx.net.cn](http://www.xjx.net.cn)). Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event no later than Wednesday, 15 March 2023 at 10:00 a.m. (Hong Kong time) (being not less than 48 hours before the time of the EGM) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjournment thereof if they so wish.

### RECOMMENDATION

The Directors are of the opinion that (i) the 2022 Household Market Tenancy Agreement was entered into on normal commercial terms and in the ordinary and usual course of business of the Group; and (ii) the terms of the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder.

### FURTHER INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 21 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM and the letter from Red Solar Capital set out on pages 22 to 46 of this circular which contains its advice to the Independent Board Committee and Independent Shareholders in relation to the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder.

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  
**Xinji Shaxi Group Co., Ltd**  
**Cheung Hon Chuen**  
*Chairman*





**信基沙溪集团股份有限公司**  
**XINJI SHAXI GROUP CO., LTD**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3603)**

24 February 2023

*To the Independent Shareholders*

Dear Sir or Madam

**MAJOR AND CONNECTED TRANSACTION  
IN RELATION TO RENEWAL OF TENANCY AGREEMENT**

We refer to the circular of the Company dated 24 February 2023 (the “Circular”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, (i) the 2022 Household Market Tenancy Agreement was entered into on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (ii) the terms of the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Red Solar Capital has been appointed to advise us and the Independent Shareholders in respect of the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder. Details of its advice is set out on pages 22 to 46 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 8 to 20 of the Circular.

Having considered the terms of the 2022 Household Market Tenancy Agreement and the advice of Red Solar Capital, we are of the opinion that (i) the 2022 Household Market Tenancy Agreement was entered into on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (ii) the terms of the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We therefore recommend that you vote in favour of the resolution(s) to be proposed at the EGM to approve the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
Independent Board Committee of  
**Xinji Shaxi Group Co., Ltd**

**Dr. Zeng Zhaowu**  
*Independent non-executive  
Director*

**Mr. Tan Michael Zhen Shan**  
*Independent non-executive  
Director*

**Dr. Zheng Decheng**  
*Independent non-executive  
Director*

## LETTER FROM RED SOLAR CAPITAL

*The following is the full text of the letter of advice from Red Solar Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in respect of the Transactions for the purpose of inclusion in this Circular.*



Unit 402B, 4/F  
China Insurance Group Building  
No. 141 Des Voeux Road Central  
Central, Hong Kong

24 February 2023

To: *The Independent Board Committee and the Independent Shareholders of  
Xinji Shaxi Group Co., Ltd*

Dear Sirs,

### MAJOR AND CONNECTED TRANSACTION IN RELATION TO RENEWAL OF TENANCY AGREEMENT

#### INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the entering into of the (i) Termination Agreement; and (ii) 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder (the “**Transactions**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 24 February 2023 (the “**Circular**”), of which this letter of advice forms a part. Unless the context requires otherwise, capitalised terms used in this letter of advice shall have the same meanings as defined in the Circular.

Reference is made to the announcement of the Company dated 18 November 2020 on which Guangdong Xinji Household, an indirect wholly-owned subsidiary of the Company, as tenant, entered into the 2021 Household Market Tenancy Agreement with Panyu Real Estate, as landlord, to renew the lease of the Premises for a term of five years commencing from 1 December 2021 and ending on 30 November 2026 (both days inclusive).

Reference is also made to the Announcement. On 28 October 2022, (i) Guangdong Xinji Household, as tenant, entered into the Termination Agreement with Panyu Real Estate, as landlord, pursuant to which Guangdong Xinji Household and Panyu Real Estate agreed to revise the expiry date of the lease term under the 2021 Household Market Tenancy Agreement from 30 November 2026 to the 2021 Household Market Tenancy Agreement Expiry Date; and (ii) Guangdong Xinji Household, as tenant, entered into the 2022 Household Market Tenancy Agreement with Panyu Real Estate, as landlord, to renew the lease of the Premises for the period from the Effective Date to 14 June 2038 (both days inclusive).



## LETTER FROM RED SOLAR CAPITAL

On 31 January 2023, Panyu Real Estate and Guangdong Xinji Household entered into an extension letter pursuant to which the parties agreed to extend the latest date for the fulfilment or waiver (as the case may be) of certain conditions precedent set out in the 2022 Household Market Tenancy Agreement to 30 April 2023 (or such later date as Panyu Real Estate and Guangdong Xinji Household may agree in writing).

### **Listing Rules implications**

In accordance with HKFRS 16 “Leases”, the Group is required to recognise the tenancy of the Premises as right-of-use assets. Hence, the entering into of the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder will be regarded as an acquisition of assets by the Group.

As one or more of the applicable percentage ratios in respect of the estimated value of the right-of-use assets to be recognised by the Group under the 2022 Household Market Tenancy Agreement is more than 25% and less than 100%, the entering into of the 2022 Household Market Tenancy Agreement constitutes a major transaction on the part 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.

As at the Latest Practicable Date, Panyu Real Estate is co-owned by (i) Mr. Cheung, being the chairman of the Board, an executive Director and one of the controlling shareholders; (ii) Mr. Mei, being an executive Director and one of the controlling shareholders; and (iii) Mr. Zhang, being an executive Director and one of the controlling shareholders. Accordingly, Panyu Real Estate is an associate of Mr. Cheung, Mr. Mei and Mr. Zhang and a connected person of the Company, and the entering into of the 2022 Household Market Tenancy Agreement constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular, independent financial advice and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Mr. Cheung, Mr. Mei and Mr. Zhang have abstained from voting on the relevant board resolutions of the Company for approving the 2022 Household Market Tenancy Agreement. To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, other than Mr. Cheung, Mr. Mei and Mr. Zhang, none of the other Directors has material interest in the transaction contemplated under the 2022 Household Market Tenancy Agreement and none of them is required to abstain from voting on the relevant board resolutions.

### **EGM AND VOTING AT THE EGM**

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve by way of poll, among other matters, the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder. As Mr. Cheung, Mr. Mei and Mr. Zhang and their associates, including Honchuen Investment, Zuoting Investment and Weixin Development, have material interests in the 2022 Household Market Tenancy Agreement, each of them is required to abstain from voting at

## LETTER FROM RED SOLAR CAPITAL

the EGM on the resolutions approving the same. Save for the aforementioned and to the best knowledge, information and belief of the Directors, no other Shareholder has a material interest in the 2022 Household Market Tenancy Agreement and is required to abstain from voting on the resolution(s) approving the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder at the EGM.

### **THE INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on the terms of the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder. We, Red Solar Capital Limited, have been appointed as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms of the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee.

### **OUR INDEPENDENCE**

During the past two years immediately preceding the Latest Practicable Date, save for (i) an engagement for acting as the independent financial adviser in respect of a discloseable and connected transaction of the Company, the circular of which was dated 13 May 2022 (the “**Previous Engagement**”); and (ii) this engagement of us as the Independent Financial Adviser, no other relationship has been formed and no direct engagement has been performed between the Group, the other party(ies) to the Transactions, or a close associate or core connected person of any of them and us. As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Group, the other party(ies) to the Transactions, or a close associate or core connected person of any of them and us, or other parties that could reasonably be regarded as relevant to our independence. In respect of the Previous Engagement, apart from the normal advisory fee paid to us in connection with our engagement, we did not receive any other fees or benefits from the Company and its subsidiaries or their respective substantial shareholders or any party acting in concert, or presumed to be acting in concert, with any of them. Apart from the normal advisory fee payable to us in connection with our engagement as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company and its subsidiaries or their respective substantial shareholders or any party acting in concert, or presumed to be acting in concert, with any of them. Accordingly, we considered that we are independent to act as the Independent Financial Adviser in respect of the Transactions pursuant to Rule 13.84 of the Listing Rules.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the information and

## LETTER FROM RED SOLAR CAPITAL

facts supplied, opinions expressed, statements and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Announcement and the Circular). We have reviewed the documents including but not limited to (i) the 2021 Household Market Tenancy Agreement; (ii) the 2022 Household Market Tenancy Agreement; (iii) the Announcement; (iv) the Circular and the Letter from the Board contained therein; (v) the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”); (vi) the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”); and (vii) the relevant supporting documents in respect of the Transactions provided by the Company, including but not limited to historical documents and records, to formulate our opinion and recommendation. We have assumed that the information and facts supplied, opinions expressed, statements and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the EGM. The Company will inform the Shareholders should there be any material change of information in the Circular up to the date of the EGM. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after due enquiry and careful consideration. Where applicable, we have also conducted independent desktop search and confirmed that there was no material difference between our search result and the information and facts supplied, opinions expressed, statements and representations made to us by the management of the Group. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility of the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We considered that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs or future prospects of the Group, or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Any subsequent developments may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

# LETTER FROM RED SOLAR CAPITAL

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Transactions, we have considered the following principal factors and reasons:

### I. Background of and reasons for the Transactions

#### (i) Background information of the Group

The Company is a limited liability company incorporated in the Cayman Islands and its Shares are listed on the Main Board of the Stock Exchange (stock code: 3603). The Group is principally engaged in the operation of shopping malls for hospitality supplies and home furnishings which generated rental revenue in the PRC, with six main business segments, namely (i) shopping malls including three shopping malls for hospitality supplies and two shopping malls for home furnishings; (ii) subleasing apartments; (iii) property management projects; (iv) managed shopping mall; (v) online shopping mall for sales of hospitality supplies and home furnishings; and (vi) exhibition management business.

