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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 80% OF EQUITY INTERESTS IN SHANGHAI SHENQIN PROPERTY MANAGEMENT SERVICE CO., LTD.

AND

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

INTRODUCTION

The Board is pleased to announce that on 29 June 2021, Hejing Youhuo, being an indirect wholly-owned subsidiary of the Company, entered into the Equity Purchase Agreement, pursuant to which Hejing Youhuo, as the purchaser, has conditionally agreed to acquire, and Transferors have conditionally agreed to sell, 80% of the equity interests in the Target Company, at the consideration of RMB498 million in cash.

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.

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) ACQUISITION OF 80% OF EQUITY INTERESTS IN THE TARGET COMPANY

Introduction

The Board is pleased to announce that on 29 June 2021, Hejing Youhuo, being an indirect wholly-owned subsidiary of the Company, entered into the Equity Purchase Agreement, pursuant to which Hejing Youhuo, as the purchaser, has conditionally agreed to acquire, and Transferors have conditionally agreed to sell, 80% of the equity interests in the Target Company, at the consideration of RMB498 million in cash.

The Equity Purchase Agreement

The principal terms of the Equity Purchase Agreement are summarized as follows:

Date

29 June 2021

Parties

- (a) Hejing Youhuo, as Purchaser;
- (b) MIN Xiaoping (閔曉平), as Transferor A;
- (c) LIU Cong (劉聰), as Transferor B; and
- (d) the Target Company.

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

Assets to be Acquired

Pursuant to the Equity Purchase Agreement, Hejing Youhuo has conditionally agreed to acquire, and Transferors have conditionally agreed to sell 80% of the equity interests in the Target Company, whereas Transferor A has conditionally agreed to sell 70% equity interests in the Target Company and Transferor B has conditionally agreed to sell 10% equity interests in the Target Company.

Consideration

The consideration for the Acquisition is RMB498 million, which was arrived at after arm's length negotiations between Transferors and Hejing Youhuo and was determined with reference to (1) 80% equity interests of Target Company to be acquired; (2) the net profit after taxation of the Target Group for the year ended 31

December 2020 on the basis that the Restructuring has been completed; (3) a price to earnings ratio of 15 times; (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 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.

Payments Schedule

The Consideration shall be payable according to the following schedule:

1st instalment

Within 45 days upon the signing of Equity Purchase Agreement, the below conditions precedent shall be satisfied: (1) Hejing Youhuo and the Target Company shall obtain all necessary consent, internal approval and resolution; (2) the Transferor A shall sign an equity pledge agreement to pledge its remaining 20% equity interests in the Target Company in favor of Hejing Youhuo to guarantee any undisclosed liability or outstanding debts of the Target Company before the Completion Date and its duly performance under the Equity Purchase Agreement; (3) the Restructuring has been completed; (4) the representations and warranties made by Transferor A remain valid and effective since the Base Date and there has been no material adverse change from the Base Date to the Completion Date.

Hejing Youhuo shall pay 40% of the Consideration, being RMB199.2 million to a co-managed account opened by the Transferors or its designated company within 5 Business Days upon the signing of Equity Purchase Agreement and the satisfaction of conditions precedent listed above, which shall be released to the account of Transferors within 1 Business Day upon receiving the receipt for the application of change of registration regarding the Target Company by Hejing Youhuo (among which, RMB174.3 million shall be released to the account of Transferor A and RMB24.9 million will be released to the account of Transferor B).

2nd instalment

Subject to the continuing satisfaction of the above-mentioned conditions precedent and within 5 Business Days after the satisfaction of below conditions, Hejing Youhuo shall pay 50% of the Consideration, being RMB249 million to the Transferors, among which RMB217.875 million shall be paid to Transferor A and RMB31.125 million shall be paid to Transferor B: (1) Target Company has

completed the change of registration regarding the Equity Interests and directors, supervisors and senior management of the Target Company and a new business license or a notification of change of registration has been obtained; (2) the Transferor A has cooperated with Hejing Youhuo regarding the registration of the pledge of its remaining 20% equity interests in the Target Company in favor of Hejing Youhuo and the successful registration of pledge is not a precondition for the payment of 2nd instalment; (3) Completion has been done and a settlement memorandum has been signed.

