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KWG Living Group Holdings Limited

合景悠活集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3913)

DISCLOSEABLE TRANSACTION ACQUISITION OF 80% EQUITY INTERESTS IN GUANGZHOU CITY RUNTONG PROPERTY MANAGEMENT COMPANY LIMITED

INTRODUCTION

The Board is pleased to announce that on 7 December 2020 (after trading hours), Hejing Youhuo, being an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendors and the Target Company, pursuant to which Hejing Youhuo has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell the Sales Interests, being 80% equity interests in the Target Company for a cash Consideration of RMB214.4 million.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios under Rule 14.06 of the Listing Rules in respect of the Acquisition are more than 5% but all of which are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. The Acquisition is subject to the reporting and announcement requirements but is exempt from Shareholders' approval requirement under Chapter 14 of the Listing Rules.

INTRODUCTION

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THE ACQUISITION AGREEMENT

The principal terms of the Acquisition Agreement are summarised as follows:

Date

7 December 2020 (after trading hours)

Parties

- (1) Hejing Youhuo as purchaser;
- (2) Mr. Peng as one of the vendors;
- (3) Ms. Ma as one of the vendors; and
- (4) the Target Company

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Vendors and the Target Company are Independent Third Parties as at the date of this announcement.

Assets to be acquired

Pursuant to the Acquisition Agreement, Hejing Youhuo has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell the Sales Interests, being 80% equity interests in the Target Company, whereas Mr. Peng has conditionally agreed to sell 48% equity interests in the Target Company and Ms. Ma has conditionally agreed to sell 32% equity interests in the Target Company.

Consideration

The Consideration for the Acquisition is RMB214.4 million, which was arrived at after arm's length negotiations between the Vendors and Hejing Youhuo and was determined with reference to (1) the Sales Interests; (2) the profit guarantee for the year ending 31 December 2020 set out in the paragraph headed "**Financial Guarantees**"; (3) a price to earnings ratio of 11.6522; (4) the status of the existing projects under the Target Company's management; and (5) the business prospects of the Target Company and the property management services industry.

The Directors consider that the Consideration (including the price to earnings ratio of 11.6522) and other terms of the Acquisition are fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

Payment schedule

The Consideration shall be settled in cash using net proceeds raised from the Global Offering which were allocated for the purpose of acquiring non-residential property management service providers. As at the date of this announcement, the Directors confirm that the Target Company met the acquisition criteria as disclosed in the Prospectus. The Consideration shall be paid according to the following schedule:

Deposit

The Target Company shall within three Working Days upon fulfilment of the following conditions proceed with the registration of the transfer of the Sale Interests by the Vendors to Hejing Youhuo:

- (a) the Reorganisation having been completed;
- (b) all necessary consents, internal approvals and resolutions having been obtained by Hejing Youhuo and the Target Company;
- (c) the Share Charge having been executed; and
- (d) all representations and warranties made by the Vendor remaining true and there having been no material adverse change to the business, assets and financial conditions of the Target Company since 31 October 2020.

Within two Working Days upon receipt of the acknowledgement of the registration of the transfer of the Sale Interests to Hejing Youhuo, Hejing Youhuo shall pay a deposit in the amount of RMB8 million to Mr. Peng.

The parties to the Acquisition Agreement shall try their best endeavour to settle the payment of the deposit of the Consideration on or before 11 December 2020.

1st instalments

Within five Working Days upon fulfilment of the following conditions, Hejing Youhuo shall pay the 1st instalments in the amount of RMB40 million to Mr. Peng and in the amount of RMB32 million to Ms. Ma:

- (a) the registration of the transfer of the Sale Interests by the Vendors to Hejing Youhuo having been completed and the Target Company having obtained the new business license; and

(b) the registration of the Share Charge having been completed.

Upon fulfilment of the above conditions, the deposit in the amount of RMB8 million shall become part payment of the Consideration.

The parties to the Acquisition Agreement shall try their best endeavour to settle the payment of the 1st instalments of the Consideration on or before 18 December 2020.

2nd instalments

Within five Working Days upon fulfilment of the following conditions, Hejing Youhuo shall pay the 2nd instalments in the amount of RMB80.64 million to Mr. Peng and in the amount of RMB53.76 million to Ms. Ma:

- (a) all chops and common seals of the Target Company having been delivered to Hejing Youhuo;
- (b) all licenses, certificates, approvals and permits of the Target Company having been delivered to Hejing Youhuo;
- (c) all books, records and accounts of the Target Company having been delivered to Hejing Youhuo; and
- (d) all information in relation to the business and management of the Target Company having been delivered to Hejing Youhuo.

