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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)**

#### **(1) DISCLOSEABLE TRANSACTION**

#### **ACQUISITION OF 50% EQUITY INTERESTS IN**

#### **GUANGDONG TELIJIE ENVIRONMENT ENGINEERING CO., LTD.**

#### **AND**

#### **(2) CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING**

##### **(1) EQUITY ACQUISITION AGREEMENT**

On 10 January 2022 (after trading hours), the Purchaser, an indirect wholly-owned subsidiary of the Company, and the Vendors entered into the Equity Acquisition Agreement in relation to the Acquisition, pursuant to which the Purchaser has agreed to acquire 45.5% equity interests in the Target Company from the First Vendor and 4.5% equity interests in the Target Company (collectively, the Target Interests) from the Second Vendor at the cash Consideration of RMB165,000,000.

##### **LISTING RULES IMPLICATIONS**

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

##### **(2) CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING**

Having considered the reasons for change in use of proceeds from the Global Offering, the Board hereby announces that it resolved to change the proposed use of Net Proceeds.

## **(1) EQUITY ACQUISITION AGREEMENT**

The Board is pleased to announce that on 10 January 2022 (after trading hours), the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Equity Acquisition Agreement with the Vendors, pursuant to which the Purchaser has agreed to acquire 45.5% equity interests in the Target Company from the First Vendor and 4.5% equity interests in the Target Company (collectively, the Target Interests) from the Second Vendor at the cash Consideration of RMB165,000,000.

Summary of the principal terms of the Equity Acquisition Agreement is as follows:

### **Date**

10 January 2022

### **Parties**

- (a) Guangdong Hejing Youhuo Holdings Group Co., Ltd. (an indirect wholly-owned subsidiary of the Company) as the Purchaser;
- (b) Mr. HOU Wenqing as the First Vendor;
- (c) Ms. CHENG Naizhen as the Second Vendor; and
- (d) Guangdong Telijie Environment Engineering Co., Ltd. as the Target Company.

To the best knowledge, information and belief of the Directors, and having made all reasonable enquiry, each of the First Vendor and the Second Vendor is a third party independent of the Company and its subsidiaries, and their respective connected persons.

### **Assets to be acquired**

Pursuant to the Equity Acquisition Agreement, the Purchaser has agreed to acquire 45.5% equity interests in the Target Company from the First Vendor and 4.5% equity interests in the Target Company from the Second Vendor.

### **Consideration**

The Consideration for the Target Interests shall be an aggregate sum of RMB165,000,000, which will be settled in three tranches set out below.

### ***First tranche Consideration***

The first tranche of the Consideration shall be RMB57,750,000 (among which, RMB52,552,500 shall be paid to the First Vendor and RMB5,197,500 shall be paid to the Second Vendor) and shall be settled by the Purchaser within 10 business days upon all the following conditions being fulfilled:

- (a) within 10 business days from the signing of the Equity Acquisition Agreement, the Vendors shall approve the Equity Acquisition Agreement and the transactions contemplated thereunder;
- (b) there having been no material adverse change in respect of the representations and warranties given by the Vendors in the Equity Acquisition Agreement, business operations of the Target Company and litigation status of the Target Company since the date of the Equity Acquisition Agreement;
- (c) within 10 business days from the signing of the Equity Acquisition Agreement, the Vendors and the Target Company shall have executed all necessary documents for the transfer of the Target Interests to the Purchaser and the Vendors shall execute a share charge over the 45% equity interests of the Target Company owned by the Vendors in favour of the Purchaser as a security for the fulfillment of the Performance Guarantee mentioned in the section headed "Performance Guarantee" below and the due and punctual performance of the obligations of the Vendors under the Equity Acquisition Agreement. Such share charge shall be released within 10 business days upon settlement of the Performance Guarantee;
- (d) within 10 business days upon fulfillment of condition (c) above, the Purchaser shall pay the Vendor's income tax on behalf of the Vendors in respect of the Acquisition and obtain the tax payment voucher. For the avoidance of doubt, such income tax shall be deducted from the Consideration by the Purchaser;
- (e) immediately upon fulfillment of condition (d) above, the Vendors shall complete all the necessary registration procedures for the transfer of the Target Interests and obtain the new business license of the Target Company; and
- (f) within 10 business days upon fulfillment of condition (e) above, the Vendors shall complete all the necessary registration procedures in respect of the share charge mention in condition (c) above.

