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Kinetic Development Group Limited

力量發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1277)

SUPPLEMENTAL ANNOUNCEMENT DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF SHARES IN STAR IDEA AND TERMINATION OF THE LOAN AGREEMENT

Reference is made to the announcement of the Company dated 30 December 2022, where the Vendor, the Purchaser and the Target Company entered into the Acquisition and Subscription Agreement, pursuant to which (i) the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, for the Acquisition Consideration; (ii) the Purchaser has conditionally agreed to subscribe for the Subscription Shares at the Subscription Price; and (iii) the outstanding loan principal and accrued interest under the Loan Agreement shall be treated as part of the Subscription Price payable by the Purchaser in connection with the Subscription. Upon Closing, the balance of the Loan Commitment will not be drawn down by the Target Company, and the Loan Agreement will be terminated with immediate effect.

The Board announces that, on 29 March 2023, the Vendor, the Purchaser and the Target Company entered into the Supplemental Agreement, pursuant to which, among others, each of the parties agreed to (i) remove all references to the Subscription and all arrangements directly related thereto under the Acquisition and Subscription Agreement (including, without limitation, to the arrangement that the consummation of the acquisition of the Sale Shares shall be inter-conditional with the consummation of the subscription of the Subscription Shares); (ii) add a new clause in relation to performance undertaking in favor of the Company; and (iii) reverse the termination of the Loan Agreement, which termination was originally intended to take effect upon closing of the Acquisition and Subscription Agreement. Save as varied by the Supplemental Agreement, the other provisions of the Acquisition and Subscription Agreement shall continue in full force and effect.

The Directors (excluding the independent non-executive Directors whose view will be given upon receiving the advice from the Independent Financial Adviser) consider that the terms of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement), including the Consideration, are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the removal of the Subscription arrangement and the reversal of the termination of the Loan Agreement are proposed to be carried out by the Group within a 12-month period after the consummation of the Loan Agreement, and the Company and the Target Company are respectively the lender and the borrower under the Loan Agreement, the transactions contemplated under the Loan Agreement and the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) are aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the transactions contemplated under Loan Agreement and the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement), on an aggregate basis, are more than 5% and less than 25%, the Loan Agreement and the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder collectively constitute a series of discloseable transactions for the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules by virtue of being a former Director in the past 12 months and a substantial shareholder of the Company. Accordingly, the Loan Agreement and the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder constitute a series of connected transactions of the Company under Chapter 14A the Listing Rules and are subject to the announcement, reporting, and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will convene the EGM for the Independent Shareholders to consider and approve, if thought fit, the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transaction contemplated thereunder. Mr. Zhang Li, Mr. Zhang Liang, Johnson and their respective associates will abstain from voting at the EGM. An Independent Board Committee of the Company has been formed to advise the Independent Shareholders in respect of and the transactions contemplated thereunder. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

GENERAL

A circular containing, among other things, (i) further details of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement); (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Acquisition; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; and (iv) a notice to convene the EGM, will be dispatched to the Shareholders as soon as possible and is currently intended to be on or before 30 June 2023, to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

As completion of the Acquisition is subject to Independent Shareholder's approval, the Acquisition may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

Reference is made to the announcement of the Company dated 30 December 2022, where the Vendor, the Purchaser and the Target Company entered into the Acquisition and Subscription Agreement, pursuant to which (i) the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, for the Acquisition Consideration; (ii) the Purchaser has conditionally agreed to subscribe for the Subscription Shares at the Subscription Price; and (iii) the outstanding loan principal and accrued interest under the Loan Agreement shall be treated as part of the Subscription Price payable by the Purchaser in connection with the Subscription. Upon Closing, the balance of the Loan Commitment will not be drawn down by the Target Company, and the Loan Agreement will be terminated with immediate effect.

The Board announces that, on 29 March 2023, the Vendor, the Purchaser and the Target Company entered into the Supplemental Agreement, pursuant to which, among others, each of the parties agreed to (i) remove all references to the Subscription and all arrangements directly related thereto under the Acquisition and Subscription Agreement (including, without limitation, to the arrangement that the consummation of the acquisition of the Sale Shares shall be inter-conditional with the consummation of the subscription of the Subscription Shares); (ii) add a new clause in relation to performance undertaking; and (iii) reverse the termination of the Loan Agreement, which termination was originally intended to take effect upon closing of the Acquisition and Subscription Agreement. Save as varied by the Supplemental Agreement, the other provisions of the Acquisition and Subscription Agreement shall continue in full force and effect.