The parties to the Acquisition Agreement shall try their best endeavour to settle the payment of the 2nd instalments of the Consideration on or before 20 January 2021.

Completion

Completion takes place upon fulfilment of condition (a) to the payment of the 1st instalments of the Consideration.

Upon Completion, Hejing Youhuo will be interested in 80% equity interests in the Target Company. Accordingly, the Target Company will become an indirect non-wholly owned subsidiary of the Company and its financial results and assets and liabilities will be consolidated into the financial results of the Group.

MANAGEMENT OF THE TARGET COMPANY

Pursuant to the Acquisition Agreement, the board of directors of the Target Company shall consist of three directors, of whom Hejing Youhuo shall be entitled to appoint two directors, and the Vendors shall be entitled to appoint one director. The chairman of the board of directors of the Target Company shall be nominated by Hejing Youhuo.

PROFIT ALLOCATION

Pursuant to the Acquisition Agreement, the Vendors are solely entitled to any undistributed profits of the Target Company which is accrued before 31 December 2020. Any profits of the Target Company which is accrued from 31 December 2020 will be entitled by the then equity holders of the Target Company in proportion to their respective equity holdings.

NON-COMPETITION UNDERTAKING

Pursuant to the Acquisition Agreement, the Vendors undertake that within five years after the expiry of the Relevant Period, unless with the written consent of Hejing Youhuo, each of them and their respective associates shall not (i) engage in any business which competes with the business of the Target Company; (ii) provide business consultancy services and technical services to the competitors of the Target Company; (iii) shall not form, whether directly or indirectly, joint venture which competes with the business of the Target Company or invest in the competitors of the Target Company; (iv) solicit, request, induce, employ or engage, whether directly or indirectly, the employees of the Target Company; and (v) engage in property management projects.

FINANCIAL GUARANTEES

Pursuant to the Acquisition Agreement, the Vendors, on a joint and several basis, irrevocably warrant and guarantee to Hejing Youhuo that the Revenue and the Audited Net Profit for the relevant period below (the “**Relevant Periods**” and each a “**Relevant Period**”) will not be less than the following respective amounts:

Relevant Period	Revenue (the “Guaranteed Revenue”)	Audited net profit (the “Guaranteed Profit”)
For the year ending 31 December 2020	RMB226.0 million	RMB23.00 million
For the year ending 31 December 2021	RMB248.6 million	RMB25.30 million
For the year ending 31 December 2022	RMB271.2 million	RMB27.60 million

If the Target Company fails to achieve the Guaranteed Revenue and/or the Guaranteed Profit upon expiry of the first Relevant Period, the Vendors shall jointly and severally compensate to the Company in cash for the value of “A” below.

A = Guaranteed Profit for the first Relevant Period – Audited Net Profit for the year ending 31 December 2020

If the Target Company fails to achieve the Guaranteed Revenue and/or the Guaranteed Profit upon expiry of the last Relevant Period, the Vendors shall jointly and severally compensate to the Company in cash for the value of “B” or “C” below whichever is higher.

B = (Accumulated Guaranteed Revenue for the last two Relevant Periods – accumulated Revenue for the two years ending 31 December 2022) x profit margin of 10%

C = (Average of the Guaranteed Profit for the last two Relevant Periods – average of the accumulated Audited Net Profit for the two years ending 31 December 2022) x price to earnings ratio of 11.6522 times x the Sale Interests of 80%

The value of “A” and/or “B” and/or “C” shall be determined by the auditor of the Target Company. Upon the determination of the value of “A” and/or “B” and/or “C”, the Vendors shall compensate “A” and the higher of “B” or “C” to the Company within 10 Working Days.

INFORMATION ON THE PARTIES TO THE AGREEMENT

Hejing Youhuo

Hejing Youhuo is a company established in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company. Hejing Youhuo is principally engaged in property management.

The Vendors

As at the date of this announcement, Mr. Peng owns 60% equity interests in the Target Company and is an Independent Third Party.

As at the date of this announcement, Ms. Ma owns 40% equity interests in the Target Company and is an Independent Third Party.

The Target Company

The Target Company is a company established in the PRC with limited liability and is principally engaged in property management.