### ***Second tranche Consideration***

The second tranche of the Consideration shall be RMB89,100,000 (among which, RMB81,081,000 shall be paid to the First Vendor and RMB8,019,000 shall be paid to the Second Vendor) and shall be settled by the Purchaser within 10 business days upon all the following conditions being fulfilled:

- (a) the Vendors having procured its related party the execution of a supplemental agreement to the Loan Agreement to adjust the interest rate accrued on the Loan to nil during the Guaranteed Period (as defined in the section headed “Performance Guarantee” below); and
- (b) physical delivery of the books, records and documents of the Target Company to the Purchaser has taken place.

### ***Third tranche Consideration***

The third tranche of the Consideration shall be RMB18,150,000 (among which, RMB16,516,500 shall be paid to the First Vendor and RMB1,633,500 shall be paid to the Second Vendor) and shall be settled by the Purchaser within 10 business days after the first anniversary of the Completion Date.

### **Basis of determining the Consideration**

The total amount of Consideration is RMB165,000,000, which was determined after arm’s length negotiations between the Purchaser and the Vendors, with reference to (i) the preliminary valuation of the Target Interests as at 31 December 2021 of RMB165,000,000 as appraised by an independent professional valuer based on market value approach; (ii) the status of the projects currently managed and operated by the Target Company; and (iii) the future development potential of the urban service industry and the synergy effect that the Target Company will bring to the Company’s existing business.

The Consideration will be funded by the unutilised net proceeds raised from the Global Offering, and the Directors confirm that the Target Company meets the acquisition criteria as set out in the Prospectus. For details, please refer to the section headed “Change in Use of Proceeds from the Global Offering” below. The Directors consider that the Consideration is fair and reasonable and on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

### **Completion**

Completion shall take place upon fulfillment of condition (e) of the first tranche of the Consideration.

If the parties to the Equity Acquisition Agreement fail to fulfill each of their respective obligations under the Equity Acquisition Agreement within the prescribed time, the defaulting party shall be liable to penalty fees in accordance with the terms of the Equity Acquisition Agreement. The non-defaulting party may also have the right to terminate the Equity Acquisition Agreement and in which event the Vendors shall refund any and all sums paid by the Purchaser.

### **Management of the Target Company**

Pursuant to the Equity Acquisition Agreement, the board of directors of the Target Company shall consist of 5 directors, among which 3 directors shall be appointed by the Purchaser and 2 directors shall be appointed by the Vendors.

### **Performance Guarantee**

Pursuant to the Equity Acquisition Agreement, the Vendors warrant and undertake to the Purchaser that for the three years ending 31 December 2024 (the “**Guaranteed Periods**”):

- (a) for the year ending 31 December 2022, the audited revenue shall be not less than RMB324,500,000 and the audited net profit before non-recurring items shall be not less than RMB33,000,000;
- (b) for the year ending 31 December 2023, a growth rate of 10% in terms of audited revenue as compared to that for the year ending 31 December 2022 and 10% in terms of audited net profit before non-recurring items as compared to that for the year ending 31 December 2022;
- (c) for the year ending 31 December 2024, a growth rate of 10% in terms of audited revenue as compared to that for the year ending 31 December 2023 and 10% in terms of audited net profit before non-recurring items as compared to that for the year ending 31 December 2023; and
- (d) for each of the three years ending 31 December 2024, the revenue collection rate shall be not less than 70% (together with paragraphs (a), (b) and (c) above, the “**Performance Guarantee**”).

(the guaranteed aggregate amount of the audited revenue for the three years ending 31 December 2024 as the “**Guaranteed Revenue**” and the guaranteed aggregate amount of the audited net profit before non-recurring items for the three years ending 31 December 2024 as the “**Guaranteed Net Profit**”).