The following table sets out key financial information of the Group for each of the two years ended 31 December 2021 (the “FY2020” and “FY2021”, respectively) as extracted from the 2021 Annual Report, and for the six months ended 30 June 2021 and 2022, respectively (the “6M2021” and “6M2022”, respectively), as extracted from the 2022 Interim Report:

	<b>For the 6M2022</b>	<b>For the 6M2021</b>	<b>For the FY2021</b>	<b>For the FY2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
		(restated)		
Revenue	151,996	153,033	267,536	287,938
Operating profit/(loss)	51,843	101,878	(221,058)	118,888
Profit/(Loss) for the period/year	16,454	51,970	(214,925)	31,911
	<b>As at</b>	<b>As at</b>	<b>As at</b>	
	<b>30 June</b>	<b>31 December</b>	<b>31 December</b>	
	<b>2022</b>	<b>2021</b>	<b>2020</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>	
		(restated)		
Total assets	3,081,692	3,160,112		3,288,482
Total liabilities	1,482,955	1,437,880		1,394,118
Net assets	1,598,737	1,722,232		1,894,364

## LETTER FROM RED SOLAR CAPITAL

### *Discussion on the Group's performance between FY2020 and FY2021*

The Group's revenue decreased by approximately RMB20.4 million, or approximately 7.1%, from approximately RMB287.9 million for the FY2020 to approximately RMB267.5 million for the FY2021. The Group's operating profit and net profit of approximately RMB118.9 million and RMB31.9 million, respectively, for the FY2020 turned around to operating loss and net loss of approximately RMB221.1 million and RMB214.9 million, respectively, for the FY2021.

According to the 2021 Annual Report, the decrease in the Group's revenue between the FY2020 and FY2021 was primarily attributable to the decrease in the Group's rental income during the same years, when in turn was mainly attributable to the rental concession policies provided by the Group for the affected tenants (i) in the east side of Xinji Shaxi Hospitality Supplies Expo Center as a result of the construction enclosure of a subway entrance; (ii) in Xinji Dashi Home Furnishings Center as a result of the construction enclosure of the expansion works of National Highway G105; and (iii) due to the impact of COVID-19 Pandemic. Meanwhile, the Group turned from operating profit for the FY2020 to operating loss for the FY2021 mainly because the Group's fair value losses on investment properties intensified from approximately RMB79.3 million for the FY2020 to approximately RMB401.5 million for the FY2021, which was primarily caused by declines in the valuations of the Group's two shopping malls in Shenyang, PRC due to continuous impacts of the COVID-19 Pandemic and tightening real estate policy in the PRC in the second half of 2021 which hindered economic activities. As a combined result of the above, the Group turned from a profit-making position in the FY2020 to a loss-making position in the FY2021.

The Group's net assets generally remained stable between 31 December 2020 and 2021, respectively.

### *Discussion on the Group's performance between 6M2021 and 6M2022*

The Group's revenue amounted to approximately RMB153.0 million for the 6M2021 and approximately RMB152.0 million for the 6M2022, which was generally stable. The Group's operating profit decreased by approximately RMB50.0 million, or approximately 49.1%, from approximately RMB101.9 million for the 6M2021 to approximately RMB51.8 million for the 6M2022. According to the 2022 Interim Report, such decrease in the Group's operating profit between the 6M2021 and 6M2022 was primarily because the valuations of the Group's shopping malls continued to decline in the first half of 2022 as a result of the COVID-19 Pandemic which hindered economic activities. In general, as a result of the above and a slight increase in the Group's cost of sales, despite the Group managed to cut selling and marketing and

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administrative expenses in the 6M2022, the Group's net profit decreased by approximately RMB35.5 million, or approximately 68.3%, from approximately RMB52.0 million for the 6M2021 to approximately RMB16.5 million for the 6M2022.

The Group's net assets generally remained stable between 31 December 2021 and 30 June 2022.

### *Prospects*

As reflected in the 2022 Interim Report, the Company expected economic activities in the PRC to continue to be adversely affected in 2022 by the COVID-19 Pandemic and the resulting tightening prevention and control measures which led to postponement or cancellation of many local and international projects and exhibitions in the PRC. Despite a challenging business environment, the Directors remained optimistic about the Group's operation. The Group will take a cautious approach onward to pursue a sustainable development, and will closely monitor its working capital management and adjust its business strategy from time to time as required, as well as acquiring and merging high-quality property service projects with stable revenue in due course.

### *(ii) Reasons for and benefits of the Transactions*

As set out in the Letter from the Board, as (i) certain existing and prospective sub-tenants have indicated in recent months to Guangdong Xinji Household during the process of renewal or entering into of sub-leasing arrangements for the Premises that the respective lease term should ideally be ranging from approximately three to five years; but (ii) the 2021 Household Market Tenancy Agreement was originally going to be expired on 30 November 2026, Guangdong Xinji Household approached Panyu Real Estate in advance to explore the possibility of extending the lease term for the Premises until 14 June 2038 when the land use right of the Premises held by Panyu Real Estate would expire.

In this regard, we have enquired with the Company and understood that three existing sub-tenants have indicated to Guangdong Xinji Household during the process of negotiating renewal of sub-leasing arrangements in the Premises that (i) they intend to enter into renewed sub-leasing agreement with Guangdong Xinji Household for a tenure covering the entire remaining term of the 2021 Household Market Tenancy Agreement, which is up to 30 November 2026; and (ii) they intend to extend the term of such sub-leasing agreement to cover periods beyond 30 November 2026 should the 2022 Household Market Tenancy Agreement be effective. We also noted that the existing and prospective sub-tenants of Guangdong Xinji Household generally engaged in the businesses of furniture dealing, some under international and renowned furniture brands. We understood that furniture



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dealers may tend to secure a long-term and stable location for their businesses as (i) their cost of relocation could be high considering the bulkiness of their goods and products and the substantial amount of fitting-out works and decorations required in new locations; and (ii) a stable location of business could help them maintain a good brand image and retain customer loyalty. Taking into account (i) that the 2021 Household Market Tenancy Agreement will be expired on 30 November 2026; (ii) it is reasonable for furniture dealers, the major type of sub-tenants of Guangdong Xinji Household, to pursue a relatively longer term of sub-leasing; and (iii) three existing and prospective sub-tenants have indicated to Guangdong Xinji Household their intention to extend the term of their sub-leasing agreement to cover periods beyond 30 November 2026 should the 2022 Household Market Tenancy Agreement be effective, we considered it reasonable and justifiable for Guangdong Xinji Household to approach Panyu Real Estate and enter into the 2022 Household Market Tenancy Agreement to extend the lease term for the Premises.

In addition, we have conducted research on the market trends of the household furniture industry in the PRC. According to a research article<sup>#</sup> dated 16 September 2022 issued by the Hong Kong Trade Development Council, a statutory body established in 1966 to promote Hong Kong as a two-way global investment and business hub of the PRC, consumption on home decoration in the PRC is expected to rise as per capita disposable income grew by 8.1% in 2021 and housing conditions improve in the PRC. Data from the National Bureau of Statistics also shows that the urbanisation rate of permanent residents in China reached 64.7% in 2021, up from 63.87% in 2020, which is also considered one of the drivers of household furniture consumption. Looking forward, the Ministry of Industry and Information Technology and the Ministry of Housing and Urban-Rural Development have jointly released the Action Plan for Advancing the High-Quality Development of Home Furnishing Industry in a bid to promote collaboration within the PRC furniture industry and enhance its international competitiveness, setting certain targets for 2050 including, among others: (i) to increase the supply of quality products; (ii) to accelerate the development of new sectors like smart home furnishing; and (iii) to stimulate the consumption of high-quality home furnishing brands. Considering the current development of the PRC furniture industry and the PRC Government's supports in its future development, we casted no doubt on the reasonableness and appropriateness for the Group to continue to engage in the operation of shopping malls for home furnishings.

<sup>#</sup>: <https://research.hktdc.com/en/article/MzA3ODY3OTk5>

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We have also considered whether the Transactions are in the ordinary and usual course of businesses of the Group. We noted that the operation of shopping malls for hospitality supplies and home furnishings is one of the Group's principal business segments. In particular, the Group operates three shopping malls for hospitality supplies and two shopping malls for home furnishings as at the Latest Practicable Date. We considered that it is the Group's daily operational need to enter into lease agreements for premises to operate shopping malls. Therefore, we are of the view that the Transactions are in the ordinary and usual course of businesses of the Group.

We have then considered the terms and conditions of the 2022 Household Market Tenancy Agreement. Please refer to the section headed "III. Our analysis on the principal terms of the 2022 Household Market Tenancy Agreement" in this letter below for details.

Having considered (i) the intentions of existing sub-tenants of Guangdong Xinji Household to enter into sub-lease agreement with the latter for an extended period; (ii) the current development of the PRC furniture industry and the PRC Government's support on its future development; and (iii) that the Transactions are in the ordinary and usual course of businesses of the Group, we were of the view that the Transactions are fair and reasonable and commercially justifiable.

### II. Principal terms of the 2022 Household Market Tenancy Agreement

The principal terms of the 2022 Household Market Tenancy Agreement are set out below:

<b>Date:</b>	28 October 2022
<b>Landlord:</b>	Panyu Real Estate
<b>Tenant:</b>	Guangdong Xinji Household
<b>Premises:</b>	Ground Floor and Mezzanine of Building 3-5, Fuli Plaza, 105 National Road, Panyu District, Guangzhou, the PRC with a total lettable area of approximately 21,832 square meters.
<b>Lease term:</b>	The period commencing from the Effective Date, being (i) 1 December 2022; or (ii) the date on which all the conditions precedent under the 2022 Household Market Tenancy Agreement have been fulfilled (or as the case may be, waived), whichever is later, to 14 June 2038 (both days inclusive).



