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FAR EAST CONSORTIUM INTERNATIONAL LIMITED

遠東發展有限公司*

(Incorporated in the Cayman Islands with limited liability)

Website: <http://www.fecil.com.hk>

(Stock code: 35)

DISCLOSEABLE TRANSACTION INVOLVING DORSETT CITY LONDON HOTEL

THE SALE

The Board wishes to announce that on 15 June 2021 (after trading hours), the Sellers and the Purchaser entered into the SPA, whereby the Sellers have agreed to sell, and the Purchaser has agreed to purchase, the Sale Shares for the aggregate consideration of £115,000,000 (equivalent to approximately HK\$1,256,950,000), less the Bank Loan Amount and the Shareholder Loan Amount, and subject to Completion Adjustments. On Completion, the Purchaser shall procure (i) the repayment by Elite to the lender under the Bank Facility of an amount in cash equal to the Bank Loan Amount less any deductions or withholdings for or on account of tax that are required by applicable law, and (ii) the repayment by Elite to Mazuma of an amount in cash equal to the Shareholder Loan Amount less any withholdings for or on account of tax that are required by applicable law.

LISTING RULES IMPLICATIONS

As one or more of the applicable Percentage Ratios for the Sale exceeds 5% but all of the applicable Percentage Ratios are less than 25%, the Sale constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

* *For identification purposes only*

INTRODUCTION

The Board wishes to announce that on 15 June 2021 (after trading hours), the Sellers and the Purchaser entered into the SPA, whereby the Sellers have agreed to sell, and the Purchaser has agreed to purchase the Sale Shares for the aggregate consideration of £115,000,000 (equivalent to approximately HK\$1,256,950,000), less the Bank Loan Amount and the Shareholder Loan Amount, and subject to Completion Adjustments. On Completion, the Purchaser shall procure (i) the repayment by Elite to the lender under the Bank Facility of an amount in cash equal to the Bank Loan Amount less any deductions or withholdings for or on account of tax that are required by applicable law, and (ii) the repayment by Elite to Mazuma of an amount in cash equal to the Shareholder Loan Amount less any withholdings for or on account of tax that are required by applicable law. Moreover, on Completion, DCLL, the Manager and the Company (as the Manager's guarantor) will enter into a Hotel Management Agreement, pursuant to which DCLL shall appoint the Manager to manage and operate the Dorsett City London Hotel during the Term. Both the Sale and the Hotel Management Agreement are in relation to Dorsett City London Hotel, a hotel currently owned and operated by the Group.

THE SPA

The principal terms of the SPA are set out as follows:

Date

15 June 2021

Parties

- (1) the Sellers
- (2) the Purchaser
- (3) the Company (as the guarantor)

Subject matters

The Sellers shall sell, and the Purchaser shall purchase the Sale Shares subject to the terms of the SPA, but free from all encumbrances, and together with all rights of any nature attached or accruing to them on or after Completion.

The Purchaser shall not be obliged to complete the purchase of any of the Sale Shares unless the purchase of all of the Sale Shares is completed simultaneously.

Consideration

The Consideration for the Sale shall be the Consideration payable by the Purchaser to the Sellers in the following manner:

- (a) the Deposit has been paid into the Seller Lawyers Account on the date of the SPA, where such Deposit shall be held by the Sellers' lawyer as stakeholder;
- (b) the payment of the remaining Consideration (less the Deposit) shall be made to the Sellers on Completion.

The Consideration was determined after arm's length negotiations with reference to, among other things, the location of the Property, prevailing commercial and business conditions, and comparable price of similar properties in the vicinity of the Property.

Completion

Completion is expected to take place on the Completion Date. On Completion, the Purchaser shall procure (i) the repayment by Elite to the lender under the Bank Facility of an amount in cash equal to the Bank Loan Amount less any deductions or withholdings for or on account of tax that are required by applicable law, and (ii) the repayment by Elite to Mazuma of an amount in cash equal to the Shareholder Loan Amount less any withholdings for or on account of tax that are required by applicable law. At Completion, the Sellers and the Purchaser shall procure that the relevant parties enter into, amongst others, the Hotel Management Agreement and certain trademark licence agreements. Upon Completion, the Targets will cease to be subsidiaries of the Company.

Guarantee

The Company guarantees to the Purchaser the performance by each of the Sellers of their respective obligations under the SPA.

THE HOTEL MANAGEMENT AGREEMENT

Parties

- (1) DCLL (as the owner)
- (2) the Manager
- (3) the Company (as the Manager's guarantor)

Term

The Hotel Management Agreement will be entered into on the Completion Date. The Hotel Management Agreement will take effect upon Completion for the period of the Term and unless otherwise provided in the Hotel Management Agreement, the Hotel Management Agreement shall not be terminated until the expiry of the Term.

