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(Incorporated in Hong Kong with limited liability)
(Stock Code: 6626)

CONTINUING CONNECTED TRANSACTION — INTELLIGENT SERVICES FRAMEWORK AGREEMENT

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



CONTINUING CONNECTED TRANSACTION

On 20 May 2022, the Company entered into the Intelligent Services Framework Agreement with GZYG and Yuexiu Property, pursuant to which the Group agreed to provide to GZYG, Yuexiu Property and their respective subsidiaries and associates the Intelligent Services.

LISTING RULES IMPLICATIONS

As at the date of this announcement, GZYG and Yuexiu Property are controlling shareholders of the Company and therefore GZYG, Yuexiu Property and their respective associates are connected persons of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Intelligent Services Framework Agreement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Annual Caps under the Intelligent Services Framework Agreement exceeds 5%, the transactions contemplated under the Intelligent Services Framework Agreement are subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Intelligent Services Framework Agreement and the Annual Caps are subject to the approval by the Independent Shareholders at the General Meeting.

A circular containing, among other things, (i) a letter from the Board containing further information on the continuing connected transactions under the Intelligent Services Framework Agreement and the Annual Caps; (ii) recommendations of the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice in connection with the aforesaid; and (iv) a notice convening the General Meeting together with the proxy form, will be despatched to the Shareholders on or before 13 June 2022.

Since the Intelligent Services Framework Agreement is subject to the fulfilment of the conditions precedent, the transactions contemplated thereunder may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

INTELLIGENT SERVICES FRAMEWORK AGREEMENT

On 20 May 2022, the Company entered into the Intelligent Services Framework Agreement with GZYG and Yuexiu Property, pursuant to which the Group agreed to provide to GZYG, Yuexiu Property and their respective subsidiaries and associates the Intelligent Services comprising of (i) sales and installation services for intelligent products such as video surveillance system, access control system, carpark management system, video intercom system and smart home system; (ii) video surveillance software system development services; and (iii) the related design and consultation services (the “**Intelligent Services**”).

Principal terms

The principal terms of the Intelligent Services Framework Agreement are as follows:

Date: 20 May 2022

Parties: (a) the Company;

(b) GZYG; and

(c) Yuexiu Property

Term: Subject to the fulfillment or waiver of the conditions precedent, the term of the Intelligent Services Framework Agreement shall commence from the date of approval at the General Meeting and shall continue up to and including 31 December 2024. Subject to compliance with the Listing Rules, the Intelligent Services Framework Agreement may be renewed by the Company, GZYG and Yuexiu Property by agreement in writing.

Conditions precedent:

The Intelligent Services Framework Agreement is conditional upon the parties obtaining the necessary approvals or waivers for the entering into of the Intelligent Services Framework Agreement and the transactions contemplated thereunder, including the approval by the Independent Shareholders of the Intelligent Services Framework Agreement and the transactions contemplated thereunder (including the Annual Caps) at the General Meeting. If the conditions precedent are not fulfilled on or before 31 December 2022 or such later date as agreed by and among the Company, GZYG and Yuexiu Property, the Intelligent Services Framework Agreement shall terminate with immediate effect without liability on any party.

Payment Terms:

The fees and payments due to the Group shall be paid as follows: (i) approximately 20% to 30% of the total fees will be paid as prepayment amount within 60 days of the date of signing of the separate agreement to be entered between a member of the Group and GZYG, Yuexiu Property or their respective subsidiaries and associates for the provision of the Intelligent Services; (ii) during the course of the provision of the Intelligent Services, approximately 60% to 70% of the total fees (and in aggregate not more than 90% of the total fees) will be paid within 60 days after issuing the relevant invoice on a quarterly basis according to the progress of work; (iii) approximately 7% of the total fees (and in aggregate not more than 97% of the total fees) will be paid within 60 days after issuing the invoice after acceptance and clearance of the Intelligent Services work; and (iv) the remaining balance shall be paid within 60 days after issuing the invoice upon completion of the warranty period which is normally one to two years after the completion of the Intelligent Services work.

