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Kangqiao Service Group Limited

康橋悅生活集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2205)

**ANNOUNCEMENT
DISCLOSEABLE TRANSACTION —
ACQUISITION OF EQUITY INTEREST IN THE TARGET COMPANY**

THE INVESTMENT

The Board is pleased to announce that, on September 30, 2021, the Group, the Target Company, the Existing Shareholders and the Guarantor entered into the Investment Agreement, pursuant to which the Group has agreed to acquire 80% equity interest in the Target Company by equity transfer from the Existing Shareholders (the “**Investment**”). The total consideration for the Investment is RMB164.07 million. Upon completion of the Investment, the Target Company will become a subsidiary of the Group.

The Group intends to fund the consideration of the Investment by the proceeds from the Listing as to approximately HKD77.50 million, which is in line with the planned use as disclosed in the interim results announcement dated August 25, 2021, together with the Company’s internal financial resources.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio of the Investment is more than 5% but less than 25% under Chapter 14 of the Listing Rules, the Investment constitutes a discloseable transaction of the Company, therefore is subject to the relevant announcement requirement but exempt from shareholders’ approval requirement under Chapter 14 of the Listing Rules.

THE INVESTMENT

The Board is pleased to announce that, on September 30, 2021, the Group, the Target Company, the Existing Shareholders and the Guarantor entered into the Investment Agreement, pursuant to which the Group has agreed to acquire 80% of the equity interest in the Target Company by equity transfer from the Existing Shareholders (the “**Investment**”). The total consideration for the Investment is RMB164.07 million. Upon completion of the Investment, the Target Company will become a subsidiary of the Group.

The principal terms of the Investment Agreement are set out below:

Date

September 30, 2021

Parties

The Group

The Target Company

The Existing Shareholders

The Guarantor

Subject matter

The Group has agreed to acquire 80% of the equity interest of the Target Company held by the Existing Shareholders at a consideration of RMB164.07 million, which was determined after arm's length negotiations between the Group and the Existing Shareholders with reference to various considerations: (i) the unaudited consolidated financial information of the Target Company as of June 30, 2021 and for the years ended December 31, 2019 and 2020 (including but not limited to its assets and liabilities as of June 30, 2021 and net profit for the years ended December 31, 2019 and 2020); (ii) the quality and location of properties currently under management of the Target Company; (iii) the total Gross Floor Area of properties under management of the Target Company; and (iv) the synergy effect on operations between the Target Company and the Group, and was determined with reference to the merger and acquisition cases in the same industry in the market.

After the completion of the equity transfer, one of the Existing Shareholders WANG Xuchun shall retain 20% of the equity interest of the Target Company.

Consideration and payment arrangement

The Group intends to fund the consideration of the Investment by the proceeds from the Listing as to approximately HKD77.50 million, which is in line with the planned use as disclosed in the interim results announcement dated August 25, 2021, together with the Company's internal financial resources.

First instalment: 40% of the total consideration, which is amounted to RMB65.63 million,

- as to RMB40.00 million shall be settled within five days of the completion of the agreed preliminary business transfer procedures, among other things, putting the business operation documents, licenses and seals of the Target Company under escrow into a security locker; and
- as to RMB25.63 million shall be paid within five days after the completion of the agreed business transfer procedures, such as seal re-engraving and data transfer, which shall be completed within 10 days after the payment of the foregoing RMB40.00 million;

Second Instalment: as to RMB38.00 million, which shall be paid to the Existing Shareholders to the designated bank account held by the Existing Shareholders within 10 days after the settlement of the rights and obligations under the first and second instalments, including settling the balances between the Target Company and its related parties;

Third Instalment: as to RMB27.20 million, which shall be paid within five days of the satisfaction of the following conditions:

- (a) The Existing Shareholders shall transfer 35% and 35% of the equity interest held by the Target Company in Xi'an Xinchengdai Entertainment Co., Ltd. (西安新聲代娛樂有限責任公司) and Xi'an Xinchengdai Optional Supermarket Co., Ltd. (西安新聲代自選超市有限公司), respectively, based on each of their book value to the third parties designated by the Existing Shareholders at their own costs;
- (b) The Existing Shareholders shall release the guarantee amounted to RMB6.50 million made by the Target Company in favor of Lifeng (Xi'an) Real Estate Development Co., Ltd. (立豐(西安)房地產開發有限公司) at their own costs;
- (c) The Existing Shareholders shall terminate the subscription agreement and the respective supplemental agreement in relation to the provision of the property management services to China World Tower (國貿大廈) between the Target Company, Lifeng (Xi'an) Real Estate Development Co., Ltd. (立豐(西安)房地產開發有限公司) and an independent third party with respect to the termination of the right to property management enjoyed by the independent third party and her respective right to the property management fees;
- (d) Signing of the provision of property management services agreement between the Target Company and Lifeng (Xi'an) Commercial Operation Management Co., Ltd. (立豐(西安)商業運營管理有限公司), the landlord of Lifeng International Shopping Plaza (立豐國際購物廣場), for not less than 10 years from July 2021 to June 2031, with a guaranteed first-year property management fees of RMB11.28 million and a guaranteed annual increase of such sum of 5%; and
- (e) Satisfaction of the conditions under the payment of the first, second and third instalments.