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**Rental fee:** Approximately RMB9.1 million for the first year with an annual increase of 5% from the second year onwards. The total rental fee payable throughout the lease term under the 2022 Household Market Tenancy Agreement shall be RMB205,588,741, details of which are set out below:

Rental period	Total rental fee for the period	Total rental fee after the Offset Arrangement
1. From 1 December 2022 to 30 November 2023	RMB9,054,924	RMB6,791,193
2. From 1 December 2023 to 30 November 2024	RMB9,507,660	RMB7,130,745
3. From 1 December 2024 to 30 November 2025	RMB9,983,052	RMB7,487,289
4. From 1 December 2025 to 30 November 2026	RMB10,482,204	RMB7,861,653
5. From 1 December 2026 to 30 November 2027	RMB11,006,316	RMB8,254,737
6. From 1 December 2027 to 30 November 2028	RMB11,556,624	RMB8,667,468
7. From 1 December 2028 to 30 November 2029	RMB12,134,460	RMB9,100,845
8. From 1 December 2029 to 30 November 2030	RMB12,741,180	RMB9,555,885
9. From 1 December 2030 to 30 November 2031	RMB13,378,236	RMB10,033,677
10. From 1 December 2031 to 30 November 2032	RMB14,047,140	RMB10,535,355
11. From 1 December 2032 to 30 November 2033	RMB14,749,500	RMB11,062,125
12. From 1 December 2033 to 30 November 2034	RMB15,486,972	RMB11,615,229
13. From 1 December 2034 to 30 November 2035	RMB16,261,332	RMB12,195,999
14. From 1 December 2035 to 30 November 2036	RMB17,074,404	RMB12,805,803
15. From 1 December 2036 to 30 November 2037	RMB17,928,120	RMB13,446,090
16. From 1 December 2037 to 14 June 2038	RMB10,196,617	RMB7,647,463

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The rental fee payable under the 2022 Household Market Tenancy Agreement shall be inclusive of taxes.

A daily default interest rate of 0.01% on the outstanding amount payable will be accrued in the event that Guangdong Xinji Household fails to pay the outstanding amount of rental fee on the due date.

For the avoidance of doubt, if the Effective Date falls on a date after 1 December 2022, the rental fee payable for the period from the Effective Date to 30 November 2023 shall be calculated on a pro-rata basis based on the actual number of days for which the 2022 Household Market Tenancy Agreement is subsisting during the relevant period.

**Payment terms:**

During the lease term, the rental fee shall be payable on an annual basis and is subject to the Offset Arrangement as set out below.

Guangdong Xinji Household shall prepay to Panyu Real Estate rental fee in the amount of RMB51,397,185, representing approximately 25% of the total amount of rental fee payable under the 2022 Household Market Tenancy Agreement, within five business days after the Effective Date. During the lease term, the amount of annual rental fee payable for each rental period shall be offset by part of the Prepaid Rental Fee that is equivalent to 25% of the total rental fee payable for the relevant rental period, and the balance of the rental fee payable for each rental period after the set-off shall be paid by Guangdong Xinji Household to Panyu Real Estate on an annual basis within 30 days after the commencement of the relevant rental period.

**Conditions precedent:**

Please refer to the paragraphs headed "Conditions precedent" in the Letter from the Board for details.

**Termination:**

Please refer to the paragraphs headed "Termination" in the Letter from the Board for details.

III. Our analysis on the principal terms of the 2022 Household Market Tenancy Agreement

(i) *The rental fee under the 2022 Household Market Tenancy Agreement*

As set out in the Letter from the Board, the rental fee under the 2022 Household Market Tenancy Agreement was determined after arm's length negotiation between the parties and with reference to (i) the prevailing market rental fee for similar premises in comparable locations in the PRC of approximately RMB1,030,000 per month (i.e. equivalent to approximately RMB12.4 million per year) based on the Valuation prepared by the Valuer; (ii) the annual rental increment of 5% for each rental period throughout the lease term under the 2022 Household Market Tenancy Agreement with reference to the combined effect of the expected annual inflation rate in the PRC and the expected annual rental increment for sub-leasing the Premises throughout the lease term; and (iii) the long tenure under the 2022 Household Market Tenancy Agreement. To assess the fairness and reasonableness of the above, we have conducted the following analysis.

(a) *Our due diligence work on the Valuer's background, qualifications and experience*

We have interviewed the Valuer and conducted an enquiry into its background, qualifications and experiences. According to our interview and the information provided by the Valuer, we noted that team members of the Valuer possess various professional qualifications in Hong Kong, the PRC and overseas, including but not limited to Certified Public Accountants, Member of The Hong Kong Institute of Surveyors, Registered Professional Surveyor, Certified Public Valuer and Real Estate Appraiser. We also noted that they have seven years to 19 years of experience in business valuation, asset valuation, financing and merger and acquisition projects. The Valuer was also a certified appraiser registered under the Beijing branch of the China Appraisal Society (the "**Beijing CAS**") and supervised jointly by the Beijing Municipal Finance Bureau and Beijing CAS.

We further noted that Mr. Oswald W Y Au, the signor of the Valuation Report, is a member of the Hong Kong Institute of Surveyors (General Practice), an Associate Member of the Australian Property Institute and a Registered Professional Surveyor (General Practice) registered with the Surveyors Registration Board. He has over 10 years' experience and 19 years' experience in financial valuation and property valuation in Hong Kong, the PRC, the U.S. and the Asia Pacific region respectively.

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As such, we are of the view that the Valuer and the person responsible for preparing and signing the Valuation Report are qualified, experienced and competent in performing asset valuations and providing a reliable opinion in respect of the valuation of the market rental fee of the Premises.

We have also enquired with the Valuer as to its independence from the Group and were given the understanding that the Valuer is an independent third party of the Group and its connected persons. The Valuer also confirmed to us that it was not aware of any relationship or interest between itself and the Group or any other parties that would reasonably be considered to affect its independence to act as an independent valuer for the Company. The Valuer confirmed to us that apart from normal professional fees payable to it in connection with its engagement for the preparation of the Valuation Report, no arrangements exist whereby it will receive any fee or benefit from the Group and its associates.

Furthermore, we also noted from the engagement letter entered into between the Company and the Valuer that the scope of work was appropriate for the Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Valuer in the Valuation Report.

In light of the above, we are not aware of any matters that would cause us to question the Valuer's expertise and independence and we consider that the Valuer has sufficient expertise and is independent to perform the valuation of the market rental fee of the Premises.

*(b) Basis and assumptions adopted in the Valuation Report*

We have reviewed the Valuation Report and understand that the Valuation Report was prepared in compliance with all the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange, the HKIS Valuation Standards (2020 Edition) published by the Hong Kong Institute of Surveyors and the International Valuation Standards published from time to time by the International Valuation Standards Council. We considered the above to be acceptable and in line with market practice.

We also noted that a number of assumptions have been adopted in the preparation of the Valuation Report. We have reviewed such assumptions and considered them to be general and commonly adopted assumptions in valuation reports. Since no other unusual matters had come to our attention in this respect, we considered the basis and assumptions adopted in the Valuation Report to be fair and reasonable.

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(c) *Valuation methodology in the Valuation Report*

We have reviewed the Valuation Report and discussed with the Valuer on the methodology adopted therein and understood that they had considered the three generally accepted valuation approaches, namely the income approach, the market approach and the cost approach. The followings are general descriptions of the three aforesaid approaches.

*“Income approach: The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset.*

*The fundamental method for income approach is the discounted cash flow (“DCF”) method. Under the DCF method, the value depends on the present value of future economic benefits to be derived from ownership of the enterprise. Thus, an indication of the equity value is calculated as the present value of the future free cash flow of a company less outstanding interest-bearing debt, if any. The future cash flow is discounted at the market-derived rate of return appropriate for the risks and hazards of investing in a similar business.”*

*“Cost approach: The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history.”*

*“Market approach: The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the assets that are considered to be comparable to the subject asset.*

*Under the market approach, the comparable company method computes a price multiple for publicly listed companies that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset. The comparable transaction method computes a price multiple using recent sales and purchase transactions of assets that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset.”*

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In valuing the property interests, the Valuer has adopted the market approach due to the following reasons: (i) market approach is commonly used to value properties where reliable market evidence is available; (ii) the income approach was not practicable as no estimation of future economic benefits to be derived from ownership of the property interests is available; and (iii) the cost approach was considered not suitable as it only considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation, taking into consideration past and present maintenance policy and rebuilding history. In contrast, the reputations, sales and marketing channels and customer networks of the property interests may not be accurately reflected by the cost approach.

We agreed that the reputations, sales and marketing channels and customer networks of the property interests may not be accurately reflected by the cost approach. As such, we concurred with the Valuer that the cost approach was not suitable in valuing the property interests. Meanwhile, we also noted that no estimation of future economic benefits to be derived from ownership of the property interests is available, hence we agreed that income approach is not practicable.

On the other hand, we noted that the Valuer has identified an exhaustive list of six rental references of similar properties nearby the Premises. Having considered (i) that the basis and assumptions adopted in the Valuation Report were considered fair and reasonable after our review as discussed above; (ii) the aforesaid reasons for not adopting the income approach and cost approach in valuing the property interests; and (iii) the availability of rental references of similar properties nearby the Premises, we were of the opinion that it is appropriate for the Valuer to adopt market approach in valuing the property interests.

*(d) Valuation of the property interests*

Apart from conducting title investigation and site investigation on the Premises, the Valuer has identified a total of six rental references of similar properties nearby the Premises (the “**Comparable References**”) for comparable analysis. The Valuer has obtained rental references of the Comparable References, initially being RMB3.30 to RMB4.06 per square meter (“**sq. m.**”) per day. The Valuer has then considered adjustments on the rental reference of each Comparable References which have been based on various factors including but not limited to floor area, location and proximity, quantity and asking discount. After adjustments, the rental references of the Comparable References ranged from RMB2.60 to RMB3.30 per sq. m. per day, and the rental references of the Comparable References averaged to RMB3.02 per sq. m. per day.

