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越秀房地產投資信託基金

YUEXIU REAL ESTATE INVESTMENT TRUST

(A Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

(Stock Code: 00405)

Managed by



越秀房託資產管理有限公司

YUEXIU REIT ASSET MANAGEMENT LIMITED

ANNOUNCEMENT

CONNECTED PARTY TRANSACTION LEASE AGREEMENT RELATING TO STAFF QUARTERS

This announcement is made pursuant to paragraphs 8.14, 10.3 and 10.4 of the REIT Code.

On 29 November 2019, a branch company of the Project Company (which is indirectly owned as to 98.99% by Yuexiu REIT) entered into a three-year sublease with Yuexiu Property Subsidiary in respect of the Staff Quarters used as accommodation for some of its Hospitality Staff. The Staff Quarters Sublease constitutes a connected party transaction of Yuexiu REIT under paragraph 8.5 of the REIT Code.

In accordance with HKFRS 16, Yuexiu REIT will be required to recognise the Staff Quarters Sublease as a right-of-use asset from the commencement date of the Staff Quarters Sublease (being 1 December 2019). As a result, the entry into of the Staff Quarters Sublease will be regarded as an acquisition of asset by Yuexiu REIT pursuant to the Listing Rules (as if they were applicable to Yuexiu REIT), and the value of the Staff Quarters Sublease will be recognised at the present value of the total rental amount payable during the term of the Staff Quarters Sublease, as required under HKFRS 16.

As the present value of the total rental amount payable under the Staff Quarters Sublease during its term, being approximately RMB29,931,000, does not exceed 5.0% of the net asset value of Yuexiu REIT, the Manager is of the view that the Staff Quarters Sublease does not require Unitholders' approval, and is only subject to the reporting and announcement requirements under Chapters 8 and 10 of the REIT Code.

The Board (including the independent non-executive directors) and the Audit Committee are of the view that the Staff Quarters Sublease: (a) is entered into at arm's length and in the ordinary and usual course of business of Yuexiu REIT; (b) is consistent with the investment objective and strategy of Yuexiu REIT; (c) is on normal commercial terms; and (d) is fair and reasonable and in the best interests of Yuexiu REIT, the Unitholders and the independent Unitholders as a whole.

Background

Reference is made to the circular of Yuexiu Real Estate Investment Trust (“**Yuexiu REIT**”) dated 30 June 2012 regarding Yuexiu REIT’s acquisition of Guangzhou International Finance Center (the “**GZIFC Acquisition Circular**”). Unless defined in this announcement, capitalised terms used in this announcement shall have the same meanings ascribed to them in the GZIFC Acquisition Circular.

As disclosed in the GZIFC Acquisition Circular, Yuexiu REIT (through the Project Company) has employed a few hundred employees for operating and providing services in respect of the Hotel and the Serviced Apartments (collectively referred to as “**Hospitality Staff**”). The Manager has applied for, and the SFC has granted, a waiver from strict compliance with paragraph 7.5(c) of the REIT Code such that the Project Company (through its subsidiary) will be permitted to have employees to engage in certain operational activities in relation to the Hotel and the Serviced Apartments.

Staff Quarters Sublease

A branch company of the Project Company (which is indirectly owned as to 98.99% by Yuexiu REIT) (the “**Branch Company**”) provides accommodation (the “**Staff Quarters**”) for some of its Hospitality Staff at a location near the Hotel and the Serviced Apartments. Historically, these Staff Quarters are not premises owned by Yuexiu REIT, but are instead rented by the Branch Company from an independent third party who is not a connected person of Yuexiu REIT (the “**Landlord**”) pursuant to a eight-year lease due to expire on 30 November 2019 (the “**Expiring Lease**”). The current rent under the Expiring Lease is approximately RMB85.2/sq.m. per month.

To allow Hospitality Staff to continue to reside at the Staff Quarters, the Branch Company approached the Landlord to renew the Expiring Lease, but understood from the Landlord that its preference was to lease levels 5 to 32 of the building in which the Staff Quarters are located (the “**Building**”) to a single tenant. The Staff Quarters represents approximately 54% of the gross floor area of the Building.