3rd instalment

10% of the Consideration, being RMB49.8 million will be held as the guarantee for the duly performance of Equity Purchase Agreement and any liability may arise under Equity Purchase Agreement against Transferors. Hejing Youhuo shall pay the remaining 10% of the Consideration to Transferors after deducting any amount payable regarding the Acquisition by Transferors to Hejing Youhuo within 5 Business Days upon the expiry of one year period after the Completion (among which, RMB43.575 million shall be paid to the account of Transferor A and RMB6.225 million will be paid to the account of Transferor B).

Financial Guarantees

The management team designated by Transferor A will conduct the daily management of the Target Company during the Relevant Periods.

Transferor A undertakes that the Revenue for the year of 2021 shall be no less than RMB300 million and will achieve 3% growth over the previous year for 2022 and 2023 and the Audited Net Profit for the year of 2021 shall be no less than RMB43.99 million and will achieve 6% growth over the previous year for the 2022 and 2023. Moreover, the annual collection rate of the Revenue is not less than 90%. The aforementioned performance commitments shall be settled on an annual basis.

In the event that the Target Company failed to achieve the Guaranteed Revenue and/or the Guaranteed Net Profit for the Relevant Periods, Transferor A shall compensate to Hejing Youhuo in accordance with the followings:

1. Net Profit compensation (“**Net Profit Compensation**”) = (average Guaranteed Net Profit for the Relevant Periods – average Audited Net Profit for the Relevant Periods) × price to earnings ratio of 15 times × 80%, if the accumulated Audited Net Profit for the Relevant Periods less than the accumulated Guaranteed Net Profit for the Relevant Periods.
2. Revenue compensation (“**Revenue Compensation**”) = (accumulated Guaranteed Revenue – accumulated Revenue) × the profit rate of 14.66%, if the accumulated Revenue for the Relevant Periods is less than the accumulated Guaranteed Revenue for the Relevant Periods.

3. If the Target Company failed to achieve above guaranteed performance, Transferor A shall pay the lump sum compensation in cash within 10 business days after the issuing of 2023 financial report of the Target Company or Hejing Youhuo may directly deduct the relevant compensation amount from the unpaid Consideration, or from the Performance Bonus (defined as below), amount receivable of the Target Company occurred before the Acquisition or profit distribution of Transferor A.
4. In the event that the Target Company failed to achieve both the Guaranteed Revenue and the Guaranteed Net Profit, the compensation amount shall be the higher of the Net Profit Compensation or the Revenue Compensation.

In the event that the Target Company achieving more than 8% (excluding the number) increase for the Audited Net Profit during the Relevant Periods, the 30% of the surplus over the Guaranteed Net Profit (“**Performance Bonus**”) shall be distributed to Hejing Youhuo and the remaining 70% shall be distributed to Transferor A.

After the expiry of the Relevant Periods, Hejing Youhuo shall have right to take over management of the Target Company and the Transferor A shall cooperate accordingly. No profit of Target Company shall be distributed during the Relevant Periods.

Information of the Parties

The Group

The Group is a comprehensive property management service provider in China, providing comprehensive property management services for both residential properties and commercial properties.

The Transferors

As at the date of this announcement, Transferor A, namely MIN Xiaoping (閔曉平) owns 90% equity interests in the Target Company and is an Independent Third Party.

As at the date of this announcement, Transferor B, namely LIU Cong (劉聰) owns 10% equity interests in the Target Company and is an Independent Third Party.

The Target Company

The Target Company, a limited liability company established under the laws of PRC and principally engaged in property management and is the director institution of the China Property Association (中國物業協會), the vice president institution of the Trade Association of Shanghai Property Management (上海市物業管理行業協會). The Target Company focuses on properties of government agency, and radiates to

public properties, school properties and other types through deep cultivation of channels and management model replication. As of the end of December 2020, the Target Company has more than 120 projects under management, with a GFA under management of approximately 18 million sq.m..

Financial Information of the Target Group

Set out below is the unaudited combined financial information of the Target Group for the years ended 31 December 2019 and 2020 on the basis that the Restructuring has been completed:

	For the year ended 31 December	
	2019	2020
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Net profit before taxation	29,901	54,737
Net profit after taxation	22,618	41,500

The unaudited combined net assets value of the Target Group as at 31 December 2020 was approximately RMB128.687 million on the basis that the Restructuring has been completed.

Upon completion of the Acquisition, the Target Company will become a subsidiary of the Company and the financial information of the Target Group will be consolidated into the financial statements of the Group.

