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歐化國際有限公司
Ulferts International Limited

(Incorporated in Hong Kong with limited liability)
(Stock Code: 1711)

CONTINUING CONNECTED TRANSACTION THE MASTER LEASING AGREEMENT

On 27 June 2018, Golden Pegasus (an indirect wholly-owned subsidiary of Emperor International) as landlord entered into a definitive leasing agreement under the Master Leasing Agreement (as defined below) with Great Bloom (an indirect wholly-owned subsidiary of the Company) as tenant in relation to the tenancy of the Property.

The Master Leasing Agreement which set out a framework of the terms governing the Tenancy Transactions between the Group and Emperor International Group commenced on 24 May 2018 and shall expire on 31 March 2021.

As at the date of this announcement, the Company and Emperor International are both indirectly controlled by the AY Trust. As such, under Chapter 14A of the Listing Rules, Emperor International is a connected person of the Company and accordingly, the Master Leasing Agreement and the transactions contemplated thereunder (including the Tenancy Agreement) constitute continuing connected transactions of the Company.

As the maximum amount of rental / licence fee paid / payable by the Group to Emperor International Group after taking into account of the Tenancy Agreement for the 3 years ending 31 March 2021 and the applicable percentage ratios (as defined in the Listing Rules) calculated with reference to the Tenancy Annual Cap exceed 5% but less than HK\$10 million, the Master Leasing Agreement and the Tenancy Annual Cap are subject to the announcement, reporting and annual review requirements but exempt from Shareholders' approval under Chapter 14A of the Listing Rules.

THE TENANCY AGREEMENT

On 27 June 2018, Golden Pegasus as landlord entered into a definitive leasing agreement (under the Master Leasing Agreement) with Great Bloom as tenant in relation to the tenancy of the Property.

Background

Landlord:	Golden Pegasus
Tenant:	Great Bloom
Property:	all those Shop Nos. 7-11 on Ground Floor, the whole of 1st and 2nd Floors (for retails) (including the entrance hall on Ground Floor to the said 1st Floor and 2nd Floor), the whole of 3rd Floor, 4th Floor and 5th Floor (for car parking), Wei King Building, 275 Chatham Road North, Hung Hom, Kowloon, Hong Kong
Usage:	for retail and car park
Area:	21,720 sq. ft. (gross) (excluding the car parking area)
Term:	3 years from 1 July 2018 to 30 June 2021 (both days inclusive)
Options:	the Landlord has granted the Tenant options to renew the tenancy of the Property. Upon exercising the first option by the Tenant, Landlord shall continue to lease the Property to the Tenant for a further term of 3 years from 1 July 2021 to 30 June 2024 at existing rent in the fourth year, and at open market rent which shall not be more than HK\$645,120 per month in the fifth and sixth year. The Tenant can further exercise the second option to continue to rent the Property for a term of 3 years from 1 July 2024 to 30 June 2027 with same rental as that of the sixth year for the seventh year, and at the open market rent in the eighth and ninth year. Should both first option and second option be exercised, the committed term of the Tenancy Agreement shall be up to 30 June 2027
Rent free:	3 months (1 July 2018 to 30 September 2018)
Rent:	HK\$576,000 per month, exclusive of rates, management fees and other outgoing charges
Effective Rent:	HK\$528,000 per month
Deposit:	HK\$1,819,155 which is equivalent to three months' rent, rates and management fee

It comes to the attention of the Directors that taking into account the Tenancy Agreement, the maximum amount of rental / licence fee paid / payable by the Group to Emperor International Group for the 3 years ending 31 March 2021 and the applicable percentage ratios (as defined in the Listing Rules) calculated with reference to the Tenancy Annual Cap exceed 5% but less than HK\$10 million, the Master Leasing Agreement and the Tenancy Annual Cap are subject to the announcement, reporting and annual review requirements but exempt from Shareholders' approval under Chapter 14A of the Listing Rules.

THE MASTER LEASING AGREEMENT

On 24 May 2018, the Company and Emperor International entered into the Master Leasing Agreement which set out a framework of the terms governing the Tenancy Transactions between the Group and Emperor International Group.

