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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 16 March 2022 (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 RMB25,000,000.

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.

As at the date of this announcement, the Vendor is interested in 30% equity interest in the Target Company and is therefore a connected person at the subsidiary level (as defined under the Listing Rules) of the Company. 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 (although not in the ordinary and usual course of business of the Group) 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

On 19 June 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 70% equity interest in the Target Company for a total cash consideration of RMB40,000,000. The highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Previous Acquisition was less than 5% and the Previous Acquisition was exempt from the relevant requirements under Chapter 14 of the Listing Rules. The Previous Acquisition was completed in August 2020, upon which the Target Company has become a 70%-owned subsidiary of the Company.

The Board is pleased to announce that on 16 March 2022 (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, representing 30% of the equity interest in the Target Company, for a total cash consideration of RMB25,000,000.

THE AGREEMENT

Date

16 March 2022 (after trading hours of the Stock Exchange)

Parties

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

The Vendor is interested in 30% equity interest in the Target Company and is therefore a connected person of the Company 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 30% of the equity interest in the Target Company.

The Vendor acquired 30% equity interest in the Target Company at the original acquisition cost of RMB25,000,000.

Consideration

The total consideration for the Acquisition is RMB25,000,000, which shall be payable by the Purchaser to the Vendor within three months in cash upon the fulfilment (or waiver, as the case may be) of all the conditions precedent under the Agreement.

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 RMB26,730,000 as at 31 December 2021 based on the valuation report issued by an independent professional valuer by using the market approach; (ii) the profit guarantees of the Target Group for each of the financial years ending 31 December 2022 and 2023; 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. None of the Directors have any material interest in the Agreement and they were not required to abstain from voting on the Board resolution to approve the Agreement.

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 May 2022 (or such later date as 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

Under the Agreement, the Vendor guarantees that the Target Company will have (i) consolidated net profit after tax of not less than RMB11,000,000 for the financial year ending 31 December 2022; and (ii) consolidated net profit after tax of not less than RMB13,000,000 for the financial year ending 31 December 2023. 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 3 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 years 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 (the "**Compensation**") from the Vendor and continue to perform the Agreement, subject to the settlement of the Compensation by the Vendor. The Compensation shall be calculated according to the following formula;

The Compensation = the difference between the actual amount and the guaranteed amount of the consolidated net profit after tax of the Target Company for that financial year x 9.09 x 30%.

The Vendor will pay to 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 be entitled to terminate the Agreement and request the Vendor to acquire 30% 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 years of the Target Company, the Purchaser is entitled to request the Vendor to acquire 30% 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 total amount injected by the Purchaser into the Target Company with interest on the above amount at the rate of 6% per annum as compensation 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 and the PRC economic environment.

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 intelligent system solutions engineering service in the PRC.

As at the date of this announcement, (i) the equity interest in the Target Company was beneficially owned as to 70% by the Purchaser and 30% by the Vendor; and (ii) the Target Company owns 100% equity interest in each of Guangxi Huajiantong and Guangzhou Mingyang. Guangxi Huajiantong is a company established in the PRC with limited liability and is principally engaged in provision of intelligent system solutions engineering service in the PRC. Guangxi Mingyang is a company established in the PRC with limited liability and is principally engaged in fire engineering, construction engineering, waterproofing engineering, power system, automatic control system, drainage and ventilation system and maintenance service, communication technology research and development, agency services for mobile telecommunications business and broadband business, communication engineering design services and communication equipment wholesale.

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 RMB26,730,000 as at 31 December 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 consolidated financial statements for the years ended 31 December 2020 and 2021 respectively (which were prepared in accordance with the PRC enterprise accounting system):

	For the year ended 31 December 2020 <i>RMB'000</i> (audited)	For the year ended 31 December 2021 <i>RMB'000</i> (unaudited)
Net profit before taxation	9,600	12,038
Net profit after taxation	7,180	9,163
	As at 31 December 2020 <i>RMB'000</i> (audited)	As at 31 December 2021 <i>RMB'000</i> (unaudited)
Total assets	31,569	79,689
Net assets	8,536	17,700

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company. The Group is principally engaged in the provision of property management services and property management consulting services in the PRC.

Upon completion of the Acquisition, the Group's equity interest in the Target Company will increase from 70% to 100%, which would in turn allow the Group to further increase its controlling interests in the Target Company and to further benefit from the positive earnings contributions that may be brought by the Target Company and the Group will be able to bring synergy effects to the existing property management services of the Group and enhance the Group's profitability.

Based on the above, the Directors (including the independent non-executive Directors) consider that the entering into of the Agreement and the terms and conditions of the Agreement (including the consideration and payment terms) are fair and reasonable, on normal commercial terms (although not in the ordinary and usual course of business of the Group) and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

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 30% equity interest in the Target Company and is therefore a connected person at the subsidiary level (as defined under the Listing Rules) of the Company. 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 (although not in the ordinary and usual course of business of the Group) 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.

DEFINITIONS

In this announcement, the following terms shall have the meanings set out below unless the context requires otherwise:

“Acquisition”	the proposed acquisition of the Sale Interest by the Purchaser from the Vendor pursuant to the terms and conditions of the Agreement
“Agreement”	the equity transfer agreement entered into between the Purchaser and the Vendor on 16 March 2022 (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
“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
“Guangxi Huajiantong”	廣西華建通消防工程有限公司 (for transliteration purpose only, Guangxi Huajiantong Fire Engineering Company Limited), a company established in the PRC with limited liability
“Guangzhou Mingyang”	廣州名揚通信科技有限公司 (for transliteration purpose only, Guangzhou Mingyang Communication Technology Company Limited), a company established in the PRC with limited liability
“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”	16 June 2022 (or such later date as may be agreed in writing between the Purchaser and the Vendor)
“PRC”	The People’s Republic of China

“Previous Acquisition”	the acquisition of 70% 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 19 June 2020
“Purchaser”	廣東中奧物業管理有限公司 (for transliteration purpose only, Guangdong Zhong Ao Property Management Company Limited), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of the Company
“Sale Interest”	30% of the equity interest in the Target Company to be acquired by the Purchaser from the Vendor under the Acquisition
“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”	廣東迅華電氣技術有限公司 (for transliteration purpose only, Guangdong Xunhua Electric Technology Company Limited), a company established in the PRC with limited liability
“Target Group”	collectively, the Target Company, Guangxi Huajiantong and Guangzhou Mingyang
“Vendor”	楊木林 (for transliteration purpose only, Yang Mulin), 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 Chief Executive Officer

Hong Kong, 16 March 2022

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.