Reasons for and Benefits of the Acquisition

The Target Company is committed to the public service sector. The Directors believe that the Acquisition will help the Group's business to further enhance the project concentration in the Yangtze River Delta region; at the same time, the different business types can complement each other, through deep cultivation of channels and management model replication, radiate from government agency properties to public properties, school properties and other types; at the same time, the Target Company can form a strong platform to synergize with the Group, accelerating the Company's entire business and industry layout and coverage, and creating more value.

The Directors are of the view that the terms of the Equity Purchase Agreement were arrived at after arm's length negotiations among the parties, and are on normal commercial terms, fair and reasonable and in the interests of the Company and the 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 is conditional upon fulfilment of the conditions precedent set out in the Equity Purchase 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.

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

Reference is made to the prospectus of the Company dated 19 October 2020 in relation to the Global Offering for the listing of the shares of the Company on the Main Board of the Stock Exchange. The net proceeds from the Global Offering amounted to approximately HK\$2,913.1 million. On 29 June 2021, the Board resolved to 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:

	Planned use of Net Proceeds as set out in the Prospectus <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>	Revised allocation <i>HK\$ million</i>
To pursue strategic acquisitions and investment opportunities:				705.7
— To acquire or invest in residential property management service providers	1,019.4	1,019.4	Nil	
— To acquire or invest in commercial and other non-residential property management service providers	437.0	437.0	Nil	
— To acquire companies providing property management related services	291.3	291.3	Nil	
	<u>1,747.7</u>	<u>1,747.7</u> <i>(Note)</i>	<u>Nil</u>	<u>705.7</u>

	Planned use of Net Proceeds as set out in the Prospectus <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>	Revised allocation <i>HK\$ million</i>
To upgrade the intelligent service systems:				
— to purchase and upgrade hardware, establish smart terminal equipment and Internet of Things Platform	437.0	Nil	437.0	168.5
— to develop and upgrade the intelligence service systems	<u>291.3</u>	<u>Nil</u>	<u>291.3</u>	<u>72.8</u>
	<u>728.3</u>	<u>Nil</u>	<u>728.3</u>	<u>241.3</u>
Diversification into value-added services:				
— to cooperate with companies that provide complementary community products and services	145.7	Nil	145.7	72.8
— to form a designated team that utilizes big-data technology	<u>145.7</u>	<u>Nil</u>	<u>145.7</u>	<u>72.8</u>
	<u>291.4</u>	<u>Nil</u>	<u>291.4</u>	<u>145.6</u>
For general business purpose and working capital	<u>145.7</u>	<u>Nil</u>	<u>145.7</u>	<u>72.8</u>
	<u>2,913.1</u>	<u>1,747.7</u>	<u>1,165.4</u>	<u>1,165.4</u>

Note: RMB1,316 million of which has been reserved for the acquisition of 80% equity interests in Cedar Technology Group Co., Ltd., details of which have been disclosed in the announcement of the Company dated 18 January 2021 and the circular of the Company dated 17 June 2021.

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*) and has entered into an agreement to acquire 80% equity interests of 雪松智聯科技集團有限公司 (Cedar Technology Group 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 two acquisitions are set out in the Company's announcements dated 7 December 2020 and 18 January 2021, respectively.

The Group continues to expand its business scale through market expansion, persists in seeking investment opportunities, extends the scope and boundary, breadth and depth of its integrated property management services, and explores potential market opportunities so as to provide products and services to our customers in a better manner and continue to bring values for our shareholders. Given the above considerations and the following reasons, in order to enhance the use efficiency of the funds raised, capture market opportunities for business development in a timely manner, and strike a more reasonable balance in the use of funds, the Board proposes to adjust the original scope of use and allocation proportion of the proceeds from the Global Offering in the Prospectus as follows:

1. Expanding the depth and breadth of the Group's business and regional layout

In order to further expand the business scale, increase the market share of the Group, and expand the breadth and depth of its business and regional layout, the original allocation of the Net Proceeds for the category of “To pursue strategic acquisitions and investment opportunities” as set out in the Prospectus may not be sufficient for further acquisitions. It plans to revise the original allocation of HK\$1,747.7 million to HK\$2,453.4 million in a bid to further enhance the management scale and service capacity and optimise its business and regional layout through leveraging its brand strength, service management capacity as well as merger and integration capabilities continuously.