Fourth Instalment: as to RMB17.24 million shall be paid to the Existing Shareholders after the satisfaction of the following conditions according to the payment schedule below:

- (a) Satisfaction of the conditions for the first and second instalments;
- (b) As to RMB8.00 million shall be paid within five days after the signing of the provision of property management services agreement between the Target Company and Xi'an Runyin Real Estate Development Co., Ltd. (西安潤銀房地產開發有限公司), one of the landlords of Lifeng City Living Plaza (立豐城市生活廣場) for five years from July 2021 to June 2026, with an agreed property management fees rate by no later than November 30, 2021; and

- (c) As to RMB9.24 million shall be paid within five days after the signing of the provision of property management services agreement between the Target Company and Xi'an Runyin Real Estate Development Co., Ltd. (西安潤銀房地產開發有限公司), one of the landlords of Lifeng City Living Plaza (立豐城市生活廣場) for five years from July 2026 to June 2031, with an agreed property management fees rate by no later than December 31, 2023.

Fifth Instalment: as to RMB16.00 million shall be paid to the Existing Shareholders within 10 days after the satisfaction of all the conditions, and delivered the chargeable Gross Floor Area of 72,900 sq.m. from the property project Lifeng City Living Plaza (立豐城市生活廣場) in 2022, subject to the satisfaction of the conditions under the first, second, third and fourth instalments.

Operational guarantees made by the Existing Shareholders

1. The Existing Shareholders guarantee that the property project Lifeng City Living Plaza will deliver the chargeable Gross Floor Area of 72,900 sq.m. and 74,200 sq.m. in 2022 and 2023, respectively;
2. The Existing Shareholders guarantee that the provision of property management services to Lifeng International Shopping Plaza and Lifeng City Living Plaza would be given to the Target Company for not less than 10 years from July 2021 to June 2031, with the agreed property management fees;
3. The Existing Shareholders guarantee that the Target Company shall be solely entitled to the revenue and profit from the property management services provided to China World Tower;
4. The Existing Shareholders guarantee that the Target Company shall be entitled to the property management fees with respect to the vacant properties and parking lots of the property projects;
5. The Existing Shareholders guarantee that the property developer of Lifeng City Living Plaza shall pay RMB657,200 to the Target Company for the pre-delivery property management services of undelivered properties;
6. The Existing Shareholders guarantee that they will compensate for any loss in Lifeng Kunming Time (立豐•昆明時光) and Ziluolanting (紫落瀾庭) with respect to the decrease of revenue due to the universal fee property management policy (一費制物業管理政策);
7. The Existing Shareholders guarantee that all property projects of the Target Company, except Lifeng Kunming Time (立豐•昆明時光), have not established the owners' committee, and there have been no material conflicts between the owners and the property manager;
8. The Existing Shareholders guarantee that they shall bear the expenses of salaries, performance bonuses, welfare and severance compensation of the Target Company's employees incurred before June 30, 2021; and

9. The Existing Shareholders guarantee that all of the rights and obligations of the Target Company under the existing property management agreement for Lifeng International Shopping Plaza shall be duly authorized and performed by the related company of the Existing Shareholders, and all of the obligations under the existing property management agreement shall be jointly borne by the Existing Shareholders and the related company.

In the event that the above mentioned guarantees 1 to 9 cannot be fully satisfied by the Existing Shareholders, the Group shall be entitled to deduct such amount of consideration payable to the Existing Shareholders, and may request the Existing Shareholders to return the paid instalment(s) within 10 days upon receiving notice from the Group. For the avoidance of doubt, the foregoing guarantees do not represent the expected level of future profits of the Target Company, neither do they constitute a profit forecast under Rule 14.61 of the Listing Rules.

Profit and loss arrangement in the transitional period

Upon completion of the Investment, the Group shall be entitled to the net profit of the Target Company based on the 80% shareholding held since June 30, 2021.

Guarantee

The Guarantor shall guarantee the Group for all of the Existing Shareholders' obligations under the Investment Agreement.

Due Diligence Review

The Group is entitled to conduct due diligence review of the Target Company as it may consider appropriate upon signing of the Investment Agreement and the Existing Shareholders and the Guarantor shall provide assistance in connection with such due diligence review.

GENERAL INFORMATION

The Group

The Group is a reputable comprehensive property management service provider in the PRC, with a leading position in Henan Province. The Group generates its revenue mainly from three business lines: (i) property management services; (ii) value-added services to non-property owners; and (iii) community value-added services.

Existing Shareholders

As of the date of execution of the Investment Agreement, the Target Company is owned as to 30%, 30% and 40% by WANG Xuchun, YAN Le and Xi'an Lifeng, respectively.

Xi'an Lifeng is a limited liability company incorporated in the PRC on September 22, 1996, whose shareholders are WANG Xuchun and YAN Ming, holding 93.6207% and 6.3793% of its equity interest, respectively. It principally engages in commercial management services businesses in the PRC.

