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## **KWAN ON HOLDINGS LIMITED**

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

**(Stock code: 1559)**

### **MAJOR TRANSACTION DISPOSAL OF THE PROPERTY**

#### **THE AGREEMENT**

On 15 December 2023, the Seller (an indirect non wholly-owned subsidiary of the Company) and the Purchaser entered into the Agreement in relation to the Disposal.

#### **IMPLICATIONS UNDER THE LISTING RULES**

As one of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Disposal exceeds 25% but all relevant percentage ratios are less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, Shareholders' approval may be obtained by written Shareholders' approval in lieu of convening a general meeting if (a) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Agreement and the transaction contemplated thereunder; and (b) the written Shareholders' approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the voting rights at the general meeting to approve the Agreement and the transaction contemplated thereunder.

As at the date of this announcement, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the Shareholders has any material interest in the Agreement and the transaction contemplated thereunder, and therefore no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Agreement and the transaction contemplated thereunder.

As no Shareholder is interested in the Disposal and is required to abstain from voting at the general meeting (if the Company were to convene a general meeting for the approval of the Disposal), the Company has obtained the written approval of Sino Coronet, a Shareholder holding 1,039,456,250 Shares, representing approximately 55.61% of the issued share capital of the Company as at the date of the Agreement, pursuant to Rule 14.44 of the Listing Rules, and is exempted from convening a general meeting for the approval of the Disposal.

Given none of the Directors has any material interest in the Agreement and the Disposal, no Directors were required to abstain from voting on the relevant board resolutions in approving the Agreement and the Disposal.

A circular containing, among other things, further information of the Disposal and other information as required under the Listing Rules will be despatched to the Shareholders on or before 10 January 2024, being 15 business days from the date of this announcement.

**As completion of the Disposal is subject to and conditional upon fulfilment of the relevant approvals and requirements set out in the Agreement and the completion of the Disposal may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.**

## **THE AGREEMENT**

### **Date**

15 December 2023

### **Parties**

- (1) The Seller; and
- (2) The Purchaser.

### **Subject matter of the Agreement**

Pursuant to the Agreement, the Seller has agreed to sell, and the Purchaser has agreed to purchase, the Property.

### **Consideration**

Pursuant to the Agreement, the Consideration shall be approximately PHP927,360,000 (equivalent to approximately HK\$130,614,084), and shall comprise:

- a) the purchase price in the amount of PHP828,000,000 (equivalent to approximately HK\$116,619,718) for the Property; and
- b) VAT in the amount of PHP99,360,000 (equivalent to approximately HK\$13,994,366).

The Consideration shall be payable in accordance with the following tranches by way of manager's check:

<b>Particulars</b>	<b>Tranche 1</b> (simultaneous with the signing of the Agreement)	<b>Tranche 2</b> (within 15 business days from receipt by the Purchaser of the electronic Certificates of Registration (eCARs) on the Property)	<b>Tranche 3</b> (within 15 business days upon full compliance by the Seller of all relevant completion obligations relating to the Property under the Agreement)	<b>TOTAL</b>
Net proceeds to be released/payable by the Purchaser to the Seller (except for Tranche 1 which will be directly paid to PNB for the repayment of the PNB Facility)	PHP285,878,787.90	PHP287,101,722.04	PHP200,000,000.00)	PHP772,980,509.94
6% Capital Gains Tax or 6% Creditable Withholding Tax, whichever is applicable, to which the Seller is accountable	PHP49,680,000.00	–	–	PHP49,680,000.00
* To be withheld by the Purchaser and to be paid/released to the appropriate BIR-RDO having jurisdiction over the Property as and when due				
VAT amount to be released to the Seller and to be remitted by the latter to the appropriate BIR-RDO as and when due	PHP99,360,000.00	–	–	PHP99,360,000.00
Real Property Tax Payments until fourth quarter of 2024, payable to City Treasurer of Manila	–	PHP5,339,490.06 <i>(may be adjusted depending on the RPT Statement of Account to be provided by SELLER)</i>	–	PHP5,339,490.06 <i>(may be adjusted depending on the RPT Statement of Account to be provided by SELLER)</i>
<b>TOTAL (Purchase Price plus VAT)</b>	PHP434,918,787.90	PHP292,441,212.10	PHP200,000,000.00	PHP927,360,000.00