As at 24 May 2018, there were subsisting 3 tenancy / lease / licence agreements entered into between members of the Group and relevant members of Emperor International Group. The maximum amount of rental / licence fee paid / payable by the Group for the year ending 31 March 2019 was estimated to be approximately HK\$2.3 million at the time of entering into the Master Leasing Agreement. Accordingly, the Master Leasing Agreement and the then aggregated annual amount were fully exempted from announcement, reporting and annual review requirements and the Shareholders' approval under Chapter 14A of the Listing Rules.

Background

The Group has from time to time entered into Tenancy Transactions for leasing certain office properties or other properties (including signage or signboard space) from Emperor International Group. By entering into the Master Leasing Agreement, the Group shall continue to lease the properties from Emperor International Group subject to the terms of the Master Leasing Agreement and the terms and rental specified in each Definitive Leasing Agreement which will be entered into from time to time.

Date

24 May 2018

Parties

- (1) the Company; and
- (2) Emperor International.

Term

Subject to the conditions set out in the Master Leasing Agreement, the Master Leasing Agreement commenced on 24 May 2018 and shall expire on 31 March 2021 or such other date (subject to a maximum period of 3 years) as agreed by the Company and Emperor International.

General terms of the Master Leasing Agreement

Relevant members of the Group and the relevant members of Emperor International Group may from time to time enter into Definitive Leasing Agreement(s) in relation to any Tenancy Transaction upon, and subject to, the terms and conditions in compliance with the Master Leasing Agreement. Each of the Definitive Leasing Agreements shall set out the terms of tenancy, including the parties, detailed description of the properties, usage, duration, rental and specific terms such as rent free period, early termination, deposits, fees and charges.

The Master Leasing Agreement provides that:

- (a) the Tenancy Transactions shall be conducted in the usual and ordinary course of business of the Group and Emperor International Group;
- (b) the terms of each Definitive Leasing Agreements shall be on normal commercial terms or on terms which are no less favourable available to the Group than terms offered by independent third parties;
- (c) the terms and rental shall be subject to arm's length negotiation and determined based on the condition of the properties and with reference to the then prevailing market rents on property(ies) comparable in location, area and permitted use;
- (d) the Tenancy Transactions shall be in compliance with all applicable provisions of the Listing Rules, the applicable laws, the Master Leasing Agreement and the relevant Definitive Leasing Agreements; and
- (e) the Group has the option to consider third party landlords and premises other than the properties of Emperor International Group.

Conditions

The Master Leasing Agreement is conditional upon:

- (1) the approval by the independent shareholders of Emperor International on the Master Leasing Agreement and its relevant annual cap; and
- (2) the approval by the Board of the Master Leasing Agreement and the Tenancy Annual Cap.

If the conditions precedents of the Master Leasing Agreement set out in the above paragraph are not satisfied within 6 months of the date of the Master Leasing Agreement, it shall cease to be of any effect. However, the cap amount of the Tenancy Annual Cap shall be applicable for the Company for the year ending 31 March 2019, 2020 and 2021 even if the Master Agreement cannot become unconditional. As at the date of this announcement, condition (2) has been fulfilled. Further announcement shall be issued by the Company regarding the fulfillment of condition (1).

Historical transaction amounts

Set out below are the historical transaction amounts of the Tenancy Transactions between the Group and Emperor International Group:

	For the year ended 31 March		
	2016	2017	2018
	HK\$	HK\$	HK\$
Historical Tenancy Transaction amounts	15,269,000	15,427,000	12,482,000

The historical transaction amounts paid by the Group to Emperor International Group in relation to the tenancy transactions mainly comprised (i) a tenancy of warehouse which expired on 31 March 2018 and there was no renewal upon its expiry; (ii) a tenancy of retail shop which was terminated on 31 July 2017; and (iii) a tenancy of office which expired on 30 April 2018.