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We have reviewed the sources of the Comparable References and noted that they are genuine references publicly available on a PRC property transaction website. We also noted that all the properties under the Comparable References are for commercial use, which is the same as the Premises, and that the initial rental references of the Comparable References adopted in the Valuation Report are the same as those shown on the sources of the Comparable References. We then examined the adjustments set out in the previous paragraph made by the Valuer on the rental reference of each Comparable References. We noted that the Valuer has applied 10% to -15% adjustment on the initial rental reference of the Comparable References based on factors such as the floor area, location and proximity, bulk renting and ask price discount of the Comparable References. In particular, an adjustment as to floor area has been made on a Comparable Reference as its floor area is significantly larger than those of typical units in the Premises, and adjustments as to ask price discount on the initial rental references have been made on all Comparable References as the Valuer considered it to be in line with market practice that the ask price is always negotiable and the landlords in the PRC would generally be willing to offer some discount to tenants. We then noted that the Valuer adopted adjustments as to bulk renting, as the landlords would generally offer a discount when the tenants lease a large floor area of properties. Considering Guangdong Xinji Household is responsible for sub-leasing the Premises and similar arrangements are not observed under the Comparable References, we considered such adjustment to be fair and reasonable.

Based on the above, we considered that (i) the Valuation has been prepared based on genuine market references; and (ii) the Valuer has made appropriate adjustments to the Comparable References to account for variations in their conditions from those of the Premises. Therefore, we are of the view that the average of the rental references of the Comparable References, being RMB3.02 per sq. m. per day, genuinely reflected the market rents of properties similar to the Premises, and hence represented a fair and reasonable valuation of the property interests in the Premises as at 31 December 2022, the date of Valuation (the “**Valuation Date**”).

(e) *the discount of the first-year rental fee under the 2022 Household Market Tenancy Agreement over the prevailing market rental fee*

As set out in the Letter from the Board, the total rental fee of approximately RMB9.1 million for the first year under the 2022 Household Market Tenancy Agreement represents a discount of approximately 26.6% to the prevailing market rental fee of approximately RMB12.4 million per year based on the Valuation prepared by the Valuer. Considering (i) that the Valuation in the Valuation Report represented a fair and reasonable valuation of the property interests in the Premises as at the Valuation Date, details of



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which are discussed above; and (ii) the first-year rental fee under the 2022 Household Market Tenancy Agreement represents a discount of approximately 26.6% to the prevailing market rental fee of approximately RMB12.4 million per year based on the Valuation Report, which is a significant discount, we were of the view that such discount is in the interest of the Company and the Shareholders as a whole.

We noted that the total rental fee of approximately RMB9.1 million for the first year under the 2022 Household Market Tenancy Agreement represents an increase of more than 49% as compared to the annual rent of approximately RMB6.1 million for the period from 1 December 2021 to 30 November 2022 under the 2021 Household Market Tenancy Agreement.

Nonetheless, we also noted from the Letter from the Board that during the process of negotiating the terms of the 2021 Household Market Tenancy Agreement in or around November 2020, the businesses of the sub-tenants of the Premises were adversely impacted (i) by the continued outbreak of the COVID-19 Pandemic following the various lockdown measures, including travel restrictions, quarantine measures and/or compulsory suspension of work, imposed in the PRC to curb the spread of the COVID-19 Pandemic; and also because (ii) the customer flow to the Premises since 2020 had been affected by the ongoing road construction work carried out in the vicinity of the Premises leading to lower visibility of the shopping mall and causing inconvenience to customers visiting the shopping mall. Hence, Guangdong Xinji Household and Panyu Real Estate agreed on a lower rental fee for the Premises under the 2021 Household Market Tenancy Agreement. Having (i) learnt from various news medias and our own desktop research about the COVID-19 Pandemic and the relevant measures in the PRC around the material time; and (ii) reviewed photos showing and videos filming the aforesaid ongoing road construction work carried out in the vicinity of the Premises around the material time and considered that such road construction work was indeed lowering the visibility of, and causing inconvenience to customers visiting, the Premises, we casted no doubt on the reasonableness of the two aforesaid factors and concurred that it was reasonable that Guangdong Xinji Household and Panyu Real Estate, in view of the two aforesaid factors, agreed on a lower rental fee for the Premises under the 2021 Household Market Tenancy Agreement.

In contrast, as set out in the Letter from the Board and based on our own desktop research, the PRC Government has recently eased its lockdown measures and quarantine rules in response to the COVID-19 Pandemic in comparison with the large-scale lockdown measures initially imposed in the PRC. Therefore, we concurred that the shopping mall which is located on the Premises will likely benefit from the easing of lockdown measures and gradually resume to normal operations.



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Moreover, based on the latest information available to the Company, the road construction work currently being carried out in the vicinity of the Premises is expected to be completed in or around December 2023, which may further increase the customer flow to the shopping mall. Considering the above, we agreed that it was reasonable for Guangdong Xinji Household and Panyu Real Estate to negotiate for a higher rental fee for the Premises under the 2022 Household Market Tenancy Agreement, when compared with that under the 2021 Household Market Tenancy Agreement.

Besides, even though the total rental fee of approximately RMB9.1 million for the first year under the 2022 Household Market Tenancy Agreement represents an increase of more than 49% as compared to the annual rent of approximately RMB6.1 million for the period from 1 December 2021 to 30 November 2022 under the 2021 Household Market Tenancy Agreement, the former still represents a discount of approximately 26.6% to the prevailing market rental fee of approximately RMB12.4 million per year based on the Valuation prepared by the Valuer, which we have analysed and considered fair and reasonable as discussed in this letter above. Therefore, although the total first year rental fee under the 2022 Household Market Tenancy Agreement represents an increase of more than 49% as compared to the annual rent for the period from 1 December 2021 to 30 November 2022 under the 2021 Household Market Tenancy Agreement, we considered it to be in the interests of the Company and the Shareholders as a whole and fair and reasonable.

(f) *the annual rental increment of 5% for each rental period throughout the lease term under the 2022 Household Market Tenancy Agreement*

We noted that an annual rental increment of 5% has been applied for each rental period throughout the lease term under the 2022 Household Market Tenancy Agreement. Such rate of increment has been determined with reference to the combined effect of the expected annual inflation rate in the PRC and the expected annual rental increment for sub-leasing the Premises throughout the lease term.

In this relation, we have studied data about the Consumer Price Index (the "CPI") in the PRC issued by the National Bureau of Statistics<sup>&</sup>, and noted that the CPI in the PRC in each month from January 2022 to September 2022 (both inclusive) ranged from 0.9% to 2.8%, with an average of 2%, and exhibited a trend of upward movement.

<sup>&</sup>: <http://www.gov.cn/shuju/hgjyxqk/xiangqing/cpi.html>

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On the other hand, we noted from the Letter from the Board that the road construction work currently being carried out in the vicinity of the Premises is expected to be completed in or around December 2023 and will cease to have adverse impact on the visibility and accessibility of and customer flow to the Premises upon completion. We also noted that the number of large-scale lockdown measures to curb the spread of the COVID-19 Pandemic in the PRC appears to be reducing. As such, we concur with the Board that the customer flow and businesses in the Premises were expected to recover, and thus it is commercially reasonable to expect future rental increase in the Premises.

We have further enquired with the Company and understood that in negotiating sub-leasing arrangements with sub-tenants of the Premises in the future, it is likely that Guangdong Xinji Household will demand for an annual rental increment of at least 3% to account for the recovering customer flow and future growth. We have obtained from the Company four recently secured sub-tenant agreements in the Premises, which represented an exhaustive list of sub-tenant agreements secured by the Company in the recent three months and which covered in aggregate approximately 2,604 sq. m. or approximately 10.60% of sub-leasing area in the Premises. Three of them covered a tenure from 1 January 2023 to 30 November 2026 (the “**Longer Tenure Sub-Tenant Agreements**”), while the remaining one covered a tenure from 1 January 2023 to 31 December 2023 (the “**Shorter Tenure Sub-Tenant Agreement**”). We considered it to be a fair and representative list of recent sub-tenant agreements in respect of the Premises as it already covered all sub-tenant agreements secured by the Company in the recent three months, a reasonably time period of reference, and covered a significant proportion of sub-leasing area in the Premises in aggregate. We noted that the rents payable by the sub-tenants of the Longer Tenure Sub-Tenant Agreements increase year-on-year by approximately 10% to 64.3%, which are significantly higher than the 5% annual rental increment throughout the lease term under the 2022 Household Market Tenancy Agreement. We also noted from the Letter of Board that the gross profit margin attainable by Guangdong Xinji Household from the said three sub-tenants is expected to increase from approximately 41% under the existing sub-leasing arrangements to approximately 52% under the proposed new sub-leasing arrangements. We also noted that the rent payable by the sub-tenant of the Shorter Tenure Sub-Tenant Agreement is significantly higher than those payable by sub-tenants who lease units with similar size and have their respective sub-leasing agreements signed prior to the recent three months, which generally reflected that the level of rent payable by sub-tenants in the Premises recently increased. We do not doubt the Group’s future ability to transfer the increments in its rental cost onto its sub-tenants, and to possibly increase its rental charges on sub-tenants at even higher rates.

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Considering (i) the average CPI in the PRC in 2022 of 2%; (ii) the expected recovery of customer flow and business performance in the Premises; (iii) Guangdong Xinji Household's expected future demand for an annual rental increment of at least 3% from its sub-tenants; and (iv) the approximately 10% to 64.3% year-on-year increases in the rents payable by sub-tenants in recently secured sub-tenant agreements regarding the Premises, we were of the view that the 5% annual rental increment under the 2022 Household Market Tenancy Agreement fairly represented the combination of the expected annual inflation rate and the projected annual growth rate in the market rental in the Premises.

