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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
DISPOSAL OF INTERESTS IN A SUBSIDIARY

The Disposal

On 24 September 2024, the Vendor, an indirect wholly-owned subsidiary of the Company, entered into the Agreement with the Purchaser and the Target Company, under which the Vendor agreed to sell the Sale Shares to the Purchaser for an aggregate consideration of RMB250 million.

The Sale Shares represent 60% of the equity interests in the Target Company. The Target Company is a sanitation services provider in the PRC. Upon completion of the Disposal, the Group will cease to have any interests in the Target Company.

Listing Rules Implications

As the applicable percentage ratios in respect of the Disposal are more than 5% but less than 25%, the Disposal constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

THE DISPOSAL

On 24 September 2024, the Vendor, an indirect wholly-owned subsidiary of the Company, entered into the Agreement with the Purchaser and the Target Company in respect of the Disposal. The salient terms of the Agreement are summarized below:

Subject matter

The Vendor will sell the Sale Shares to the Purchaser. The Sale Shares represent 60% of the equity interests in the Target Company.

Consideration

The aggregate consideration for the Disposal is RMB250 million and was determined by the parties after arm's length negotiations taking into reference the appraised value of the Target Company as determined by an independent valuer using the market method.

The consideration is payable in accordance with the following manners:

- (i) The first installment in the sum of RMB50 million will be payable within one day of the signing of the Agreement and the satisfaction of the conditions precedent;
- (ii) The second installment in the sum of RMB80 million will be payable on the latter of the first day after the completion of the registration of the transfer of the Sale Shares to the Purchaser, or 27 September 2024;
- (iii) The third installment in the sum of RMB46 million will be payable before 10 November 2024;
- (iv) The fourth installment in the sum of RMB30 million will be payable before 20 December 2024; and
- (v) The final installment in the sum of RMB44 million will be payable before 20 June 2025.

Valuation and assumptions

For the valuation on the equity interests on the Project Company, the market method was adopted. When selecting the valuation methodology, the three generally accepted methods, including the income method, the cost method and the market method, were considered. The cost method was not adopted as it assumed that the assets and liabilities of the Target Company are separable and could be sold separately. This method is more appropriate for industries that their assets are highly liquid and has not been adopted. The income method was also considered inappropriate as plenty of assumptions were involved in formulating the financial projection of the Target Company, and the assumptions might not be able to reflect the uncertainties in the future performance of the Target Company. The current real estate market is characterized by a high degree of uncertainty, making the estimation of future cash flows uncertain and reliant on conjecture. Since improper assumptions will impose significant impact on the market value, the income method has not been adopted. The market value arrived from the market method reflects the market expectations over the corresponding industry as the price multiples of the comparable companies were arrived from market consensus. Since there are sufficient public companies in similar nature and business to that of the Target Company, their market values are good indicators of the industry. Therefore, the market approach was considered more appropriate and has been adopted in the valuation of the Target Company.

The key assumptions used in the valuation including two categories. The principal assumptions were the economic outlook for the region operated by the Target Company and specific competitive environments affecting the industry, the business risks of the Target Company, the comparable companies are engaging in business operations similar to the Target Company, the experience of the management team of the Target Company and support from its shareholders, and the legal and regulatory issues of the industry in general. The general assumptions are customary assumptions for valuations including no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the business of the Target Company, and there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported values.

In establishing the market comparable, the valuer has selected seven comparable companies based on the criteria of: (i) the primary business of the comparable companies is environmental sanitation, with over 50% of their revenue generated from this sector; (ii) the comparable companies are listed in exchange markets in the PRC or Hong Kong; (iii) the financial information of the comparable companies is publicly available; and (iv) the principal place of business of the comparable companies are in the PRC.

Based on the earnings of the Target Company before interest and taxes from 30 June 2023 to 30 June 2024 of approximately RMB102,892,000, and the median multiple of comparable companies of 5.7x, and adjusted by the cash and debts of the Target Company as at 30 June 2024, the Target Company has a market value of RMB408,892,000. The market value of the 60% equity interests of the Sale Shares has hence been determined to be RMB245,335,000.

Conditions

The Disposal is conditional upon the Agreement being executed and internal approvals by the parties having been completed, and any third-party consents or approvals for the transactions contemplated having been obtained.