Services

DCLL shall appoint the Manager to manage and operate the Dorsett City London Hotel during the Term as a hotel manager in accordance with the provisions of the Hotel Management Agreement.

Management Fee and Owner's Guaranteed Return

During the Term, DCLL shall be entitled to the Owner's Guaranteed Return of £6,065,000 (equivalent to approximately HK\$66,290,450) per annum from the gross operating profits of the Dorsett City London Hotel. The Manager (or the Company as the Manager's guarantor) shall pay one-twelfth of the Owner's Guaranteed Return to DCLL in cash and in advance of each calendar month to such separate account as is nominated by DCLL. To the extent that the Manager pays the monthly Owner's Guaranteed Return, the Manager shall be entitled to retain (and withdraw from the Operating Bank Account) the gross operating profit of the Dorsett City London Hotel for the applicable month up to the monthly Owner's Guaranteed Return. The Owner's Guaranteed Return was determined after arm's length negotiations with reference to, among other things, the average gross operating profit of Dorsett City London Hotel for the two financial years ended 31 March 2019 and 31 March 2020.

During the Term, the Manager shall be entitled to a Management Fee equivalent to the excess of the actual gross operating profits of the Dorsett City London Hotel less the Owner's Guaranteed Return. The Manager shall be entitled to withdraw from the Operating Bank Account each month any gross operating profit above the monthly Owner's Guaranteed Return as its Management Fee for the applicable month. The Management Fee shall be reconciled subsequently on an annual basis at the end of each Operating Year, based on the gross revenue and gross operating profit of the Dorsett City London Hotel, and appropriate adjustments shall be made for the overpayment or underpayment of the Management Fee or Owner's Guaranteed Return (to the extent applicable) during such Operating Year.

Manager's Guarantee

The Company unconditionally guarantees the performance of the obligations of the Manager in accordance with the terms under the Hotel Management Agreement up to a maximum of the Owner's Guaranteed Return per annum. The Company unconditionally and irrevocably agrees to indemnify DCLL or any of its affiliates immediately on demand against all damages, claims, liabilities or other losses incurred by DCLL or any of its affiliates as a result of or in connection with any obligation guaranteed by the Company being or becoming unenforceable, invalid or illegal.

Financing and mortgaging of Dorsett City London Hotel

DCLL shall have the right, from time to time, without the Manager's consent, to obtain loans from banks and to encumber the Property and/or the Dorsett City London Hotel with mortgages securing such loans. DCLL may charge the Dorsett City London Hotel as security to any mortgagee bank and/or security trustee for financing the Dorsett City London Hotel without the consent of the Manager, provided that DCLL shall not charge the Operating Bank

Account as security to the mortgagee (unless the Manager provides its written consent to such charge), and shall use all reasonable endeavours to obtain from any mortgagee which holds a charge during the Term a non-disturbance agreement in a form reasonably satisfactory to the Manager and the mortgagee.

Further, DCLL (as the chargor) and the Manager shall enter into a charge over bank accounts at Completion, pursuant to which the Manager shall be granted a fixed charge over the Operating Bank Account to cover all liabilities that arise under the Hotel Management Agreement during the Term. Upon satisfaction of all such liabilities, the fixed charge shall be released.

Direct agreement

The Manager, the Company (as the Manager's guarantor), DCLL and DCLL's lender shall enter into a direct agreement at Completion which shall oblige the Manager to pay to DCLL's lender the Owner's Guaranteed Return if DCLL is in default of its funding arrangements with its lender, following receipt of a notice from its lender requiring the same. Upon a default by DCLL, its lender shall have the right, subject to certain restrictions, to transfer, assign or novate all or part of its respective rights, benefits or obligations in relation to the Hotel Management Agreement.

FINANCIAL INFORMATION OF ELITE AND DCLL

The following are the financial information of Elite as at and for the two financial years ended 31 March 2020 and 31 March 2021, and are extracted from the unaudited management accounts of Elite:

	For the year ended 31 March 2021	For the year ended 31 March 2020
	<i>approximate £'000 (unaudited)</i>	<i>approximate £'000 (unaudited)</i>
Net (loss)/profit before taxation	(1,232)	(1,021)
Net (loss)/profit after taxation	(1,232)	(945)
	As at 31 March 2021	As at 31 March 2020
	<i>approximate £'000 (unaudited)</i>	<i>approximate £'000 (unaudited)</i>
Net liabilities	4,244	3,011
Total assets	53,340	56,274

The following are the financial information of DCLL as at and for the two financial years ended 31 March 2020 and 31 March 2021, and are extracted from the audited financial statements and the unaudited management accounts of DCLL respectively:

	For the year ended 31 March 2021	For the year ended 31 March 2020
	<i>approximate £'000 (unaudited)</i>	<i>approximate £'000 (audited)</i>
Net (loss)/profit before taxation	(2,165)	2,736
Net (loss)/profit after taxation	(2,165)	2,217
	As at 31 March 2021	As at 31 March 2020
	<i>approximate £'000 (unaudited)</i>	<i>approximate £'000 (audited)</i>
Net assets	1,563	3,728
Total assets	20,100	25,313

The estimated market value of the Property and Dorsett City London Hotel is expected to be £115,000,000 (equivalent to approximately HK\$1,256,950,000) based on an independent valuation report with its valuation date as at 31 March 2021, adopting, amongst others, the market evidence approach.

