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海天地悅旅集團有限公司  
S.A.I. LEISURE GROUP COMPANY LIMITED

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

**(Stock Code: 1832)**

## **DISCLOSEABLE TRANSACTION IN RELATION TO THE RENEWAL OF A LEASE AGREEMENT**

### **The Lease Agreement in respect of the Saipan Hotel**

The Board is pleased to announce that on April 22, 2020, APhi Saipan (an indirectly wholly-owned subsidiary of the Company) as Lessee agreed and finalized the terms of the Lease Agreement with the CNMI Department of Public Lands (an independent third party) as Lessor to renew the existing land lease of the Premises, being the hotel premises of the Saipan Hotel (currently known as “Fiesta Resort & Spa Saipan”), which is due to expire on June 30, 2021. The Lease Agreement is for the Lease Term of 40 years commencing from July 1, 2021 which, subject to approval by the Legislature, may be extended for up to 15 years.

The terms of the Lease Agreement were determined after arm’s length negotiations between the parties on statutorily prescribed terms and conditions under the newly enacted Public Law 20–84 of the CNMI (which came into effect on December 31, 2018) including but not limited to rental level, new improvements and upgrades, public benefits and contributions, all of which are common in the context of public land lease renewals in the CNMI.

### **Renovation and expansion of the Saipan Hotel**

Commitment to new improvements and upgrades is one of the renewal conditions prescribed in Public Law 20–84 of the CNMI. As mentioned in the Prospectus, the Group has planned to implement the Asset Rejuvenation Plan to renovate and upgrade the Saipan Hotel and has also identified a parcel of land within the Premises (currently used as tennis courts) which is suitable for the development of an annex tower of the Saipan Hotel for additional accommodation capacity and hospitality facilities.

In accordance with the terms of the Lease Agreement, the Lessee will submit construction plans and specifications for the Proposed Renovation and Construction Works (based on the conceptual designs previously submitted during the lease negotiation process) within 36 months after the commencement date of the Lease Term for approval by the CNMI Department of Public Lands. The Lessee has committed to complete all improvements, structures and associated facilities within 5 years after the commencement date of the Lease Term, subject to any delays caused by factors beyond the Lessee's control which may be excused in accordance with the terms of the Lease Agreement.

### **Listing Rules Implications**

Upon implementation of HKFRS 16 effective from January 1, 2019, the Group if entering into a lease transaction as a lessee should recognize the right-of-use asset in the consolidated financial statements of the Company according to HKFRS 16. Under the Listing Rules, the entering into a lease transaction by the Group as lessee effective from January 1, 2019 will be regarded as an acquisition of asset under the definition of transaction set out in Rule 14.04(1)(a) of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the lease transaction contemplated under the Lease Agreement exceed 5% but are less than 25%, such transaction constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

The Board is pleased to announce that, on April 22, 2020, APhi Saipan (an indirectly wholly-owned subsidiary of the Company) as Lessee agreed and finalized the terms of the Lease Agreement with the CNMI Department of Public Lands (an independent third party) as Lessor to renew the existing land lease of the Premises, being the hotel premises of the Saipan Hotel (currently known as "Fiesta Resort & Spa Saipan"), which is due to expire on June 30, 2021. The Lease Agreement is for the Lease Term of 40 years commencing from July 1, 2021 which, subject to approval by the Legislature, may be extended for up to 15 years.

The terms of the Lease Agreement were determined after arm's length negotiations between the parties on statutorily prescribed terms and conditions under the newly enacted Public Law 20-84 of the CNMI (which came into effect on December 31, 2018) including but not limited to rental level, new improvements and upgrades, public benefits and contributions, all of which are common in the context of public land lease renewals in the CNMI.

As required by the said Public Law 20-84, the CNMI Department of Public Lands published a public notice of the proposed lease before the Lease Agreement was finalized. During the statutorily prescribed public notice period, no objections or alternative proposals were received by the CNMI Department of Public Lands. The attorney general of the CNMI also gave his written approval on April 21, 2020 before finalization of the Lease Agreement.