### *(ii) Comparable analysis*

In further assessing the fairness and reasonableness of the tenure, rental increment rate and payment terms under the 2022 Household Market Tenancy Agreement, we have also attempted to compare such terms under the 2022 Household Market Tenancy Agreement with those under similar agreements disclosed on the website of the Stock Exchange. For such purpose of comparable analysis, we have set the following criteria in selecting comparable transactions: lease agreements that are (i) entered into by listed issuers on the Stock Exchange; (ii) announced on the website of the Stock Exchange between 29 October 2021, being one year prior to the date of the 2022 Household Market Tenancy Agreement, and 28 October 2022, being the date of the 2022 Household Market Tenancy Agreement, such that relevant information is publicly available for our review and analysis, and that such transactions better reflected the prevailing market conditions at the time of entering into of the 2022 Household Market Tenancy Agreement; and (iii) in relation to a whole block of property, or a substantial portion of it, the main intended use of it is for operation of shopping centre, shopping mall or department store. Apart from the aforesaid, we did not impose further criteria in selecting comparable transactions. Based on the aforesaid criteria, we have, to our best endeavour and knowledge, identified an exhaustive list of five comparable transactions (the "**Comparable Transactions**"). Having considered that this list of Comparable Transactions already represented all relevant transactions we have been able to identify based on the aforesaid criteria and to our best effort, we considered the Comparable Transactions to be fair and representative samples for the purpose of our comparable analysis.

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The following table sets out the principal terms under each of the Comparable Transactions.

Date of announcement	Name of listed issuer	Stock code	Use of the property leased	Tenure <i>(approximately)</i>	Rate of rent increment (if any) <i>(approximately)</i>	Payment term <i>(in general)</i>
16 September 2022	Guangdong Land Holdings Limited	124	Shopping centre with car parks	20 years	Variable rent based on net income	Payable quarterly in arrear
17 June 2022	Century Ginwa Retail Holdings Limited	162	Shopping mall	20 years	5% to 6% every three years	Payable quarterly in advance
22 February 2022	Parkson Retail Group Limited	3368	Mainly department store	11 years	8% every three years	Payable annually in advance; RMB20 million prepayment for an annual discount rate of 8% on the rental and property management fee payable within the prepayment period
30 November 2021	Century Ginwa Retail Holdings Limited	162	Shopping mall with parking spaces	2 years	13.7% on the second year	Payable quarterly in arrear
16 November 2021	Century Ginwa Retail Holdings Limited	162	Department store	10 years	6% every two years	Payable monthly in advance; Approximately RMB42.3 million prepayment in advance which will offset the monthly rents payable for the first 72 months

*(a) Tenure*

We noted that the tenure under the Comparable Transactions ranged from 2 years to 20 years, with a majority of 10 years or longer. The tenure under two out of the five Comparable Transactions was approximately 20 years, which was longer than that under the 2022 Household Market Tenancy Agreement. Among the three remaining Comparable Transactions the tenure of which was shorter than that under the 2022 Household Market Tenancy Agreement, the tenure under two was approximately 10 years and 11 years, respectively, which were still quite long. As such, we considered that a generally long tenure lease for properties intended to be used as shopping centre,

## LETTER FROM RED SOLAR CAPITAL

shopping mall or department store was an industry norm, and we believed that it was primarily attributable to commercial considerations including but not limited to (i) longer time is generally required for shopping centre, shopping mall or department store operators to achieve investment breakeven and subsequent investment return considering the substantial amount of initial and fixed costs involved in operating a shopping centre, shopping mall or department store; (ii) the operators of shopping centre, shopping mall or department store tend to operate in the same location to maintain end-customers' and tenants'/sub-tenants' loyalty, to save on the fixed costs that could be incurred for relocation which may be substantial, and to save on the administrative and time costs that could be incurred for finding new tenants/sub-tenants to fill vacancies in a property at a new location as not every existing tenant/sub-tenant may continue with the lease agreement/sub-lease agreement if the shopping centre, shopping mall or department store was relocated.

The tenure under the 2022 Household Market Tenancy Agreement, being approximately 16 years, was within such range of tenure under the Comparable Transactions. In addition, the 2022 Household Market Tenancy Agreement would have ranked the third in terms of tenure should it be included into the list of Comparable Transactions, which would be near the middle of the ranking. Therefore, we considered the tenure of approximately 16 years under the 2022 Household Market Tenancy Agreement to be in line with the industry norm, as reflected by the tenure under the Comparable Transactions. Moreover, as discussed in the previous paragraph, we considered that a generally long tenure lease for properties intended to be used as shopping centre, shopping mall or department store was an industry norm due to various commercial considerations, so we also considered the tenure under the 2022 Household Market Tenancy Agreement to be on normal commercial terms.

*(b) Rate of rental increment*

We noted that the rates of rental increment under the Comparable Transactions ranged from 5% to 6% every three years to 13.7% on the second year. Although no apple-to-apple comparison could be reasonably made between the annual rental increment rate under the 2022 Household Market Tenancy Agreement, being approximately 5%, and the rates of rental increment under the Comparable Transactions because of the different tenure and payment terms, we noted that rental increments were common on the market. After also considering the factors discussed in the section headed "(i) The rental fee under the 2022 Household Market Tenancy Agreement" above, including but not limited to (i) the discount of the first-year rental fee under the 2022 Household Market Tenancy Agreement over the prevailing market rental fee; (ii) the average CPI in the PRC in 2022 of 2%; (iii) the expected

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recovery of customer flow and business performance in the Premises; (iv) Guangdong Xinji Household's expected future demand for an annual rental increment of at least 3% from its sub-tenants; and (v) the approximately 10% to 64.3% year-on-year increases in the rents payable by sub-tenants in recently secured sub-tenant agreements regarding the Premises, we were of the view that the 5% annual rental increment rate under the 2022 Household Market Tenancy Agreement were fair and reasonable and in line with market practice.

(c) *Payment terms*

Although no apple-to-apple comparison could be reasonably made between the payment terms under the 2022 Household Market Tenancy Agreement and those under the Comparable Transactions because of the variations in payment structures, we noted that prepayment arrangement was adopted in two out of the five Comparable Transactions. In addition, among the two Comparable Transactions under which prepayment arrangement was adopted, the tenure under them was approximately 10 years and 11 years, which were quite long, and one of them was accompanied by an annual discount rate of 8% on the rental and property management fee payable within the prepayment period. Based on the above, we were of the view that landlords may demand prepayment arrangement from tenants in return for (i) the tenants enjoying longer lease term and thus the reduced costs that could be incurred if the tenants were to relocate every few years; and (ii) the tenants enjoying discounts in rental fee and property management fee payable. We considered the above to be normal commercial terms commonly seen in property markets, and was thus an industry norm.

On the other hand, we have considered that (i) the tenure under the 2022 Household Market Tenancy Agreement, being approximately 16 years, was quite long; and (ii) the first-year rental fee under the 2022 Household Market Tenancy Agreement represented a discount of approximately 26.6% over the prevailing market rental fee set out in the Valuation Report, which was a significant discount larger than the annual discount rate of 8% on the rental and property management fee payable under one of the Comparable Transactions. As such, we were of the view that the payment terms under the 2022 Household Market Tenancy Agreement (i) were accompanied by similar characteristics, being long tenure and discounts in rental/management fees payable, under the two Comparable Transactions under which prepayment arrangement was adopted; (ii) were on normal commercial term and in line with the industry norm as discussed in the previous paragraph; and (iii) in the interests of the Company and its Shareholders as a whole in view of the significant discount represented by the first-year rental fee under the 2022 Household Market Tenancy Agreement over the prevailing market rental fee set out in the Valuation Report. Therefore,

## LETTER FROM RED SOLAR CAPITAL

we considered the payment terms under the 2022 Household Market Tenancy Agreement to be fair and reasonable.

*(iii) Conclusion on the overall principal terms of the 2022 Household Market Tenancy Agreement*

Having considered (i) our due diligence work on the Valuation Report as discussed in the sections above; (ii) that the valuation of the property interests in the Premises was considered fair and reasonable; (iii) that the rental fee under the 2022 Household Market Tenancy Agreement was considered fair and reasonable and in the interests of the Company and Shareholders as a whole; (iv) the tenure under the 2022 Household Market Tenancy Agreement was within the range of tenure under the Comparable Transactions and considered to be in line with the industry norm and on normal commercial terms; (v) the 5% annual rental increment rate under the 2022 Household Market Tenancy Agreement were fair and reasonable and in line with market practice; (vi) the payment terms under the 2022 Household Market Tenancy Agreement were considered to be in line with the industry norm, on normal commercial terms, in the interests of the Company and its Shareholders as a whole and fair and reasonable; and (vii) that we were not aware of unusual or extraordinary terms and conditions in the 2022 Household Market Tenancy Agreement, we were of the opinion that the terms and conditions of the 2022 Household Market Tenancy Agreement, including the rental fees thereunder, are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

#### **IV. Financial Effects of the Transactions Contemplated Under the 2022 Household Market the Tenancy Agreement**

The unaudited value of the right-of-use asset to be recognised by the Company under the terms of the 2022 Household Market Tenancy Agreement amounted to approximately not more than RMB154,615,330, which is the present value of total consideration payable throughout the lease term under the 2022 Household Market Tenancy Agreement in accordance with HKFRS 16. Incremental borrowing rate of 4.30% is applied to compute the present value of total consideration payable under the 2022 Household Market Tenancy Agreement.

Upon commencement of the lease term under the 2022 Household Market Tenancy Agreement, the consolidated total assets of the Group will increase by approximately not more than RMB154,615,330, and a corresponding amount of lease liabilities of approximately not more than RMB154,615,330 will be recognised at the same time.

The right-of-use asset will be depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Interest expenses on the lease liabilities will be recognised at the rate of 4.30% per annum. After the commencement date of the lease, the lease liabilities are adjusted by interest accretion and lease payments.