The Consideration was determined after arm's length negotiation between the Seller and the Purchaser on normal commercial terms with reference to the Valuation as preliminarily determined by the Property Valuer and the benefits of the Disposal as set out in the section headed "Reasons for and benefits of entering into the Agreement" in this announcement. Market approach has been adopted by the Property Valuer to assess the gross development value of the proposed development of the Property, which is then adjusted with considerations of the outstanding development costs, the outstanding development periods and the potential profit margins. Income approach – discounted cashflow analysis has not been adopted in the preliminary valuation of the Property.

### **Regulatory Approvals and Requirements Relative to the Transaction**

The Purchaser and the Seller understand that:

- a) approvals and consents from the governmental authority or other third party in respect of the Agreement and the transactions contemplated thereunder may be required to be obtained by each of the Seller and the Purchaser;
- b) approval by the Shareholders is necessary in accordance with the Listing Rules and the Seller has informed the Purchaser that it has obtained such approval; and
- c) the mortgage of the Property will be fully released and discharged with the payment of the outstanding loan (including penalties and interests) to the mortgagee bank, PNB.

As at the date of this announcement, condition a) has not been fulfilled but condition b) has been fulfilled. For condition c), upon signing of the Agreement, the Purchaser has paid the tranche 1 of the Consideration to PNB on behalf of the Purchaser for repayment of the PNB Facility and PNB will arrange the release of the mortgage of the Property.

### **Completion**

Completion shall take place within 120 days from the signing of the Agreement and subject to reasonable extension of the period therein in writing by the parties.

### **Termination of the Disposal**

In the event that the Disposal cannot be completed within a period of 120 days, or any extended period as mutually agreed upon by the parties, due to (i) adverse information discovered in the course of due diligence of the Property by the Purchaser; or (ii) inability to transfer certain completion deliverables; or (iii) inability of the Seller to transfer the Property in the name of the Purchaser, free and clear from any and all encumbrances, adverse claims of whatever nature and kind, legal proceedings, ownership and/or possession disputes, or (iv) inability of the Seller to deliver actual physical, absolute peaceful possession and ownership of the Property to the Purchaser free and clear of any structures, improvements, and similar kinds, and other effects, or any occupants, settlers, tenants, legal or otherwise, except for the current improvement; or (v) inability of the Seller to fully and faithfully comply with all its duties and obligations under the Agreement, the Purchaser may cancel the sale, through the execution of the necessary rescission or cancellation documents of the Agreement and all the documents executed relative to the Disposal of the Property without prejudice to the Purchaser's rights or remedies as it may have under the law or in equity.

## **FINANCIAL EFFECTS OF THE DISPOSAL**

Based on (1) the unaudited net book value of the Property of approximately HK\$160.9 million as extracted from the published interim results announcement of the Company for the six-month period ended 30 September 2023; (2) the Consideration (excluding the VAT amount) of approximately HK\$116.6 million; and (3) local tax payable in connection with the Disposal of approximately HK\$7 million, the Group is expected to record a loss of approximately HK\$51.3 million as a result of the Disposal. The actual amount of loss will be subject to audit by the auditors of the Company and therefore may be different from the aforementioned amount. Since the Group owns 40% interest of the Seller, the estimated loss on the Disposal attributable to the Shareholders is approximately HK\$20.5 million. Such loss is non-recurring in nature and will be reflected in the profit and loss account of the Group for the year ending 31 March 2024 assuming Completion takes place in that financial year. The actual loss on the Disposal to be recognised by the Group, which will be calculated by reference to the net book value of the Property at the time of Completion and related expenses and costs incurred by the Company, may be different from the above figure. As a result of the loss on the Disposal, it is expected that the consolidated net asset value of the Group attributable to the Shareholders will drop by approximately HK\$20.5 million.

