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Kosmopolito Hotels International Limited

麗悅酒店集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Website: <http://www.kosmohotels.com>

(Stock Code: 2266)

DISCLOSEABLE TRANSACTION INVOLVING SALE OF SALE SHARE AND SALE LOAN

THE SALE

The Board wishes to announce that on 1 December 2010 (after trading hours), the Seller entered into the Sale and Purchase Agreement with the Purchaser, an independent third party, whereby the Seller has agreed to sell, and the Purchaser has agreed to purchase, the Sale Share and the Sale Loan for an aggregate consideration of HK\$290,000,000 minus the Existing Bank Loan and subject to Adjustments.

THE HOTEL MANAGEMENT AGREEMENT

The Board wishes to further announce that on 1 December 2010 (after trading hours), the Manager entered into the Hotel Management Agreement with ECIL and the Purchaser pursuant to which the Manager shall provide hotel management services to the Hotel.

LISTING RULES IMPLICATIONS

As the Seller is a wholly owned subsidiary of the Company and the applicable percentage ratios (as defined in the Listing Rules) in respect of the Sale are greater than 5% but less than 25%, the Sale constitutes a discloseable transaction for the Company and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

ECIL is a company incorporated in Hong Kong and is wholly and beneficially owned by the Seller. The principal business of ECIL involves the holding and development of the Hotel.

On 1 December 2010 (after trading hours), the Seller entered into the Sale and Purchase Agreement with the Purchaser, whereby the Seller has agreed to sell and the Purchaser has agreed to purchase, the Sale Share and the Sale Loan for an aggregate consideration of HK\$290,000,000 minus the Existing Bank Loan and subject to Adjustments.

Moreover, on the same day (after trading hours), the Manager has entered into the Hotel Management Agreement with ECIL and the Purchaser, pursuant to which the Manager shall provide hotel management services to the Hotel provided that each of the Purchaser and the Manager has the right to terminate the Hotel Management Agreement if Completion under the Sale does not occur and the Sale and Purchase Agreement is consequently terminated.

Summarised below are the principal terms of the Sale and Purchase Agreement and the Hotel Management Agreement.

THE SALE AND PURCHASE AGREEMENT

Date

1 December 2010

Parties

Seller:	Havena Holdings Limited, a wholly-owned subsidiary of the Company
Purchaser:	Norwood Asia Limited, an independent third party of the Company and/or its connected persons
Seller's Guarantor:	Kosmopolito Hotels International Limited
Purchaser's Guarantor:	PGR Asian Real Estate Fund, L.P.

Assets to be sold

The Sale Share and the Sale Loan.

Consideration

The Consideration is the sum of HK\$290,000,000 less the Existing Bank Loan, of which an amount equivalent to the Sale Loan outstanding at Completion shall be the purchase price of the Sale Loan, and the balance thereof shall be the purchase price of the Sale Share.

The Consideration shall be satisfied in cash in the following manner:

- (a) HK\$29,000,000 as initial deposit upon the signing of the Sale and Purchase Agreement;
- (b) HK\$29,000,000 as second installment within 30 days after the signing of the Sale and Purchase Agreement; and

- (c) HK\$232,000,000 minus the Existing Bank Loan and adjusted to reflect the difference between the actual amount of expenses incurred by ECIL in relation to certain operational equipments and supplies regarding the Hotel Project and an agreed estimated cost, at Completion.

Within 14 days after the Completion Date, the Seller and the Purchaser shall agree in writing the contents of the Completion Accounts and the calculation of the Completion Net Current Assets. Within 5 Business Days following the agreement of the Completion Accounts and the Completion Net Current Assets calculation, the Consideration shall be adjusted in the following manner:

- (a) If the Completion Net Current Assets shall be less than nil, the Seller shall pay such amount of shortfall to the Purchaser; and
- (b) If the Completion Net Current Assets shall be more than nil, the Purchaser shall pay such amount of surplus to the Seller.

The Consideration was arrived at after arm's length negotiations between the parties of the Sale and Purchase Agreement with reference to a valuation certificate prepared by DTZ Debenham Tie Leung Limited, an independent professional property valuer, on 28 September 2010 showing the estimated capital value of the Hotel if completed as at 30 June 2010 was HK\$290,000,000.

In light of the above, the Directors (including the independent non-executive Directors) consider that the Consideration is fair and reasonable.