Upon the expiry of the Guaranteed Periods, if the accumulated actual audited net profit before non-recurring items for the Guaranteed Periods is less than the Guaranteed Net Profit, the Vendors shall compensate to the Company an amount “A” calculated as below:

$$A = (\text{GNP} - \text{ANP}) \times V / 2021 \text{ NP} \times 55\%$$

where:

GNP = average of the Guaranteed Net Profit

ANP = average of the actual audited net profit before non-recurring items of the Target Company for the Guaranteed Periods

V = RMB330,000,000, being the estimated valuation of the 100% equity interests of the Target Company as at 31 December 2021 based on the valuation of the market value of the Target Interests of RMB165,000,000 as at 31 December 2021

2021 NP = the actual audited net profit before non-recurring items of the Target Company for the year ended 31 December 2021

Upon the expiry of the Guaranteed Periods, if the accumulated audited revenue for the Guaranteed Periods is less than the Guaranteed Revenue, the Vendors shall compensate to the Company an amount “B” calculated as below:

$$B = (\text{GR} - \text{AR}) \times 10\% \times 55\%$$

where:

GR = total amount of the Guaranteed Revenue

AR = the actual audited revenue of the Target Company for the Guaranteed Periods

For the avoidance of doubt, any compensation made by the Vendors to the Target Company for the purpose of the Performance Guarantee shall be excluded from the calculation above.

The higher of the compensation amount “A” or “B” described above shall be settled by the Vendors within 10 business days after the issuance of the audited report of the Target Company for the year ending 31 December 2024 in cash or in such other manners decided by the Purchaser.

### ***Performance reward***

In the event of fulfillment of the Performance Guarantee, the portion in excess of the Guaranteed Net Profit shall be distributed among the Purchaser with 45% and the Vendors with 45%, and the remaining 10% will be used as an incentive to the personnel who has made a contribution to the business operation of the Target Company.

### **REASONS FOR AND THE BENEFITS OF THE ACQUISITION**

Established in 2001, the Target Company is one of the first special sanitation enterprises in China as well as one of the first seven special sanitation service enterprises in Guangdong Province. Through cultivating its development in the Greater Bay Area, the Target Company has accumulated excellent reputation and industry recognition in project management operations as well as market expansion. As of 31 December 2021, the Target Company managed approximately 50 projects with an aggregated gross floor area under management of approximately 36 million square metres.

The Board believes that the Acquisition is in line with the strategic planning of the Group and can create synergy with the current business of the Group, which will further enhance the multi-brand and all-round business strengths of the Group while broadening the Group's business segments and improve the overall competitiveness of the Group.

Having considered the nature of and the benefits resulting from the Acquisition, the Directors believe that the terms of the Equity Acquisition Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

### **FINANCIAL INFORMATION ON THE TARGET COMPANY**

The Target Company is principally engaged in urban and rural environmental sanitation service. As at the date of this announcement, the Target Company is owned as to 86.45% by the First Vendor, 8.55% by the Second Vendor and 5% by the Purchaser. Upon Completion, the Target Company will be owned as to 55% by the Group and it will become a non-wholly owned subsidiary of the Group. Its financial results will be consolidated into the Group's financial statements.

Based on the unaudited management accounts of the Target Company, the financial information of the Target Company for the two years ended 31 December 2021 is set out below:

	<b>For the financial year ended 31 December</b>	
	<b>2020</b>	<b>2021</b>
	(unaudited)	(unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit before tax	6,760	34,640
Net profit after tax	5,360	30,000

The unaudited net asset value of the Target Company as at 31 December 2020 was approximately RMB40.51 million and the unaudited net asset value of the Target Company as at 31 December 2021 was approximately RMB70.51 million.

### **INFORMATION ON THE PARTIES**

The Group is a comprehensive property management service provider in the PRC, providing comprehensive property management services for both residential properties and non-residential properties.

The First Vendor is Mr. HOU Wenqing.

The Second Vendor is Ms. CHENG Naizheng.