FINANCIAL EFFECT OF THE SALE

The Directors estimate that upon Completion, the Group is expected to record a gain from the Sale of approximately £50,000,000 (equivalent to approximately HK\$546,500,000), being the Consideration less the fair value of the Owner's Guaranteed Return and less the aggregate of the estimated book carrying value of the Targets attributable to the Group at Completion and the estimated expenses in relation to the Sale.

Upon Completion, the Targets will cease to be subsidiaries of the Company and their financial statements will no longer be consolidated into the Group's financial statements.

USE OF PROCEEDS

The Directors expect that the net proceeds from the Sale will be used for the general working capital of the Group.

REASONS FOR AND BENEFITS OF THE SALE AND THE HOTEL MANAGEMENT AGREEMENT

One of the core businesses of the Group is the development, ownership and operation of hotels. The Sale Shares represent the ownership of the operating and property ownership companies of Dorsett City London Hotel, a hotel developed by the Group.

The Directors consider that the Sale and the entering into the Hotel Management Agreement will, amongst others, (i) realise the value of the Dorsett City London Hotel, (ii) allow the gain from the Sale to be crystallised and the capital to be recycled, (iii) increase liquidity and reduce net gearing, and (iv) provide the Group with an income stream from the management fee upon the stabilization of the hospitality sector post COVID-19.

The Directors are of the view that the Sale and the entering into the Hotel Management Agreement are consistent with the Group's strategy of unlocking development profits from its hotel portfolio and maintaining or enhancing the development of its hotel management business.

The Directors are of the view that the Sale, the terms of the SPA and the Hotel Management Agreement and the transactions contemplated thereby are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

INFORMATION ON THE TARGETS

Elite is an indirect wholly-owned subsidiary of the Company and is a property holding company. It is the current owner of the Dorsett City London Hotel.

DCLL is an indirect wholly-owned subsidiary of the Company and carries on the business of hotel operations. It currently operates the Dorsett City London Hotel.

INFORMATION ON THE SELLERS, THE MANAGER AND THE GROUP

Mazuma is an indirect wholly-owned subsidiary of the Company and engaged in investment holding. It is the owner of Elite.

DHUL is an indirect wholly-owned subsidiary of the Company and engaged in the operation of hotel business. It is the owner of DCLL.

The Manager is an indirect wholly-owned subsidiary of the Company and engaged in hotel management services.

The Company is an investment holding company and the principal activities of the Group are property development and investment, hotel operations and management, car park operations and facilities management, securities and financial product investments and gaming operations.

INFORMATION ON THE PURCHASER

The Purchaser is a subsidiary of certain affiliates of Highgate Hotels, L.P. and Cerberus Capital Management, L.P..

The Purchaser was incorporated on 13 May 2021 for the purpose of acquiring the shares of Elite and DCLL.

To the best knowledge, information and belief of the Directors having made all reasonable enquiry, the Purchaser and the ultimate beneficial owner(s) of the Purchaser are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

LISTING RULES IMPLICATIONS

As one or more of the applicable Percentage Ratios for the Sale exceeds 5% but all of the applicable Percentage Ratios are less than 25%, the Sale constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

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

“Bank Facility”	the £27,000,000 (equivalent to approximately HK\$295,110,000) facility agreement dated 18 September 2015 between, amongst others, Elite (being the borrower) and a commercial bank (being the lender)
“Bank Loan Amount”	the amount payable by the borrower (being Elite) under the Bank Facility in full and final settlement of the borrower’s obligations under the Bank Facility (including principal amounts, interest and break fees) at Completion
“Board”	board of Directors
“Business Day”	any day other than a Saturday or Sunday on which commercial banks are open for general business in each of: (i) London, United Kingdom; (ii) the British Virgin Islands; and (iii) Hong Kong
“Company”	Far East Consortium International Limited (遠東發展有限公司*), 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: 35)
“Completion”	completion of the Sale

