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## **FURTHER INFORMATION ON DISCLOSEABLE TRANSACTION**

### **ACQUISITION OF EQUITY INTEREST IN THE TARGET COMPANY**

Reference is made to the announcement (the “**Announcement**”) of Kangqiao Service Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 30 September 2021 in relation to the Investment, being acquisition of 80% equity interest in Xi’an Lifeng Property Management Co., Ltd. (西安立豐物業管理有限公司)(the “**Target Company**”). Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the Announcement.

The Board would like to provide further information on the Investment.

### **BASIS OF CONSIDERATION**

#### *Valuation and PE ratio of the Target Company*

Apart from the factors taken into account by the Company in determination of the consideration of the Investment, the Board wishes to clarify that the consideration amount to acquire 80% equity interest in the Target Company was also primarily derived from the valuation of the Target Company as determined by the management of the Company, which can also be evidenced and supported by the total equity value of the Target Company as at 30 June 2021 of approximately RMB209.63 million based on the valuation report prepared by Henan Shengqiao Asset Appraisal Firm (General Partnership) (河南晟橋資產評估事務所(普通合夥)), an independent third party valuer of the PRC, under market approach (the “**Valuation Report**”). The following sets forth the key assumptions adopted by the valuer during the course of preparation of the Valuation Report:

- (a) subsequent to the valuation date, the Target Company can continue to operate in the current operating scale and business model;
- (b) the subject assets will be traded in a relatively matured public market and the basis of determining the consideration and the valuation conclusion will be available and substantiated in the public market;

- (c) the subject assets are already in trading, and the valuer is assessing the value of the subject assets based on the trading conditions of a simulating market;
- (d) the Target Company possesses full rights to the ownership, management, disposition and returns on the subject assets; and
- (e) there will be no material change in macroeconomic policies as well as the social and economic environment of the region where the subject assets are located, nor there will be any material change in industrial policies, laws and regulations, administration system, taxation policies and credit rates.

Furthermore, the PE ratio of the Target Company calculated based on the profit after tax of the Target Company for the year ended 31 December 2020 is approximately 16.83, which is derived based on the formula below:

$$\text{PE ratio} = \frac{\text{total equity value of the Target Company as at 30 June 2021 of approximately RMB209.63 million based on the Valuation Report}}{\text{profit after tax of the Target Company for the year ended 31 December 2020 of approximately RMB12.456 million}} = 16.83$$

The PE ratio of the Target Company is within the range of the property management industry according to the Valuation Report. In determination of the consideration of the Investment, the Company has also taken into account a number of comparable cases (the “**Comparable Cases**”), each of which is an acquisition by a PRC property management company in 2021 the target company of which is generally comparable to the size of the Target Company in terms of type of properties under management, gross floor area (the “**GFA**”) under management and/or the contracted GFA of the properties, PE ratio (ranging from 12.67 to 17.40) and the profit after tax.

### ***Growth Potential of the Target Company***

In addition, the Company has taken into consideration the growth potential of the Target Company. For instance, the Target Company manages a number of large-scale residential and commercial properties projects in Xi’an City. In particular, Lifeng City Living Plaza (立豐城市生活廣場) held by the Target Company is a new commercial landmark in Xi’an City, which is at prime location and has high occupancy rate. Lifeng City Living Plaza is adjacent to the high-tech development zone, the electronic city and university city of Xi’an City, and has well-developed infrastructure and relatively mature business operation. The large-scale commercial properties of Lifeng City Living Plaza have the GFA of approximately 237,300 sq.m. and have commenced operation since November 2020. After the expected delivery of chargeable GFA of 72,900 sq.m. and 74,200 sq.m. in 2022 and 2023, respectively, under the property project of Lifeng City Living

Plaza, the Company expects the profitability of the Target Company will increase and generate a greater investment return therefrom.

### ***Synergy Effects on Operations***

The Company considered the following synergy effects on operations between the Target Company and the Group in determination of the consideration of the Investment:

- (i) as the Target Company is a major property management company in Xi'an City, the Investment will expand the Group's business penetration in Xi'an City, which is in line with the Group's development strategies;
- (ii) having taken into account the number of properties that have already been delivered and are currently under Group's management in Xi'an City, the Company considers that it can further benefit from the economics of scale after completion of the Investment, as the centralized management of properties currently managed by the Group and the Target Company, respectively, will help reduce the management costs and optimize the allocation of resources of the Group; and
- (iii) the Company believes that the reputation and brand awareness of the Target Company, a well-known local property management company established in 1996, will further contribute to the Group's business expansion in Xi'an City.

Based on the above, the Company considers that the consideration for the Investment of RMB164.07 million was arrived at based on normal commercial terms and after arm's length negotiations between parties.

## **CONSIDERATION AND PAYMENT ARRANGEMENT**

### ***Additional Information on Payment Terms***

Pursuant to the Investment Agreement, all the updated business license and required licenses reflecting the shareholding change resulting from the Investment will be obtained after settlement of RMB40.00 million out of the first instalment.

