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HJ Capital (International) Holdings Company Limited
華金國際資本控股有限公司*
(incorporated in Bermuda with limited liability)
(Stock Code: 982)

CONTINUING CONNECTED TRANSACTION – PROPERTY LEASE FRAMEWORK AGREEMENT

Reference is made to the announcement of the Company dated 21 February 2019 in relation to the successful bid relating to the Target Property.

PROPERTY LEASE FRAMEWORK AGREEMENT

On 19 March 2019 (after trading hours), Zhuhai SZM (as the lessor) and the Management Company (as the lessee) entered into the Property Lease Framework Agreement for the Target Term, including a fixed term of twelve (12) months.

Pursuant to the Property Lease Framework Agreement, Zhuhai SZM agreed to lease the Target Property to the Management Company, and the Management Company agreed to rent the Target Property.

LISTING RULES IMPLICATIONS

As Zhuhai SZM is an indirect subsidiary of Zhuhai Huafa, an indirect controlling shareholder of the Company interested in approximately 36.88% of the total issued share capital of the Company, Zhuhai SZM is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the Property Lease Framework Agreement constitutes a continuing connected transaction of the Company and since various applicable percentage ratios in respect of the Property Lease Framework Agreement are over 5% and the annual rent payable by the Management Company is greater than HKD10,000,000, the entering into of the Property Lease Framework Agreement is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee has been formed to consider and advise the Independent Shareholders as to whether the terms of the Property Lease Framework Agreement, the transactions contemplated thereunder, and its annual cap for the First-Year and each of the remaining two years of the Target Term are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to how to vote at the SGM. The Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this respect.

A circular containing, among other things, (i) further details of the Property Lease Framework Agreement and the transactions contemplated thereunder; (ii) the recommendation of the Independent Board Committee in connection with the Property Lease Framework Agreement; (iii) the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice convening the SGM is expected to be despatched to the Shareholders no more than 15 business days after the publication of this announcement in accordance with the Listing Rules.

INTRODUCTION

Reference is made to the announcement of the company dated 21 February 2019 in relation to the successful bid relating to the Target Property.

The Board is pleased to announce that on 19 March 2019 (after trading hours), Zhuhai SZM and the Management Company entered into the Property Lease Framework Agreement.

PROPERTY LEASE FRAMEWORK AGREEMENT

The principal terms of the Property Lease Framework Agreement are set out below.

- Date:** 19 March 2019
- Parties:** (i) Zhuhai SZM (as the lessor); and
(ii) the Management Company (as the lessee)
- Term:** The target term shall not exceed three years, including a fixed term of twelve (12) months immediately after the effectiveness of the Property Lease Framework Agreement, (the “**Target Term**”) subject to the negotiation as stipulated below.
- Subject matter:** Pursuant to the Property Lease Framework Agreement, Zhuhai SZM agreed to lease the Target Property, and the Management Company agreed to rent the Target Property. The Management Company has the right to use and operate the Target Property in accordance with the Property Lease Framework Agreement.

The first year of the Target Term shall be fixed and the Parties shall negotiate on the rent payable for the remainder of the Target Term after the first year as contemplated under the Property Lease Framework Agreement within 30 days before the end of the first twelve (12) months after the Property Lease Framework Agreement takes effect (the “**First Year**”) and a new property lease agreement will be signed. The Property Lease Framework Agreement will automatically be terminated if: (i) the Parties decided not to renew the Property Lease Framework Agreement after the First Year; (ii) force majeure or government actions causing the Property Lease Framework Agreement not being able to be performed; or (iii) the Parties are unable to reach an agreement during the negotiation and sign a new property lease agreement for any of the remaining period of the Target Term contemplated under the Property Lease Framework Agreement.

Zhuhai SZM has the right to terminate the Property Lease Framework Agreement if, among other things, the Management Company (i) is unable to pay rent to Zhuhai SZM for thirty (30) days; (ii) is bankrupt due to arrears of employees’ wages and mismanagement; (iii) not being able to operate for thirty (30) business days on any accumulative basis as a result of any dispute, proceedings or seizure of property; (iv) engages in illegal activities in the Target Property; (v) sub-lets or licenses the Target Property to other parties; or (vi) causes damage to the main structure of the Target Property and such damage has not been rectified for fifteen (15) business days after Zhuhai SZM has issued a rectification notice.

The Management Company has the right to terminate the Property Lease Framework Agreement if (i) the actual condition of the Target Property is materially inconsistent with the description stipulated under the Property Lease Framework Agreement or (ii) Zhuhai SZM delays the delivery of the Target Property for a period of thirty (30) days after the target delivery date as stipulated in the Property Lease Framework Agreement.

