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Nature Home Holding Company Limited

大自然家居控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2083)

DISCLOSEABLE TRANSACTION PROPOSED ACQUISITION OF BALTIC WOOD S.A.

The Board is pleased to announce that on 30 December 2019 (after trading hours), the Company, Boville (a wholly-owned subsidiary of the Company) and the Vendors entered into the Agreement, pursuant to which Boville has agreed to purchase, and the Vendors have agreed to sell, the Sale Shares, representing the entire issued share capital of the Target Company.

The Target Company is principally engaged in manufacturing and sale of flooring products mainly in Europe and Asia.

The total consideration for the Acquisition comprises (i) the First Tranche Price in the fixed amount of EUR13,275,000; and (ii) the Second Tranche Price to be determined (subject to adjustment) in accordance with the Second Tranche Price Formula.

Upon completion of the Acquisition, the Company will hold the entire issued share capital of the Target Company. The Target Company will be accounted for as a wholly-owned subsidiary of the Company and the financial statements of Target Company will be consolidated into those of the Group.

On 30 December 2019 (after trading hours), Boville entered into the Supplemental Agreement with one of the Vendors, Mr. Zawierucha, pursuant to which the Company agreed to increase the consideration payable to Mr. Zawierucha by EUR6.00 per Share. The total additional consideration payable to Mr. Zawierucha is EUR300,000.

The Group is engaged in manufacturing and sale of flooring products and customised home decoration products and is one of the largest wood flooring brands in the PRC. In order to expand into the international market, the Group has set up production lines in Southeast Asia in the first half of 2019. The Directors believe that the Acquisition is an opportunity to further strengthen the Group's business strategy of exploring the international flooring market and to create substantial synergies with the Group's current flooring businesses. The main type of products manufactured and sold by the Target Company is engineered wood flooring and the products are mainly sold to project customers in Europe, which include, among others, property developers and professional contractors. Since the Group does not produce such products in its own factories, the Acquisition would enable the Group to expand its own products portfolio and customers base.

Listing Rules Implications

As one or more of the applicable ratios set out in Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Agreement and Supplemental Agreement is more than 5% but less than 25%, the transactions contemplated under the Agreement and Supplemental Agreement constitute a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 30 December 2019, the Company, Boville (a wholly-owned subsidiary of the Company) and the Vendors entered into the Agreement in respect of the Acquisition.

AGREEMENT

The principal terms of the Agreement are set out below:

Date

30 December 2019 (after trading hours)

Parties

Purchaser: Boville

Vendors: (1) Gamrat S.A.
(2) Mr. Krzysztof Moska
(3) Mr. Leszek Sobik
(4) Mr. Adam Łanoszka

- (5) Mr. Wojciech Hoffmann
- (6) Mr. Adam Góralczyk; and
- (7) Mr. Rafał Zawierucha

Guarantor: The Company

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Target Company, its beneficial owners and their respective ultimate beneficial owners (including the Vendors) are third parties independent of the Company and its connected persons.

Assets to be acquired

Pursuant to the Agreement, Boville has agreed to purchase, and the Vendors have agreed to sell, the Sale Shares representing the entire issued share capital of the Target Company.

The number of the Sale Shares to be sold by each of the Vendors and acquired by Boville pursuant to the Agreement is set out below:

Vendors	Sale Shares	
	Number of Shares	Shareholding in the Target Company (%)
Gamrat S.A.	7,950,000	79.5%
Mr. Krzysztof Moska	570,000	5.7%
Mr. Leszek Sobik	570,000	5.7%
Mr. Adam Łanoszka	520,000	5.2%
Mr. Wojciech Hoffmann	280,000	2.8%
Mr. Adam Góralczyk	60,000	0.6%
Mr. Rafał Zawierucha	<u>50,000</u>	<u>0.5%</u>
Total	<u>10,000,000</u>	<u>100%</u>

Consideration

The Total Consideration for the Acquisition comprises (i) the First Tranche Price and (ii) subject to adjustment, the Second Tranche Price.

