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漢國置業有限公司 Hon Kwok Land Investment Company, Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 160)

SUPPLEMENTAL ANNOUNCEMENT

IN RELATION TO A DISCLOSEABLE TRANSACTION REGARDING THE FORMATION OF THE JV COMPANY FOR THE ACQUISITION OF A PROPERTY IN JAPAN

Reference is made to the announcement of the Company on 9 August 2023 (the “**Announcement**”) in relation to a discloseable transaction regarding the increase in capital contribution to the JV Company for further acquisition of properties in Japan. Unless the context requires otherwise, capitalised terms used in this announcement shall have the same meanings as they are used in the Announcement.

The Board would like to provide additional information in relation to the formation of the JV Company and the Acquisition.

On 27 June 2023 (after trading hours), Best Range Global, a direct wholly-owned subsidiary of the Company, entered into the Shareholders’ Agreement with Long View Japan in relation to the formation of the JV Company for the purpose of investing in the Property. The JV Company will make such investment through the TK Arrangement under which the JV Company will provide funding to The Bauhinia Hotels Group Japan which will be responsible for holding and management of the Property on behalf of the JV Company. On the same day, The Bauhinia Hotels Group Japan entered into the Sale and Purchase Agreement with the Vendor pursuant to which The Bauhinia Hotels Group Japan has agreed to purchase, and the Vendor has agreed to sell, the Property at the consideration, inclusive of local consumption tax, of approximately JPY1,500 million (equivalent to approximately HK\$82.50 million).

The principal terms of the Shareholders’ Agreement, the TK Arrangement and the Sale and Purchase Agreement are set out below.

THE SHAREHOLDERS' AGREEMENT

Date: 27 June 2023

Parties: The shareholding of the JV Company is as follows:

	<u>Shareholding percentage</u>
(i) Best Range Global, a direct wholly-owned subsidiary of the Company	60%
(ii) Long View Japan	40%
Total	100%

Purpose of the JV Company: The JV Company is a single purpose vehicle with the sole purpose of investing in the Property located in Japan.

Board Representation: The JV Company consists of five (5) directors, with three (3) directors representing Best Range Global and two (2) directors representing Long View Japan.

Initial Capital Contribution: In order to provide the initial funding for completing the Acquisition, Best Range Global and Long View Japan shall advance to the JV Company shareholders' loans of JPY900 million (equivalent to approximately HK\$49.50 million) and JPY600 million (equivalent to approximately HK\$33.00 million) respectively within one month after the date of the Shareholders' Agreement, which is in proportion to their respective interests in the JV Company.

External Financing: The JV Company shall use reasonable endeavours to arrange external financing or re-financing for the Acquisition. If such financing or re-financing require guarantees, indemnities or securities, the JV Parties shall only provide the same on a several and pro rata basis based on their respective shareholding percentage.

Proceeds from such financing, if materialized, will be kept in the bank account of The Bauhinia Hotels Group Japan for future investments purpose.

THE TK ARRANGEMENT

The TK (Tokumei Kumiai) Arrangement (the “**TK Arrangement**”) is a contractual arrangement defined in the Commercial Code of Japan, which is a typical investment structure adopted by foreign investors when investing in Japan, primarily for flexibility and tax benefits. Through the TK Arrangement, the JV Company (known as TK Investor) shall provide funding to The Bauhinia Hotels Group Japan (known as TK Operator) to complete the designated investment, while the TK Operator shall be responsible for the holding and management of the day-to-day operation of the investment in Japan, and distribute the allocable profits generated from the investment to the TK Investor. In particular, the TK Operator is prohibited to transfer, sell or create security on the relevant investment before the termination of the TK Arrangement and is obligated to prepare business report, balance sheet and profit and loss statement of the investment and submit the aforesaid documents to the TK Investor periodically.

The ownership of the TK Operator shall be held by “Ippan shadan hojin” (known as “**ISH**”), which is a form of “orphan entity” established in Japan (a legal entity without any shareholder) solely to act as the holding company of the TK Operator as part of the TK Arrangement (as the TK Investor has no equity interest in the TK Operator). The ISH is designated and appointed by the TK Investor with fixed annual remuneration and does not have any interest in the income, loss or net worth of the investments. Also, the ISH is obligated to transfer upon request its interest in the TK Operator to the TK Investor upon termination of the TK Arrangement.

For the purpose of the Acquisition, the JV Company has engaged and appointed Kato CPA Firms, a Japan certified public accounting firm, for the setting up and management of the ISH of The Bauhinia Hotels Group Japan.

THE SALE AND PURCHASE AGREEMENT

Date: 27 June 2023

Parties: (i) The Bauhinia Hotels Group Japan; and
(ii) the Vendor

The Vendor is a company incorporated in Japan principally engaged in property investment and hotel operations in Japan. It is 100% beneficially owned by Mr. Kwan Ching On, Joe who is a professional property investor and a founder of a real estate agency in Japan.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Vendor and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

Assets to be acquired:

The Property is located at a land site at Asahi 1-4-33, Nishinari-ku, Osaka-shi, Osaka, Japan. It is a 10-storey hotel building with a total gross floor area of approximately 1,808 sq.m. and consisted of 80 hotel rooms. The Property is now vacant and the JV Company is planning to lease out the Property to a hotel operator in Japan after the completion of the Acquisition.

