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SHIMAO SERVICES HOLDINGS LIMITED
世茂服務控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 873)

DISCLOSEABLE TRANSACTION
ACQUISITION OF THE REMAINING EQUITY INTERESTS IN A SUBSIDIARY

On 3 January 2025, Shimao Tiancheng and the Purchaser, both indirect wholly-owned subsidiaries of the Company, entered into the Equity Transfer Agreement and the Settlement Agreement with the Vendor and the Original Shareholders under which the Vendor agreed to sell, and the Purchaser agreed to purchase, 33% of the equity interests in the Target Company.

The Target Company is principally engaged in the provision of urban and rural environmental sanitation integrated services in the PRC. It is currently a 67% held non-wholly owned subsidiary of the Group. Upon completion of the Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company.

As one of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

THE ACQUISITION

Date

3 January 2025

Parties

- (i) the Purchaser;
- (ii) Shimao Tiancheng;
- (iii) the Vendor;
- (iv) the Original Shareholders; and
- (v) the Target Company.

Subject matter

The Purchaser will acquire from the Vendor 33% of the equity interests in the Target Company.

Consideration

The consideration for the Acquisition has been fixed at RMB83,159,000.

In accordance with the terms of the Original Agreement, the valuation of the Vendor's 33% equity interests in the Target Company is calculated on the basis of the higher of (a) 12 times multiples of the audited profit of the Target Company attributable to the 33% equity interests; and (b) RMB655,800,000 (the basis of the valuation of the Target Company at the time of the Original Acquisition in 2021, being the net profit of the Target Company for 2020 at 12 times profit-to-earnings multiples) multiplied by 33%. Based on the above contract terms as set out in the Original Agreement, the valuation of the 33% equity interests in the Target Company should be RMB216,400,000. As the performance of the Target Company has fallen significantly short of the expectation as contemplated in the Original Agreement, the parties have agreed after arm's length negotiations to fix the consideration at RMB83,159,000, in order to fill the shortfall in the Performance Indemnity. The consideration of RMB83,159,000 represents a discount of approximately 61.6% to the value of the Vendor's 33% equity interests in the Target Company of RMB216,400,000 as determined in accordance with the terms of the Original Agreement.

The consideration of the Acquisition will be used to set off against the Performance Indemnity owed to the Group under the Original Agreement, and no cash payment would be made to the Vendor for the Acquisition.

Settlement of Performance Indemnity

When Shimao Tiancheng entered into the Original Agreement for the Original Acquisition in April 2021, the vendors of the 67% equity interests, the Vendor and the Original Shareholders, among others, have provided a performance undertaking on the profit of the Target Company for 2021, and its revenue for the three years of 2021, 2022 and 2023. Please refer to the announcement of the Company dated 19 April 2021 for the details of the performance undertaking and the formula for calculating the Performance Indemnity.

Immediately after the Original Acquisition, the Target Company was continued being managed by its original controller. Owing to personal financial problems and investigation into his personal affairs, the original controller has not been focusing on the management and development of the Target Company, which led to a significant decline in the Target Company's performance in 2022 and 2023. As a result, the profits and revenues of the Target Company have fallen short of the performance undertaking amount provided under the Original Agreement.

In order to protect the interests of the Group, the Group has taken over the management of the Target Company since March 2023, suspended the payment of the final tranche of the consideration under the Original Acquisition, suspended the distribution of dividend of the Target Company to the Vendor, initiated legal proceedings against the parties involved in the Performance Indemnity in December 2023 and applied and secured a frozen order on the Vendor's 33% equity interests in the Target Company in February 2024.

On 3 January 2025, the parties have entered into the Settlement Agreement where it was agreed that the amount of the Performance Indemnity under the Original Agreement in the amount of RMB217,732,800 shall be settled as follows:

- (a) Shimao Tiancheng shall not be required to pay the final tranche of the consideration for the Original Acquisition in the amount of RMB90,000,000;
- (b) the Vendor shall waive its dividend entitlement in the Target Company of RMB42,573,800;
- (c) the Vendor shall transfer its 33% equity interest in the Target Company to the Purchaser for RMB83,159,000; and
- (d) the Vendor and the Original Shareholders will pay to Shimao Tiancheng a cash compensation of RMB2,000,000 within 5 days of the signing of the settlement agreement.

INFORMATION ABOUT THE TARGET COMPANY

The Target Company is a limited liability company established in the PRC in 2003. It is principally engaged in the provision of urban and rural environmental sanitation integrated services. As noted above, the Target Company was still managed by its original controller after the Original Acquisition. Due to the decline in its business in 2022 and 2023, the Group has taken over the management of the Target Company in March 2023 and has vigorously expanded its markets, improved its management efficiency, implemented cost reduction and achieved efficiency improvement. Since the Group’s assumption of its management, the Target Company has managed to secure 19 new projects, with a total contract amount of approximately RMB359,000,000. As of 30 June 2024, the business operations of the Target Company has returned to become profitable.