First Tranche Price

The First Tranche Price is EUR13,275,000 (equivalent to approximately HK\$114,637,000) and shall be payable to the Vendors in proportion to their shareholding in the Target Company as stated above.

Based on the audited consolidated financial statements of the Target Company for the financial year ended 31 December 2018, the EBITDA of the Target Company calculated by adopting the IFRS amounted to approximately PLN15,217,000 (equivalent to approximately EUR3,539,000 and approximately HK\$30,748,000). The First Tranche Price represents an amount which is equal to approximately five times of $75\% \times$ EBITDA of the Target Company for the year ended 31 December 2018 under IFRS.

An amount equal to the First Tranche Price has been deposited by the Company on behalf of Boville into the Deposit Account, which account is held on custody in the name of the Notary Public and is controlled by the Company until completion, and shall be released from the Deposit Account to the Vendors on the Closing Date.

Second Tranche Price

The Second Tranche Price will be determined in accordance with the Second Tranche Price Formula, being:

$$25\% \times \text{EBITDA of the Target Company for the year ending 31 December 2019} \\ \text{under IFRS} \times 5.75$$

The Second Tranche Price is subject to the following adjustment mechanism:

1. If the net assets of the Target Company as at 31 December 2019 shown in its audited financial statements prepared under applicable accounting standards in the Republic in Poland for the year ending 31 December 2019 decreased by more than 2.5% as compared to that as at 31 December 2018, the Second Tranche Price shall be decreased by the same percentage by which the Target Company's net assets were decreased less 2.5; and
2. If the indebtedness of the Target Company as at 31 December 2019 shown in its audited financial statements prepared under applicable accounting standards in the Republic in Poland for the year ending 31 December 2019 increased by more than 2.5% as compared to that as at 31 December 2018, the Second Tranche Price (after adjustment is made in 1. above, if applicable) shall be reduced dollar-for-dollar by the amount of increase in the Target Company's indebtedness above 2.5%.

Based on the latest financial information of the Target Company currently available to the Group, it is expected the Second Tranche Price will not be higher than EUR5,087,000 (equivalent to HK\$43,929,000). Accordingly, the Total Consideration shall not exceed EUR18,362,000 (equivalent to approximately HK\$158,566,000).

The EBITDA of the Target Company for the year ending 31 December 2019 shall be confirmed by an independent professional accounting firm appointed by Boville and within 10 business days upon receipt of such confirmation, Boville shall deposit the Second Tranche Price (or adjusted Second Tranche Price, if applicable) into the Deposit Account.

Upon payment of the Second Tranche Price (or adjusted Second Tranche Price, if applicable) into the Deposit Account, the Notary Public shall then:

1. Retain the Retention Amount, being 5% of the Total Consideration; and
2. Pay and release the remaining part of Second Tranche Price (or adjusted Second Tranche Price, if applicable) on behalf of Boville to the Vendors in proportion to their original shareholding in the Target Company.

If no claim is made by Boville for breach of any of the Vendors' Warranties on or before 31 December 2020, the Retention Amount shall be paid and released by the Notary Public to the Vendors in proportion to their original shareholding in the Target Company.

The Group has engaged an international professional accounting firm in the Republic of Poland to conduct a financial due diligence review on the Target Company. The EBITDA multiples of 5 times (being the EBITDA multiple for the First Tranche Price) and 5.75 times (being the EBITDA multiple for the Second Tranche Price) are considered to be within the range for trading prices of comparable listed companies in the Republic of Poland, which range from 5.72 times to 42.2 times, in the same industry for the last 12 months.

The consideration for the Acquisition was determined after arm's length negotiation between the Company and the Vendors having taken into account, among other things, (i) the reasons for the Acquisition as disclosed in the section headed "Reasons for and benefits of the Agreement and Supplemental Agreement" below; (ii) the historical financial performance and information (including EBITDA and net asset value of the Target Company for the year ended 31 December 2018); and (iii) growth potential of the Target Company.