## LETTER FROM RED SOLAR CAPITAL

### RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the opinion that the entering into of the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group, and are (i) justifiable, fair and reasonable; (ii) in the interests of the Company and Shareholders as a whole; and (iii) the terms of the 2022 Household Market Tenancy Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,  
For and on behalf of  
**RED SOLAR CAPITAL LIMITED**  
**Leo Chan**  
*Managing Director*

*Mr. Leo Chan is a licensed person and responsible officer of Red Solar Capital Limited registered with the SFC to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 16 years of experience in corporate finance industry.*



## 1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2019, 31 December 2020, 31 December 2021 and the six months ended 30 June 2022 are disclosed in the following documents which have been published on the website of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://www.xjxs.net.cn>):

- (a) the audited consolidated financial statements of the Group for the year ended 31 December 2019 as set out on pages 47 to 117 of the annual report of the Company for the year ended 31 December 2019 published on 20 April 2020:

(<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0420/2020042000117.pdf>)

- (b) the audited consolidated financial statements of the Group for the year ended 31 December 2020 as set out on pages 54 to 123 of the annual report of the Company for the year ended 31 December 2020 published on 22 April 2021:

(<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0422/2021042201365.pdf>)

- (c) the audited consolidated financial statements of the Group for the year ended 31 December 2021 as set out on pages 56 to 128 of the annual report of the Company for the year ended 31 December 2021 published on 21 April 2022:

(<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0421/2022042100517.pdf>)

- (d) the unaudited consolidated financial statements of the Group for the six months ended 30 June 2022 as set out on pages 22 to 56 of the interim report of the Company for the six months ended 30 June 2022 published on 15 September 2022:

(<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0915/2022091500594.pdf>)

## 2. STATEMENT OF INDEBTEDNESS

At the close of business on 31 December 2022, being the latest practicable date for this statement of indebtedness prior to the printing of this circular, the indebtedness of the Group are as follows:

### **Borrowings**

As at 31 December 2022, the Group had outstanding bank and other borrowings of approximately RMB738 million, which was secured by investment properties of the Group. The total bank borrowings were guaranteed.

**Lease liabilities**

As at 31 December 2022, the Group had lease liabilities of approximately RMB159 million.

**Contingent liabilities**

On 30 December 2020, Shanghai Yuan Shang lodged a claim of arbitration against several respondents, including Shenyang Xinji Industrial, being an indirect wholly-owned subsidiary of the Company. According to the claim, Shanghai Yuan Shang requested Shenyang Xinji Industrial, among other respondents, to make compensation for the purported breach of a cooperative development agreement. As at the Latest Practicable Date, the case has not been heard by the Shanghai International Arbitration Center. The Group has assessed this claim with assistance of external lawyer and considered that the judgment will be in its favour and therefore has not recognised a provision in relation to this claim. The potential maximum compensation that the Group could be required to make if there was an adverse decision related to the arbitration is estimated to be approximately RMB20 million.

On May 19, 2021, Guangzhou Shaxi Hotel entered into the lease intention agreement with Beijing Chengwaicheng for the lease of home furnishing expo center in Chaoyang District, Beijing. The Group paid the intention deposits of RMB10,000,000 to Beijing Chengwaicheng in May. Due to the disagreement of some business terms, the Group decided to terminate the cooperation. As the intention deposits has not been returned in time according to the lease intention agreement, in order to safeguard the interest of the Company and its shareholders as a whole, the Group initiated a legal proceeding against Beijing Chengwaicheng and filed the case to Beijing Chaoyang People's Court ("**Beijing Court**"). Beijing Court sentenced to frozen the bank balance of Beijing Chengwaicheng with the value of RMB10,000,000 on 30 November 2021. On 1 April 2022, Beijing Chengwaicheng and the other relevant defendants lodged a counterclaim against Guangzhou Shaxi Hotel to make compensation for the breach of the lease intention agreement and lease agreement. As at Latest Practicable Date, the case has not been heard by Beijing Court. The Group assessed this claim with assistance of external lawyer and considered that the judgment will be in its favour and therefore has not recognised a provision in relation to this counterclaim. The potential maximum compensation that the Group could be required to make if there was an adverse decision related to the arbitration is estimated to be approximately RMB12.7 million.

Save as disclosed herein, and apart from any intra-group liabilities and normal trade payables in the ordinary course of the business of the Group, as at the close of business on 31 December 2022, the Group did not have (i) debt securities of the Group issued and outstanding, and authorised or otherwise created but unissued, and term loans; (ii) other borrowings or indebtedness in the nature of borrowing of the Group including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments; (iii) mortgages and charges; and (iv) any material contingent liabilities or guarantees.

### 3. WORKING CAPITAL

The Directors, after due and carefully enquiry, are of the opinion that, after taking into account the effect of the transactions contemplated under the 2022 Household Market Tenancy Agreement, the Group's internal resources, cash flow from operations, facilities available to the Group, the Group has sufficient working capital for its requirements for at least the next 12 months from the date of this circular.

The Company has obtained the relevant letter from the Company's auditor as required under Rule 14.66(12) of the Listing Rules.

### 4. MATERIAL ADVERSE CHANGE

As disclosed in the 2022 Interim Report, the Group recorded net profit attributable to the Shareholders of approximately RMB16.5 million for the six months ended 30 June 2022 as compared to the net profit attributable to the Shareholders of approximately RMB53.1 million (restated)\* in the corresponding period in 2021.

As disclosed in the Profit Warning Announcement and the 2022 Interim Report, the Board considered that the decrease in the net profit attributable to the Shareholders was primarily attributable to the decrease in the fair value gains on investment properties held by the Group, mainly as a result of the adjustment made in the valuation of the shopping malls due to the overall decrease in demand in the market, which was caused by the continuous impact of the pandemic in various regions on the market due to the Omicron variant of COVID-19.

It was further disclosed in the Profit Warning Announcement that notwithstanding the above, the decrease in fair value gain of investment properties represents a non-cash item. For the six months ended 30 June 2022, the Group held investment properties for leasing purpose and there was no significant change in the Group's leasing income compared to the corresponding period in 2021. The Group's overall operations, financial position and cash flow remained healthy. The Group would continue to promote cost reduction and efficiency enhancement measures as well as strengthen budget and cash flow control, striving to minimise the impact of the pandemic.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position or outlook of the Group since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

## 5. FINANCIAL AND TRADING PROSPECTS

Although the PRC and the world are still affected by the COVID-19 Pandemic, the PRC had taken the lead in revitalizing and incentivising travel since last year, and physical marketing activities had resumed one after another. However, since 2022, the number of new COVID-19 cases in major cities such as Hong Kong, Shenzhen, Shanghai and Beijing has surged due to the impact of the new variants, and relevant prevention and control measures have been tightened, resulting in the postponement or cancellation of many local and international projects and exhibitions in the PRC, which inevitably affected the performance of the Group. The Directors are cautiously optimistic about the six main business lines of the Group's business operations, and the Group will take a cautious approach to ensure the sustainable development. The Group will closely monitor its working capital management and adjust its business strategy from time to time as required, as well as acquiring and merging high-quality property service projects with stable revenue in due course.

Although the business environment is once again full of uncertainty, the Group will maintain a model of rapid development of light asset projects featured by "Brand Export, Management Export, and Cooperative Operation", while establishing a vertical e-commerce platform for the hospitality supplies industry and expanding the online shopping mall business, thereby further expanding the market share and brand influence of the Group. The Group insists on the platform sharing concept of "Industrial Alliance and Collective Development", enhancing the brand stickiness along with the development of the industry. Meanwhile, the Group will continue to expand the business of property service (especially through the acquisition and merger of mature property service projects) with an aim to increase the stable cash flow of the Group.

*The following is the text of a letter and a valuation certificate prepared for the purpose of incorporation in this circular received from Masterpiece Valuation Advisory Limited, an independent valuer, in connection with its valuation as of 31 December 2022 of the property interests.*



24 February 2023

The Board of Directors  
**Xinji Shaxi Group Co., Ltd**  
1st Floor, Xinjicheng Club,  
No. 250 Nanda Road, Panyu District,  
Guangzhou City, Guangdong Province, the PRC

Dear Sirs/Madams,

#### INSTRUCTIONS

In accordance with the instructions of Xinji Shaxi Group Co., Ltd (the “**Company**”) and its subsidiaries (hereinafter together referred to as the “**Group**”) for us to carry out the rental valuation of the property interests located in Ground Floor and Mezzanine of Building 3-5, Fuli Plaza, 105 National Road, Panyu District, Guangzhou, the People’s Republic of China (the “**PRC**”) leased by 廣東信基家居有限公司 (“**Guangdong Xinji Household**”), being an indirect wholly-owned subsidiary of the Company. We confirm that we have carried out the inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market Rent of the property interests as of 31 December 2022 (the “**Valuation Date**”).

#### VALUATION STANDARDS

In valuing the property interests, we have complied with all the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), the HKIS Valuation Standards (2020 Edition) published by the Hong Kong Institute of Surveyors and the International Valuation Standards published from time to time by the International Valuation Standards Council.

#### BASIS OF VALUATION

Our valuation is carried out on a Market Rent basis, which is defined as “*the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and willing lessee on appropriate lease terms in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*”.

**VALUATION ASSUMPTIONS**

Our valuation of the property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the letting, or any element of special value or costs of letting or offset for any associated taxes.

No allowance has been made in our report for any deferred term contract, leaseback, joint venture, management agreement or any similar agreement, charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting the lease. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions, and outgoings of an onerous nature, which could affect their market rent.

In the course of our valuation of the property in the PRC, we have assumed that transferable land use rights in respect of the property for a specific term at nominal annual land use fees have been granted and that any premium has already been fully settled. We have relied on the advice given by the Group regarding the title to the property. For the purpose of our valuation, we have assumed that the grantee has an enforceable title to the property.

In valuing the property in the PRC, we have assumed that the grantees or the users of the property have free and uninterrupted rights to use or to assign the property for the whole of the unexpired term as granted.

Unless noted in the report, vacant possession is assumed for the property concerned.

Moreover, we have assumed that the design and construction of the properties are/will be in compliance with the local planning regulations and requirements and had been/would have been duly examined and approved by the relevant authorities.

Continued uses assume the properties will be used for the purposes for which the properties are designed and built, or to which they are currently adapted. The valuation of the property in continued uses does not represent the amount that might be realised from piecemeal disposition of the property in the open market.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial, and local environmental regulations and laws is assumed. Moreover, it is assumed that all required licences, consents or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation either have been or can be obtained or renewed for any use which the report covers.