The unaudited financial results of the Target Company for the two years ended 31 December 2023 and the six months ended 30 June 2024 are as follows:

	For the year ended 31 December		For the six months ended 30 June 2024
	2022	2023	
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Net profit/(loss) before tax	(34,310)	(53,660)	15,226
Net profit/(loss) after tax	(34,310)	(53,660)	12,942

The net asset value of the Target Company as at 30 June 2024 was approximately RMB189,100,000. After completion of the Acquisition, which is expected to occur in early January 2025, the Target Company will become an indirect wholly-owned subsidiary of the Company.

REASONS FOR THE ACQUISITION

As the performance of the Target Company has fallen short of the expectation as contemplated under the Original Agreement and in accordance with the terms of the Original Agreement, the Vendor, the Original Shareholders and the other parties that provided the Performance Indemnity have to compensate the Group for the shortfall. As noted in the paragraph headed “Settlement of

Performance Indemnity” above, the Vendor and the Original Shareholders were in debt to the Group for the performance undertaking that they provided under the terms of the Original Acquisition. The Acquisition is being made as part settlement for the Performance Indemnity.

Given that the Acquisition forms part of the settlement of the Performance Indemnity, the consideration for the Acquisition is at a discount to the value of the 33% equity interests of the Target Company as determined in accordance with the formula of the Original Agreement, and the Target Company is now under the management of the Group and its operation has become profitable, the Directors (including the independent non-executive Directors) consider that the Acquisition was made on normal commercial terms, the terms of which are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

INFORMATION ABOUT THE PARTIES

The Company

The Company is an investment holding company and the Group is principally engaged in the provision of property management services, community value-added services, value-added services to non-property owners and city services.

Shimao Tiancheng

Shimao Tiancheng is principally engaged in the provision of property management services, community value-added services and value-added services to non-property owners. It is an indirect wholly-owned subsidiary of the Company. Shimao Tiancheng holds 67% of the equity interests in the Target Company.

The Purchaser

The Purchaser is a limited liability company established in the PRC and is principally engaged in enterprises management, and enterprise management consulting and investment services. It is an indirect wholly-owned subsidiary of the Company.

The Vendor

The Vendor is an investment holding company and is held as to 50% by Mr. Zhong Zhiping (鍾志平) and as to 50% by Mr. Zhong Weiping (鍾偉平). The Vendor holds 33% of the equity interests in the Target Company as at the date of this announcement.

The Original Shareholders

The Original Shareholders were the founders of the Target Company.

As the Target Company is an insignificant subsidiary of the Company, the Vendor and the Original Shareholders are not considered as connected person of the Company under Rule 14A.09 of the Listing Rules. To the best knowledge of the Directors, having made reasonable enquiry, the Vendor and the Original Shareholders are not connected persons of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As one of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

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

“Acquisition”	the acquisition of 33% equity interests in the Target Company and the settlement of the Performance Indemnity;
“Board”	the board of directors of the Company;
“Company”	Shimao Services Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange (Stock Code: 873);
“connected person”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Equity Transfer Agreement”	the equity transfer agreement dated 3 January 2025 entered into between Shimao Tiancheng, the Purchaser, the Vendor, the Original Shareholders and the Target Company in relation to the Acquisition;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Original Acquisition”	the acquisition of the 67% equity interests in the Target Company by Shimao Tiancheng;
“Original Agreement”	the agreement dated 19 April 2021 in relation to the acquisition of the 67% equity interests in the Target Company by Shimao Tiancheng;
“Original Shareholders”	Mr. Zhong Zhiping (鍾志平) and Mr. Zhong Weiping (鍾偉平);
“Performance Indemnity”	the indemnity provided by the vendors of the 67% equity interests in the Target Company, the Vendor and the Original Shareholders, among others on the performance undertaking of the Target Company as set out in the Original Agreement;

“PRC”	the People’s Republic of China and, for the purpose of this announcement, excludes Hong Kong, Taiwan and the Macau Special Administration Region;
“Purchaser”	上海栩茂銳企業管理有限公司 (Shanghai Xumaorui Enterprise Management Co., Ltd.*), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company;
“RMB”	Renminbi, the lawful currency of the PRC;
“Settlement Agreement”	the agreement dated 3 January 2025 in relation to the settlement of the Performance Indemnity;
“Shareholder(s)”	shareholder(s) of the Company;
“Shimao Tiancheng”	世茂天成物業服務集團有限公司 (Shimao Tiancheng Property Services Group Co., Ltd.*), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Target Company”	深圳世路源環境有限公司 (Shenzhen Shi Lu Yuan Environmental Co., Ltd.*), a limited liability company established in the PRC and a 67% held non-wholly owned subsidiary of the Company;
“Vendor”	深圳佳兄投資發展有限公司 (Shenzhen Jiaxiong Investment Development Co., Ltd.*), a limited liability company established in the PRC; and
“%”	per cent.

On behalf of the Board
Shimao Services Holdings Limited
Hui Sai Tan, Jason
Chairman

Hong Kong, 3 January 2025

As at the date of this announcement, the Board comprises three Executive Directors, namely Mr. Hui Sai Tan, Jason (Chairman), Mr. Shao Liang (President) and Mr. Cao Shiyang; and three Independent Non-executive Directors, namely, Mr. Gu Yunchang, Ms. Zhou Xinyi and Mr. Hui Wai Man, Lawrence.

** For identification purposes only.*