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## **Landsea Green Life Service Company Limited**

**朗詩綠色生活服務有限公司**

*(Incorporated in Cayman Islands with limited liability)*

**(Stock code: 1965)**

### **SUPPLEMENTAL ANNOUNCEMENT DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF A GROUP OF PROPERTY MANAGEMENT COMPANIES**

Reference is made to the announcement of Landsea Green Life Service Company Limited (the “**Company**”) dated 30 December 2021 in relation to the Acquisition (the “**Announcement**”). Unless otherwise specified, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

The Company would like to supplement the below information relating to the Acquisition.

#### **CONSIDERATION**

##### **Basis of the Consideration**

As disclosed in the Announcement, the consideration for the Target Shares was arrived at after arm’s length negotiations between the Vendor and the Purchaser with reference to (i) the historical performance of the Target Group; (ii) the business prospects of the Target Group and the property management services industry; and (iii) the Guaranteed Targets.

The Company wishes to further elaborate on the basis of determination of the Consideration. Taking into account that (i) the property management services business is an asset-light business, which is typically valued based on the net profit of the business; (ii) the Target Group was profit-making with a growth in both revenue and net profit for the two years ended 31 December 2020 and the nine months ended 30 September 2021; and (iii) a valuation based on net asset value cannot fully capture the earnings and growth potential of the Target Group, the Directors consider that it is more appropriate to determine the Consideration based on the earnings of the Target Group.

Before entering into the Agreement, the Company had commissioned Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the “**Valuer**”), a qualified valuer, to perform an independent valuation of Xindi Ruiyi. Xindi Ruiyi was valued by the Valuer at RMB108,813,000 as at 30 November 2021 using market approach, determined based on (i) the unaudited operating profit of Xindi Ruiyi for the twelve months ended 30 November

2021 of RMB12,132,596; and (ii) the average of the price-to-earnings ratios (“**P/E ratio(s)**”) of the comparable companies of 8.37 times, taking into account control premium and discount for lack of marketability.

The Valuer identified five comparable companies based on the following selection criteria:

- (i) the subject company derives most, if not all, of its revenue from the same industry of Xindi Ruiyi, i.e. provision of property management services with a focus in residential properties in the PRC;
- (ii) the market capitalization of the subject company is within 10th decile classification by Duff & Phelps Cost of Capital Navigator, i.e. USD2.19 million to USD189.83 million;
- (iii) the subject company is searchable in Bloomberg; and
- (iv) sufficient and applicable data, including the P/E ratio as at the valuation date of 30 November 2021, of the subject company is available.

The P/E ratios based on the operating profit of the comparable companies ranged from 2.78 times to 14.47 times and averaged at 8.37 times.

As at the date of the Agreement, Xindi Ruiyi had already signed preliminary contracts to provide property management services for 29 projects and the GFA under management of the Target Group exceeded 6 million square meters. Based on the Purchaser’s due diligence findings on the Target Group, the Target Group had contracted area of approximately 1.1 million square meters to be delivered in phases over the next three years from 2022 to 2024 for the Target Group’s management.

The Directors consider that the existing and new contracts secured by Xindi Ruiyi demonstrate promising business prospects of the Target Group, which combine with the business prospects of the property management services industry as well as the performance targets under the Agreement, will support the continued development of the business of the Target Group.

Based on the above, given the Consideration was determined based on (i) the historical performance of the Target Group; (ii) the business prospects of the Target Group and the property management services industry; and (iii) the performance targets, with reference to an independent valuation, the Directors consider the Consideration to be fair and reasonable.

## **PERFORMANCE GUARANTEE**

### **Adjustments to the Audited Net Profit and the Audited Revenue**

As disclosed in the Announcement, the Audited Net Profit and the Audited Revenue for the three years ending on 31 December 2024 are to be adjusted in accordance with the principles set out in the Agreement for determining whether the Guaranteed Targets are met.