INFORMATION ON THE TARGET COMPANY

The Target Company is a smart environmental protection integrated solutions company based in Wuxi, Jiangsu Province, the PRC. It is currently owned as to 60% by the Group, with the balance 40% owned by three partnerships which are independent third parties as to approximately 15.24%, 15.24% and 9.52%, respectively. The Group acquired the 60% equity interests in the Target Company in 2021.

The businesses of the Target Company covers the research and development of new energy sanitation equipment and manufacturing, the operation and management integrated services of urban sanitation, sewage treatment and the recycling of renewable resources. Relying on basic sanitation operations, the services of the Target Company include road sweeping and cleaning, garbage and waste matter collection and transportation, river cleaning, garden maintenance, and the operation and management of construction transfer stations and public toilets. It provides cleaning services for more than one hundred cities in the PRC, with a layout of more than 20,000 sets of facilities and equipment, employing more than 30,000 front-line employees, with a cleaning area of more than 100 million square meters, and a service population of more than 35 million people.

Set out below is the unaudited consolidated financial information of the Target Company for the two years ended 31 December 2023 and the six months ended 30 June 2024 prepared in accordance with generally accepted accounting principles in the PRC:

	For the year ended 31 December		For the six months
	2022	2023	ended 30 June 2024
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Net profit/loss before taxation	31,380	63,487	24,276
Net profit/loss after taxation	26,673	53,964	20,635

The unaudited net asset value of the Target Company as at 30 June 2024 was approximately RMB602,000,000.

It is expected that the Group will realise an unaudited loss on disposal of approximately RMB611 million, which is calculated by reference to the carrying value of the Target Company as at 31 August 2024. The Company intends to use the proceeds from the Disposal to enhance the working capital of the Group.

Upon completion of the Disposal, the Group will no longer have any interest in the Target Company, and the Target Company will cease to be accounted as a subsidiary of the Group.

REASONS FOR THE DISPOSAL

Since the acquisition of the Target Company in 2021, differences in business philosophy among the shareholders emerged which led to an increase in accounts receivable and cash flow pressure, and the revenue growth and market expansion of the Target Company has fallen short of the Company's expectation. The Target Company is currently involved in the construction and operation of five private and public cooperation projects with large equipment investment expenses in the future. The management of the Group considers that given the current accounts receivable recovery rate of the Target Company, its debt structure, and the large asset investment expenditures, the Target Company may not be able to generate sufficient cash to support its operations. As such, the Company is not expected to return any of its investment in the short to medium term. Due to the equity structure of the Group, there are currently restrictions on financing from financial institutions, which indirectly affects the Target Company's financing capabilities and is not conducive to its subsequent expansion. The Company thus consider the Disposal will reduce further financial commitments and operation risks of the Group.

As the Disposal is being carried out after arm's length negotiations and on normal commercial terms, and the consideration is the highest being offered by interested buyers under the current market environment, the Directors are of the view that the terms of the Disposal are fair and reasonable under the circumstances and the Disposal in the interests of the Company and all the stakeholders as a whole.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios in respect of the Disposal are more than 5% but less than 25%, the Disposal constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

INFORMATION ON 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.

The Vendor

The Vendor is a limited liability company established in the PRC and 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.

The Purchaser

The Purchaser is a limited liability company established in the PRC and is principally engaged in enterprise management and consulting. The ultimate controller of the Purchaser is 鍾遠蘭 (Zhong Yuanlan*).

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Vendor and its ultimate beneficial owner is an independent third party to the Company.

DEFINITIONS

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

“Agreement”	the equity transfer agreement dated 24 September 2024 entered into between the Vendor, the Purchaser and the Target Company in respect of the Disposal;
“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;
“Disposal”	the sale of the Sale Shares to the Purchaser;
“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;
“PRC”	the People’s Republic of China;
“Purchaser”	無錫遠遊環境科技有限公司 (Wuxi Yuanyou Environmental Technology Co., Ltd.*), a limited liability company established in the PRC;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale Shares”	60% of the registered capital of the Target Company;
“Shareholder(s)”	shareholder(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“Target Company”	無錫市金沙田科技有限公司 (Wuxi Jinshatian Technology Co., Ltd.*), a limited liability company established in the PRC;
“Vendor”	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; and
“%”	per cent.

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

Hong Kong, 24 September 2024

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 purpose only*