The Company wishes to clarify that, pursuant to the Investment Agreement, the Existing Shareholders shall entrust the Company to pay the second instalment to the designated bank account held by the Target Company, for the repayment of bank loans of the Target Company. Other than the second instalment, the remaining instalments shall be paid by the Company to the designated bank account held by the Existing Shareholders.

### ***Disposal of the Excluded Businesses by the Target Company***

With respect to the third instalment, the Company requested the Existing Shareholders to dispose of 35% and 35% of the equity interests (collectively, the "**Excluded Businesses**") held by the Target Company in Xi'an Xinchengdai Entertainment Co., Ltd. ("**Xinchengdai Entertainment**") and Xi'an Xinchengdai Optional Supermarket Co., Ltd. ("**Xinchengdai Optional Supermarket**")

mainly because such entities are engaged in businesses that are different from the Group's principal businesses.

The Group is a comprehensive property management service provider in the PRC and generates its revenue mainly from three business lines, namely (i) property management services; (ii) value-added services to non-property owners; and (iii) community value-added services. Meanwhile, Xinshengdai Entertainment principally engages in operation of beverage shops and KTV rooms, and Xinshengdai Optional Supermarket principally engages in pre-packaged food retail business, which are not in line with the principal businesses of the Group.

As the Group intends to continue to focus on the operation of its principal businesses, the Company believes that the disposal of the Excluded Businesses will facilitate the Group to concentrate its management and operational resources and avoid diverting the management's attention from operation and development of the Group's core businesses.

The consideration payable to the Target Company for the disposal of the Excluded Businesses shall be the book value of Xinshengdai Entertainment and Xinshengdai Optional Supermarket multiplied by the relevant shareholding interest held by the Target Company, being RMB2.45 million in aggregate, which is equivalent to the initial investment costs of the Target Company for the acquisition of such equity interests. The valuation of the Target Company in the Valuation Report has excluded the financial figures of the Excluded Businesses. The Board believes that the disposal of the Excluded Businesses generally has no impact on the consideration amount.

## **OPERATIONAL GUARANTEES**

The Company would like to provide further details in relation to the operational guarantees made by the Existing Shareholders under the Investment Agreement.

### ***Guarantee no. 1***

Guarantee no. 1 is related to the fifth instalment of RMB16.00 million, which shall become payable upon satisfaction of, among others, the following conditions relevant to guarantee no.1:

- (1) the delivery of the chargeable GFA of 72,900 sq.m. of the property project Lifeng City Living Plaza (立豐城市生活廣場) in 2022 (the “**2022 Chargeable GFA**”); or
- (2) in the event that the 2022 Chargeable GFA of 72,900 sq.m. cannot be delivered by the end of 2022, the delivery of the total chargeable GFA of 147,100 sq.m. of the property project Lifeng City Living Plaza by the end of 2023.

In the event of non-satisfaction of condition (2) under guarantee no. 1, the Company is entitled to deduct RMB2,141,500 for every 10,000 sq.m. not delivered from the fifth instalment.

### ***Guarantee no. 2***

The Existing Shareholders guarantee that the Target Company will be engaged to provide property management services to Lifeng International Shopping Plaza and Lifeng City Living Plaza (the property management agreement of which was entered into between the Target Company and

Xi'an Runyin Real Estate Development Co., Ltd., one of the landlords of Lifeng City Living Plaza) for not less than 10 years from July 2021 to June 2031:

- (a) for Lifeng International Shopping Plaza, the annual property management fees shall be approximately RMB11.28 million for the first year and shall increase by 5% annually for the remaining nine years. If the actual property management fees for each year from July 2021 to June 2031 for Lifeng International Shopping Plaza received by the Target Company is less than the aforementioned agreed property management fees, RMB10,000 will be deducted for every RMB10,000 reduced from the agreed fees. In addition, if the management period of Lifeng International Shopping Plaza is less than 10 years, RMB2,184,900 will be deducted for every year shorter than 10 years. Should the aforementioned guarantee in relation to Lifeng International Shopping Plaza not be satisfied, the deduction will be made from the third instalment of RMB27.20 million; and
- (b) for Lifeng City Living Plaza (the property management agreement of which was entered into between the Target Company and Xi'an Runyin Real Estate Development Co., Ltd., one of the landlords of Lifeng City Living Plaza), in the first five years from July 2021 to June 2026, the annual property management fees shall be approximately RMB20.76 million for the first year and shall increase by 5% annually for the remaining four years; in the next five years from July 2026 to June 2031, the annual property management fees shall be not less than approximately RMB26.50 million each year. If the actual property management fees for each year from July 2021 to June 2031 for Lifeng City Living Plaza received by the Target Company is less than the aforementioned agreed property management fees, RMB10,000 will be deducted for every RMB10,000 less than the agreed fees. In addition, if the management period of Lifeng City Living Plaza is less than 10 years, RMB3,195,300 will be deducted for every year shorter than 10 years. Should the aforementioned guarantee in relation to Lifeng City Living Plaza not be satisfied, the deduction will be made from the fourth instalment of RMB17.24 million.