THE SUPPLEMENTAL AGREEMENT

The key variations to the Acquisition and Subscription Agreement pursuant to the Supplemental Agreement are set out below:

Date: 29 March 2023

Parties: (a) The Purchaser;
(b) The Vendor; and
(c) Target Company

Removal of all references to the Subscription The Vendor, the Purchaser and the Target Company agreed to remove all references to the Subscription and all arrangements directly related thereto under the Acquisition and Subscription Agreement, and shall be deemed to have had effect as if so varied on its original execution. Key terms, as having been amended following this approach, including the assets to be acquired and the consideration and payment, are set out in further detail below.

Asset to be acquired: The Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, being 36,500 existing shares, representing approximately 73% of the equity interest in the Target Company as at the date of the Supplemental Agreement, which holds 100% equity interest in the Subsidiary.

Consideration and payment: The Consideration payable by the Purchaser under the Supplemental Agreement amounts to US\$62,757,010.02, which is determined by reference to the valuation of 100% equity interest of the Target Company of RMB610.0 million as at 30 November 2022 as appraised by the Independent Valuer by way of discounted cash flow method of the income approach.

The Consideration will be funded by internal resources of the Group.

The Consideration shall be paid in the following three instalments:

- (a) as at the date hereof, US\$19,435,763.04 has been paid to the Vendor as deposit;
- (b) US\$20,000,000 shall be paid within 30 Business Days from (and excluding) the Signing Date, which has been paid as at the date of this announcement; and
- (c) the balance of the Consideration shall be paid on or before Closing.

Performance undertaking:

- (a) The Vendor warrants to the Purchaser that the estimated aggregate future EBITDA to be achieved by the Target Company for the period encompassing five financial years ending 31 December 2027 (the “**Total Estimated EBITDA**”, and such period the “**Warranty Period**”), the specifics of which (calculated by aggregating the earnings before interest, taxes, depreciation and amortization estimated for each of these financial years) have been set out in the Valuation Report based on which the Consideration was determined, is fair and reasonable and in line with the Vendor’s understanding of the business and operation status of the Target Company and the market condition related to the business of the Target Company.
- (b) The Vendor further agrees that if the total EBITDA actually achieved by the Target Company during the Warranty Period, to be calculated at the end of the Warranty Period, falls short of the Total Estimated EBITDA, it shall compensate the Purchaser in the amount to be calculated according to the formula set out in subparagraph (c) below.
- (c) The compensation as referred to in paragraph (b) above shall be calculated as follows:

$$C = (T - A) * 73\%$$

In which:

C is the amount of compensation to be paid by the Vendor to the Purchaser in accordance with this performance undertaking clause;

T is the Total Estimated EBITDA; and

A is the actual total EBITDA achieved by the Target Company during the Warranty Period, to be calculated at the end of the Warranty Period.

- (d) The Vendor agrees that the compensation methodology and arrangement set out in this performance undertaking clause represents a reasonable estimate of the Purchaser’s loss in the circumstance of a shortfall in the total EBITDA achieved by the Target Company, and does not constitute and shall not be regarded or disputed as a penalty in any event.

**Reversal of
termination of the
Loan Agreement:**

Given that the Vendor, the Purchaser and the Target Company agreed not to carry out the Subscription, there is no need for the outstanding loan principal and accrued interest under the Loan Agreement to be referred to, and treated, as part of the Subscription Price payable by the Purchaser in connection with the Subscription any more. As a result, the arrangement to terminate the Loan Agreement upon closing under the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) will be reversed as well.

BASIS OF DETERMINATION OF CONSIDERATION

The Consideration payable by the Purchaser under the Supplemental Agreement amounts to US\$62,757,010.02, which is determined by reference to the valuation of 100% equity interest of the Target Company of RMB610.0 million as at 30 November 2022 as appraised by the Independent Valuer by way of discounted cash flow method of the income approach.

Since the discounted cash flow method of the income approach was adopted in the preparation of the Valuation Report, such valuation constitutes profit forecasts under Rule 14.61 of the Listing Rule and the Company will make a further announcement in due course.

As informed by the Vendor, the original cost of the Target Company was approximately US\$74,457,549.61, which included the costs and expenses incurred for the incorporation of, and investment into, the Target Group Companies.

