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**Zhong Ao Home Group Limited**

**中奥到家集团有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1538)**

## **DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION AT SUBSIDIARY LEVEL**

The Board is pleased to announce that on 25 November 2021 (after trading hours of the Stock Exchange), the Purchaser and the Vendor entered into the Agreement, pursuant to which the Purchaser conditionally agreed to purchase, and the Vendor conditionally agreed to sell, the Sale Interest for a total cash consideration of RMB34,000,000.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Acquisition (when aggregated with the Previous Acquisition) is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction on the part of the Company under the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

The Vendor is interested in 49% equity interest in the Target Company and is therefore a connected person at the subsidiary level (as defined under the Listing Rules). As the Board (including all independent non-executive Directors) has approved the transactions contemplated under the Agreement and confirmed that the terms and conditions of the transactions contemplated under the Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole, the Agreement being a connected transaction between the Company and a connected person at the subsidiary level (as defined under the Listing Rules) on normal commercial terms or better is exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **BACKGROUND**

Reference is made to the announcement of the Company dated 8 May 2020 in relation to the Previous Acquisition. On 8 May 2020, the Purchaser and the Vendor entered into an equity transfer agreement pursuant to which the Purchaser agreed to purchase and the Vendor agreed to sell 51% equity interest in the Target Company for a total cash consideration of RMB40,000,000. The Previous Acquisition was completed in June 2020.

The Board is pleased to announce that on 25 November 2021 (after trading hours of the Stock Exchange), the Purchaser and the Vendor entered into the Agreement, pursuant to which the Purchaser conditionally agreed to purchase, and the Vendor conditionally agreed to sell, the Sale Interest for a total cash consideration of RMB34,000,000.

## **THE AGREEMENT**

### **Date**

25 November 2021 (after trading hours of the Stock Exchange)

### **Parties**

- (i) The Purchaser; and
- (ii) The Vendor.

The Vendor is interested in 49% equity interest in the Target Company and is therefore a connected person at the subsidiary level (as defined under the Listing Rules).

### **Asset to be acquired**

Pursuant to the Agreement, the Purchaser conditionally agreed to purchase, and the Vendor conditionally agreed to sell, the Sale Interest, which represents 49% of the equity interest in the Target Company.

### **Consideration**

The total consideration for the Acquisition is RMB34,000,000, which shall be payable by the Purchaser to the Vendor in the following manner:

- (a) RMB24,000,000 shall be payable within three months in cash upon the fulfillment (or waiver as the case may be) of all the conditions precedent under the Agreement; and
- (b) subject to the fulfillment (or waiver as the case may be) of all the conditions precedent under the Agreement, if the profit guarantee for the financial year ending 31 December 2024 is met, or is not met but the Purchaser elects not to exercise the put option granted by the Vendor under the Agreement and the Vendor has fully settled the relevant Compensation, RMB10,000,000 (the “**Second Tranche Consideration**”) shall be payable within ten working days upon the issue of the review report for the financial year ending 31 December 2024.

For details of the profit guarantee and the put option granted by the Vendor under the Agreement, please refer to the sections headed “Profit guarantee” and “Put option” in this announcement respectively.

The consideration for the Acquisition was arrived at after arm’s length negotiations between the Purchaser and the Vendor with reference to (i) the valuation of the Sale Interest in the amount of RMB34,000,000 as at 11 November 2021 based on the valuation report issued by

an independent professional valuer by using the market approach; (ii) the profit guarantee of the Target Group for each of the financial years ending 31 December 2021, 2022, 2023 and 2024; and (iii) future prospects of the Target Group.