The estimated net proceeds from the Disposal (after deducting the relevant taxation and expenses) would be in the amount of approximately PHP765.9 million (equivalent to approximately HK\$107.8 million), of which approximately PHP285.9 million (equivalent to approximately HK\$40.2 million) will be used to repay the PNB Facility and the remaining balance of approximately PHP480.0 million (equivalent to approximately HK\$67.6 million) will be used by the Seller to repay the amount due to the Group. After receiving such amount of approximately HK\$67.6 million from the Seller, the Group intends to apply (i) approximately HK\$34 million to repay certain amount of outstanding bank loans; (ii) HK\$30 million for financing the construction and other business development of the Group; and (iii) the remaining balance of approximately HK\$3.6 million as general working capital of the Group.

As set out above, the Group intends to apply part of the net proceeds for repayment of the PNB Facility and the other bank borrowings of the Group. Thus, the total indebtedness of the Group will decrease, and the gearing ratio of the Group will be improved after such repayment.

Certain pledged bank deposits of the Group will be released after partial repayment of bank borrowings. Moreover, part of the net proceeds will be used for business development and general working capital of the Group. All of these will strengthen the liquidity and cash flow position of the Group as a result of the Disposal.

## **INFORMATION ON THE PROPERTY**

The Land is located at Padre Faura St., Brgy. 669 Zone 072, Ermita District, Manila, the Philippines. The total site area of the Land is 3,312 sq.m and is freehold land for commercial and residential development use.

As at the date of the Agreement, the Seller has provided the Property as security over the PNB Facility in favour of PNB.

The Property did not generate any rental income for the two years ended 31 March 2022 and 2023, and as at the date of this announcement.

The net book value of the Property was approximately HK\$160.9 million as of 30 September 2023 and the preliminary Valuation was approximately PHP1.03 billion (equivalent to approximately HK\$145.07 million) as of 15 December 2023.

## **INFORMATION ON THE PARTIES**

The Company is an investment holding company and its subsidiaries are principally engaged in the construction related business, property development and trading of chemical materials in Hong Kong and mainland China.

The Seller is an investment holding company which holds the Property. As at the date of this announcement, the Seller is an indirect non-wholly owned subsidiary of the Company.

The Purchaser is one of the Philippines' leading real estate companies with a proven track record of over 40 years in the industry. It is the second-largest mall operator in the country. The Purchaser is principally engaged in the development and operation of shopping malls and hotels, and is also one of the country's most reputable developers of mixed-use properties, office buildings, residential condominiums, as well as land and residential housing developments, including socialized housing projects located in key cities and other urban areas nationwide. Based on the quarterly report for the nine months ended 30 September 2023 filed by the Purchaser with the Securities and Exchange Commission, the Purchaser was owned as to approximately 65.32% by JG Summit Holdings, Inc. ("**JGSHI**"). JGSHI is one of the largest conglomerates in the Philippines, with diverse interests in the branded consumer foods, agro-industrial and commodity food products, petrochemicals, air transportation and financial services in the Philippines.

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

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT**

The Property was acquired by the Group in the second half of 2019 and is planned to be redeveloped into two 55-storey apartment towers accommodating over 2,000 residential units, with a shopping mall and over 400 carparking spaces. Nevertheless, there was an outbreak of COVID-19 disease in early 2020. The COVID-19 pandemic posed severe disruptions to various processes of taking the development project forward. For example, the local government imposed lockdown measures during the COVID-19 pandemic and the Group could not apply for the relevant licenses or permits for the development project. Although local project teams have worked hard to proceed with design work and pre-construction preparations, the progress of the development project was unsatisfactory. The Group has not yet obtained all necessary licenses and permits for the development project as at the date of this announcement. The construction and other business of the Group was also severely affected by the COVID-19 pandemic. This resulted in the Group recording deteriorating results for the past three financial years ended 31 March 2021, 2022, and 2023 with losses attributable to the Shareholders increasing from approximately HK\$24.4 million for the financial year ended 31 March 2021 to HK\$111.7 million for the financial year ended 31 March 2023. The Group continued to suffer loss attributable to the Shareholders of approximately HK\$51.5 million for the six months ended 30 September 2023. The amount of bank balances and cash of the Group also dropped from approximately HK\$172.4 million on 31 March 2021 to HK\$32.9 million on 30 September 2023.