## **Principal terms of the Lease Agreement**

Summarized below are the principal terms of the Lease Agreement:

<b>Lessor</b>	:	CNMI Department of Public Lands
<b>Lessee</b>	:	APHI Saipan
<b>Premises</b>	:	Tract 21663 (with an area of approximately 30,739 square meters) located in Garapan, Saipan
<b>Permitted purpose</b>	:	Hotel resort complex
<b>Lease Term</b>	:	40 years commencing from July 1, 2021 and expiring on June 30, 2061 (both days inclusive)
<b>Extension of term</b>	:	An extension of up to 15 years may be granted with the approval of the Legislature in accordance with Public Law 20–84 of the CNMI and the terms of the Lease Agreement.
<b>Base Rent</b>	:	The Lessee shall pay to the Lessor a Base Rent of 0.5% of the fair market value of the Premises per annum.

The Base Rent shall be paid in advance on an annual basis on each anniversary of the commencement date of the Lease Term.

For the purpose of calculating the Base Rent for the first 5 years of the Lease Term, the sum of US\$57,868,500 shall be used as the fair market value of the Premises. As such, the annual Base Rent for the first 5 years of the Lease Term shall be US\$289,342.50.

After the initial 5-year period, for each succeeding 5-year period, the Base Rent shall be based upon the percentage of the fair market value of the improved land as of the commencement of each 5-year period (as determined by an independent appraiser to be agreed between the parties) in accordance with the terms of the Lease Agreement and subject to the applicable laws and regulations.

- Additional Rent** : In addition to the Base Rent, the Lessee shall also pay to the Lessor Additional Rent of 2% of the gross receipts (as defined in the Lease Agreement) from the business activities relating to or conducted within the Premises.
- The Additional Rent shall be paid quarterly within 45 days from the end of the calendar quarter and adjusted in accordance with the terms of the Lease Agreement.
- Security Deposit** : US\$250,000 to be deposited with the Lessor within 30 days of the commencement date of the Lease Term.
- Additional Deposits** : US\$1,271,820 and US\$1,750,000, being 5% of the estimated renovation and construction costs respectively, to be deposited into a bank account in Saipan. The Lessee may use the deposits to pay expenses incurred for renovation and construction purposes.
- Other consideration** : During the Lease Term, the Lessee shall make the following special contributions as public benefit obligations:
1. a contribution of US\$2,000,000 to the infrastructure and aesthetic upgrade of Garapan, Saipan;
  2. a contribution of US\$1,000,000 to support local sports associations to improve their facilities and training opportunities and improve other sports facilities; and
  3. a contribution of US\$500,000 to the opening of additional homestead lots for Northern Marianas descendants.
- Construction plans and schedule** : The Lessee shall submit construction plans and specifications (in accordance with the conceptual designs previously submitted during the lease negotiation process) within 36 months after the commencement date of the Lease Term for approval by the CNMI Department of Public Lands. The Lessee has committed to complete all improvements, structures and associated facilities within 5 years after the commencement date of the Lease Term (subject to any delays caused by factors beyond the Lessee's control which may be excused in accordance with the terms of the Lease Agreement).

## **Renovation and expansion of the Saipan Hotel**

Commitment to new improvements and upgrades is one of the renewal conditions prescribed in Public Law 20–84 of the CNMI. As mentioned in the Prospectus, the Group has planned to implement the Asset Rejuvenation Plan to renovate and upgrade the Saipan Hotel, and has also identified a parcel of land within the Premises (currently used as tennis courts) which is suitable for the development of an annex tower of the Saipan Hotel for additional accommodation capacity and hospitality facilities.

In accordance with the terms of the Lease Agreement, the Lessee will submit construction plans and specifications for the Proposed Renovation and Construction Works (based on the conceptual designs previously submitted during the lease negotiation process) within 36 months after the commencement date of the Lease Term for approval by the CNMI Department of Public Lands. The Group intends to carry out and complete all works within the timeframe prescribed by the Lease Agreement, subject to any excused delays caused by factors beyond the Group’s control.

As at the date of this announcement, no renovation or construction contract has been entered into in respect of the Proposed Renovation and Construction Works. The Directors note that the estimated renovation and construction costs remain subject to the preparation and approval of the relevant plans and specifications. The Company will make further announcement(s) in respect of the Proposed Renovation and Construction Works as and when required under the Listing Rules.

## **Information of the Group**

The Group is principally engaged in (1) hotel and resort operations in Saipan and Guam; (2) travel retail business of luxury and leisure clothing and accessories in Saipan, Guam and Hawaii; and (3) the provision of destination services in Saipan including the operation of souvenir and convenience stores, the operation of excursion tours and the provision of land arrangement and concierge services.