Following such discussions, the Landlord signed a lease with a subsidiary of Yuexiu Property (the “**Yuexiu Property Subsidiary**”) in respect of levels 5 to 32 of the Building on 23 September 2019, and subsequently, Yuexiu Property Subsidiary agreed to sublease the Staff Quarters to the Branch Company on 29 November 2019 (the “**Staff Quarters Sublease**”). The rental payable by Yuexiu Property Subsidiary under their lease with the Landlord is approximately RMB103/sq.m. per month.

Details of the Staff Quarters Sublease are as follows:

Sub-lessor	Guangzhou Yuexiu Star Apartment Management Co., Ltd.* (廣州越秀星寓公寓管理有限公司) (being Yuexiu Property Subsidiary)
Sub-lessee	Guangzhou Yue Xiu City Construction International Finance Center Co., Ltd., Four Seasons Hotel Branch* (廣州越秀城建國際金融中心有限公司四季酒店分公司) (being the Branch Company)
Staff Quarters	17/F-31/F, No. 2-1 Hua Cheng Road, Zhujiang New Town, Tianhe District, Guangzhou, PRC
Gross Floor Area of the Staff Quarters	7,411.05 sq.m.
Sublease commencement date	1 December 2019
Term	3 years, commencing from 1 December 2019 and expiring on 30 November 2022 (both dates inclusive)
Rental amount	<p><u>First year</u>: RMB859,961 (RMB116.0/sq.m.) per month and RMB10,319,537 per year</p> <p><u>Second year</u>: RMB894,360 (RMB120.7/sq.m.) per month and RMB10,732,319 per year</p> <p><u>Third year</u>: RMB930,157 (RMB125.5/sq.m.) per month and RMB11,161,880 per year</p> <p>(all figures above are approximate and exclusive of value-added tax and property management fee, which shall be borne and paid by the Branch Company to an independent third party property manager who is not a connected person of Yuexiu REIT))</p>
Security Deposit	RMB1,830,000
Payment terms	Rental shall be paid monthly before the tenth day of each month, save for the rental for the first month which shall be paid within 10 business days upon execution of the Staff Quarters Sublease.
Termination	A party may unilaterally terminate the Staff Quarters Sublease where there are certain material breaches by the other party, such as failure to deliver the Staff Quarters or pay rent.
Renewal	The Branch Company will have a pre-emptive right to inform Yuexiu Property Subsidiary its intention to renew the Staff Quarters Sublease. Such renewed sublease shall be entered into no later than 90 days before the expiry of the Staff Quarters Sublease.

Reasons for and Financial Effects of Entering into the Staff Quarters Sublease

The entering into of the Staff Quarters Sublease, which will be on normal commercial terms, will enable the Branch Company to secure a sizable space at a suitable location for a reasonably long period of time for the accommodation of Hospitality Staff.

Comparably, the rental payable by the Branch Company under the Staff Quarters Sublease (being approximately RMB116.0/sq.m. per month for the first year) is higher than under the Expiring Lease (being approximately RMB85.2/sq.m. per month). This is attributable to the rent under the Expiring Lease not having been marked-to-market since the lease commenced eight years ago. As noted below, the independent property valuer is of the opinion that the rental under the Staff Quarters Sublease is at current market levels, and the terms thereof are on normal commercial terms under prevailing market conditions.

Also, the rental payable by the Branch Company under the Staff Quarters Sublease is higher than that payable by Yuexiu Property Subsidiary to the Landlord (being approximately RMB103.0/sq.m. per month). This is attributable to: (a) the Staff Quarters occupying the higher floors of the Building; (b) Yuexiu Property Subsidiary renting more floor area than the Branch Company resulting in a lower average rental; and (c) certain tax and administration fees to be incurred by Yuexiu Property Subsidiary as lessor under the Staff Quarters Sublease.

Further, based on its renewal negotiations with the Landlord, the Manager considers the total cost of subleasing the Staff Quarters from Yuexiu Property Subsidiary to be more economical for Yuexiu REIT than renewing its Expiring Lease with the Landlord.