The consideration for the Acquisition will be funded by the Group's internal resources.

Board Composition

The governing body of the Target Company comprises (i) supervisory board; and (ii) management board, both consist of three members.

Pursuant to the Agreement, on the Closing Date, all members of the supervisory board of the Target Company shall resign from their positions and Boville shall appoint its nominees as the members of the supervisory board of the Target Company.

As disclosed in the section headed “Reasons for and benefits of the Agreement and Supplemental Agreement” below, it is expected that there will be no change to the composition of the management board of the Target Company.

Share Pledge

Pursuant to the Agreement, Boville has agreed to pledge 5,100,000 Shares in favour of the Vendors, for the purpose of securing Boville’s obligation to pay the Second Tranche Price.

The pledged Shares shall be retained and kept with the Notary Public. Upon payment of Second Tranche Price by Boville, the pledged Shares shall be released to Boville.

Guarantee

Pursuant to the Agreement, the Company has agreed to guarantee and undertake to fulfill the obligation of Boville to pay the Second Tranche Price.

Completion of the Acquisition

Sale Shares

The completion of the Acquisition is not subject to the satisfaction of any conditions precedent and shall take place on such date as agreed by the Parties, and in any event on or before 7 January 2020.

Upon completion of the Acquisition, the Company will hold 10,000,000 Shares (except that 5,100,000 Shares will be pledged as stated above), representing the entire issued share capital of the Target Company. The Target Company will be accounted for as a wholly-owned subsidiary of the Company and the financial statements of Target Company will be consolidated into those of the Group.

THE SUPPLEMENTAL AGREEMENT

On 30 December 2019 (after trading hours), Boville entered into the Supplemental Agreement with one of the Vendors, Mr. Zawierucha, pursuant to which Boville agreed to increase the consideration payable to Mr. Zawierucha by EUR6.00 per Share in respect of the acquisition of the 50,000 Shares by Boville from Mr. Zawierucha. The Additional Consideration payable to Mr. Zawierucha is EUR300,000 (equivalent to approximately HK\$2,591,000), of which:

- (a) EUR225,000 has been deposited into the Deposit Account together with the First Tranche Price and shall be released to Mr. Zawierucha on the Closing Date; and
- (b) EUR75,000 shall be paid in cash by Boville to Mr. Zawierucha directly on the date the Notary Public pays and releases the Second Tranche Price to the Vendors.

The Additional Consideration is not subject to the adjustment mechanism in relation to the Second Tranche Price and is not included in the calculation of the Retention Amount.

The Additional Consideration was determined after arm's length negotiation between the Company and Mr. Zawierucha having taken into account, among other things, the reasons as disclosed in the section headed "Reasons for and benefits of the Agreement and Supplemental Agreement" below.

The Additional Consideration will be funded by the Group's internal resources.

The total payment to be made by the Group for the purpose of the Acquisition inclusive of the First Tranche Price, the Second Tranche Price and the Additional Consideration is expected not to exceed EUR18,662,000 (equivalent to approximately HK\$161,157,000).

INFORMATION ON THE TARGET COMPANY

The Target Company is a joint stock company incorporated in the Republic of Poland. The Target Company is principally engaged in manufacturing and sale of flooring products mainly in Europe and Asia. The Target Company owns a production plant in Jasło, the Republic of Poland, which mainly manufactures engineered wood flooring products with a production capacity of approximately 1.6 million square meters per annum. The Target Company's major markets include countries in Europe and the PRC. The Target Company is a flooring products manufacturer for project customers in Europe which include, among others, property developers and professional contractors and it also sells its products under the brand "Baltic Wood" mainly in Asian market. The Group has been one of the distributors of the Target Company for its products sold in the PRC. The Target Company does not have any subsidiaries.