INFORMATION ON THE TARGET COMPANY AND THE SUBSIDIARY

The Target Company is an investment holding company incorporated in the British Virgin Islands, which is wholly owned by the Vendor.

The Subsidiary is a company incorporated in the Kingdom of Cambodia with limited liability, which is wholly owned by the Target Company. The Subsidiary is principally engaged in manufacturing and wholesale of tobacco products, mainly cigarettes and hand-made cigars in Cambodia and Southeast Asia.

CLARIFICATION OF TARGET COMPANY'S FINANCIAL INFORMATION

The Board has also been informed by the Target Company that the financial information of the Target Company, as provided by the Target Company and disclosed on page 10 of the announcement of the Company dated 30 December 2022 shall be substituted by the financial information as set out below.

According to the unaudited consolidated management accounts of the Target Company, (i) the net loss before and after taxation and extraordinary items for the 12 months ended 31 December 2020 were US\$5,207,092.36 and US\$5,207,092.36 respectively; and (ii) the net loss before and after taxation and extraordinary items for the 12 months ended 31 December 2021 were US\$5,094,650.36 and US\$5,094,650.36 respectively; and (iii) the net loss before and after taxation and extraordinary items for the year ended 31 December 2022 were US\$8,290,803.17 and US\$8,290,803.17, respectively. The unaudited consolidated total net assets of the Target Company as of 31 December 2022 were approximately US\$34,897,704.84.

INFORMATION OF THE GROUP AND THE PARTIES INVOLVED IN THE TRANSACTION

The Purchaser is the Company. Its principal business is extraction and sales of coal products.

The Vendor is Mr. Zhang Li, a former Director in the past 12 months and a substantial shareholder of the Company.

The Target Company is a company incorporated in the British Virgin Islands with limited liability, the ultimate beneficial owner of which is Mr. Zhang Li. Its principal asset is equity interest in the Subsidiary, which is principally engaged in the manufacturing and wholesale of tobacco products, including cigarettes and hand-made cigars in Cambodia and Southeast Asia.

REASONS FOR AND BENEFITS OF THE ACQUISITION

As disclosed in the interim report of the Group for the six months ended 30 June 2022, the Group currently has sufficient cash and cash equivalents which amount to approximately RMB1,438.7 million in total. Given the Company has been looking to utilize its surplus cash with a view to generate return for its shareholders, the Company may benefit from the future operation and management of the Target Group Companies by acquiring equity interest in the Target Company, taking into account the prospects of the Target Company.

The terms and conditions of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) are negotiated on an arm's length basis between the Vendor and the Purchaser. The Board (excluding the independent non-executive Directors who reserve their views pending receipt of advice from the Independent Financial Adviser) is of the view that the terms of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) are fair and reasonable, and the Acquisition is in the interest of the Company and Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the removal of the Subscription arrangement and the reversal of the termination of the Loan Agreement are proposed to be carried out by the Group within a 12-month period after the consummation of the Loan Agreement, and the Company and the Target Company are respectively the lender and the borrower under the Loan Agreement, the transactions contemplated under the Loan Agreement and the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) are aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules.

As one or more of applicable percentage ratios in respect of the Loan Agreement and the Supplemental Agreement, on an aggregate basis, are more than 5% and less than 25%, the Loan Agreement and the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder collectively constitute a series of discloseable transactions for the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules by virtue of being a former Director in the past 12 months and a substantial Shareholder of the Company. Accordingly, the Loan Agreement and the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder constitute a series of connected transactions of the Company under Chapter 14A the Listing Rules and are subject to the announcement, reporting, and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will convene the EGM for the Independent Shareholders to consider and approve, if thought fit, the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transaction contemplated thereunder. Mr. Zhang Li and his associates will abstain from voting at the EGM. An Independent Board Committee of the Company has been formed to advise the Independent Shareholders in respect of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transaction contemplated thereunder. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

GENERAL

A circular containing, among other things, (i) further details of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement); (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Acquisition; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; and (iv) a notice to convene the EGM, will be dispatched to the Shareholders as soon as possible and is currently intended to be on or before 30 June 2023, to allow sufficient time for the preparation of the relevant information for inclusion in the circular for the EGM.