Conditions to Completion

Completion shall be subject to and conditional upon: –

- (a) the Purchaser having obtained the New Financing;
- (b) the warranties under the Sale and Purchase Agreement remaining true and accurate and not misleading in all material aspects at the date of the Sale and Purchase Agreement and at Completion;
- (c) the Seller having provided evidence to the reasonable satisfaction of the Purchaser showing (i) all construction works of the Hotel having been practically completed; (ii) all the construction works having been complied with all applicable laws, rules and regulations; and (iii) the Hotel Project having been completed in accordance with the construction contracts regarding the construction works, including but not limited to the issuance of the occupation permit in respect of the Hotel by the Building Authority;
- (d) the Seller having provided evidence to the reasonable satisfaction of the Purchaser showing all licences, permits or certificates required for the operation of the Hotel having been obtained and shall remain valid and subsisting as at Completion, including but not limited to the issuance of the hotel licence in respect of the Hotel under the Hotel and Guesthouse Accommodation Ordinance (Cap. 349 of the Laws of Hong Kong);

- (e) the Seller having provided to the Purchaser the final accounts submitted to ECIL by the main contractors and all direct contractors engaged under the construction contracts in relation to the Hotel;
- (f) at the date of the Sale and Purchase Agreement and at Completion, the Hotel Management Agreement remains valid and subsisting and has not been terminated nor has any notice of termination been given by any party thereto in accordance with the terms of the Hotel Management Agreement; and
- (g) such consent, approval, authorisation, permission and/or waiver from ECIL's mortgagee as may be required or necessary under the Loan Agreement and/or other security or guarantee documents in connection with the Sale and Purchase Agreement and the Hotel Management Agreement having been obtained.

If conditions (b) to (g) are not fulfilled (or waived in accordance with the Sale and Purchase Agreement) by 31 March 2011 (or such other date as the Seller and the Purchaser may agree) or if the Purchaser gives notice to the Seller on or before 21 January 2011 (or such other date as the Seller and the Purchaser may agree) that condition (a) is not fulfilled and either the Seller or the Purchaser gives notice to the other to terminate the Sale and Purchase Agreement, the Sale and Purchase Agreement shall lapse and be terminated with immediate effect and the Seller shall within 5 Business Days return the initial deposit and the second installment (together with interest accrued thereon from the date of the payment to the date of repayment (both days inclusive)) to the Purchaser.

Completion

Completion shall take place on the Completion Date or at such other time and place as may be agreed between the parties of the Sale and Purchase Agreement, subject to the satisfaction or waiver of the above conditions to Completion.

THE HOTEL MANAGEMENT AGREEMENT

Date

1 December 2010

Parties

Manager: Kosmopolito Hotels International Services Limited,
a wholly owned subsidiary of the Company

Owner: Excel Chinese International Limited
Norwood Asia Limited

Term

The initial term of the Hotel Management Agreement shall commence on the Commencement Date and will continue for the Initial Term, unless subsequently renewed by mutual agreement in writing between the Purchaser, ECIL and the Manager for an additional term of 10 years. ECIL and the Manager shall use reasonable endeavours to ensure that the Commencement Date shall take place by no later than 1 April 2011.

Services

The Manager shall provide hotel management services to the Hotel.

Management Fee & Owner's Guaranteed Return

For the first 6 months of the Initial Term, the Manager shall be entitled to a management fee equal to 50% of the gross operating profits that the Hotel may achieve in the aggregate during such 6 months' period.

Commencing immediately after the expiry of the first 6 months of the Initial Term and until the expiry of the Initial Term, the Purchaser shall be entitled to the Annual Owner's Guaranteed Return for each Operating Year from the gross operating profits of the Hotel for that Operating Year, which shall first be settled on a pro rata monthly basis and be adjusted subsequently on an annual basis at the end of each Operating Year in the following manner:

- (a) if at the end of the Operating Year, the gross operating profits of the Hotel for that Operating Year exceeds the Annual Owner's Guaranteed Return for that Operating Year, then the Manager's management fee for such Operating Year shall be an amount equal to 50% of the gross operating profits (of that Operating Year) in excess of the Annual Owner's Guaranteed Return (for that Operating Year); but
- (b) if at the end of the Operating Year, the gross operating profits of the Hotel for that Operating Year is equal to or less than the Annual Owner's Guaranteed Return for that Operating Year, then the Manager shall not be entitled to any management fee for such Operating Year and in the event the gross operating profits of the Hotel is less than the Annual Owner's Guaranteed Return, the Manager shall be required to pay the Purchaser an amount equal to the Annual Owner's Guaranteed Return (to the extent outstanding).

In the event that the Hotel Management Agreement is renewed by the Purchaser, ECIL and the Manager, the management fee in respect of the renewal term shall be agreed to in writing at least 6 months prior to expiration of the Initial Term and shall be based on the then market terms. If the parties do not reach agreement on what constitutes the then market terms by such time, a party may require the other parties to consult an independent expert for the determination of the management fee for the renewal term. The cost of consulting the independent expert shall be an operating cost of the Hotel.