During the Target Term, if the Property Lease Framework Agreement is terminated due to urban planning and construction, government resumption, etc., the Management Company shall vacate and return the Target Property unconditionally, and Zhuhai SZM shall negotiate the compensation amount with relevant authorities.

Return of the Target Property: Within forty-five (45) business days upon the end of the Target Term or the termination of the Property Lease Framework Agreement (whichever is earlier), the Management Company shall return the Target Property to Zhuhai SZM with reasonable good condition and checked by the finance department of the Parties according to a handover list and requirements. Zhuhai SZM shall complete the acceptance of the Target Property within fifteen (15) business days after the Management Company returns the Target Property and the Target Property shall be handed over after Zhuhai SZM has completed the acceptance. If Zhuhai SZM fails to complete the acceptance within the above mentioned time limit and fails to notify the Management Company in advance for an extension, it is deemed that Zhuhai SZM has no objection to the condition of the Target Property and the return of the Target Property has been completed.

Individual Lease Agreements: In compliance with the terms and conditions of the Property Lease Framework Agreement, the Management Company or its subsidiaries shall enter into separate lease agreements to set out the specific provisions of the leasing of the Target Property (the “**Individual Lease Agreements**”) with Zhuhai SZM for the subsequent period of the Target Term after the First Year. The terms and conditions of the Individual Lease Agreements shall be determined by the signing Parties through arm’s length negotiations in accordance with the terms of the Property Lease Framework Agreement and based on the principles of fairness and reasonableness.

Price and basis of pricing: The rent was determined by the Parties through arm’s length negotiations with reference to (i) the final tender price of an annual fee regarding the successful bid relating to the Target Property as announced by the Company on 21 February 2019; (ii) the relevant valuation conducted by an independent professional valuer using a market approach; (iii) the prevailing market rent charged for properties of similar qualities in the vicinity of the Target Property (iv) the general economic environment and property rental market at the time of negotiating the rent; and (v) the development potential of Guangdong-Hong Kong-Macao Greater Bay Area and the hotel market.

Payments for the rent under the Property Lease Framework Agreement shall be settled by cash or any other means otherwise agreed by the signing Parties, and shall be paid by the Management Company quarterly.

Conditions precedent:

The Property Lease Framework Agreement is conditional upon, among others, (i) the Company having obtained its Independent Shareholders' approval of the Property Lease Framework Agreement and the transactions contemplated thereunder; (ii) all the necessary authorisations, filings, confirmations, permits, consents and approvals for the transactions contemplated under the Property Lease Framework Agreement being obtained; (iii) all the necessary certificates, licenses, registrations and permits, etc. for the Target Property being obtained by the Management Company; (iv) Starwood Asia Pacific Hotels & Resorts Pte Ltd, the current hotel management service provider of the Sheraton Zhuhai Hotel, is satisfied with its due diligence on the Management Company and agrees to continue to perform hotel management services; (v) all other connected transactions relevant to the operation of the Target Property (if any) have been approved by the Independent Shareholders and (vi) all representations and warranties under the Property Lease Framework Agreement being true, accurate, complete and not misleading.

Conditions precedent set out in (i), (iii) to (v) above cannot be relinquished or waived. If any of the Conditions Precedent cannot be fulfilled (or relinquished or waived, where applicable) on or before 31 December 2019 (or such other date as agreed in writing between the Parties to the Property Lease Framework Agreement), the Property Lease Framework Agreement and the transaction as contemplated thereunder shall be forthwith terminated and be of no effect.

With respect to the Target Property, in determining whether the rent and/or payment terms offered by the Zhuhai SZM are fair and reasonable or no less favourable than those offered by the Independent Third Parties, the Group has established effective methods and procedures by obtaining and comparing price references from the market to the extent that those properties and ancillary equipment and facilities are of comparable location, area and usage, etc..

Subject to the Independent Shareholders' approval, the Board (except for those having material interests in the relevant transaction(s) which have to be abstained from voting in the relevant Board meeting(s)), shall be authorised to sign the Individual Lease Agreements relating to the subsequent period other than the First Year of the Target Term.