### **LISTING RULES IMPLICATIONS**

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

## **(2) CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING**

Reference is made to the Prospectus in relation to the Global Offering. The net proceeds from the Global Offering amounted to approximately HK\$2,913.1 million. On 29 June 2021, the Board has resolved to change the proposed use of Net Proceeds. For details, please refer to the announcement of the Company dated 29 June 2021. On 10 January 2022, the Board resolved to further change the proposed use of Net Proceeds.

Details of the original allocation and the revised allocation of the Net Proceeds are set out as follows:

	<b>Planned use of Net Proceeds as set out in the Prospectus</b> <i>HK\$ million</i>	<b>Revised allocation pursuant to the announcement dated 29 June 2021</b> <i>HK\$ million</i>	<b>Utilised or reserved net proceeds as at the date of this announcement</b> <i>HK\$ million</i>	<b>Unutilised or unplanned net proceeds as at the date of this announcement</b> <i>HK\$ million</i>	<b>Unutilised or unplanned net proceeds as at the date of this announcement after revised allocation</b> <i>HK\$ million</i>
To pursue strategic acquisitions and investment opportunities:		2,453.4	2,453.4	Nil	250.0
— To acquire or invest in residential property management service providers	1,019.4				
— To acquire or invest in commercial and other non-residential property management service providers	437.0				
— To acquire companies providing property management related services	291.3				
	<u>1,747.7</u>	<u>2,453.4</u>	<u>2,453.4</u>	<u>Nil</u>	<u>250.0</u>
To upgrade the intelligent service systems:					
— to purchase and upgrade hardware, establish smart terminal equipment and Internet of Things Platform	437.0	168.5	Nil	168.5	84.2
— to develop and upgrade the intelligence service systems	291.3	72.8	Nil	72.8	36.4
	<u>728.3</u>	<u>241.3</u>	<u>Nil</u>	<u>241.3</u>	<u>120.6</u>
Diversification into value-added services:					
— to cooperate with companies that provide complementary community products and services	145.7	72.8	Nil	72.8	36.4
— to form a designated team that utilizes big-data technology	145.7	72.8	Nil	72.8	—
	<u>291.4</u>	<u>145.6</u>	<u>Nil</u>	<u>145.6</u>	<u>36.4</u>

	Planned use of Net Proceeds as set out in the Prospectus <i>HK\$ million</i>	Revised allocation pursuant to the announcement dated 29 June 2021 <i>HK\$ million</i>	Utilised or reserved net proceeds as at the date of this announcement <i>HK\$ million</i>	Unutilised or unplanned net proceeds as at the date of this announcement <i>HK\$ million</i>	Unutilised or unplanned net proceeds as at the date of this announcement after revised allocation <i>HK\$ million</i>
For general business purpose and working capital	145.7	72.8	Nil	72.8	52.7
	<u>2,913.1</u>	<u>2,913.1</u>	<u>2,453.4</u>	<u>459.7</u>	<u>459.7</u>

### Reason for the Change in Use of Proceeds from the Global Offering

Since the Listing and up to the date of this announcement, the Company completed an acquisition of 80% equity interests in 廣州市潤通物業管理有限公司 (Guangzhou City Runtong Property Management Company Limited\*), an acquisition of 80% equity interests of 雪松智聯科技集團有限公司 (Cedar Technology Group Co., Ltd.\*) and an acquisition of 80% equity interests in 上海申勤物業管理服務有限公司 (Shanghai Shenqin Property Management Service Co., Ltd.\*). The aforesaid mergers and acquisitions have successfully facilitated the Group's strategic development and contributed to its rapid business growth and diversification. Details of the three acquisitions are set out in the Company's announcements dated 7 December 2020, 18 January 2021 and 29 June 2021, respectively.