The Tenancy Annual Cap

Set out below are the Tenancy Annual Cap (including the Tenancy Agreement contemplated hereunder) for the Master Leasing Agreement as approved by the Board:

	For the years ending 31 March		
	2019	2020	2021
	HK\$	HK\$	HK\$
Tenancy Annual Cap	9,800,000	9,800,000	9,800,000

The Tenancy Annual Cap aggregates all Tenancy Transactions entered / to be entered with Emperor International Group regardless of their location and usage and has been determined after taking into account:

- (i) the number of existing Tenancy Transactions:

As at the date of this announcement, members of the Group are leasing properties from Emperor International Group in the following areas in Hong Kong:

Address

Emperor Group Centre, No. 288 Hennessy Road, Wanchai, Hong Kong

560 King's Road, North Point, Hong Kong

Wei King Building, 275 Chatham Road North, Hung Hom, Kowloon, Hong Kong

There are 4 existing tenancy / lease / licence agreements entered into between members of the Group and relevant members of Emperor International Group regarding the above leased properties. The earliest expiry date of the leases will be on 31 August 2018 and the latest one will be on 30 June 2021. The monthly rental (excluding management fees and charges) ranges from HK\$1,200 to HK\$576,000 and the size of properties ranges from a signboard to retail shop of 21,070 sq. ft. gross floor area. The duration of the leases are usually 2 to 3 years with exception of the Property with two options to renew for a total of 6 years and a signage licence for 3 months;

- (ii) assuming all the above tenancies may be renewed upon expiry and there may be an increase in rental comparable to the market rate;
- (iii) the business development and expansion of the Group and the possibility of entering into new Tenancy Transactions with Emperor International Group under the Master Leasing Agreement in the forthcoming years;
- (iv) the location and usage of the properties of the existing portfolio of Emperor International Group and potential acquisition of properties by Emperor International Group which can be available for leasing to the members of the Group in the future; and
- (v) the prevailing market rents of the properties as compared with similar properties in the vicinity.

REASONS FOR AND BENEFITS OF THE MASTER LEASING AGREEMENT AND TENANCY AGREEMENT

The Company is an investment holding company and its subsidiaries are principally engaged in retailing of imported furniture in Hong Kong under the trade name “Ulferts”.

The Master Leasing Agreement sets out a framework of the terms governing the Tenancy Transactions between the Group and Emperor International Group and also serves to streamline the reporting, announcement and, if necessary, Shareholders’ approval process whenever there is new tenancy or renewal of the Tenancy Transactions between the Group and Emperor International Group. The obtaining of the Tenancy Annual Cap can help to reduce the administrative burden and costs on the Company in complying with the requirements under the Listing Rules from time to time. The Definitive Leasing Agreements will be agreed on an arm’s length basis, on normal commercial terms or on terms no less favourable to the Group than those terms offered by independent third parties.

The Directors (including the independent non-executive Directors) consider that the Master Leasing Agreement has been negotiated on an arm’s length basis, on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole, and that the Tenancy Annual Cap is fair and reasonable and in the interests of the Group and the Shareholders as a whole.

In relation to the Tenancy Agreement, the Directors would like to target at an even higher segment to further enlarge Ulferts’ customer base. The Directors have used their best endeavours to identify suitable premises and considered a number of available properties on market. The Property provides enough floor area and facilities for the Company that can serve the Company’s purpose. The Directors considered that the car park spaces not only provide convenience for customers visiting our Hunghom store in the future, but also generate a steady income stream for the Company. Having considered the above, the prevailing market condition, availability of other locations and the Group’s business expansion plan in the long run, the Directors are of the view that the tenancy of the Property will be beneficial to the Group’s business development.

The terms of the Tenancy Agreement are arrived at after arm’s length negotiation and rental is determined with reference to the prevailing market rental of similar properties in the nearby locations. The Directors (including the independent non-executive directors) considered that the terms of the Tenancy Agreement and the Master Leasing Agreement are fair and reasonable and the transactions are on normal commercial terms, in the ordinary and usual course of business, and in the interests of the Company and Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Company and Emperor International are both indirectly controlled by the AY Trust. As such, under Chapter 14A of the Listing Rules, Emperor International is a connected person of the Company and accordingly, the Master Leasing Agreement (including the Tenancy Agreement) and the transactions contemplated thereunder (including the Tenancy Agreement) constitute continuing connected transactions of the Company.