ANNUAL CAPS AND BASIS OF ANNUAL CAPS

Notwithstanding the leasing of the Target Property shall be subject to annual negotiation on which and renewal during the Target Term, the Company sets the following annual caps as the pricing guidelines for the continuing connected transactions regarding the leasing of the Target Property for the three years ending 31 December 2021:

	Years ending 31 December		
	2019 ⁽¹⁾ (RMB millions)	2020 (RMB millions)	2021 (RMB millions)
Annual Caps rent payable to Zhuhai SZM	50.0	52.5 ⁽²⁾	55.125 ⁽²⁾

Notes:

- (1) It refers to the rent for the First Year and shall be calculated as a fixed term of twelve (12) months immediately after the effectiveness of the Property Lease Framework Agreement.
- (2) The Parties may re-negotiate on the amount of the rent after the First Year, which shall be determined by the Parties taking into account (i) the final tender price of an annual fee regarding the successful bid relating to the Target Property as announced on 21 February 2019; (ii) the relevant valuation report to be conducted by an independent professional valuer for each of the remaining two years of the Target Term; (iii) the prevailing market rent charged for properties of similar qualities in the vicinity of the Target Property (iv) the general economic environment and property rental market at the time of negotiating the rent; and (v) the development potential of Guangdong-Hong Kong-Macao Greater Bay Area and the hotel market. Annual increase ratio in the rent shall not exceed the prevailing PRC tourism consumption price index (subject to the data by the PRC National Bureau of Statistics) and the increase shall not be greater than 5% and the rent shall not be less than RMB50.0 million for any twelve (12) months period.

INTERNAL CONTROL MEASURES

The Group will adopt internal control procedures and corporate governance measures in relation to the transactions contemplated under the Property Lease Framework Agreement:

- (i) The senior management of the Management Company shall be responsible for monitoring whether the rent as agreed are fair and reasonable and no less favourable than those offered by Independent Third Parties, with reference to market price of those properties and ancillary equipment and facilities with comparable location, area and usage;
- (ii) The finance department of the Group is responsible for monitoring the rent and payment terms to ensure that they are in accordance with the Property Lease Framework Agreement and the annual caps are not exceeded. In addition, the finance department will also conduct overall review on a monthly basis. Where the finance department is aware of any potential non-compliance or that the annual caps are exceeded, the finance department will escalate the matter to the senior management of the Company who will co-ordinate at the Group level to take remedial actions and ensure the basis of annual caps are followed and are not exceeded;

- (iii) the independent non-executive Directors will review the draft Individual Lease Agreements for the subsequent period of the Target Term after the First Year to ensure that such transactions are fair and reasonable and in the interests of the Company and its Shareholders as a whole; and
- (iv) the auditors of the Company will conduct annual review and provide their view to the Board.

By implementing the above measures, the Directors (including the independent non-executive Directors) consider that the Company has sufficient internal control and procedures to ensure that any new rental to be agreed pursuant to the Property Lease Framework Agreement will be on normal commercial terms and no less favourable to the Group than those available from independent third parties.

INFORMATION ON THE GROUP AND THE MANAGEMENT COMPANY

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of financial advisory services, securities underwriting and consultancy, securities and futures brokerage, equity research business, money lending business, financial printing services, hotel management and advisory services, and consultancy services in relation to convention and event planning.

The Management Company is an indirect wholly-owned subsidiary of the Company, whose scope of business includes, inter alia, hotel, resort and high-end apartment management; hotel management consultancy; business information consultancy (other than financial consultancy); hotel marketing services; leasing; equipment rental; conferences services; reservation services; branding and marketing; business management and vocational training; and celebration and event services.

INFORMATION OF ZHUHAI SZM

Zhuhai SZM is a project development company and is responsible for the overall planning and design, land development, construction of major infrastructure projects and attracting investment for its commercial properties of the Zhuhai Shizimen Central Business District (珠海十字門中央商務區). Zhuhai SZM is an indirect subsidiary of Zhuhai Huafa, a controlling shareholder of the Company and therefore a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules. Save for the foregoing, to the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, Zhuhai SZM is not in any other way connected with the Company.

REASONS FOR ENTERING INTO THE PROPERTY LEASE FRAMEWORK AGREEMENT

As the Company has been enhancing the competitiveness of its core business, it has always been seeking to diversify the business of the Group and explore new business opportunities. With the establishment of the Management Company as an indirect wholly-owned subsidiary of the Company and through the recruitment of a team of relevant experienced personnel with comprehensive expertise in the hotel management industry by the Management Company, the Group possesses the necessary expertise and personnel to provide, inter alia, hotel management services and has since November 2018 been providing hotel management services to, inter alia, the Target Property on a trial basis. With the renting of the Target Property, the Group will be able to operate and manage the Target Property changing the role from a service provider to the hotel operator, which enables the Company to diversify its profitability and broaden the Group's sources of income. With the provision of the hotel management services satisfactorily over the past three months, the Group is confident that the Management Company is competent in providing hotel management services on a longer term basis. With the introduction of the Greater Bay Area initiative, the Board believes that it offers a chance for tourism success and greater platform for hospitality industry investment. Hence, the Management Company decided to enter into the Property Lease Framework Agreement to rent the Target Property for the Target Term, subject to re-negotiation of rent level after the First Year fixed term.