FINANCIAL INFORMATION OF THE TARGET COMPANY

Set out below is the unaudited pro forma financial information of the Target Company for the two years ended 31 December 2019 and for the nine months ended 30 September 2020 on the basis that the Reorganisation has been completed as at 1 January 2018:

	For the year ended 31 December 2018 <i>RMB'000</i>	For the year ended 31 December 2019 <i>RMB'000</i>	For the nine months ended 30 September 2020 <i>RMB'000</i>
Revenue	143,386	197,627	169,500
Net profit before taxation	14,439	24,650	22,973
Net profit after taxation	10,974	18,734	17,217

The unaudited total assets value and net assets value of the Target Company as at 30 September 2020 were approximately RMB68,940,000 and RMB48,926,000, respectively.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Target Company strives in the public service sector and possesses a highly professional technology system. The Directors believe that the Acquisition enables the Group to further expand into the public service sector, thereby diversifying its business continuously, while generating stronger synergies with the Group and achieving an upgrade of service systems and enhancement in service quality.

The Directors consider that the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios under Rule 14.06 of the Listing Rules in respect of the Acquisition are more than 5% but all of which are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. The Acquisition is subject to the reporting and announcement requirements but is exempt from Shareholders' approval requirement under Chapter 14 of the Listing Rules.

Completion of the Acquisition is conditional upon fulfilment of the conditions precedent set out in the Acquisition Agreement. There is no assurance that Completion will take place or as to when it may take place. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company.

DEFINITIONS

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

“Acquisition”	the acquisition of Sales Interests as contemplated under the Acquisition Agreement
“Acquisition Agreement”	the sale and purchase agreement dated 7 December 2020 entered into among Hejing Youhuo, the Vendors and the Target Company in relation to the sale and purchase of 80% equity interests in the Target Company
“Audited Net Profit”	in respect of a Relevant Period, the audited net profit after taxation and excluding extraordinary items of the Target Company as to be shown in the audited consolidated accounts of the Target Company for such Relevant Period
“Board”	the board of Directors
“Company”	KWG Living Group Holdings Limited, 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: 3913)
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement and upon issuance of the new business license of the Target Company
“Consideration”	the consideration for the Sales Interests, being RMB214.4 million
“Directors”	the directors of the Company
“Global Offering”	the Hong Kong public offering and the international offering as defined in the Prospectus
“Group”	the Company and its subsidiaries
“Guangzhou Security”	廣州市潤通保安服務有限公司 (Guangzhou City Runtong Security Services Company Limited*), a company established in the PRC with limited liability and is a wholly-owned subsidiary of the Company as at the date of this announcement

“Hejing Youhuo”	廣東省合景悠活控股集團有限公司 (Guangdong Hejing Youhuo Holdings Group Co., Ltd.*), a company established in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company
“Hong Kong”	the Hong Kong Special Administration Region of the PRC
“Independent Third Party(ies)”	a person, or in the case of a company, the company of its ultimate beneficial owner(s), who is independent of and not connected with the Company and its subsidiaries and its connected persons and its ultimate beneficial owner(s) or their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mr. Peng”	Mr. PENG Dengbing (彭登兵)
“Ms. Ma”	Ms. MA Feifei (馬飛飛)
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus of the Company dated 19 October 2020
“Revenue”	in respect of a Relevant Period, the revenue of the Target Company as to be shown in the audited consolidated accounts of the Target Company for such Relevant Period
“Reorganisation”	the disposal of the entire equity interests in Guangzhou Security by the Target Company prior to the Completion
“Sales Interests”	80% equity interests in the Target Company held by the Vendors, comprising 48% equity interests in the Target Company held by Mr. Peng and 32% equity interests in the Target Company held by Ms. Ma
“Share(s)”	ordinary share(s) in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	廣州市潤通物業管理有限公司 (Guangzhou City Runtong Property Management Company Limited*), a company established in the PRC with limited liability and is owned as to 60% by Mr. Peng and 40% by Ms. Ma as at the date of this announcement

“Vendors”	Mr. Peng and Ms. Ma
“Working Days”	any day which banks in the PRC are open for business, except Saturdays, Sundays and statutory holidays as announced by the PRC government
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

* *for identification purpose only*

By order of the Board
KWG Living Group Holdings Limited
KONG Jianmin
Chairman

Hong Kong, 7 December 2020

As at the date of this announcement, the Board of Directors of the Company comprises Mr. KONG Jianmin (Chairman) as Non-executive Director; Mr. KONG Jiannan (Chief Executive Officer), Ms. YANG Jingbo and Mr. WANG Yue as Executive Directors; and Ms. LIU Xiaolan, Mr. FUNG Che Wai, Anthony and Ms. NG Yi Kum as Independent Non-executive Directors.