In the event that the parties do not reach a mutual agreement regarding the extension of the Hotel Management Agreement or if upon consulting the independent expert, the parties still cannot mutually agree upon the management fee in respect of the renewal term, the Hotel Management Agreement shall be deemed terminated at the expiry of the Initial Term (subject to the provisions in the Hotel Management Agreement which by their terms survive termination).

INFORMATION ON THE GROUP

The principal business of the Group comprises developing, owning and operating value, mid-scale, upscale and boutique hotels in Asia.

INFORMATION ON THE PURCHASER

The Purchaser is principally engaged in offshore real estate investment holding. To the best of the 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 the connected persons (as defined under the Listing Rules) of the Company.

FINANCIAL INFORMATION OF ECIL

The following are the audited financial information of ECIL for the two financial years ended 31 March 2010 which were prepared in accordance with the accounting policies of Hong Kong Financial Reporting Standards and are extracted from the audited financial statements of ECIL:

	For the year ended 31 March 2010 (HK\$)	For the year ended 31 March 2009 (HK\$)
Net loss before taxation	11,114	2,455
Net loss after taxation	11,114	2,455
Net assets	4,079,819	4,090,933
Total assets	170,043,142	146,973,599

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

The Board considers that the Sale:

- (a) would provide a good opportunity for the Group to realise the profits made and value created as a result of the increase in the price of the Property and the undertaking of the Hotel Project, and will enable the Group to avoid any further expenses that will possibly be incurred by ECIL;

- (b) would enable the Group to remain as the manager to manage the Hotel under the name “The Mercer by Kosmopolito” and to continue its expansion into the hotel management business;
- (c) would release it from the obligations of the Existing Bank Loan and provide additional cash flows to the Group to enable it to redeploy its resources to other investment opportunities; and
- (d) no further capital injection from the Group will be required for ECIL.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Sale and Purchase Agreement and the Hotel Management Agreement are on normal commercial terms, which are fair and reasonable and the entering into of the Sale and Purchase Agreement and the Hotel Management Agreement is in the interests of the Group and its shareholders as a whole.

FINANCIAL EFFECT OF THE SALE

The Directors estimate that upon Completion, the Group is expected to record a gain from the Sale of approximately HK\$90,000,000, being the difference between (i) the Consideration and (ii) the aggregate of the estimated book carrying value of ECIL attributable to the Group at Completion and the estimated expenses and taxes in relation to the Sale.

Upon Completion, ECIL will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the Group’s financial statements. There are no restrictions which apply to the subsequent sale of the Sale Share under the Sale and Purchase Agreement. However, if more than 50% of the equity interest in ECIL is disposed of within 2 years after the Commencement Date to a party other than an affiliate of the Purchaser or the Purchaser’s Guarantor, the Manager shall have the right to terminate the Hotel Management Agreement and ECIL shall be required to compensate the Manager.

USE OF PROCEEDS

The Directors expect that the net proceeds from the Sale will be retained as capital for future investment opportunities of the Group.

LISTING RULES IMPLICATIONS

As the Seller is a wholly owned subsidiary of the Company and the applicable percentage ratios (as defined in the Listing Rules) in respect of the Sale are greater than 5% but less than 25%, the Sale constitutes a discloseable transaction for the Company and is therefore 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 when used herein:

“Adjustments”	the adjustments to be made to the Consideration in the manner as described under the section headed “Consideration” in this Announcement;
“Annual Owner’s Guaranteed Return”	the annual owner’s guaranteed return in the amount of HK\$14,499,996, to be adjusted on a pro rata basis if an Operating Year consists of less than 12 months;
“Board”	the board of Directors;
“Building Authority”	has the meaning as defined in the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong);
“Business Day”	a day other than a Saturday or Sunday, on which banks are open in Hong Kong to the general public for business;
“Commencement Date”	the date on which the Manager first opens the Hotel on behalf of ECIL to the public and commences business;
“Company”	Kosmopolito Hotels International Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (stock code: 2266);
“Completion”	the completion of the sale and purchase of the Sale Share and Sale Loan under the Sale and Purchase Agreement;
“Completion Accounts”	the unaudited management accounts of ECIL comprising its balance sheet as at the Completion Date together with its profit and loss statement for the period from 31 March 2010 to the Completion Date;
“Completion Date”	the date on which Completion takes place, being the date which is 5 Business Days after fulfillment of all of the conditions to Completion, or such other date as may be agreed between the parties of the Sale and Purchase Agreement;
“Completion Net Current Assets”	the aggregate of the current assets of ECIL less the current liabilities of ECIL (excluding the Sale Loan, the Existing Bank Loan, the New Financing and any deferred tax liability in relation to any revaluation surplus of the Property) as shown in the Completion Accounts;