“Completion Adjustments”	net asset value adjustments of Elite and DCLL as of the Completion Date
“Completion Date”	30 June 2021 (as it may be amended pursuant to the SPA, which includes moving the Completion Date to a date that is a Business Day in the period from 1 July 2021 to 7 July 2021 (both dates inclusive) at the option of the Purchaser)
“Consideration”	the aggregate consideration payable by the Purchaser to the Sellers for the Sale Shares, being £115,000,000 (equivalent to approximately HK\$1,256,950,000), less the Bank Loan Amount and the Shareholder Loan Amount, and subject to Completion Adjustments
“DCLL”	Dorsett City London Limited, a company incorporated in England and Wales with limited liability and a wholly-owned subsidiary of DHUL
“DCLL Share”	one ordinary share in the capital of DCLL, representing the entire issued share capital of DCLL
“Deposit”	£5,000,000 (equivalent to approximately HK\$54,650,000)
“DHUL”	Dorsett Hospitality (UK) Ltd, a company incorporated in England and Wales with limited liability and is an indirect wholly-owned subsidiary of the Company
“Director(s)”	the directors of the Company
“Dorsett City London Hotel”	the building on the Property, which is known as Dorsett City London Hotel
“Elite”	Elite Region Limited, a company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of Mazuma
“Elite Share”	one ordinary share in the capital of Elite, representing the entire issued share capital of Elite
“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 People’s Republic of China
“Hotel Management Agreement”	the hotel management agreement to be entered into between DCLL, the Manager and the Company in respect of the management and operation of the Dorsett City London Hotel

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management Fee”	the income receivable by the Manager pursuant to the terms and conditions of the Hotel Management Agreement
“Manager”	DHI Hotel Management UK Ltd, a company incorporated in England and Wales with limited liability and an indirect wholly-owned subsidiary of the Company
“Mazuma”	Mazuma Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company
“Operating Bank Account”	the bank account(s) established by DCLL in its name at a licenced bank in the United Kingdom, which is used for receiving all sums from the operation of the Dorsett City London Hotel and payment of all sums by the Manager by virtue of the Manager’s operation of the Dorsett City London Hotel
“Operating Year”	from 1 April of a year to 31 March of the next year provided that the first Operating Year shall be the period commencing on the Completion Date and ending on 31 March 2022 and provided that the final Operating Year may be less than a full year if the Hotel Management Agreement is terminated early or the expiry of the Term does not end on 31 March of a year
“Owner’s Guaranteed Return”	the guaranteed gross operating profit of the Dorsett City London Hotel in the amount of £6,065,000 (equivalent to approximately HK\$66,290,450) per annum, and subject to adjustments due to a force majeure event or a major casualty or a partial casualty as defined or set out in the Hotel Management Agreement
“Percentage Ratios”	have the meaning ascribed to such term in Rule 14.07 of the Listing Rules
“Property”	the freehold and leasehold property at 9-13 Aldgate High Street, London
“Purchaser”	Aldgate Hotel Bidco Limited, a company incorporated in England and Wales
“Sale”	the sale of the Sale Shares by the Sellers to the Purchaser pursuant to the SPA
“Sale Shares”	DCLL Share and Elite Share

“Seller Lawyers Account”	the bank account held by the Sellers’ lawyer as specified in the SPA
“Sellers”	Mazuma and/or DHUL (as the context so requires), each a “Seller”
“Shareholder(s)”	holder(s) of the ordinary share(s) of the Company
“Shareholder Loan”	the interest free loan in principal amount of £39,287,746 (equivalent to approximately HK\$429,415,064) owing by Elite to Mazuma (under the shareholder’s letter from Mazuma to Elite dated 24 November 2015)
“Shareholder Loan Amount”	the amount payable by Elite to Mazuma under the Shareholder Loan in full and final settlement of the obligations of Elite under the Shareholder Loan
“SPA”	the sale and purchase agreement entered into between the Sellers, the Purchaser and the Company in respect of the Sale
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Targets”	DCLL and Elite
“Term”	a term of 2 years starting from the Completion Date
“%”	per cent.
“£”	Great British Pound, the lawful currency of United Kingdom

For the purpose of this announcement and for illustration purpose only, conversion of £ to HK\$ is based on the exchange rate of £ to HK\$10.93. No representation is made that any amounts in £ have been or could be converted at the above rate or any other rates.

By Order of the Board
Far East Consortium International Limited
Wai Hung Boswell CHEUNG
Company Secretary

Hong Kong, 15 June 2021

As at the date of this announcement, the Board comprises five executive directors namely, Tan Sri Dato’ David CHIU, Mr. Cheong Thard HOONG, Mr. Dennis CHIU, Mr. Craig Grenfell WILLIAMS and Ms. Wing Kwan Winnie CHIU; and three independent non-executive directors, namely Mr. Kwok Wai CHAN, Mr. Kwong Siu LAM and Mr. Lai Him Abraham SHEK.