As completion of the Acquisition is subject to Independent Shareholders' approval, the Acquisition may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Target Company by the Purchaser from the Vendor pursuant to the terms of the Acquisition and Subscription Agreement dated 30 December 2022 (as varied by the Supplemental Agreement dated 29 March 2023);
“Acquisition and Subscription Agreement”	the Acquisition and Subscription Agreement entered into between the Vendor, the Purchaser and the Target Company on 30 December 2022;

“Board”	the board of Directors;
“Business Days”	any day that is not a Saturday, Sunday, legal holiday or other day on which commercial banks are required or authorized by law to be closed in Hong Kong or Cambodia;
“Closing”	the completion of the Acquisition in accordance with the terms of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement);
“Company”	Kinetic Development Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Consideration”	US\$62,757,010.02, being the amount payable by the Purchaser to the Vendor for the Acquisition pursuant to the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement);
“Directors”	the director(s) of the Company;
“EBITDA”	earnings before interest, taxes, depreciation and amortization;
“EGM”	the extraordinary general meeting of the Company to be convened to consider, and, if thought fit, approve the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transaction contemplated thereunder;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong;
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors;
“Independent Financial Adviser”	Rainbow Capital (HK) Limited, which has been appointed as the independent financial adviser to the Independent Board Committee to advise on the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transaction contemplated thereunder;

“Independent Shareholder(s)”	Shareholders other than (i) Mr. Zhang Li, who is considered to have a material interest in, are interested in or involved in the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transaction contemplated thereunder; (ii) Mr. Zhang Liang, Johnson, being an associate of Mr. Zhang Li; and (iii) the respective connected person(s) and associate(s) of Mr. Zhang Li and Mr. Zhang Liang, Johnson;
“Independent Valuer”	Vision Appraisal and Consulting Limited, an independent valuer engaged by the Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Loan Agreement”	the agreement entered into by the Purchaser as the lender, and the Target Company, as the borrower, on 4 November 2022, under which the Purchaser has committed to provide a loan to the Target Company in the principal amount up to RMB200 million (but payable in HK\$ of equivalent amount) for a term of 2 years;
“Loan Commitment”	the aggregate amount of the loan which the Purchaser has committed to grant to the Target Company under the Loan Agreement;
“PRC”	The People’s Republic of China, and for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Purchaser”	the Company
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale Shares”	36,500 shares in the Target Company, representing 73% of the total number of issued shares as at the date of the Acquisition and Subscription Agreement;
“Shareholder(s)”	holder(s) of share(s) of US\$0.001 each in the share capital of the Company;

“Signing Date”	30 December 2022, being the date on which the Acquisition and Subscription Agreement was signed by the parties thereto;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription”	the subscription of the Subscription Shares by the Company pursuant to the Acquisition and Subscription Agreement;
“Subscription Price”	US\$28,656,168.96, being the amount payable by the Purchaser to the Target Company for the Subscription pursuant to the Acquisition and Subscription Agreement by way of converting the Loan Commitment into capital contribution to the Target Company;
“Subscription Shares”	16,667 new shares in the Target Company to be issued and allotted to the Purchaser pursuant to the terms of the Acquisition and Subscription Agreement;
“Subsidiary”	Power Cigar Tobacco Co., Ltd, a company incorporated in the Kingdom of Cambodia with limited liability and a wholly-owned subsidiary of Star Idea;
“Supplemental Agreement”	the supplemental agreement to the Acquisition and Subscription Agreement dated 29 March 2023 and entered into between the Vendor, the Purchaser and the Target Company;
“Target Company” or “Star Idea”	Star Idea Enterprises Limited (星耀企業有限公司), a company incorporated in the British Virgin Islands with limited liability;
“Target Group Company(ies)”	each of the Target Company and the Subsidiary; and “Target Group Companies” or “Target Group” refer to both Group Companies collectively;
“US\$”	United States dollar, the lawful currency of United States;
“Valuation Report”	the valuation report prepared by Vision Appraisal and Consulting Limited;

“Vendor” Mr. Zhang Li, a former Director in the past 12 months and a substantial shareholder of the Company;

“%” per cent.

* *The English translation of the Chinese name(s) in this announcement, where indicated, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*

By Order of the Board
Kinetic Development Group Limited
Ju Wenzhong
Chairman and Executive Director

Hong Kong, 29 March 2023

As at the date of this announcement, the Board comprises seven directors, of whom three are executive directors, namely Mr. Ju Wenzhong (Chairman), Mr. Li Bo (Chief Executive Officer), Mr. Ji Kunpeng; one is a non-executive director, namely Ms. Zhang Lin and three are independent non-executive directors, namely Ms. Liu Peilian, Mr. Chen Lianguan and Ms. Xue Hui.