The payment of rental under the Staff Quarters Sublease will be settled from internal resources of Yuexiu REIT. The execution and performance of the Staff Quarters Sublease is not expected to have a material impact on: (i) the gearing ratio of Yuexiu REIT disclosed in Yuexiu REIT's announcement dated 13 November 2019 (being 39.29%); and (ii) the financial position of Yuexiu REIT.

Regulatory Implications

Clause 31.1 of the Trust Deed requires any connected party transaction to be carried out in accordance with the provisions of the REIT Code and any conditions (including conditions of any waivers or exemptions from the operation of the REIT Code granted by the SFC from time to time) imposed by the SFC from time to time. Under paragraph 8.1 of the REIT Code, connected persons of Yuexiu REIT include, among others, a significant holder (that is, a holder of 10.0% or more of the outstanding Units) and its associated companies.

As at the date of this announcement, Yuexiu Property is an associated company of a significant holder of Yuexiu REIT (being Dragon Yield), by virtue of Yuexiu Property owning more than 20.0% of the voting rights of Dragon Yield. Yuexiu Property Subsidiary, being subsidiary of Yuexiu Property, is also an associated company of Yuexiu Property (and consequently under the REIT Code, an associated company of Dragon Yield). As a result, Yuexiu Property Subsidiary is a connected person of Yuexiu REIT within the meaning of Chapter 8 of the REIT Code. Accordingly, the Staff Quarters Sublease constitutes a connected party transaction of Yuexiu REIT under paragraph 8.5 of the REIT Code.

In accordance with Hong Kong Financial Reporting Standards 16 (which came into effect on 1 January 2019) (“**HKFRS 16**”), Yuexiu REIT will be required to recognise the Staff Quarters Sublease as a right-of-use asset from the commencement date of the Staff Quarters Sublease (being 1 December 2019). As a result, the entry into of the Staff Quarters Sublease will be regarded as an acquisition of asset by Yuexiu REIT pursuant to the Listing Rules (as if they were applicable to Yuexiu REIT), and the value of the Staff Quarters Sublease will be recognised at the present value of the total rental amount payable during the term of the Staff Quarters Sublease, as required under HKFRS 16.

As the present value of the total rental amount payable under the Staff Quarters Sublease during its term, being approximately RMB29,931,000, does not exceed 5.0% of the net asset value of Yuexiu REIT (as disclosed in the latest published audited accounts of Yuexiu REIT for the financial year ended 31 December 2018 (as adjusted for the following events since the publication of such accounts: (i) the payment of the final distribution for the year ended 31 December 2018; (ii) the payment of the interim distribution for the six months ending 30 June 2019; (iii) the final adjustment payment to Yuexiu REIT in respect of the disposal of the Neo Metropolis Plaza Property; and (iv) the acquisition of Carpark Spaces which was completed on 19 November 2019), the Manager is of the view that the Staff Quarters Sublease does not require Unitholders’ approval, and is only subject to the reporting and announcement requirements under Chapters 8 and 10 of the REIT Code.

Opinions of the Board, Audit Committee and Independent Property Valuer

Having considered the reasons set out in the above section headed “Reasons for and Financial Effects of Entering into the Staff Quarters Sublease”, the basis of determination of the rental payable under the Staff Quarters Sublease and the view of the independent property valuer set out below, the Board (including the independent non-executive directors) and the Audit Committee are of the view that the Staff Quarters Sublease: (a) is entered into at arm’s length and in the ordinary and usual course of business of Yuexiu REIT; (b) is consistent with the investment objective and strategy of Yuexiu REIT; (c) is on normal commercial terms; and (d) is fair and reasonable and in the best interests of Yuexiu REIT, the Unitholders and the independent Unitholders as a whole. The Board is satisfied that no independent Unitholders’ approval is required under the REIT Code and the Trust Deed for the Staff Quarters Sublease.