Based on the audited financial statements of Target Company for the financial years ended 31 December 2017 and 31 December 2018, prepared in accordance with the applicable accounting standards in the Republic of Poland, the audited net profits before and after tax were as follows:

	For the financial year ended 31 December			
	2017		2018	
	<i>(equivalent to)</i>		<i>(equivalent to)</i>	
	<i>PLN'000</i>	<i>HK\$'000</i>	<i>PLN'000</i>	<i>HK\$'000</i>
Net profit before taxation	7,335	14,821	8,051	16,268
Net profit after taxation	6,890	13,922	6,477	13,087

Based on the audited financial statements of Target Company for the financial year ended 31 December 2018 prepared in accordance with the applicable accounting standards in the Republic of Poland, the audited net asset value of Target Company was approximately PLN103,303,000 (equivalent to approximately HK\$208,735,000).

INFORMATION ON THE VENDORS

Gamrat S.A. is a joint stock company incorporated in the Republic of Poland and principally engaged in manufacturing and sale of polyvinyl chloride and polyethylene building materials. Gamrat S.A. is a subsidiary of Lentex S.A., the shares of which are listed on The Warsaw Stock Exchange (ticker symbol: LTX).

Mr. Zawierucha, being a party to the Supplemental Agreement and a vendor under the Agreement holding 50,000 Shares, is the Chairman of the management board and the chief executive officer of the Target Company.

Mr. Wojciech Hoffmann is a member of the supervisory board of the Target Company. All other Vendors are individual investors.

INFORMATION ON THE COMPANY AND BOVILLE

The Company, being the Guarantor under the Agreement, is an investment holding company. The principal activities of the Group are manufacturing and sale of flooring products and customised home decoration products.

Boville is an investment holding company incorporated in the Republic of Poland and a wholly-owned subsidiary of the Company.

REASONS FOR AND BENEFITS OF THE AGREEMENT AND SUPPLEMENTAL AGREEMENT

The Group is engaged in manufacturing and sale of flooring products and customised home decoration products and one of the largest wood flooring brands in the PRC. In order to expand into the international market, the Group has set up production lines in Southeast Asia in the first half of 2019. The Directors believe that the Acquisition is an opportunity to further strengthen the Group's business strategy of exploring the international flooring market and to create substantial synergies with the Group's current flooring businesses. The main type of products manufactured and sold by the Target Company is engineered wood flooring and the products are mainly sold to project customers in Europe, which include, among others, property developers and professional contractors. Since the Group does not produce such products in its own factories, the Acquisition would enable the Group to expand its own products portfolio and customers base.

Mr. Zawierucha is currently a member of the management board and the chief executive officer of the Target Company. Mr. Zawierucha has also been acting on behalf of the other Vendors in the course of negotiation of the Acquisition with the Group. The Company acknowledged and intended that the purchase price for the Shares held by Mr. Zawierucha would be higher than that of the other Vendors as an incentive given to Mr. Zawierucha to (i) contact the other Vendors in respect of the Group's offer for the proposal of the Acquisition; and (ii) to further serve the Target Company with leading role.

Upon completion of the Acquisition, it is expected that there will be no change to the composition of the management board of the Target Company as well as the management team. Accordingly, the business of the Target Company will be managed by the existing management under the leadership of Mr. Zawierucha in his role as the Chairman of the management board and the chief executive officer of the Target Company.