Historical Transaction Amounts

The Group had not provided any Intelligent Services to GZYG, Yuexiu Property or their respective subsidiaries and associates prior to the date of this announcement.

Annual Caps

The maximum annual fee payable to the Group under the Intelligent Services Framework Agreement for each of the financial years ending 31 December 2022, 2023 and 2024 will not exceed the Annual Caps set out below:

	Year ending 31 December		
	2022	2023	2024
	(RMB'000)	(RMB'000)	(RMB'000)
Total fees for the Intelligent Services Framework Agreement	271,715	525,259	691,166

The Annual Caps under the Intelligent Services Framework Agreement were determined with reference to (i) the estimated revenue to be recognized from the potential service contracts under the Intelligent Services Framework Agreement that may be granted to the Group by GZYG, Yuexiu Property and their respective subsidiaries and associates based on their existing property projects; (ii) the expected number of property projects to be developed by GZYG, Yuexiu Property and their respective subsidiaries and associates according to their business plan that may engage the Group for provision of the Intelligent Services; (iii) the Group's projected costs for the provision of the Intelligent Services to GZYG, Yuexiu Property and their respective subsidiaries and associates, including operating costs such as sales and materials costs, installation and labour costs, and direct costs, as well as the estimated increase in the projected costs annually; and (iv) the service fee calculated based on an estimated gross profit margin of 30.0% to be charged for the provision of the Intelligent Services by the Group, which is determined with reference to the prevailing market rate of service fee charged for comparable Intelligent Services generally offered by other independent service providers.

Pricing Policy

The total fees of each project that the Group will charge for the Intelligent Services shall be determined after arm's length negotiations between the parties and on normal commercial terms with reference to (i) the type of property development and the scope and standard of the services to be provided, which are classified into four main categories, being high-end residential projects, budget residential projects, high-end commercial projects and budget commercial projects, and the anticipated total costs for providing such services under each of the said categories; and (ii) the gross profit margins charged by the Group to the Independent Third Parties for comparable Intelligent Services (if any), and if there have not been any comparable Intelligent Services provided by the Group to the Independent Third Parties, then the gross profit margins of comparable Intelligent Services generally offered by other independent service providers. In any case, the gross profit margin to be charged for the Intelligent Services shall be no less favourable than those charged by the Group to the independent customers or those charged by independent service providers for comparable Intelligent Services in the market.

To determine the total fee of each project, the Company shall prepare a pricing proposal (the "**Pricing Proposal**") which will set out the proposed total fee calculated with reference to (i) the projected costs for the project, comprising labour costs, material costs, installation costs and administrative costs based on the property type and the scope and standard of services to be offered; and (ii) the gross profit margin charged by the Group to independent customers for comparable Intelligent Services (if any), and if there have not been any such comparable Intelligent Services offered by the Group to independent customers, the gross profit margins of comparable Intelligent Services provided by independent service providers in the market. The Pricing Proposal will be submitted to the audit committee of the Board for evaluation and determination of the total fee to be charged for that project.

Reasons and benefits for entering into the Intelligent Services Framework Agreement

The Group is an urban operation service provider in China and a key market player offering integrated property management services in the Greater Bay Area. The Group strongly believes that introducing and developing the Intelligent Services business will be of substantial benefit to it, adding to its existing property management services and allowing the Group to provide a more comprehensive property management solution to its clients. In particular, the development of Intelligent Services will benefit from the PRC's national policy on continuous development of smart city, smart community and smart home; and the growing trend of creating smart features for the property management industry, while leveraging on the Group's experience and understanding of the property management market.

Based on GZYY and Yuexiu Property's respective latest development plans, it is expected that the demand for Intelligent Services in their property development projects will substantially increase in the coming years. The Group believes that the Intelligent Services Framework Agreement will enable the Group to benefit from the business opportunities arising from GZYY and Yuexiu Property's demand for Intelligent Services in their property development projects and therefore allow the Group to develop and enhance its capabilities and experience in the provision of Intelligent Services. The Group will then be able to leverage on its experience to tap into opportunities to provide Intelligent Services to Independent Third Parties. The Group is pleased that it was awarded a contract for provision of Intelligent Services by an independent property developer in the PRC in April 2022.