The Manager has also obtained an opinion from Savills Valuation and Professional Services Limited, an independent property valuer and the principal valuer of Yuexiu REIT, that the rental under the Staff Quarters Sublease is at current market level, and the terms thereof are on normal commercial terms under prevailing market conditions.

A brief summary of the Staff Quarters Sublease shall be included in Yuexiu REIT’s next published semi-annual or annual report. The Manager shall allow, and shall procure Yuexiu Property Subsidiary, being the counterparty to the Staff Quarters Sublease, to allow, the auditors of the Yuexiu REIT sufficient access to their records for the purpose of reporting on the transactions.

Opinion of the Trustee

Based and in sole reliance on: (i) the opinion of the Board and the Audit Committee after taking into account the advice received by the Audit Committee; (ii) the information in this announcement and the other information and confirmations provided by the REIT Manager; and (iii) the letter of opinion prepared by Savills Valuation and Professional Services Limited, and having taken into account its duties set out under the Trust Deed and the REIT Code, and as a result of the Staff Quarters Sublease being subject to HKFRS 16 and being therefore regarded as an acquisition of an asset by Yuexiu REIT pursuant to the Listing Rules (as if they were applicable to Yuexiu REIT), the Trustee has no objection to the Staff Quarters Sublease. Further, the Trustee is satisfied that:

- (a) the Staff Quarters Sublease is: (i) on terms which are fair and reasonable; and (ii) in the interests of Yuexiu REIT, the independent Unitholders and the Unitholders as a whole in accordance with the REIT Code; and
- (b) no independent Unitholders' approval is required under the REIT Code and the Trust Deed for the Staff Quarters Sublease.

Review Processes

The transactions under the Staff Quarters Sublease will also be subject to the following review processes:

(a) Auditors' Review Procedures

In respect of each relevant financial period, the Manager shall engage and agree with the auditors of Yuexiu REIT to perform certain review procedures on the transactions under Staff Quarters Sublease. The auditors shall then report to the Manager on the factual findings based on the work performed by them, confirming whether the transactions under Staff Quarters Sublease: (i) have received the approval of the Board (including the independent non-executive Directors); (ii) are in accordance with the pricing policies of Yuexiu REIT; and (iii) have been entered into in accordance with the terms of the Staff Quarters Sublease. The Manager shall provide a copy of the abovementioned report to the SFC.

(b) Review by the Independent Non-executive Directors of the Manager

The independent non-executive Directors of the Manager shall review the transactions under the Staff Quarters Sublease annually and confirm in Yuexiu REIT's annual report for the relevant financial period that the transactions under the Staff Quarters Sublease have been entered into: (i) in the ordinary and usual course of business of Yuexiu REIT; (ii) on normal commercial terms (to the extent that there are comparable transactions) or, where there are insufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Yuexiu REIT than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the terms of the Staff Quarters Sublease and the Manager's internal procedures governing connected party transactions, if any, on terms that are fair and reasonable and in the interests of Unitholders as a whole.

(c) Notification to the SFC

The Manager shall promptly notify the SFC and publish an announcement if it knows or has reason to believe that the auditors and/or the independent non-executive Directors will not be able to confirm the matters set out in (a) and (b) above.

The Manager will comply with all connected party transactions requirements under Chapter 8 of the REIT Code in relation to the Staff Quarters Sublease, including where it is further renewed or varied, unless any waiver is granted in respect of the same.

This announcement is made pursuant to paragraphs 8.14, 10.3 and 10.4 of the REIT Code.

By order of the Board of
Yuexiu REIT Asset Management Limited
(as manager of Yuexiu Real Estate Investment Trust)
YU Tat Fung
Company Secretary

Hong Kong, 29 November 2019

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

Executive Directors:

Mr. LIN Deliang (Chairman) and Mr. CHENG Jiuzhou

Non-executive Directors:

Mr. LI Feng and Mr. LIANG Danqing

Independent Non-executive Directors:

*Mr. CHAN Chi On, Derek, Mr. CHAN Chi Fai, Brian,
Mr. CHEUNG Yuk Tong and Mr. CHEN Xiaoou*

* *For identification purposes only*