It is also assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the valuation report. In addition, it is assumed that the utilisation of the land and improvements are within the boundaries of the properties described and that no encroachment or trespass exists, unless noted in the report.

We have further assumed that the properties were not transferred or involved in any contentious or non-contentious dispute as of the valuation date. We have also assumed that there was not any material change in the properties between the dates of our inspection and the valuation date.

### VALUATION METHODOLOGY

In the course of our valuation, unless otherwise stated, we have valued the properties in their designated uses with the understanding that the properties will be used as such (hereafter referred to as “**continued uses**”).

In valuing the property interests, we have valued by market approach which is generally by comparing recent market evidence of similar properties located in the neighbourhood area of the property. Adjustments are considered to reflect the differences in various aspects including market conditions, size, location, time, age, quality, and any other relevant factors when comparing such leases against the property. This approach is commonly used to value properties where reliable market evidence is available.

### TITLE INVESTIGATION

We have been provided with copies of documents in relation to the title of the property interests in the PRC. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. All documents have been used for reference only and all dimensions, measurements and areas are approximate. We are unable to ascertain the title of the property in the PRC and we have therefore relied on the advice given by the Group regarding the interests of the Group in the property in the PRC.

In valuing the property, we have assumed that the owner of the property has an enforceable title to the property and has free and uninterrupted rights to use, occupy, assign, or lease the property for the whole or part of the unexpired term as granted. We have not verified the authentication of the real estate title certificates and we assume that the copies of relevant documents provided by the Company are true and accurate.

### SITE INVESTIGATION

We have inspected the exteriors and, where possible, the interior of the Property. The site inspection was carried out on 17 January 2019 by Oswald Au (Managing Director of Masterpiece Valuation Advisory Limited) and Greivis Sze (Associate Director of Masterpiece Valuation Advisory Limited). We also conduct a live stream of those properties by Greivis Sze (Associate Director of Masterpiece Valuation Advisory Limited) on 25 October 2022. However, we have not carried out an investigation on site to determine the suitability of ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. We have further assumed that there is no significant pollution or contamination in the locality which may affect any future developments.



Moreover, no structural surveys have been undertaken, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the Property is free of rot, infestation or any other structural defects. No tests were carried out on any of the utility services.

#### SOURCE OF INFORMATION

Unless otherwise stated, we shall rely to a considerable extent on the information provided to us by the Company or the legal or other professional advisers on such matters as statutory notices, planning approvals, zoning, easements, tenures, completion date of buildings, development proposal, identification of properties, particulars of occupation, site areas, floor areas, matters relating to tenure, tenancies, and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view and we have no reason to suspect that any material information has been withheld.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

#### LIMITING CONDITION

Wherever the content of this report is extracted and translated from the relevant documents supplied in Chinese context and there are discrepancies in wordings, those parts of the original documents will take prevalent.

#### CURRENCY

Unless otherwise stated, all monetary amounts stated in this report are in Renminbi ("RMB").

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,  
For and on behalf of  
**Masterpiece Valuation Advisory Limited**  
**Sr Oswald W Y Au**  
*MHKIS(GP) AAPI MSc(RE)*  
*Registered Professional Surveyor (GP)*  
*Managing Director*

*Note:* Mr. Oswald W Y Au is a member of the Hong Kong Institute of Surveyors (General Practice), an Associate Member of the Australian Property Institute and a Registered Professional Surveyor (General Practice) registered with the Surveyors Registration Board. He has over 10 years' experience and 19 years' experience in financial valuation and property valuation in Hong Kong, the PRC, the U.S. and the Asia Pacific region respectively.



## VALUATION CERTIFICATE

## Property interests leased by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market rent in existing state as at 31 December 2022 RMB
Ground Floor and Mezzanine of Building 3-5, Fuli Plaza, 105 National Road, Panyu District, Guangzhou, the PRC	<p>The buildings have a total lettable area of approximately 21,832.41 sq.m., which was completed in about 2000.</p> <p>The property is located in Guangzhou City, near the Chimelong Safari Park, with approximately 9 km to Guangzhou South Train Station and 46 km to Guangzhou Baiyun International Airport.</p> <p>The property is leased to Guangdong Xinji Household, an indirect wholly-owned subsidiary of the Company, for a term commencing from 1 December 2021 and expiring on 30 November 2026.</p>	A portion of the property with a lettable area of approximately 20,271.17 sq.m. has been mainly sub-leased to various independent third parties for commercial purpose and the remaining portion with a lettable area of approximately 1,561.24 sq.m. was vacant.	1,030,000  (excluding VAT, management fees and other operative outgoings)

*Notes:*

- i. Pursuant to the tenancy agreement dated 18 November 2020 entered between 廣州市番禺信基房產發展有限公司 (“**Panyu Real Estate**”), a connected person of the Company, as landlord, and Guangdong Xinji Household, as tenant, the building was leased to Guangdong Xinji Household for a term commencing from 1 December 2021 and expiring on 30 November 2026 at a total monthly rent of RMB511,954 and a 5% annual increase from the second year onwards.
- ii. Pursuant to the termination agreement dated 28 October 2022 entered between Panyu Real Estate, and Guangdong Xinji Household, the expiry date of the lease term for the existing tenancy agreement mentioned in Notes i signed on 18 November 2020 will be revised from 30 November 2026 to 30 November 2022 or the date immediately prior to the Effective Date (as defined below), whichever is later.
- iii. Pursuant to the 2022 tenancy agreement dated 28 October 2022 entered between Panyu Real Estate, as landlord, and Guangdong Xinji Household, as tenant, the building will be leased to Guangdong Xinji Household for a term commencing from 1 December 2022 or the date (the “**Effective Date**”) on which all the conditions precedent under the said tenancy agreement have been fulfilled (or as the case may be waived), whichever is later, and expiring on 14 June 2038 at a total annual rent of RMB9,054,924 and a 5% annual increase from the second year onwards.
- iv. Pursuant to various sub-tenancy agreements entered into between Guangdong Xinji Household and the sub-tenants, the property with a total lettable area of approximately 20,271.17 sq.m. is leased to various independent third parties for various terms with the latest expiry date being 14 October 2023 at a total monthly rent of approximately RMB1,000,000 mainly for commercial purpose.
- v. In our valuation, we have made reference to some transaction/asking rental references of similar properties nearby the development. We have adopted the range of unit rents between RMB78 to RMB100 per sq.m. (1/F). The unit rents assumed by us are consistent with the said rental reference. Due adjustments to the unit rents of those rental references have been considered to reflect factors including but not limited to time, location and size in arriving at the key assumptions.

The selection criteria of the transaction and/or asking price references of the comparable references are stated below:

- a. The usage of the comparable references, which is commercial;
- b. The location of the comparable references, which are within 3km driving distance from the subject property.
- c. The size of the comparable references, which are around 100-500 sq.m. per unit.

Based on the aforesaid criteria, we have, to our best endeavour and knowledge, identified an exhaustive list of six comparable references.

The details of the comparable references are stated below:

Address	Gross Floor Area (sq.m.)	Unit rent/ sq.m./day	Usage	Distance to the subject property
No. 28 Chao Yang West Road, Panyu District	130	3.85	Commercial	1km
No. 204 Fu Shi Road, Panyu District	412	3.64	Commercial	300m
Da Yong Road, Panyu District	230	4.06	Commercial	600m
No. 474-480, 105 National Road, Panyu District	260	3.85	Commercial	400m
No. 154 Chao Yang East Road, Panyu District	130	3.33	Commercial	1km
No. 31 Chao Yang West Road, Panyu District	101	3.30	Commercial	800m

We have adopted the comparable references by considering time, asking, size, location and quantity discount and 10% to -15% adjustments have been adopted for asking, size and quantity discount.

The market rent of the property:

Description:	Formula:	Market rent (RMB)
1/F properties	<b>Market rent = A*B</b>	910,000/month
	<i>Where:</i> <i>A = Adopted unit rent of 1/F properties – 91/sq.m./month</i> <i>B = Area of 1/F properties (sq.m.) – 9,976.06 sq.m.</i>	
2/F properties	<b>Market rent = C*D</b>	120,000/month
	<i>Where:</i> <i>C = Adopted unit rent of 2/F properties – 10/sq.m./month</i> <i>D = Area of 2/F properties (sq.m.) – 11,856.35 sq.m.</i>	

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### Director's interests and short positions in the Company

As at the Latest Practicable Date, the interests and short positions, of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, were as follows:

#### *Long position in the Shares:*

Name of Directors	Capacity/nature of interest	Number of Shares	Approximate percentage of interest
Mr. Cheung (Notes 1, 4)	Interest through a controlled corporation	782,910,000	52.19%
Mr. Mei (Notes 2, 4)	Interest through a controlled corporation	782,910,000	52.19%
Mr. Zhang (Notes 3, 4)	Interest through a controlled corporation	782,910,000	52.19%

*Notes:*

1. As at the Latest Practicable Date, Honchuen Investment was wholly-owned by Mr. Cheung. Mr. Cheung is deemed to be interested in all the Shares held by Honchuen Investment under the SFO. Mr. Cheung is a director of Honchuen Investment.
2. As at the Latest Practicable Date, Zuoting Investment was wholly-owned by Mr. Mei. Mr. Mei is deemed to be interested in all the Shares held by Zuoting Investment under the SFO. Mr. Mei is a director of Zuoting Investment.
3. As at the Latest Practicable Date, Weixin Development was wholly-owned by Mr. Zhang. Mr. Zhang is deemed to be interested in all the Shares held by Weixin Development under the SFO. Mr. Zhang is a director of Weixin Development.
4. On 28 December 2018, in preparation for the Listing, Mr. Cheung, Mr. Mei and Mr. Zhang executed the concert parties agreement, pursuant to which they have confirmed their acting in concert arrangement in the past, as well as their intention to continue to act in the above manner upon Listing to consolidate their control over our Group through Honchuen Investment, Zuoting Investment and Weixin Development until the concert parties agreement is terminated by them in writing. As such, Mr. Cheung, Mr. Mei, Mr. Zhang, Honchuen Investment, Zuoting Investment and Weixin Development are deemed to be interested in the Shares held by the others under the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or a proposed Director is a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### **3. INTERESTS IN CONTRACTS, ASSETS AND ARRANGEMENT OF SIGNIFICANCE**

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

As set out in the announcement of the Company dated 15 March 2022, Guangzhou Shaxi Hotel, an indirect wholly-owned subsidiary of the Company, as tenant, entered into the 2022 Headquarters Tenancy Agreement with Guangzhou Real Estate, as landlord, on 15 March 2022 to renew the lease of the premises located at South Intersection No. 250, Dashi Street, Panyu District, Guangzhou, the PRC\* (中國廣州市番禺區大石街南大路口250號) for a term of two years commencing from 1 January 2022 and ending on 31 December 2023 (both days inclusive) at a total rental fee of RMB7,947,223. Guangzhou Real Estate is co-owned by Mr. Cheung, Mr. Mei and Mr. Zhang.