The Group has continued to upgrade and expand its existing business and operation systems in preparation for the commencement of the Intelligent Services business, including recruiting a team of over 30 management, sales staff and other employees, all with substantial experience and expertise within the Intelligent Services industry — substantially increasing the Group's capability in designing, implementing and providing Intelligent Services. The Group has also registered copyrights and patents in relation to the Intelligent Services in order to enhance its competitive advantage. The Group aims to offer the Intelligent Services for both residential and non-residential properties and urban renewal projects, with a focus on improving the quality of property management services while creating efficiencies in labour costs. The Group expects that the Intelligent Services' development and offering will substantially increase the Group's total revenue and profitability.

In light of the above, the Directors (other than the Directors who have abstained from voting on the relevant Board resolutions of the Company) consider that the terms of the Intelligent Services Framework Agreement and the Annual Caps are fair and reasonable as far as the Shareholders are concerned and the transactions under the Intelligent Services Framework Agreement are in the interest of the Company and the Shareholders as a whole, provided that the independent non-executive Directors' view is subject to the advice of the Independent Financial Adviser and the opinion of the Independent Board Committee will be set forth in the circular to be despatched to the Shareholders.

Save for (i) Mr. Zhang Jianguo who is serving as a director and deputy general manager in GCCD and deputy general manager of Yuexiu Property, (ii) Mr. Lin Feng who is serving as a director and general manager of GCCD and vice chairman of board of directors, executive director and general manager of Yuexiu Property and (iii) Mr. Yao Xiaosheng who is serving as the general manager of the capital operations department of GZYX and YXE, none of the Directors has or is deemed to have a material interest in the Intelligent Services Framework Agreement and the transactions contemplated thereunder, including the Annual Caps. Hence, only Mr. Zhang Jianguo, Mr. Lin Feng and Mr. Yao Xiaosheng are required to abstain from voting on the relevant Board resolution(s) of the Company.

INTERNAL CONTROL

In order to further safeguard the interests of the Shareholders as a whole, the Group will implement the following internal control measures in relation to the continuing connected transactions under the Intelligent Services Framework Agreement:

- (i) as mentioned in the section “Intelligent Services Framework Agreement — Pricing Policy” of this announcement, in order to ensure that the total fees charged by the Group will be no less favourable than those offered by the Group to independent customers for comparable Intelligent Services (if any), or those charged by other independent service providers in the market for comparable Intelligent Services, as the case may be:
 - (a) the audit committee of the Board will review and approve the Pricing Proposal prepared by the Company;
 - (b) the Group will keep records of historical fees (and the applicable gross profit margins) offered by the Group to independent customers for comparable Intelligent Services and maintain a database of the gross profit margins from at least three comparable service providers in the industry for provision of comparable Intelligent Services;
 - (c) the Group will document the price determination process for each project under the Intelligent Services Framework Agreement for subsequent reporting and review;
- (ii) the finance department of the Company will monitor the total fees received for each project under the Intelligent Services Framework Agreement monthly to ensure the total fees received will not exceed the applicable Annual Caps;