2. Capturing investment opportunities in a better manner

As for the acquisition and investment opportunities, given that it takes time to identify quality subjects in the market, the Group proposes to remove the original sub-items under the “To pursue strategic acquisitions and investment opportunities” category, consolidate its scope, and increase the corresponding amount as set out above so as to better utilise financial resources and capture more favourable investment opportunities. The Company will continue to identify suitable investment and acquisition subjects.

3. Accelerating the self-circulation of the value-added business and intelligent service systems of the Group

In addition, benefiting from the effective integration of the acquired companies, the Group will continue to tap into the existing resources and potential of each party so as to jointly build and upgrade intelligent service systems and fully explore the market opportunities for the value-added business based on its existing platforms with the platforms and companies under the Group. Meanwhile, apart from the partial Net Proceeds for such projects, the Group will deploy the funds generated from operations to these two categories. The Group proposes to adjust the amounts for “To upgrade the intelligent service

systems” and “Diversification into value-added services” categories in a proper manner to ensure that it can fully utilise the resources acquired through mergers and make necessary adjustments to better accommodate its business needs.

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 of the Company 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 Equity Interests as contemplated under the Equity Purchase Agreement
“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
“Base Date”	31 May 2021
“Board”	the board of Directors
“Business Day(s)”	any day except Saturdays, Sundays and statutory holidays as announced by the PRC government
“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 precedent of the Equity Purchase Agreement and upon issuance of the new business license of the Target Company
“Consideration”	the consideration for the Equity Interests, being RMB498 million

“Completion Date”	the date on which Completion takes place
“Chengzhi Life Property”	城智生活(上海)物業管理服務有限公司 (Chengzhi Life (Shanghai) Property Management Service Co., Ltd.*), a company established in the PRC with limited liability and is held 90% by Transferor A and 10% by QIN Wenfang (秦文芳) respectively as at the date of this announcement
“Director(s)”	the director(s) of the Company
“Equity Purchase Agreement”	the equity purchase agreement dated 29 June 2021 entered into among Hejing Youhuo, the Transferors and the Target Company in respect of the Acquisition
“Equity Interest(s)”	the 80% equity interests of the Target Company subject to the Acquisition
“GFA”	gross floor area
“Guaranteed Net Profit”	the guaranteed Audited Net Profit under the Equity Purchase Agreement
“Guaranteed Revenue”	the guaranteed Revenue under the Equity Purchase Agreement
“Global Offering”	has its meanings ascribed to it in the Prospectus
“Group”	the Company and its subsidiaries
“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 Administrative Region of the PRC
“Independent Third Party(ies)”	a person, or in the case of a company, the company or its ultimate beneficial owner(s), who is independent of and not connected with the Company and its subsidiaries and their respective connected persons, ultimate beneficial owner(s) or associates
“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
“Net Proceeds”	the net proceeds raised from the Global Offering

“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prospectus”	the prospectus of the Company dated 19 October 2020
“Relevant Periods”	year of 2021, 2022 and 2023, and each a “Relevant Period”
“Restructuring”	the divestment of entire equity interests of Shanghai Jinyi Enterprise and acquisition of 51% equity interests of Shanghai Daxiang Property by the Target Company prior to the Completion
“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
“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	ordinary shares in the share capital of the Company
“Shareholder(s)”	holder(s) of the ordinary share(s) of the Company
“Shanghai Daxiang Property”	上海達橡物業管理服務有限公司 (Shanghai Daxiang Property Management Service Co., Ltd.*), a company established in the PRC with limited liability and is held 51% by Chenzhi Life Property as at the date of this announcement
“Shanghai Jinyi Enterprise”	上海勁義企業管理有限公司 (Shanghai Jinyi Enterprise Management Co., Ltd.*), a company established in the PRC with limited liability and is wholly owned by the Target Company as at the date of this announcement
“sq.m.”	square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transferors”	Transferor A and Transferor B
“Transferor A”	MIN Xiaoping (閔曉平)
“Transferor B”	LIU Cong (劉聰)

“Target Company”	上海申勤物業管理服務有限公司 (Shanghai Shenqin Property Management Service Co., Ltd.*), a limited liability company incorporated under the laws of PRC and principally engaged in property management
“Target Group”	the Target Company and its subsidiary on the basis that the Restructuring has been completed
“%”	per cent

* *For identification purpose only*

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

Hong Kong, 29 June 2021

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.