Based on the 2019 Annual Report, the net asset value of the Company as at December 31, 2019 was approximately US\$103.6 million.

## **Information of the Saipan Hotel and APHI Saipan**

The Saipan Hotel is currently known as “Fiesta Resort & Spa Saipan”, which is a 17,644 sq.m. facility strategically located at the heart of the Garapan tourism center of Saipan. The Saipan Hotel is operated on leasehold interests held by APHI Saipan.

APHI Saipan is an operating subsidiary of the Group which currently owns, operates and self-manages the Saipan Hotel and our other hotels and resorts in Saipan. It is an indirectly wholly-owned subsidiary of the Company.

### **Information of the Lessor**

The principal activities carried on by the Lessor are the management, use and disposition of public lands in the CNMI. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Lessor and its ultimate beneficial owners (if any) are independent third parties.

### **Right-of-use asset**

The value of the right-of-use asset to be recognized by the Company under the Lease Agreement is estimated to be approximately US\$4,316,000, being the present value of the aggregate lease payments using the rate applicable at the commencement date of the Lease Agreement in accordance with HKFRS 16. The discount rate of 7.0% is applied to compute the present value of aggregate lease payments under the Lease Agreement.

### **Value of consideration**

The aggregate value of the consideration payable under the Lease Agreement is US\$7,816,000 (being the aggregate amount of the value of the right-of-use asset to be recognized by the Company and the amounts of the special contributions to be made by the Lessee), which will be satisfied by internal resources of the Group.

### **Reasons and benefits for entering into the Lease Agreement**

One of the principal businesses of the Group is the operation of hotels and resorts in Saipan and Guam. For the financial year ended December 31, 2019, the Saipan Hotel contributed to 30% of the Group's total revenue.

The existing lease agreement of the Premises dated October 1, 1971 is due to expire on June 30, 2021, whereupon the Group would be required to return the Premises to the Lessor together with the hotels and resorts buildings and improvements. As such, it is vital for the Group to enter into the new Lease Agreement in order to continue to operate the Saipan Hotel on the Premises.

As mentioned above, the terms of the Lease Agreement were determined after arm's length negotiations between the parties on statutorily prescribed terms and conditions under the newly enacted Public Law 20-84 of the CNMI (which came into effect on December 31, 2018) including but not limited to rental level, new improvements and upgrades, public benefits and contributions, all of which are common in the context of public land lease renewals in the CNMI.

In addition, the fair market value of the Premises used for the purpose of calculating the Base Rent for the first five years of the Lease Term has been determined based on appraisals conducted by two independent appraisers approved by the CNMI Department of Public Lands.

The rent payable under the Lease Agreement represents an increase from the rent payable under the existing lease agreement. Nevertheless, considering the fact that the existing lease agreement was entered into almost 50 years ago and in view of the introduction of Public Law 20–84 of the CNMI, the Board considers the increase in rent to be a fair increase.

The Directors further consider that the Proposed Renovation and Construction Works are in line with the Group’s elaborate business strategies to (1) increase average room rates and achieve stronger yield and (2) expand the long-term accommodation capacity in its Hotels & Resorts Segment as disclosed in the Prospectus.

The Directors (including independent non-executive Directors), having reviewed and approved the Lease Agreement and based on their industry experiences, are of the view that the terms of the Lease Agreement are on normal commercial terms in the context of public land lease renewals in the CNMI and are fair and reasonable and entering into of the Lease Agreement is in the interests of the Company and the Shareholders as a whole.

None of the Directors has a material interest in the Lease Agreement or was required to abstain from voting on the Board resolutions approving the Lease Agreement.

### **Implications under the Listing Rules**

Upon implementation of HKFRS 16 effective from January 1, 2019, the Group if entering into lease transaction as a lessee should recognize the right-of-use asset in the consolidated financial statements of the Company according to HKFRS 16. Under the Listing Rules, the entering into lease transaction by the Group as lessee effective from January 1, 2019 will be regarded as an acquisition of asset under the definition of transaction set out in Rule 14.04(1)(a) of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the lease transaction contemplated under the Lease Agreement exceed 5% but are less than 25%, such transaction constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