- (iii) the Group will compile a continuing connected transaction report every six months on the transactions contemplated under the Intelligent Services Framework Agreement for review by the audit committee of the Board, the report shall comprise (a) the total amount of fees (and the applicable gross profit margins) received and payment terms for each project under the Intelligent Services Framework Agreement during the reporting period; (b) fee breakdown and comparison with the rates offered to independent customers by the Group (if any), or the gross profit margins used by other independent service providers for comparable Intelligent Services, and market payment terms; and (c) whether the applicable Annual Caps have been complied with;
- (iv) the audit committee of the Board will meet at least twice a year to review the implementation of the above measures for the transactions contemplated under the Intelligent Services Framework Agreement and report to the Board;
- (v) the Group will provide information and supporting documents to the independent non-executive Directors and auditors for them to conduct annual review of the continuing connected transactions of the Group;
- (vi) the independent non-executive Directors will provide an annual confirmation to the Board as to whether the continuing connected transactions have been entered into in the ordinary and usual course of business of the Group, are on normal commercial terms, are in accordance with the Intelligent Services Framework Agreement, and are on terms that are fair and reasonable and in the interests of the Shareholders as a whole as required by the Listing Rules; and
- (vii) the auditors of the Company will provide an annual confirmation to the Board as to whether anything has come to their attention that causes them to believe that the continuing connected transactions have not been approved by the Board, are not in accordance with the pricing policies of the Group in any material respects, are not entered into in accordance with the Intelligent Services Framework Agreement, or have exceeded the Annual Caps as required by the Listing Rules.

INFORMATION OF THE PARTIES TO THE INTELLIGENT SERVICES FRAMEWORK AGREEMENT

The Group

The Group is an urban operation service provider in China and a key market player offering integrated property management services in the Greater Bay Area. Its major businesses comprise (i) non-commercial property management and value-added services, which consist of property management services, value-added services to non-property owners and community value-added services; and (ii) commercial property management and operational services, which consist of commercial operation and management services and market positioning consultancy and tenant sourcing services.

GZYZ

GZYZ, the ultimate controlling shareholder of Yuexiu Property and the Company, is a company established in the PRC with limited liability and is majority owned by the Guangzhou Municipal People's Government of the PRC. GZYZ and its subsidiaries (other than the Group) are engaged in various businesses segments, including (i) real estate and property development business; (ii) commercial banking, asset management, finance leasing, futures, business investment and other financial services; (iii) transportation, infrastructure and construction business; and (iv) livestock breeding, dairy industry, food processing and other businesses.

Yuexiu Property

Yuexiu Property, a controlling shareholder of the Company which indirectly holds the shares of the Company through its direct wholly-owned subsidiary, namely GCD China, is a company incorporated in Hong Kong with limited liability and listed on the Main Board of the Stock Exchange (Stock Code: 00123). Yuexiu Property and its subsidiaries (other than the Group) are principally engaged in property development and investment, deepening the implementation of the "1+4" national strategic layout and deep cultivation of the Greater Bay Area market, and focusing on expanding their business in Eastern China, Central China, Northern China and Southwestern China.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, GZYZ and Yuexiu Property are controlling shareholders of the Company and therefore GZYZ, Yuexiu Property and their respective associates are connected persons of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Intelligent Services Framework Agreement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Annual Caps under the Intelligent Services Framework Agreement exceeds 5%, the transactions contemplated under the Intelligent Services Framework Agreement are subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Intelligent Services Framework Agreement and the Annual Caps are subject to the approval by the Independent Shareholders at the General Meeting.

GCD China and its associates will abstain from voting at the General Meeting in respect of the proposed resolutions to approve the Intelligent Services Framework Agreement and the Annual Caps. Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no other Shareholder or any of its associates has a material interest in the Intelligent Services Framework Agreement and the Annual Caps, therefore no other Shareholder would be required to abstain from voting on the relevant resolutions to be proposed at the General Meeting.

The Company has established the Independent Board Committee comprising all three independent non-executive Directors to advise the Independent Shareholders as to whether the continuing connected transactions under the Intelligent Services Framework Agreement and the Annual Caps are fair and reasonable, and whether the continuing connected transactions under the Intelligent Services Framework Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote at the General Meeting, after taking into account the recommendations of the Independent Financial Adviser. Somerley Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

A circular containing, among other things, (i) a letter from the Board containing further information on the continuing connected transactions under the Intelligent Services Framework Agreement and the Annual Caps; (ii) recommendations of the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice in connection with the aforesaid; and (iv) a notice convening the General Meeting together with the proxy form, will be despatched to the Shareholders on or before 13 June 2022.