The Group continues to keep abreast with the latest market trends, explore market opportunities in depth with its full business layout, to consistently broaden the breadth and depth of its business and enhance its overall competitiveness in continuous creation of value for its Shareholders. Based on the aforementioned considerations as well as the following reasons, in order to improve the efficiency of the use of the Net Proceeds and to capture market opportunities for business development in a timely manner, the Board proposes to adjust the original scope of use and allocation proportion of the Net Proceeds as follows:

**1. *Broadening the Group's business layout and enhancing its business scale as well as regional distribution***

In order to further expand the Group's business layout, enhance its business scale and cultivate its advantageous regions, the allocation of Net Proceeds under the category of "To pursue strategic acquisitions and investment opportunities" as set out in the Prospectus, as amended on 29 June 2021, may still not be sufficient for further acquisitions. It is planned that the current amount of HK\$2,453.4 million be revised to HK\$2,703.4 million in a bid to enhance the Group's overall market competitiveness and achieve market share expansion.

## **2. *Capturing investment opportunities in a more satisfactory manner***

The development of the property management industry remains in full swing. Under the guidance of both the environment and policies, investment opportunities with huge potentials continue to emerge in the market, among which there are a great many leading enterprises in new sectors. The Group will capture opportunities in the industry and continue to identify suitable investment and acquisition targets through prudent and stringent selection and due diligence in line with its own development strategy. The Board believes that changing the use of the Net Proceeds to pursue strategic acquisitions and investment opportunities will be more conducive to achieving the high-quality and long-term growth of the Group.

## **3. *Accelerating the self-circulation of the value-added business and intelligent service system of the Group***

Through effective integration of acquired resources, the Group will be able to upgrade intelligent service system construction in each business segment and fully explore and realised value-added business opportunities by leveraging on the economy of scale and technology empowerment, therefore achieving the self-circulation of its business in a gradual manner. Moreover, the Group's operations will also generate sufficient self-owned funds to support healthy business development. In addition to the Net Proceeds partially allocated for such projects, the Group will also allocate the funds generated from its operations to these two categories.

The Board believes that there has not been any material change in its business and expansion plans as stated in its Prospectus. The revised allocation of the Net Proceeds would allow the Group to deploy the Net Proceeds more efficiently for identifying suitable target companies as part of its expansion plans and for its business operation. The revised allocation of the Net Proceeds is in line with the business strategy of the Group and will not materially affect the operation and business of the Group and is in the best interest of the Company and the Shareholders as a whole.

## **DEFINITIONS**

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

- |                |  |
|----------------|--|
| “Acquisition”  | the acquisition of the Target Interests by the Purchaser from the Vendors pursuant to the terms and conditions of the Equity Acquisition Agreement |
| “associate(s)” | shall have the same meaning as ascribed to it under the Listing Rules  |

“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 Equity Acquisition Agreement
“Completion Date”	date of Completion, being the date on which the new business licence of the Target Company is issued
“connected person(s)”	shall have the same meaning as ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Equity Acquisition Agreement”	the Equity Acquisition Agreement dated 10 January 2022 entered into among the Purchaser, the Vendors and the Target Company for the transfer of the Target Interests
“First Vendor”	侯文卿 (HOU Wenqing) who is the holder of 86.45% equity interests in the Target Company as at the date of this announcement
“Global Offering”	has its meanings ascribed to it in the Prospectus
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing”	the listing of the Shares on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Loan”	a loan provided by the related party of the Vendors prior to the entering into of the Equity Acquisition Agreement in the amount of RMB35,346,000 with a monthly interest rate of 1%
“Loan Agreement”	the loan agreement entered into between the Target Company as borrower and the related party of the Vendors as lender in respect of the Loan
“Net Proceeds”	the net proceeds raised from the Global Offering

“PRC”	the People’s Republic of China
“Prospectus”	the prospectus of the Company dated 19 October 2020
“Purchaser”	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 indirectly wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Second Vendor”	程乃珍 (CHENG Naizhen), who is the holder of 8.55% equity interests in the Target Company as at the date of this announcement
“Share(s)”	ordinary shares in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	廣東特麗潔環境工程有限公司 (Guangdong Telijie Environment Engineering Company Limited*), a company established in the PRC with limited liability
“Target Interests”	50% equity interests of the Target Company, comprising 45.5% equity interests to be acquired from the First Vendor and 4.5% equity interests to be acquired from the Second Vendor
“Vendors”	the First Vendor and the Second Vendor collectively

\* *for identification purposes only*

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

Hong Kong, 10 January 2022

*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.*