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## **AGREEMENT IN RELATION TO THE MANAGEMENT AND OPERATION RIGHTS TO AN EXISTING HOTEL LOCATED IN JINTAN DISTRICT, CHANGZHOU CITY IN JIANGSU PROVINCE, CHINA**

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On 9 May 2018, JGY Holdings Limited (**Company**) announced that it had entered into a memorandum of understanding in relation to a possible joint venture to develop an integrated residential elderly care facility. As stated in the Company's announcement on 20 September 2018, results of the ensuing market assessment and commercial due diligence found that the project was commercially feasible, the Company was not able to reach an agreement on detailed terms of the proposed joint venture which are acceptable to the Company. Hence, the Company decided not to proceed with that possible project.

In the course of carrying out the aforesaid market assessment and commercial due diligence, the Company was offered the opportunity to acquire the management and operation rights to an existing hotel located in Jintan District, Changzhou City in Jiangsu Province, China. More details on this hotel (**Run'ao Hotel**) are set out in this announcement. Directors of the Company are pleased to announce that the Company had entered into a conditional agreement (**Agreement**) with one Jiangsu Run'ao Garden Hotel Group Co., Ltd. [official name: 江苏润澳花园大酒店集团有限公司] (**Owner**) in relation to Run'ao Hotel.

### Principal terms of the Agreement

Under the terms of the Agreement:

- (a) the Company shall convene an extraordinary general meeting to seek its shareholders' approval for the Company to expand its principal businesses to include hotel investments and hotel operations (**Shareholders' Approval**);
- (b) the Company shall register a new subsidiary (**Newco**) to enter into the Management Agreement (defined in paragraph (c) below) with the Owner; and
- (c) the Owner shall sign a management agreement (**Management Agreement**), the agreed draft which is attached to the Agreement, with Newco within one month from the date the Company receives the Shareholders' Approval.

If the Shareholders' Approval is received, Newco will acquire the operations and management rights of Run'ao Hotel on the terms and subject to the conditions set out in the Management Agreement whose principal terms are set out below:

<b>Tenure</b>	20 years
<b>Continuity of contract on sale of Run'ao Hotel</b>	Any sale or transfer of title to Run'ao Hotel by the Owner to a third party shall be subject to the Management Agreement, and Newco will pay the Annual Fee (described below) to the new owner of Run'ao Hotel.

<b>Annual Fee</b>	<p>Newco will pay the following Annual Fee to the Owner on 31 December each year:</p> <table> <tr> <th colspan="2">Amount of Annual Fee payable</th></tr> <tr> <td>Years 1 to 4</td><td>RMB 2,000,000</td></tr> <tr> <td>Years 5 to 10</td><td>RMB 3,500,000</td></tr> <tr> <td>Years 11 to 20</td><td>RMB 5,500,000</td></tr> </table>	Amount of Annual Fee payable		Years 1 to 4	RMB 2,000,000	Years 5 to 10	RMB 3,500,000	Years 11 to 20	RMB 5,500,000
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<b>Expenses relating to Run'ao Hotel payable by the Owner</b>	Applicable building and land tax assessed on Run'ao Hotel payable to the relevant authorities.								
<b>Expenses relating to Run'ao Hotel payable by Newco</b>	Renovations for the Run'ao Hotel, and repairs and maintenance of the hotel building, ancillary facilities and equipment employed for the hotel operations.								
<b>Renovation costs and compensation from third parties</b>	<p>If the Management Agreement is terminated as a result of:</p> <ul style="list-style-type: none"> <li>(a) a breach on the part of the Owner, or terminated by mutual consent at the request of the Owner, the Owner shall reimburse 80% of the renovation costs incurred by Newco; and</li> <li>(b) a cause or causes which is not the fault of either party, such as a regulatory demolition order being imposed on Run'ao Hotel, other government actions or changes in national laws and policies, the Owner shall reimburse 50% of the renovation costs incurred by Newco.</li> </ul> <p>If the Owner receives any compensation as a result of a governmental action referred to in paragraph (b) above, Newco shall be entitled to, and the Owner shall pay to Newco, 50% of such compensation received.</p>								
<b>Newco liable for certain of the Owner's liabilities</b>	<p>Newco shall be liable for or to reimburse the Owner for the following of the Owner's liabilities:</p> <ul style="list-style-type: none"> <li>(i) the Owner's debt, civil and criminal liabilities which are incurred during the tenure of the Management Agreement which directly relates to the hotel operations of Run'ao Hotel; and</li> <li>(ii) the Owner's liabilities which Newco clearly indicates it will be liable for at the time these liabilities are incurred.</li> </ul>								
<b>Governing law</b>	The laws of the People's Republic of China.								

#### Information on Run'ao Hotel

Jiangsu Run'ao Garden Hotel (i.e., Run'ao Hotel) is located at No. 1088 Donghuan 2nd Road, Jintan District, Changzhou City in Jiangsu Province, China. The hotel premises comprise the main hotel building and three completed by unoccupied building, with a total floor area of 30,000 m<sup>2</sup>. It has 128 guest rooms and has catering, conference, entertainment and sporting facilities, including an indoor swimming pool. The existing decoration and facilities are constructed to five-star hotel standards. Run'ao Hotel has been in continuous operations since 2006.

#### Proposed transaction may constitute a significant change to the nature of the Company's activities

Currently, the Company has two principal businesses, namely growing grains, mainly rice and wheat, for sale, and the manufacture and sale of *bai-jiu* (a traditional Chinese grain liquor). The Company intends to continue with these two existing principal businesses and to carry on the proposed hotel investments and hotel operations business (**New Business Segment**) as an additional principal business. Directors consider and acknowledge that the Company's proposed entry into the New Business Segment may constitute a significant change to the nature of the Company's activities. Accordingly, directors will convene an extraordinary general meeting (**2018 EOGM**) to seek shareholders' approval for the Company's entry into the New Business Segment (i.e., the Shareholders' Approval), more particularly for Newco to enter into the Management Agreement with the Owner to acquire the operations and management rights to Run'ao Hotel.

#### Proposed funding for the hotel operations

On acquiring the operations and management rights of Run'ao Hotel, directors expect that Newco will require funding to meet the planned Run'ao Hotel renovation costs and for its working capital. Directors propose to finance Newco's funding requirements from proceeds of an issue of new shares in the Company's share capital to unconnected investors.

The effect of NSX Listing Rule 6.25(1) is that the Company is not able to issue shares in excess of 15% of its existing share capital without shareholders' approval. Directors believe that proceeds from the issue of shares representing 15% or less of the Company's existing share capital will not be sufficient to meet Newco's funding needs. Therefore, at the 2018 EOGM, directors will also seek shareholders' approval for directors to issue new shares representing up to 30% of the Company's existing share capital.

#### Next step – Extraordinary general meeting

A notice of meeting for the 2018 EOGM together with its accompanying explanatory notes will be dispatched to shareholders in due course.

#### Media queries

For any media query, please e-mail the company secretary at [skmah@mybiztrack.com](mailto:skmah@mybiztrack.com).

For and on behalf of

**JGY HOLDINGS LIMITED**

WANG Caifu  
Executive Director  
8 October 2018