The adjustments to be made to the Audited Net Profit and Audited Revenue mainly represent normalization adjustments made to eliminate the impact of non-recurring gains and losses, such as the gain from government subsidies received that are not related to the principal businesses of the Target Group and the gain from disposal of fixed assets of the Target Group, which are considered one-off in nature.

### **Basis of the Guaranteed Targets**

The Guaranteed Targets were determined after arm's length commercial negotiations between the Vendor and the Purchaser with reference to (i) the historical growth of the Target Group; and (ii) the prospects and growth potential of the Target Group, elaborated as follows:

The target annual growth rate of the Audited Net Profit of 15% under the Guaranteed Target (a) was determined with reference to the net profit growth rate of approximately 14.7% based on (i) the net profit after taxation of the Target Group of approximately RMB7.5 million for the year ended 31 December 2020; and (ii) the annualised net profit after taxation of the Target Group of approximately RMB8.6 million for the year ended 31 December 2021, based on the net profit after taxation of the Target Group of approximately RMB6.4 million for the nine months ended 30 September 2021. The Directors consider such net profit growth was driven by (i) the establishment of a business development department since 2020 to actively explore potential business opportunities; (ii) the new contracted projects expected to be delivered over the next three years from 2022 to 2024 in respect of the property management services business of the Target Group; and (iii) the growth potential of the value-added services business of the Target Group as its projects under management are primarily high-end residential properties such as villas and houses with solid property owner bases.

Taking into account that considerable business and marketing costs may be incurred in the early stage of active market expansion which will in turn reduce the net profit that could be achieved, in order to encourage the Target Group to further develop its business, the Parties agreed that there should be another performance guarantee target based on revenue growth and a lower net profit growth of Xindi Ruiyi. Based on the Group's own initial market expansion experience, the net profit growth target should be appropriately lowered and the revenue growth target appropriately raised. As a result, the Parties agreed that under the Guaranteed Target (b), the compound annual growth rates of the Audited Revenue and the Audited Net Profit for the three years ending on 31 December 2024 should not be less than 18% and 12%, respectively.

### **Payment of Compensation Amount**

If Xindi Ruiyi fails to achieve either one of the Guaranteed Targets, the Compensation Amount will be immediately payable upon the determination of the Compensation Amount.

To allow flexibility regarding the payment arrangement, it was agreed that the Vendor may designate another party to pay the Compensation Amount and the Purchaser may designate another party to receive the Compensation Amount. It is expected that the Company will designate one of its subsidiaries to receive the payment and regardless of the party designated by the Vendor, the Vendor remains to be liable under the Agreement. As at the date of this announcement, no specific designees have been identified.

## INFORMATION OF THE TARGET GROUP

As disclosed in the Announcement, Xindi Ruiyi previously operated other businesses in addition to the Target Business (the “**Carved-out Businesses**”). In contemplation of the Acquisition, Xindi Ruiyi started to undergo a reorganisation in September 2021 such that only the Target Business remains in the Target Group prior to the signing of the Agreement.

The Company would like to clarify that the financial information of the Target Group set out under the section headed “4. Information of the Parties — The Target Group — Financial information” in the Announcement is the financial information of the Target Group attributable to the Target Business and does not include that attributable to the Carved-out Businesses.

As the Target Company, the HK Co and Anhui Langrui are either investment holding companies or company with no business operations, the unaudited consolidated revenue, net profit before taxation and net profit after taxation of Xindi Ruiyi for the nine months ended 30 September 2021 were the same as those of the Target Group attributable to the Target Business (excluding the Carved-out Businesses), which were approximately RMB80,340,000, RMB8,555,000 and RMB6,416,000, respectively.

By Order of the Board  
**Landsea Green Life Service Company Limited**  
**Tian Ming**  
*Non-executive Director and Chairman of the Board*

Hong Kong, 24 January 2022

*As at the date of this announcement, the Board comprises Ms. Zhou Qin, Mr. Wu Xu and Mr. Liu Chao as executive Directors, Mr. Tian Ming as non-executive Director, and Dr. Wong Chi Wing, Ms. Lu Mei and Dr. Chen Kevin Chien-wen as independent non-executive Directors.*