The estimated construction cost of the development project is approximately PHP6.7 billion (equivalent to approximately HK\$943.7 million) which is intended to be financed by internal resources of the Group and borrowings. The development period of the development project is estimated to be approximately four years. The Group has discussed with a number of lenders to finance the construction cost. However, no agreement has been reached with lenders so far.

The Directors consider that there are challenges and uncertainties on the property market in the Philippines due to the interest rate hikes and the global economic slowdown. Coupled with (1) the financing plan with lender not yet being agreed upon; and (2) the deteriorating financial results of the Group mentioned above posing a constraint for the Group to commit substantial amount of resources on the development project, the development project may (i) pose a risk on the Group, and (ii) would limit the Group's ability to further develop its construction and other business. On this basis, the Board is of the view that it is appropriate to liquidate the investment in the Property, and focus the Group's resources on its construction and other business.

The Group discussed with a number of potential independent third party buyers. The price offered by the Purchaser is the highest. The acquisition of the Property is partially financed by a mortgage (i.e. the PNB Facility). The outstanding amount of the PNB Facility has to be fully settled by the Seller before Completion, and represents approximately 122% of bank balances and cash of the Group on 30 September 2023. In order to avoid the cash flow pressure of the Group to settle the outstanding amount of the PNB Facility before Completion, the Seller negotiates with the Purchaser to pay certain amount of the Consideration upon signing of the Agreement. After several rounds of negotiation, the Purchaser agrees to pay the first tranche of the Consideration upon signing of the Agreement in an amount of being sufficient to fully settle the PNB Facility.

As set out in the section headed “Financial effects of the Disposal” in this announcement, the net proceeds from the Disposal are intended to be applied, among other things, to settle the PNB Facility and the other bank borrowings of the Group. The repayment of the PNB Facility and these bank borrowings can save interest payment of approximately HK\$3.0 million annually based on their respective existing interest rates.

Although (i) the Consideration (excluding the VAT amount) of PHP828 million represents a discount of approximately 19.6% to the Valuation of PHP1,030 million as preliminarily determined by the Property Valuer; and (ii) the Disposal results in a loss, the Board considers the Consideration to be fair and reasonable because:

- (a) the Consideration is determined after arm’s length negotiations with the Purchaser;
- (b) the Consideration is the highest price against that of potential buyers as mentioned above;
- (c) the Purchaser agrees to pay the first tranche of the Consideration upon signing of the Agreement in an amount of being sufficient to fully settle the PNB Facility and this will avoid the cashflow pressure of the Group to settle the outstanding amount of the PNB Facility before Completion;
- (d) the Purchaser is financially sound with unaudited consolidated cash and cash equivalents balance of approximately PHP5.9 billion on 30 September 2023 as disclosed in the 2023 third quarter financial report of the Purchaser. The default risk in respect of the payment of the Consideration is considered to be low;
- (e) the Group can save interest payment of approximately HK\$3.0 million annually as disclosed above;



- (f) the Disposal can lower gearing ratio of the Group, and strengthen the liquidity and cashflow position of the Group as stated in the section headed “Financial effects of the Disposal” in this announcement; and
- (g) if the Group rejects the offer from the Purchaser and looks for other interested buyers, it is uncertain when and how long the Group has to take to reach an agreement for the disposal of the Property with other interested buyers. Due to expected challenges and uncertainties on the property market in the Philippines by the Directors, the price offered by other interested buyers may be lower than the Consideration. If this happens, the Company would miss an opportunity to be better off.

Having considered the above factors, the Directors are of the view that the terms of the Agreement are on normal commercial terms and are fair and reasonable, and the Disposal is in the interests of the Company and the Shareholders as a whole.

### **IMPLICATIONS UNDER THE LISTING RULES**

As one of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Disposal exceeds 25% but all relevant percentage ratios are less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and Shareholders’ approval requirements under Chapter 14 of the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, Shareholders’ approval may be obtained by written Shareholders’ approval in lieu of convening a general meeting if (a) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Agreement and the transaction contemplated thereunder; and (b) the written Shareholders’ approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the voting rights at the general meeting to approve the Agreement and the transaction contemplated thereunder.