Based on the aforesaid, the Directors are of the view that the terms of the Agreement and Supplemental Agreement are fair and reasonable and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

Listing Rules Implications

As one or more of the applicable ratios set out in Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Agreement and Supplemental Agreement are more than 5% but less than 25%, the transactions contemplated under the Agreement and Supplemental Agreement constitute a discloseable transaction of the Company and is 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:

“Acquisition”	the proposed acquisition of the Sale Shares by Boville from the Vendors pursuant to the terms of the Agreement
“Additional Consideration”	the additional price in the total amount of EUR300,000 payable to Mr. Zawierucha in respect of the acquisition of the 50,000 Shares by Boville from Mr. Zawierucha
“Agreement”	the investment agreement (including all Schedules annexed thereto) dated 30 December 2019 and entered into between the Company, Boville and the Vendors in relation to the Acquisition
“Board”	the board of Directors
“Boville”	Boville Investments sp. z.o.o., a wholly-owned subsidiary of the Company and the purchaser under the Agreement
“Business Day”	a day (not being a Saturday, a Sunday and a public holiday) on which banks are open for normal banking business in the Republic of Poland
“Closing Date”	the date on which the completion of the Acquisition takes place
“Company”	Nature Home Holding Company Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange

“connected person(s)”	has the meaning ascribed to this term under Chapter 14A of the Listing Rules
“Deposit Account”	the notarial deposit account into/in which (i) the First Tranche Price and EUR225,000 of the Additional Consideration have been deposited; (ii) the Second Tranche Price shall be deposited; and (iii) the Retention Amount shall be retained
“Directors”	the directors of the Company
“EBITDA”	profit before net finance costs, income tax, depreciation and amortisation
“EUR”	Euro, the lawful currency of the European Union
“First Tranche Price”	as part of the Total Consideration, a fixed amount of EUR13,275,000, which has been deposited into the Deposit Account
“Group”	the Company and its subsidiaries
“IFRS”	International Financial Reporting Standards
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mr. Zawierucha”	Mr. Rafał Zawierucha
“Notary Public”	a notary public in the Republic of Poland appointed by Boville in respect of the Deposit Account
“PLN”	Złote, the lawful currency of the Republic of Poland
“PRC”	the People’s Republic of China excluding, for the purpose of this announcement, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“Retention Amount”	part of the Second Tranche Price to be retained in the Deposit Account, being 5% of the Total Consideration
“Sale Shares”	an aggregate of 10,000,000 issued Shares, representing the entire issued share capital of the Target Company as at the date of the Agreement
“Second Tranche Price”	as part of the Total Consideration, an amount to be determined in accordance with the Second Tranche Price Formula

“Second Tranche Price Formula”	25% × EBITDA of the Target Company under IFRS for the year ending 31 December 2019 × 5.75
“Shareholders”	shareholders of the Company
“Shares”	bearer shares of nominal value of PLN0.10 each in the share capital of the Target Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 30 December 2019 and entered into between Boville and Mr. Zawierucha in respect of the Additional Consideration
“Target Company”	Baltic Wood S.A., a company incorporated in the Republic of Poland
“Total Consideration”	the total consideration for the Acquisition (other than the Additional Consideration), being the aggregate of (i) the First Tranche Price; and (ii) subject to adjustment, the Second Tranche Price
“Vendors”	(1) Gamrat S.A.; (2) Mr. Krzysztof Moska; (3) Mr. Leszek Sobik; (4) Mr. Adam Łanoszka; (5) Mr. Wojciech Hoffmann; (6) Mr. Adam Góralczyk; and (7) Mr. Zawierucha, all being vendors under the Agreement
“Vendors’ Warranties”	the representations and warranties given by the Vendors under the Agreement
“%”	percentage

For the purpose of this announcement, the exchange rates of HK\$ 1.0000 = PLN\$0.4949 and HK\$1.0000 = EURO.1158 have been used for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rates or at any other rates.

By Order of the Board
Nature Home Holding Company Limited
Se Hok Pan
Chairman

Hong Kong, 30 December 2019

As at the date of this announcement, the Board of Directors of the Company comprises Mr. SE Hok Pan, Ms. UN Son I and Mr. SHE Jian Bin as executive directors; Mr. LIANG Zhihua and Mr. TEOH Chun Ming as non-executive directors; Professor LI Kwok Cheung, Arthur, Mr. CHAN Siu Wing, Raymond and Mr. HO King Fung, Eric as independent non-executive directors.