The market value of the Property as at 16 June 2023 was JPY1,800 million (equivalent to approximately HK\$99.00 million) based on the valuation by an independent property valuer.

Consideration:

The consideration of the Property is approximately JPY1,500 million (equivalent to approximately HK\$82.50 million), comprising consideration for the land and the building together with all consumption tax which is to be borne by The Bauhinia Hotels Group Japan, and is determined after arm's length negotiations between the JV Parties and the Vendor with reference to the prevailing market value of the Property.

The consideration of the Property under the Sale and Purchase Agreement was to be, and has been, paid in the following manner:

- (i) a deposit of JPY300 million (equivalent to approximately HK\$16.50 million), being 20% of the consideration of the Property, to be paid in cash within 5 Business Days after the signing of the Sale and Purchase Agreement; and
- (ii) the remaining consideration of JPY1,200 million (equivalent to approximately HK\$66.00 million), being 80% of the consideration of the Property, to be paid in cash upon completion of the Acquisition.

Completion:

Completion of the Acquisition shall take place on or before 31 July 2023 pursuant to the Sale and Purchase Agreement and has taken place prior to the date of this announcement. The Vendor shall deliver, and has delivered, vacant possession of the Property to The Bauhinia Hotels Group Japan upon completion.

REASONS FOR AND BENEFITS OF THE SHAREHOLDERS' AGREEMENT AND THE ACQUISITION

As disclosed in the Announcement, the Company has been seeking investment opportunities outside Hong Kong and the PRC from time to time with a view to diversify its property portfolio and to broaden its sources of income. The joint venture with Long View Japan and the establishment of the JV Company represent an excellent opportunity for the Group to expand into Japan property market. Leveraging on the experiences and business network of Long View Japan, it is expected that the Group is able to benefit from it to build up a solid platform and to further explore other valuable investment opportunities in Japan market.

The Property is located at the prime district of Osaka, Japan with proximity to metro and railway stations. In view of the prime location of the Property and the good public transportation networks in surrounding area, the Board believes that the Property is highly suitable to be operated as hotel for tourists and business travelers. The JV Parties intend to lease out the entire Property to a hotel operator in Japan for rental income, which could provide a stable source of additional recurring income and make a positive contribution to the Group in long run. The Board considers the Acquisition to be a valuable investment opportunity and could broaden the investment portfolio of the Group.

The JV Company is an indirect non-wholly-owned subsidiary of the Company and the results of which will be consolidated into the Group's financial statements. As to The Bauhinia Hotels Group Japan, it is considered as controlled entity of the Company pursuant to the Hong Kong Financial Reporting Standards and its results shall also be consolidated into the Group's financial statements.

The Board is of the view that the entering into of the Shareholders' Agreement and the Acquisition are in the Group's ordinary and usual course of business, and the terms of the Sale and Purchase Agreement are fair and reasonable and the formation of the JV Company and the Acquisition are in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

The formation of the JV Company in June 2023 under the Shareholders' Agreement with the Initial Capital Contribution did not constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules as none of the applicable percentage ratios exceeded 5%. The Acquisition, as it was conducted through the JV Company which is a 60% owned subsidiary of the Company, would by itself constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules, as one of the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the whole of the consideration for the Acquisition exceeds 5% but is less than 25% (and no other relevant percentage ratios exceeded 5%). As such, the failure by the Company to comply with the announcement requirements in respect of the Acquisition in a timely manner

constituted non-compliance with Chapter 14 of the Listing Rules. The failure to make timely disclosure was due to the inadvertent oversight by the management of the Company of the recent drop in the market capitalization of the Company and having only applied the Initial Capital Contribution instead of the entire amount of the consideration under the Acquisition when calculating the relevant percentage ratios under Rule 14.07 of the Listing Rules.

REMEDIAL ACTIONS

The Company would like to stress that the non-compliance was inadvertent. To prevent similar non-compliance from occurring in the future, the Company shall take the following measures and actions:

- i. the company secretarial and legal department of the Company shall continue to oversee and monitor the Company's on-going compliance with the Listing Rules; and
- ii. the Company would, as and when appropriate, seek external legal and/or other professional advice as to compliance requirements of the Listing Rules in relation to any proposed transactions or events in the future.

For the purpose of this announcement, amounts denominated in JPY have been translated into HK\$ at an exchange rate of JPY1.00 = HK\$0.055, which was adopted in the announcement of the Company on 9 August 2023. No representation is made that any amounts in JPY and HK\$ can be or could have been converted at the relevant dates at the above rates or at any other rates at all.

By Order of the Board
James Sing-Wai Wong
Executive Director

Hong Kong, 22 August 2023

At the date of this announcement, the directors of the Company are Dr. James Sai-Wing Wong (Chairman), Mr. James Sing-Wai Wong, Mr. Xiao-Ping Li and Mr. Philip Bing-Lun Lam as executive directors; and Ms. Janie Fong, Mr. David Tak-Wai Ma and Mr. James C. Chen as independent non-executive directors.