After considering the above factors, the Directors (including the independent non-executive Directors) consider that the entering into of the Agreement and the terms and conditions of the Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Conditions Precedent**

Payment of the total consideration for the Acquisition under the Agreement is conditional upon all of the following conditions precedent being fulfilled (or waived as the case may be):

- (a) the Vendor having procured the Target Company to pass the relevant resolution(s) in relation to the transfer of the Sale Interest in accordance with the relevant laws and the articles of association of the Target Company;
- (b) the business registration of the transfer of Sale Interest from the Vendor to the Purchaser with the relevant authority in the PRC having been completed;
- (c) all warranties and disclosure given by the Vendor being true, accurate and not misleading and without material omission and there is no event having occurred which may result in the Vendor breaching the warranties or any terms of the Agreement;
- (d) the transactions contemplated under the Agreement shall not be restricted or forbidden by any applicable laws, judicial or arbitration authority or any judgment and administrative decisions of other governmental authority; and
- (e) no events having occurred which may result in any material adverse change (or effect) on the Target Group.

Save for conditions (c) and (e) above, which can be waived by the Purchaser, other conditions above cannot be waived by any party in any event. If any of the above conditions is not fulfilled or waived on or before the Long Stop Date, the Agreement shall terminate.

### **Completion**

Completion shall take place by 31 December 2021 (or such later date agreed by the Purchaser and the Vendor), upon which the business registration of the transfer of Sale Interest from the Vendor to the Purchaser with the relevant authority in the PRC and the issue of new business license of the Target Company will take place.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and its financial results will continue to be consolidated in the Group's financial statements.

## **Profit guarantee**

As disclosed in the announcement of the Company dated 8 May 2020, the Vendor previously agreed to guarantee that the Target Company would have (i) consolidated net profit after tax of not less than RMB6,800,000 for the financial year ending 31 December 2020; (ii) consolidated net profit after tax of not less than RMB8,200,000 for the financial year ending 31 December 2021; and (iii) consolidated net profit after tax of not less than RMB9,800,000 for the financial year ending 31 December 2022. As disclosed in the announcement of the Company dated 28 October 2021, the above profit guarantee for the financial year ended 31 December 2020 was met.

Under the Agreement, the Vendor further guarantees that (a) the Vendor will remain as the manager of the Target Company until 31 December 2024; and (b) the Target Company will have (i) consolidated net profit after tax of not less than RMB8,200,000 for the financial year ending 31 December 2021; (ii) consolidated net profit after tax of not less than RMB9,800,000 for the financial year ending 31 December 2022; (iii) consolidated net profit after tax of not less than RMB11,000,000 for the financial year ending 31 December 2023; and (iv) consolidated net profit after tax of not less than RMB13,000,000 for the financial year ending 31 December 2024. The Purchaser will designate its auditors to review the financial statements of the Target Company (which shall be prepared in accordance with the PRC enterprise accounting system) and issue a review report within 5 months from the financial year end date of the Target Company. The review report will be final, conclusive and binding on the relevant parties.

If the actual consolidated net profit after tax of the Target Company is less than the above guaranteed amount during any of the relevant financial year of the Target Company, the Purchaser shall be entitled to either (i) exercise the put option, the details of which are set out in the section headed “Put option” below; or (ii) request for Compensation from the Vendor which shall be equivalent to the difference between the actual amount and the guaranteed amount of the consolidated net profit after tax of the Target Company.

The Vendor will pay the Purchaser the Compensation (if any) in cash within 7 working days after the issue of the auditors’ review report for the relevant financial year, and the parties will continue to fulfill their obligations under the Agreement. If the Vendor fails to fully pay the Compensation within the above stipulated period of time, the Purchaser will not be obliged to pay the Second Tranche Consideration. If the Vendor fails to fully pay the Compensation within 10 working days, the Purchaser is entitled to terminate the Agreement and requests the Vendor to acquire 100% equity interest in the Target Company and pay the consideration to the Purchaser pursuant to the terms under the put option granted by the Vendor under the Agreement.

## **Put option**

The Vendor agreed to grant a put option to the Purchaser that if the actual consolidated net profit after tax of the Target Company is less than the above guaranteed amount during any of the relevant financial year of the Target Company, the Purchaser is entitled to request the Vendor to acquire 100% equity interest in the Target Company held by the Purchaser at the consideration equivalent to the aggregate of the total consideration paid by the Purchaser for the Acquisition and the Previous Acquisition, the total capital amount then injected by the

Purchaser into the Target Company and interest (at the interest rate of 5% per annum) accruing from date of issue of the review report for the relevant financial year of the Target Company up to the date of actual payment by the Vendor.