## DEFINITIONS

<b>2019 Annual Report</b>	the annual report of the Company dated March 26, 2020 for the financial year ended December 31, 2019
<b>Additional Rent</b>	the additional rent payable under the Lease Agreement as more particularly described under the sub-heading “Additional Rent” in the section headed “Principal terms of the Lease Agreement” in this Announcement
<b>APHI Saipan or Lessee</b>	Asia Pacific Hotels, Inc., a corporation incorporated in the CNMI with limited liability, which is an indirectly wholly-owned subsidiary of the Company
<b>Asset Rejuvenation Plan</b>	the renovation, refurbishment and fit-out works contemplated for the Saipan Hotel as detailed in the Prospectus and supplemented by the 2019 Annual Report
<b>Base Rent</b>	the base rent payable under the Lease Agreement as more particularly described under the sub-heading “Base Rent” in the section headed “Principal terms of the Lease Agreement” in this Announcement
<b>Board</b>	the board of directors of the Company
<b>CNMI</b>	the Commonwealth of the Northern Mariana Islands, a U.S. territory located in the Western Pacific Region
<b>CNMI Department of Public Lands or Lessor</b>	the Department of Public Lands established under Public Law 15–2 of the CNMI, which has the authority and responsibility over the management, use and disposition of public lands in the CNMI
<b>Company</b>	S.A.I. Leisure Group Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1832)
<b>Director(s)</b>	the director(s) of the Company
<b>Group</b>	the Company and its subsidiaries



<b>Guam</b>	Guam, a U.S. territory located in the Western Pacific Region
<b>Hawaii</b>	the State of Hawaii, U.S.
<b>HKFRS</b>	Hong Kong Financial Reporting Standards
<b>Hong Kong</b>	the Hong Kong Special Administrative Region of the PRC
<b>Hotels &amp; Resorts Segment</b>	the business segment of the Group which involves the operation of four hotels and resorts in Saipan and Guam (including the Saipan Hotel) and related food and beverage, meetings, banquet and other hospitality services
<b>independent third party(ies)</b>	has its meanings ascribed to it under the Listing Rules
<b>Lease Agreement</b>	the Lease Agreement in relation to the Premises, the principal terms of which are more particularly set out in the section headed “Principal terms of the Lease Agreement” in this Announcement
<b>Lease Term</b>	the term of the Lease Agreement as set out under the sub-heading “Lease Term” in the section headed “Principal terms of the Lease Agreement” in this Announcement
<b>Legislature</b>	the Northern Marianas Commonwealth Legislature, the territorial legislature of the CNMI
<b>Listing Rules</b>	the Rules Governing the Listing of Securities on the Stock Exchange
<b>Premises</b>	the premises as more particularly described under the sub-heading “Premises” in the section headed “Principal terms of the Lease Agreement” in this Announcement
<b>Prospectus</b>	the prospectus of the Company published on April 30, 2019
<b>Proposed Renovation and Construction Works</b>	works relating to the proposed renovation and upgrade of the Saipan Hotel under the Asset Rejuvenation Plan and the proposed construction of the annex tower of the Saipan Hotel on a parcel of land within the Premises (currently used as tennis courts)

<b>Saipan</b>	Saipan, the largest and most populated island in the CNMI
<b>Saipan Hotel</b>	the Group’s full-service, family-style resort located in Garapan, Saipan, which is currently operating as “Fiesta Resort & Spa Saipan”
<b>Shareholder(s)</b>	shareholder(s) of the Company
<b>Stock Exchange</b>	The Stock Exchange of Hong Kong Limited
<b>U.S.</b>	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
<b>US\$</b>	United States dollars, the lawful currency of the U.S.
<b>Western Pacific Region</b>	a sub-region of the Oceania continent which comprises Guam, the CNMI, the Republic of Palau, the Federated States of Micronesia, the Republic of Marshall Islands and other islands in the western Pacific Ocean

On behalf of the Board  
**S.A.I. Leisure Group Company Limited**  
**Henry Tan**  
*Vice Chairman, Executive Director  
and Chief Executive Officer*

Hong Kong, April 23, 2020

*As at the date of this announcement, the Board of Directors of the Company comprises: (1) Dr. TAN Henry, Mr. CHIU George, Mrs. SU TAN Jennifer Sze Tink and Mr. SCHWEIZER Jeffrey William as the Executive Directors; (2) Dr. TAN Siu Lin (Chairman) and Mr. TAN Willie as the Non-Executive Directors; and (3) Prof. CHAN Pak Woon David, Mr. MA Andrew Chiu Cheung and Mr. CHAN Leung Choi Albert as the Independent Non-Executive Directors.*