Since the Intelligent Services Framework Agreement is subject to the fulfilment of the conditions precedent, the transactions contemplated thereunder 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, the following expressions have the following meanings unless the context requires otherwise.

“Annual Caps”	the annual caps under the Intelligent Services Framework Agreement for the three years ending 31 December 2022, 31 December 2023 and 31 December 2024
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	board of Directors
“BVI”	British Virgin Islands
“Company”	Yuexiu Services Group Limited (越秀服務集團有限公司), a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 6626)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the directors of the Company
“GCCD”	Guangzhou City Construction & Development Co., Ltd.* (廣州市城市建設開發有限公司), a limited liability company established in the PRC and is indirectly owned as to 95% by GCD China and directly owned as to 5% by GCCD Group
“GCCD Group”	Guangzhou City Construction & Development Group Co., Ltd.* (廣州市城市建設開發集團有限公司) (previously known as Guangzhou City Construction & Development Holding Company* (廣州市城市建設開發總公司)), a limited liability company established in the PRC and is ultimately wholly owned by GZYX

“GCD China”	Guangzhou Construction & Development Holdings (China) Limited (城市建設開發集團(中國)有限公司), a company with limited liability incorporated in the BVI and is directly wholly owned by Yuexiu Property. GCD China is a controlling shareholder of the Company
“General Meeting”	the general meeting of the Company to be convened to consider and, if thought fit, to approve the Intelligent Services Framework Agreement and the transactions contemplated thereunder (including the proposed Annual Caps)
“Greater Bay Area”	Guangdong-Hong Kong-Macao Greater Bay Area
“Group”	the Company and its subsidiaries
“GZYX”	Guangzhou Yue Xiu Holdings Limited* (廣州越秀集團股份有限公司), a company established in the PRC with limited liability, which is majority owned by the Guangzhou Municipal People’s Government of the PRC and is the ultimate controlling shareholder of Yuexiu Property and the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors, namely Mr. Hung Shing Ming, Ms. Hui Lai Kwan and Mr. Chan Yuen Hang Kenneth
“Independent Financial Adviser”	Somerley Capital Limited, a corporation licenced to carry out Type 1 (Dealing in Securities) and Type 6 (Advising on Corporate Finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Intelligent Services Framework Agreement

“Independent Shareholders”	the Shareholders, other than GZYG, Yuexiu Property and their respective associate(s) who are not prohibited from voting at the General Meeting in respect of the Intelligent Services Framework Agreement and the transactions contemplated thereunder (including the proposed Annual Caps)
“Independent Third Parties”	any entity or person who is not a connected person of the Company
“Intelligent Services Framework Agreement”	the intelligent services framework agreement dated 20 May 2022 entered into by and among the Company, GZYG and Yuexiu Property in relation to the provision of Intelligent Services by the Company and/or its subsidiaries to GZYG and Yuexiu Property and/or their respective subsidiaries and associates
“Intelligent Services”	has the meaning given to it in the section headed “Intelligent Services Framework Agreement”
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Pricing Proposal”	has the meaning given to it in the sub-section headed “Intelligent Services Framework Agreement — Pricing Policy”
“RMB”	renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Shareholder(s)”	registered holders of the shares in the Company from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Yuexiu Property”	Yuexiu Property Company Limited (越秀地產股份有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 00123) and the controlling shareholder of the Company
“YXE“	Yue Xiu Enterprises (Holdings) Limited (越秀企業(集團) 有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of GZYX
“%”	per cent.

* *For identification purpose only*

By Order of the Board of
Yuexiu Services Group Limited
Yu Tat Fung
Company Secretary

Hong Kong, 20 May 2022

As at the date of this announcement, the Executive Directors are Mr. Zhang Jianguo, Mr. Mao Liangmin and Mr. Zhang Jin; the Non-executive Directors are Mr. Lin Feng, Mr. Yao Xiaosheng and Mr. Yang Zhaoxuan; and the Independent Non-executive Directors are Mr. Hung Shing Ming, Ms. Hui Lai Kwan and Mr. Chan Yuen Hang Kenneth.