The Purchaser will consider whether to exercise the put option primarily based on the future performance and prospects of the Target Group, the PRC economic environment and future government policy with respect to cleaning services in the PRC (if any).

## **INFORMATION OF THE TARGET GROUP**

The Target Company is a company established in the PRC with limited liability and is principally engaged in provision of cleaning services, greening services and maintenance, and outdoor wall cleaning.

As at the date of this announcement, (i) the equity interest in the Target Company was beneficially owned as to 51% by the Purchaser and 49% by the Vendor; and (ii) the Target Company owns 100% equity interest in Ningbo Jiayin. Ningbo Jiayin is a company established in the PRC with limited liability and is principally engaged in research and development on environmental protection technology, technology advisory, technology transfer, hygiene cleaning tools, energy saving environmental protection equipment research and development, production, sales, construction wastage cleaning, cleaning services and greening maintenance services.

As at 11 November 2021, the established customer base of the Target Group have a total of not less than 260 on-going cleaning services projects with an aggregate contract sum of approximately RMB149.0 million with reference to the projects list of the Target Group.

According to the valuation based on market approach conducted by an independent professional valuer, the valuation of the Sale Interest was assessed to be in the amount of RMB34,000,000 as at 11 November 2021.

After the Completion, the equity interest in the Target Company shall be wholly owned by the Purchaser.

Followings are certain key financial figures extracted from the Target Company's unaudited consolidated financial statements for the year ended 31 December 2019 and audited consolidated financial statements for the year ended 31 December 2020 (which were prepared in accordance with the PRC enterprise accounting system):

	<b>For the year ended 31 December 2019</b>	<b>For the year ended 31 December 2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Net profit before taxation	3,064	9,390
Net profit after taxation	2,331	7,042
Total assets	17,632	42,561
Net assets	2,450	9,918



“Agreement”	the equity transfer agreement entered into between the Purchaser and the Vendor on 25 November 2021 (after trading hours of the Stock Exchange) in relation to the Acquisition
“Board”	the board of Directors
“Company”	Zhong Ao Home Group Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of Stock Exchange
“Compensation”	the compensation payable by the Vendor to the Purchaser under the Agreement in the event that the profit guarantee for any of the relevant financial years is not met
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Agreement
“connected person(s)”	having the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	25 January 2022 (or such later date as may be agreed in writing between the Purchaser and the Vendor)
“Ningbo Jiayin”	寧波嘉銀環保科技有限公司 (for transliteration purpose only, Ningbo Jiayin Environmental Protection Technology Company Limited), a company established in the PRC with limited liability
“PRC”	The People’s Republic of China
“Previous Acquisition”	the acquisition of 51% of the equity interest in the Target Company by the Purchaser from the Vendor pursuant to the equity transfer agreement entered into between the Purchaser and the Vendor on 8 May 2020
“Purchaser”	佛山派瑞爾清潔服務有限公司 (for transliteration purpose only, Foshan Pairuier Cleaning Services Company Limited), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of the Company

“Sale Interest”	49% of the equity interest in the Target Company to be acquired by the Purchaser from the Vendor under the Agreement
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	廣東華瑞環境工程有限公司 (for transliteration purpose only, Guangdong Huarui Environmental Engineering Company Limited), a company established in the PRC with limited liability
“Target Group”	collectively, the Target Company and Ningbo Jiayin
“Vendor”	莫玉秀 (for transliteration purpose only, Mo Yu Xiu), the vendor under the Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

By order of the Board  
**Zhong Ao Home Group Limited**  
**LIU Jian**  
*Chairman and Executive Officer*

Hong Kong, 25 November 2021

*As at the date of this announcement, the Board comprises Mr. Liu Jian, Ms. Chen Zhuo, Mr. Liang Bing and Mr. Long Weimin as executive Directors, Mr. Wu Zhihua and Ms. Jin Keli as non-executive Directors, and Mr. Chan Wai Cheung, Admiral, Mr. Chan Ka Leung, Kevin and Mr. Huang Anxin as independent non-executive Directors.*