“Consideration”	the aggregate consideration of HK\$290,000,000 minus the Existing Bank Loan and subject to Adjustments, payable by the Purchaser to the Sellers for the Sale;
“Directors”	the directors of the Company;
“ECIL”	Excel Chinese International Limited, a company incorporated in Hong Kong and wholly and beneficially owned by the Seller;
“Existing Bank Loan”	the amount owed by the ECIL to its mortgagee pursuant to the Loan Agreement, as at the Completion Date;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hotel”	the hotel being developed and constructed on the Property to be known as “The Mercer by Kosmopolito”;
“Hotel Management Agreement”	the management agreement dated 1 December 2010 in respect of the Hotel entered into between the Purchaser, ECIL and the Manager;
“Hotel Project”	the project for the construction and operation of the Hotel undertaken by ECIL;
“Initial Term”	a term of 66 months commencing from the Commencement Date and subject to any extension due to force majeure;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Loan Agreement”	the loan agreement dated 21 September 2007 as supplemented by the supplement to loan agreement dated 5 May 2010 and the second supplement to loan agreement dated 30 September 2010, all made between ECIL and its mortgagee;
“Manager”	Kosmopolito Hotels International Services Limited, a wholly owned subsidiary of the Company;

“New Financing”	the New Loan and/or other means of financing obtained by the Purchaser either from any external source or internal source;
“New Loan”	the loan facility to be arranged by the Purchaser to be made available by a bank or financial institution to ECIL and/or the Purchaser on Completion in the sum of not less than HK\$145,000,000 for (among other matters) re-financing the Existing Bank Loan on Completion, on terms reasonably acceptable to the Purchaser;
“Operating Year”	a period commencing from the Commencement Date and ending on the following 31 December and thereafter from 1 January in each year and ending on the following 31 December or on the date of expiration of the Initial Term (or the renewed term if the Hotel Management Agreement is renewed);
“Property”	ALL THOSE pieces or parcels of ground registered in the Land Registry as MARINE LOT NO.9B, SECTION A OF INLAND LOT NO.872 and SECTION A OF INLAND LOT NO.871 TOGETHER with the messuages erections and buildings constructed or to be constructed thereon;
“Purchaser”	Norwood Asia Limited, a company wholly owned by the Purchaser’s Guarantor as at the date of this announcement and an independent third party of the Company and the connected persons (as defined under the Listing Rules) of the Company;
“Purchaser’s Guarantor”	PGR Asian Real Estate Fund, L.P., the owner of the entire issued share capital of the Purchaser as at the date of this announcement and the Purchaser’s guarantor of the Sale and Purchase Agreement who has agreed to guarantee the performance of the Purchaser’s obligations under the Sale and Purchase Agreement;
“Sale”	the sale of the Sale Share and the Sale Loan by the Seller to the Purchaser pursuant to the Sale and Purchase Agreement;
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 1 December 2010 and entered into between the Purchaser, the Seller, the Purchaser’s Guarantor and the Seller’s Guarantor in relation to the Sale;
“Sale Loan”	the loan (including interest accrued thereon) owing by ECIL to the Seller as at the Completion Date;

“Sale Share”	1 Share to be sold to the Purchaser pursuant to the Sale and Purchase Agreement, representing the entire issued share capital of ECIL as at the date of the Sale and Purchase Agreement;
“Seller”	Havena Holdings Limited, a company incorporated in the British Virgin Islands, a wholly-owned subsidiary of the Company and the beneficial owner of the entire issued share capital of ECIL;
“Seller’s Guarantor”	the Company, the owner of the entire issued share capital of the Seller and the Seller’s guarantor of the Sale and Purchase Agreement who has agreed to guarantee the performance of the Seller’s obligations under the Sale and Purchase Agreement;
“Seller’s Solicitors”	Messrs. Woo, Kwan, Lee & Lo of 26th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong;
“Share”	ordinary shares of HK\$1.00 each in the capital of ECIL;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“%”	per cent.

By Order of the Board of
Kosmopolito Hotels International Limited
MOK Kwai Pui Bill
President & Executive Director

Hong Kong, 1 December 2010

As at the date of this announcement, the executive Directors are Mr. MOK, Kwai Pui Bill, Mr. CHU, Chee Seng, Mr. LAI, Wai Keung and Ms. CHIU, Wing Kwan Winnie. The non-executive Directors are Tan Sri Dato’ CHIU, David, Mr. IP, Hoi Wah Edmond, Mr. HOONG, Cheong Thard and Mr. CHAN, Chi Hing. The independent non-executive Directors are Mr. SHEK, Lai Him Abraham, Mr. TO, Peter and Dr. LIU, Ngai Wing.