As set out in the circular of the Company dated 13 May 2022, Guangzhou Xinji Jiuxing, an indirect wholly-owned subsidiary of the Company, as purchaser, Guangzhou Xinji Property, as vendor, Guangzhou Xinji Youxiang, as target company, and Yishen Commercial, Mr. Cheung, Mr. Mei and Mr. Zhang, as guarantors, entered into the share transfer agreement on 13 May 2022 pursuant to which Guangzhou Xinji Jiuxing agreed to acquire and Guangzhou Xinji Property agreed to dispose of the entire equity interests in Guangzhou Xinji Youxiang at the total consideration of RMB75 million. Completion of the said acquisition has taken place. Guangzhou Xinji Property is ultimately beneficially owned as to 95% in aggregate by Mr. Cheung, Mr. Mei and Mr. Zhang.

As set out in the circular of the Company dated 13 May 2022, Guangzhou Xinji Jiuxing, as purchaser, Foshan Xinji Plaza, as vendor, Foshan Xinji Youxiang, as target company, and Xinji Company, Mr. Cheung, Mr. Mei and Mr. Zhang, as guarantors entered into the share transfer agreement on 13 May 2022 pursuant to which Guangzhou Xinji Jiuxing agreed to acquire and Foshan Xinji Plaza agreed to dispose of the entire equity interests in Foshan Xinji Youxiang, at the total consideration of RMB24 million. Completion of the said acquisition has taken place. Foshan Xinji Plaza is ultimately beneficially owned as to 52.5% in aggregate by Mr. Cheung, Mr. Mei and Mr. Zhang.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2021, being the date to which the latest published audited accounts of the Company were made up.

#### 4. INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, Mr. Cheung, Mr. Mei and Mr. Zhang have indirect interests in the equity interests of Guangzhou Xinji Property and Hubei Xinji Property, which are principally engaged in the provision of property management services for commercial projects.

On 15 March 2022, Mr. Cheung, Mr. Mei and Mr. Zhang executed the Non-Competition Undertaking in favour of the Company pursuant to which, among others, each of Mr. Cheung, Mr. Mei and Mr. Zhang undertakes to dispose of (i) his indirect interests in the equity interests of Guangzhou Xinji Property and Hubei Xinji Property; or (ii) the property management businesses of Guangzhou Xinji Property and Hubei Xinji Property to third party(ies) within one year after completion of the acquisitions of the entire equity interests in Guangzhou Xinji Youxiang and Foshan Xinji

Youxiang by the Group and grants the Company the right of first refusal for purchasing the said equity interests or property management businesses of Guangzhou Xinji Property and Hubei Xinji Property, subject to compliance with the relevant PRC laws.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective close associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them was a controlling shareholder of the Company).

#### 5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract with any member of the Group which is not determinable within one year without payment of compensation other than statutory compensation.

#### 6. EXPERTS AND CONSENT

The following are the qualification of the experts who have given opinions or advice which are contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Red Solar Capital Limited	A licensed corporation permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Masterpiece Valuation Advisory Limited	an independent valuer

Each of Red Solar Capital and Masterpiece has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

As of the Latest Practicable Date, neither Red Solar Capital nor Masterpiece had any direct or indirect interest in any assets which had since 31 December 2021 (being the date which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group.

As of the Latest Practicable Date, neither Red Solar Capital nor Masterpiece was beneficially interested in the share capital of any member of the Group, nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

## 7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

## 8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) has been entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) the share transfer agreement dated 15 March 2022 and entered into among Guangzhou Xinji Jiuxing, an indirect wholly-owned subsidiary of the Company, as purchaser, Guangzhou Xinji Property, as vendor, Guangzhou Xinji Youxiang, as target company, and Yishen Commercial, Mr. Cheung, Mr. Mei and Mr. Zhang, as guarantors, pursuant to which Guangzhou Xinji Jiuxing agreed to acquire and Guangzhou Xinji Property agreed to dispose of the entire equity interests in Guangzhou Xinji Youxiang at the total consideration of RMB75 million; and
- (b) the share transfer agreement dated 15 March 2022 and entered into among Guangzhou Xinji Jiuxing, as purchaser, Foshan Xinji Plaza, as vendor, Foshan Xinji Youxiang, as target company, and Xinji Company, Mr. Cheung, Mr. Mei and Mr. Zhang, as guarantors, pursuant to which Guangzhou Xinji Jiuxing agreed to acquire and Foshan Xinji Plaza agreed to dispose of the entire equity interests in Foshan Xinji Youxiang at the total consideration of RMB24 million.

## 9. GENERAL

- (a) The company secretary of the Company is Mr. Kam Chi Sing, who is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, the Institute of Financial Accountants (UK) and the Taxation the Institute of Hong Kong and the Hong Kong Institute of Directors. Mr. Kam is also a member of the Hong Kong Securities and Investment Institute and a registered trust and estate practitioner accredited by the Society of Trust and Estate Practitioners.
- (b) The registered office of the Company is situated at 71 Fort Street, PO Box 500, George Town, Grand Cayman KY1-1106, Cayman Islands. The Company's headquarter and principal place of business in the PRC is situated at 1st Floor, Xinjicheng Club, No. 250, Intersection of Nanda Road, Panyu District, Guangzhou, PRC. The Company's principal place of business in Hong Kong is situated at Rooms 301-303, 3/F Golden Gate Commercial Building, 136-138 Austin Road, Tsim Sha Tsui, Kowloon, Hong Kong.



- (c) The Company's branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (d) In the event of any inconsistency, the English texts of this circular shall prevail over its Chinese texts.

#### 10. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Company ([www.xjxx.net.cn](http://www.xjxx.net.cn)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) for a period of 14 days from the date of this circular:

- (a) the Termination Agreement;
- (b) the 2022 Household Market Tenancy Agreement;
- (c) the letter of advice from Red Solar Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 22 to 46 in this circular;
- (d) the Valuation Report prepared by the Valuer, the text of which is set out in Appendix II to this circular;
- (e) the written consent referred to the paragraph headed "6. Experts and consent" in this appendix; and
- (f) the material contracts referred to in the paragraph headed "8. Material contracts" in this appendix.

## NOTICE OF EGM



# 信基沙溪集团股份有限公司 XINJI SHAXI GROUP CO., LTD

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3603)

## NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Xinji Shaxi Group Co., Ltd (the “**Company**”) will be held at the Conference Room, 2nd Floor, Xinjicheng Club, No. 250, Intersection of Nanda Road, Panyu District, Guangzhou, PRC on Friday, 17 March 2023 at 10:00 a.m. to consider and, if thought fit, pass with or without modification, the following resolution as an ordinary resolution of the Company:

### ORDINARY RESOLUTION

“**THAT:**

- (a) the tenancy agreement dated 28 October 2022 (the “**2022 Household Market Tenancy Agreement**”) (a copy of which, signed by the chairman of the Meeting for the purpose of identification, has been produced to the Meeting marked “**A**”) entered into between Guangdong Xinji Household Company Limited\* (廣東信基家居有限公司), an indirect wholly-owned subsidiary of the Company, as tenant, and Guangzhou Panyu Xinji Real Estate Development Co., Ltd.\* (廣州市番禺信基房產發展有限公司), as landlord, in respect of the renewal of the lease of the premises located at Ground Floor and mezzanine of Building 3-5, Fuli Plaza, 105 National Road, Panyu District, Guangzhou, the PRC and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and
- (b) any director of the Company be and is hereby authorised to do all such acts and things and execute all such documents (whether under common seal or not) which he considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the 2022 Household Market Tenancy Agreement and the transactions contemplated thereunder.”

By order of the Board  
Xinji Shaxi Group Co., Ltd  
**Cheung Hon Chuen**  
*Chairman*

Hong Kong, 24 February 2023

\* For identification purpose only

## NOTICE OF EGM

*Registered office:*

71 Fort Street  
PO Box 500  
George Town  
Grand Cayman KY1-1106  
Cayman Islands

*Principal place of business in Hong Kong:*

Rooms 301-303  
3/F Golden Gate Commercial Building  
136-138 Austin Road  
Tsim Sha Tsui  
Kowloon, Hong Kong

*Notes:*

1. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member of the Company who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member of the Company who is an individual or a member of the Company which is a corporation shall be entitled to exercise the same powers on behalf of the member of the Company which he or they represent as such member of the Company could exercise.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof, it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the fact.
3. To be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy thereof must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than Wednesday, 15 March 2023 at 10:00 a.m. (Hong Kong time).
4. For the purpose of determining members who are qualified for attending the Meeting, the register of members of the Company will be closed from Tuesday, 14 March 2023 to Friday, 17 March 2023, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the Meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. (Hong Kong time) on Monday, 13 March 2023.
5. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the Meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
6. Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
7. The voting at the Meeting shall be taken by way of poll.