LISTING RULES IMPLICATIONS

As Zhuhai SZM is an indirect subsidiary of Zhuhai Huafa, an indirect controlling shareholder of the Company interested in approximately 36.88% of the total issued share capital of the Company, Zhuhai SZM is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the Property Lease Framework Agreement constitutes a continuing connected transaction of the Company and since various applicable percentage ratios in respect of the Property Lease Framework Agreement are over 5% and the annual rent is over HKD10,000,000, the entering into of the Property Lease Framework Agreement is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all independent non-executive Directors has been formed to consider and advise the Independent Shareholders as to whether the terms of the Property Lease Framework Agreement, the transactions contemplated thereunder, and its annual cap for the First-Year and each of the remaining two years of the Target Term are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to how to vote at the SGM. The Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this respect.

A circular containing, among other things, (i) further details of the Property Lease Framework Agreement and the transactions contemplated thereunder; (ii) the recommendation of the Independent Board Committee in connection with the Property Lease Framework Agreement; (iii) the advice of the Independent Financial Adviser; and (iv) a notice convening the SGM will be despatched to the Shareholders as soon as practicable.

GENERAL INFORMATION

All executive Directors and Ms. Zhang Kuihong, the non-executive Director, are directors and/or senior management of Zhuhai Huafa and therefore are deemed to have material interests in the transactions under the Property Lease Framework Agreement, and have abstained from voting on the relevant Board resolutions. Other than those Directors mentioned above, none of the other Directors has or is deemed to have a material interest in the transactions under the Property Lease Framework Agreement.

The Directors (the independent non-executive Directors will express their views after receiving advice from the Independent Financial Adviser) are of the view that the terms of the Property Lease Framework Agreement and the transactions contemplated thereunder (i) have been negotiated on an arm's length basis; (ii) will be conducted on normal commercial terms, or on terms no less favourable than those available to or from independent third parties under prevailing local market conditions; and (iii) are fair and reasonable and in the interests of the Company and its Shareholders as a whole, and the annual caps thereof mentioned above are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“Board”	the board of directors of the Company
“Company”	HJ Capital (International) Holdings Company Limited (華金國際資本控股有限公司*), a company incorporated in Bermuda with limited liability, the shares of which are listed and traded on the Main Board of the Stock Exchange (Stock code: 982)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HKD”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

“Independent Board Committee”	an independent committee of the Board comprising all of the independent non-executive Directors, namely Dr. Chen Jieping, Dr. Sun Mingchun and Mr. Tse Yung Hoi, established to give recommendation to the Independent Shareholders in relation to the Property Lease Framework Agreement
“Independent Financial Adviser”	a corporation licensed to carry out regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and will be formally engaged by the Company
“Independent Shareholder(s)”	Shareholder(s) other than Huajin Investment Company Limited, an indirect wholly owned subsidiary of Zhuhai Huafa
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management Company”	Zhuhai Hengqin New Area Huajin International Hotel Management Company Limited* (珠海橫琴新區華金國際酒店管理有限公司), a company established under the laws of the PRC, and an indirect wholly-owned subsidiary of the Company
“Parties”	the parties to the Property Lease Framework Agreement, and “Party” means any one of them
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan
“Property Lease Framework Agreement”	the property lease framework agreement dated 19 March 2019 entered into between the Management Company and Zhuhai SZM in relation to the lease of the Target Property by the Management Company from Zhuhai SZM
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be convened for the Independent Shareholders to consider and, if thought fit, to approve the Property Lease Framework Agreement and the transactions contemplated thereunder
“Shareholder(s)”	shareholder(s) of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Property”	Huafa Place (華發行政公寓) and Sheraton Zhuhai Hotel (珠海華發喜來登酒店)
“Zhuhai Huafa”	Zhuhai Huafa Group Company Limited (珠海華發集團有限公司), a state-owned enterprise wholly-owned by Zhuhai State-owned Asset Supervision and Administration Commission and a controlling shareholder of the Company
“Zhuhai SZM”	Zhuhai SZM CBD Construction Holding Co. Ltd. (珠海十字門中央商務區建設控股有限公司)), a company established under the laws of the PRC, and an indirect subsidiary of Zhuhai Huafa

By order of the Board
HJ Capital (International) Holdings Company Limited
Li Guangning
Chairman

Hong Kong, 19 March 2019

As at the date of this announcement, the Board comprises Mr. Li Guangning (Executive Director and Chairman); Mr. Xie Wei (Executive Director and Chief Executive Officer) and Ms. Guo Jin (Executive Director); Ms. Zhang Kuihong, Mr. Shong Hugo and Mr. Qie Yan (all being Non-executive Directors); Dr. Chen Jieping, Dr. Sun Mingchun and Mr. Tse Yung Hoi (all being Independent Non-executive Directors).

* *for identification purpose only*