As the applicable percentage ratios (as defined in the Listing Rules) calculated with reference to the Tenancy Annual Cap exceed 5% but less than HK\$10 million, the Master Leasing Agreement and the Tenancy Annual Cap are subject to the announcement, reporting and annual review requirements but exempt from Shareholders' approval under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“AY Trust”	The Albert Yeung Discretionary Trust, a discretionary trust set up by Dr. Yeung Sau Shing, Albert
“Board” or “Directors”	the board of directors of the Company
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Company”	Ulferts International Limited, a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the Stock Exchange
“Definitive Leasing Agreement(s)”	definitive agreement(s) which has / have been entered and may be entered into between any member(s) of the Group and any members of Emperor International Group from time to time in relation to any of the Tenancy Transactions subsisting as at the date hereof and at any time during the term of the Master Leasing Agreement
“Emperor International”	Emperor International Holdings Limited, a company indirectly owned as to approximately 74.71% by the AY Trust as at the date of this announcement, an exempted company incorporated in Bermuda with limited liability, the subsidiaries of which are principally engaged in property investment, property development and hospitality and whose issued shares are listed on the Main Board of the Stock Exchange (Stock Code: 163)
“Emperor International Group”	Emperor International and its subsidiaries from time to time
“First Option”	The first option granted by Golden Pegasus to Great Bloom under the Tenancy Agreement to renew the tenancy of the Property for a term of 3 years from 1 July 2021 to 30 June 2024
“Golden Pegasus” or “Landlord”	Golden Pegasus Investment Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary by Emperor International

“Great Bloom” or “Tenant”	Great Bloom Corporation Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Master Leasing Agreement”	the agreement dated 24 May 2018 entered into between the Company and Emperor International in relation to the Tenancy Transactions
“PRC”	the People’s Republic of China
“Property”	all those Shop Nos. 7-11 on Ground Floor, the whole of 1st and 2nd Floors (for retails) (including the entrance hall on Ground Floor to the said 1st Floor and 2nd Floor), the whole of 3rd Floor, 4th Floor and 5th Floor (for car parking), Wei King Building, 275 Chatham Road North, Hung Hom, Kowloon, Hong Kong
“Second Option”	the second option granted by Golden Pegasus to Great Bloom under the Tenancy Agreement to renew the tenancy of the Property for a term of 3 years from 1 July 2024 to 30 June 2027
“Shareholder(s)”	holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“sq. ft.”	square feet
“subsidiary(ies)”	has the meaning ascribed to it under the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
“Tenancy Agreement”	a tenancy agreement dated 27 June 2018 entered into between Golden Pegasus and Great Bloom in relation to the tenancy of the Property
“Tenancy Annual Cap”	the maximum amount of rental / licence fee paid / payable by the Group under the Master Leasing Agreement and Definitive Leasing Agreements for each of the financial years ending 31 March 2019, 2020 and 2021

“Tenancy Transaction(s)”	all existing and future tenancy / licence transactions (including the Tenancy Agreement disclosed herein) between members of the Group as tenants and relevant members of Emperor International Group as landlords regarding the leasing of properties as contemplated under the Master Leasing Agreement and the Definitive Leasing Agreements
“Tenant Options”	First Options and Second Options collectively
“%”	per cent

By order of the Board
Ulferts International Limited
Wong Chi Fai
Chairman

Hong Kong, 27 June 2018

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

<i>Executive Directors:</i>	Ms. Wong Chi Fai Mr. Ng Koon Keung, Ricky Ms. Mok Fung Lin, Ivy Ms. Fan Man Seung, Vanessa
<i>Independent Non-Executive Directors:</i>	Ms. Chan Yee Man Mr. Chiu Kin Fai Ms. Ng Ho Yue