As at the date of this announcement, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the Shareholders has any material interest in the Agreement and the transaction contemplated thereunder, and therefore no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Agreement and the transaction contemplated thereunder.

As no Shareholder is interested in the Disposal and is required to abstain from voting at the general meeting (if the Company were to convene a general meeting for the approval of the Disposal), the Company has obtained the written approval of Sino Coronet, a Shareholder holding 1,039,456,250 Shares, representing approximately 55.61% of the issued share capital of the Company as at the date of the Agreement, pursuant to Rule 14.44 of the Listing Rules, and is exempted from convening a general meeting for the approval of the Disposal.

Given none of the Directors has any material interest in the Agreement and the Disposal, no Directors were required to abstain from voting on the relevant board resolutions in approving the Agreement and the Disposal.

A circular containing, among other things, further information of the Disposal and other information as required under the Listing Rules will be despatched to the Shareholders on or before 10 January 2024, being 15 business days from the date of this announcement.

**As completion of the Disposal is subject to and conditional upon fulfilment of the relevant approvals and requirements set out in the Agreement and the completion of the Disposal may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.**

## **DEFINITIONS**

Unless otherwise specified, the following terms have the following meanings in this announcement:

“Agreement”	the agreement dated 15 December 2023 entered into between the Seller and the Purchaser in relation to the Disposal
“BIR-DRO”	Bureau of Internal Revenue – Revenue District Office in the Philippines
“Board”	the board of Directors
“Company”	Kwan On Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board (Stock Code: 1559)
“Completion”	completion of the Agreement
“connected person(s)”	has the meaning as ascribed thereto under the Listing Rules

“Consideration”	the consideration payable by the Purchaser to the Seller under the Agreement
“controlling shareholder”	has the meaning as ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Property by the Seller to the Purchaser under the Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hotel Building”	the 5-storeys building erected upon the Land
“Land”	two parcels of land situated at Padre Faura St., Brgy. 669 Zone 072, Ermita District, Manila, the Philippines
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	Main Board of the Stock Exchange
“PNB”	Philippine National Bank
“PNB Facility”	the facility in an outstanding amount of approximately PHP285.9 million granted by PNB to the Seller secured by the mortgage over the Property
“PHP”	Philippines Peso, the lawful currency of the Philippines
“PRC”	the People’s Republic of China
“Property”	the Land and the Hotel Building
“Property Valuer”	an independent property valuer appointed by the Seller
“Purchaser”	Robinsons Land Corporation, a corporation duly organized and existing under the laws of the Philippines whose shares of stock are listed and currently traded at the Philippine Stock Exchange under the stock symbol “RLC”

“Seller”	Metrocity Properties Group, Inc., a corporation duly organized and existing under the laws of the Philippines and an indirect non-wholly owned subsidiary of the Company
“Share(s)”	ordinary share(s) of the Company
“Shareholders”	shareholders of the Company
“Sino Coronet”	Sino Coronet Group Limited, a company incorporated in the British Virgin Islands with limited liability, and a controlling shareholder of the Company
“sq.m”	square meter
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“the Philippines”	The Republic of the Philippines
“Valuation”	an independent valuation conducted by the Property Valuer
“VAT”	value-added tax
“%”	per cent.

By Order of the Board  
**KWAN ON HOLDINGS LIMITED**  
**Chen Zhenghua**  
*Chairman*

Hong Kong, 15 December 2023

*As at the date of this announcement, the Executive Directors are Mr. Chen Zhenghua, Mr. Zhang Fangbing and Mr. Cao Lei; and the Independent Non-Executive Directors are Professor Lam Sing Kwong, Simon, Mr. Lum Pak Sum and Mr. Gong Zhenzhi.*

*For use in this announcement and for illustration purposes only, conversion of PHP into HK\$ is based on the approximate exchange rate of HK\$1 to PHP7.1. No representation or assurance is made or given that any amount in PHP or HK\$ could be converted at such rate or any other rates.*