### ***Guarantee no. 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, which is related to the third instalment.

### ***Guarantees no. 4 to 6***

Guarantees no. 4 to 6 are contingent events which may or may not take place and are not related to any specific instalment. Should any of guarantees no. 4 to 6 not be satisfied, the actual amount of expenses incurred or the amount of the fees payable to the Company (as applicable) will be deducted from the outstanding consideration payable to the Existing Shareholders at the relevant time:

- For guarantee no. 4, the Existing Shareholders shall guarantee that the Target Company shall be entitled to the property management fees with respect to vacant properties and

parking lots, which are required to be paid by property developer to property management company before sale of such properties / parking lots to the property owners pursuant to the applicable PRC laws and regulations. As at the date of the Investment Agreement, preliminary property services agreements in respect of the relevant projects involved vacant properties and parking lots were entered into between the property developer and the Target Company. The property management fees for such vacant properties and parking lots under management are expected to be approximately RMB89,600 per year (calculated based on the unsold areas that have been delivered as at the date of the Investment Agreement).

- For guarantee no. 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 before delivery of such properties in 2022.
- For guarantee no. 6, in the event that the “universal fee property management policy” (一費制物業管理政策) will be implemented in future pursuant to the Administrative Measures for Property Service Fees of Xi'an City (《西安市物業服務收費管理辦法》) issued by the Development and Reform Commission, Housing and Urban-Rural Development Bureau and Market Supervision and Administration Bureau of Xi'an City, the property management fees for Lifeng Kunming Time (立豐·昆明時光) and Ziluolanting (紫落瀾庭) to be received by the Target Company as previously agreed may be reduced. In such case, the Existing Shareholders shall compensate the actual amount of the loss incurred, being the difference of the previously agreed property management fees and the reduced property management fees in accordance with the universal fee property management policy.

#### ***Guarantee no. 7***

Guarantee no. 7 is also a contingent event which may or may not take place and is not related to any specific instalment. Under guarantee no. 7, the Existing Shareholders guarantee that for all property projects managed by the Target Company other than Lifeng Kunming Time (立豐·昆明時光), no owners' committee has been established, and there have been no material conflicts between the owners and the Target Company over the matters occurred before signing of the Investment Agreement. The Existing Shareholders also guarantee that if the Target Company fails to provide property management services for Lifeng Kunming Time for a consecutive three years (exclusive of three years) after entering into the Investment Agreement, the Company is entitled to deduct RMB2,959,400 for every year shorter than three years from the outstanding consideration payable to the Existing Shareholders at the relevant time.

#### ***Guarantee no. 8***

Guarantee no. 8 is not related to any specific instalment. Under guarantee no. 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 30 June 2021. As at the date of this announcement, such expenses of approximately RMB724,000 incurred during June 2021 was fully paid, and there was no outstanding expenses payable to the Target Company's employees which was incurred before 30 June 2021. In addition, within 6 months after completion of the Investment, the Company is entitled to adjust the positions of the Target Company's personnel or terminate their employment in accordance with the employment standards or internal rules of the Company. Under guarantee no. 8, if such adjustment or termination of employment occurs, the salaries, performance bonuses, welfare and severance compensation of the Target Company's employees during such period shall be borne by the Existing Shareholders.

#### ***Guarantee no. 9***

Guarantee no. 9 is a general representation made by the Existing Shareholders 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, which is not related to any specific instalment.

The aforementioned proposed deduction amounts of RMB2,141,500 for every 10,000 sq.m. not delivered under guarantee no. 1, RMB2,184,900 and RMB3,195,300 for every year shorter than 10 years under (a) and (b) of guarantee no. 2, RMB2,959,400 for every year shorter than three years under guarantee no. 7 were determined based on factors including but not limited to, the net profit for the year ended 31 December 2020, the expected costs, the agreed management period and the growth potential of the relevant projects after arm's length negotiations between parties.

Save for the aforementioned guarantees no. 1 to 9 made by the Existing Shareholders, the Existing Shareholders have also pledged the remaining 20% equity interest in the Target Company held by the Existing Shareholders to the Company as an additional guarantee measure. Should the outstanding consideration payable to the Existing Shareholders not be sufficient for deduction of the guaranteed amount or the actually expenses incurred (as applicable) under relevant guarantee(s), the Company is entitled to dispose of the aforementioned 20% equity interest pledged to the Company through a public auction, or to request the Guarantor to perform the obligations in respect of its guarantee for all of the Existing Shareholders' obligations under the Investment Agreement. Meanwhile, the Company also has the rights to file a lawsuit against the Existing Shareholders and apply for enforcement of other assets of the Existing Shareholders if they fail to perform their obligations, and to file a lawsuit against the Guarantor if the Guarantor fails to perform the obligations in respect of its guarantee for all of the Existing Shareholders' obligations.

The Company has also obtained the Corporate Credit Report (《企業徵信報告》) of the Existing Shareholders as at 18 August 2021 from the operation management department of Xi'an branch of People's Bank of China, and noted no negative record in respect of their credit.

Save as disclosed above, all other information and content set out in the Announcement remain unchanged and shall continue to be valid for all purposes.

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

Hong Kong, 12 November 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.*