WANG Xuchun and YAN Le are the wife and the son of YAN Ming, respectively, and both of them hold their respective shareholdings of Xi'an Lifeng and the Target Company by proxy on behalf of YAN Ming. Therefore, YAN Ming is the ultimate beneficial owner of the Target Company.

The Target Company

The Target Company is a limited liability company incorporated in the PRC, which is mainly engaged in the businesses of property management services in the PRC. As of the date of this announcement, the Target Company held the projects as below:

Names of projects:	Total Gross Floor Area (sq.m.)
Lifeng Kunming Time (立豐 • 昆明時光)	455,187
Lifeng Union New Town (立豐 • 聯盟新城)	499,349
Ziluolanting (紫落瀾庭)	117,345
Lifeng Apartment (立豐公寓)	26,191
International Apartment (國際公寓)	19,597
China World Tower (國貿大廈)	55,115
Lifeng International Shopping Plaza (立豐國際購物廣場)	123,000
Lifeng City Living Plaza (立豐城市生活廣場)	<u>508,454</u>
Total	<u><u>1,804,238</u></u>

According to the unaudited financial statements of the Target Company, on which a financial due diligence has been performed by Henan Dahuihe Accounting Firm (河南大匯合會計師事務所), which is an independent qualified accountancy firm in the PRC, the Target Company had an unaudited net asset value of approximately RMB13.76 million as of June 30, 2021.

The table below sets out the consolidated financial information of the Target Company for the two financial years ended December 31, 2020 and 2019:

	For the year ended December 31, 2020 RMB'000 (unaudited)	For the year ended December 31, 2019 RMB'000 (unaudited)
Operating Revenue	62,865	56,773
Operating profit	15,517	14,384
Profit before taxation	14,654	14,477
Profit after taxation	12,456	12,306

Upon completion of the Investment, the Target Company will become a subsidiary of the Group.

As of the date of this announcement, the Target Company is ultimately owned by the Guarantor beneficially. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Existing Shareholders and the Target Company (and its ultimate beneficial owner) are not connected persons of the Company (as defined in the Listing Rules), and they are independent third parties of the Company and its connected persons.

REASONS FOR AND BENEFITS OF THE INVESTMENT

The Target Company is a leading property management company located in the capital city of Shaanxi Province, and the projects it manages are at a high premium in Xi'an. There are eight projects under management, three of which are non-residential property projects (i.e. commercial and office properties). As of June 30, 2021, the property management fee is approximately RMB4 per sq.m. per month. Overall, the Target Company is operating efficiently, which is in line with the Company's strategic regional development position. The Target Company will also help the Group further develop the regional market in Xi'an, in addition to reducing costs and increasing efficiency with the Group's existing Xi'an property management projects, and establish the Group's brand benchmark in managing commercial properties.

The Directors believe that the terms of the Investment Agreement are fair and reasonable and in the interests of the Group and the shareholders as a whole.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio of the Investment is more than 5% but less than 25% under Chapter 14 of the Listing Rules, the Investment constitutes a discloseable transaction of the Company, therefore is subject to the relevant announcement requirement under Chapter 14 of the Listing Rules but exempt from shareholders' approval requirement.

DEFINITIONS

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

“Board”	the board of directors of the Company
“Company”	Kangqiao Service Group Limited (康橋悦生活集團有限公司), an exempted company with limited liability incorporated under the laws of the Cayman Islands on October 8, 2020
“Director(s)”	the director(s) of our Company
“Existing Shareholders”	WANG Xuchun, YAN Le and Xi'an Lifeng, holding 30%, 30% and 40% shareholding of the Target Company, respectively
“Group”	the Company and its subsidiaries

“Guarantor”	YAN Ming, the ultimate beneficial owner of the Target Company
“HKD”	the lawful currency of the Hong Kong Special Administrative Region
“Investment Agreement”	the investment agreement entered into between the parties to the agreement on September 30, 2021 in relation to the acquisition of 80% equity interest in the Target Company
“Listing”	the listing of the shares on the Company on the Main Board of The Stock Exchange of Hong Kong Limited on July 16, 2021
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“PRC”	the People’s Republic of China, for the purpose of this announcement, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“RMB”	the lawful currency of the PRC
“Target Company”	Xi’an Lifeng Property Management Co., Ltd. (西安立豐物業管理有限公司), a company established in the PRC with limited liability on August 30, 1996 with a registered capital of RMB6 million
“Xi’an Lifeng”	Xi’an Lifeng Enterprise Development Investment (Group) Co., Ltd. (西安立豐企業發展投資(集團)有限公司), a company established in the PRC with limited liability on September 22, 1996, with a registered capital of RMB58 million

By order of the Board
Kangqiao Service Group Limited
SONG Gewei
Chairman

Hong Kong, September 30, 2021

As at the date of this announcement, the Board comprises Mr. SONG Gewei as the chairman and non-executive Director; Mr. DAI Wei, Mr. KANG Weiguo and Ms. WANG Na as executive Directors; and Dr. LI Haitao, Dr. FAN Yun and Mr. WONG Yun Pun as independent non-executive Directors.