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HEVOL SERVICES GROUP CO. LIMITED
和泓服務集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6093)

CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
RENEWAL OF EXISTING MASTER SERVICES AGREEMENT

INTRODUCTION

On 31 December 2021, the Company and Hevol Real Estate entered into the New Master Services Agreement, pursuant to which the Group conditionally agreed to provide several property management related services according to the terms as set out in the New Master Services Agreement, subject to the approval by the Independent Shareholders at the EGM. The New Master Services Agreement will be effective from the Commencement Date to 31 December 2024 (both days inclusive).

LISTING RULES IMPLICATIONS

As Hevol Real Estate is owned as to 80% by Hevol Investment which in turn is owned as to 80% by Mr. Liu, a Controlling Shareholder and a non-executive Director, each of Hevol Investment and Hevol Real Estate is an associate of Mr. Liu and a connected person of the Group. Accordingly, the transactions under the New Master Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable ratios under the Listing Rules in respect of the Proposed Annual Caps are higher than 5%, the New Master Services Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps) are subject to the reporting, annual review, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will comply with the annual review requirements under Rules 14A.55 to 14A.59 of the Listing Rules in relation to the New Master Services Agreement and the continuing connected transactions (including the Proposed Annual Caps).

GENERAL

An Independent Board Committee comprising all the independent non-executive Directors has been established by the Company to consider the New Master Services Agreement and the transactions contemplated thereunder, and the Proposed Annual Caps, and to advise the Independent Shareholders as to whether the terms of the New Master Services Agreement and the continuing connected transactions (including the Proposed Annual Caps) are on normal commercial terms or better and fair and reasonable, and in the interests of the Company and the Shareholders as a whole. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

THE EGM

An EGM will be held by the Company for Independent Shareholders to consider and, if thought fit, approve (among other things) the New Master Services Agreement and the transactions contemplated thereunder, and the Proposed Annual Caps.

Brilliant Brother will (and any other Shareholder who is involved or interested in the New Master Services Agreement will be required to) abstain from voting on the resolutions to be proposed at the EGM for approving the New Master Services Agreement and the transactions contemplated thereunder, and the Proposed Annual Caps. Save for Brilliant Brother, to the best knowledge of the Company, none of the Shareholders are required to abstain from voting on the ordinary resolutions proposed at the EGM to consider and, if thought fit, to approve, among other things, the New Master Services Agreement and the transactions contemplated thereunder, and the Proposed Annual Caps.

A circular containing, among others, the particulars of the New Master Services Agreement together with (i) the details of the New Master Services Agreement and the Proposed Annual Caps; (ii) a letter from the Board; (iii) a letter from the Independent Board Committee; (iv) a letter from the Independent Financial Adviser; and (v) a notice of the EGM is expected to be despatched to the Shareholders no more than 15 business days after the publication of this announcement.

BACKGROUND

References are made to (i) the Prospectus in relation to, among other things, the continuing connected transactions contemplated thereunder the Existing Master Services Agreement and (ii) the Company's announcement dated 29 April 2020 in relation to the Supplemental Master Services Agreement and the revision of annual caps. The Group has been carrying on certain continuing connected transactions from time to time pursuant to the Existing Master Services Agreement and the Supplemental Master Services Agreement entered into between the Company and Hevol Real Estate for a term from 27 June 2019 to 31 December 2021 (both days inclusive). It is expected that the Group will continue to enter into transactions of a similar nature to the Existing Master Services Agreement and the Supplemental Master Services Agreement.

On 31 December 2021, the Company and Hevol Real Estate entered into the New Master Services Agreement, pursuant to which the Group conditionally agreed to provide several property management related services according to the terms as set out in the New Master Services Agreement, subject to the approval by the Independent Shareholders at the EGM. The New Master Services Agreement will be effective from the Commencement Date to 31 December 2024 (both days inclusive).

THE NEW MASTER SERVICES AGREEMENT

Date	31 December 2021 (after trading hours)
Parties	(i) the Company; and (ii) Hevol Real Estate
Duration	From the Commencement Date to 31 December 2024 (both days inclusive).
Subject Matter	Under the New Master Services Agreement, the Company conditionally agreed to provide following services to the Hevol Real Estate Group regarding the term of the New Master Services Agreement: (1) Property Management Services, mainly including (i) security services, (ii) repair and maintenance services, and (iii) cleaning and garden landscape maintenance services; (2) Sales Coordination Services, mainly including sales assistance services such as display unit management services, market planning services and visitor reception and consultation services; and (3) Ancillary Property Management Services, mainly include consultancy and planning services, preliminary stage property management start-up services, property management services of properties held by the Hevol Real Estate Group, inspection services, repair services, cleaning services and formaldehyde removal services.

Subject to the terms and conditions of the New Master Services Agreement, the Group and the Hevol Real Estate Group shall enter into separate property management services agreements, sales coordination services agreements and ancillary property management services agreements in respect of specific transaction terms, provided that such agreements shall be subject to the terms of the New Master Services Agreement, and their respective term shall also not violate the provisions of the New Master Services Agreement.

The provision of property management services to Hevol Real Estate Group under any separate property management services agreements are subject to due appointment by Hevol Real Estate Group through a tendering process (if necessary) as required by applicable laws and regulations or through other methods. Such laws and regulations include the Regulations on Property Management (《物業管理條例》), the Interim Measures for Tender and Bidding Management of Preliminary Property Management (《前期物業管理招標投標管理暫行辦法》) and other relevant laws, regulations and policies implemented at the location of the property.

Pricing principles

The service fees are to be determined after arm's-length negotiations and taking into account the following factors:

- (i) price guidance (if any) promulgated by the Price Control Department (物價管理部門) where the relevant property is located;
- (ii) the anticipated operational costs (including salary and staff costs);
- (iii) current market prices made by independent third parties that provide similar services and products on normal commercial terms and in the ordinary and usual course of business; and
- (iv) current market price made between independent third parties and Hevol Real Estate on similar services and products that constitute non-connected transactions.

Payment method

Payment shall be made pursuant to the specific property management services agreements, sales coordination services agreements, and ancillary property management services agreements to be further entered into between the Hevol Real Estate Group and the Group pursuant to the New Master Services Agreement.

HISTORICAL TRANSACTION FIGURES AND THE PROPOSED ANNUAL CAPS

The following sets forth the historical transaction amounts and the Proposed Annual Caps of the Property Management Services, Sales Coordination Services and Ancillary Property Management Services:

	Historical transaction figures		
	for the	for the	for the nine
	year ended	year ended	months ended
	31 December	31 December	30 September
	2019	2020	2021
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Property Management Services	8.6	4.1	13.6
Sales Coordination Services	25.8	26.5	20.5
Ancillary Property Management Services	–	37.1	13.9
	<u>34.4</u>	<u>67.7</u>	<u>48.0</u>
Total	<u>34.4</u>	<u>67.7</u>	<u>48.0</u>
Existing annual caps	<u>34.7</u>	<u>93.4</u>	<u>118.1</u>

	Proposed Annual Caps		
	for the	for the	for the
	year ending	year ending	year ending
	31 December	31 December	31 December
	2022	2023	2024
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Property Management Services	24.8	17.5	13.8
Sales Coordination Services	35.6	30.5	25.7
Ancillary Property Management Services	70.5	53.8	53.7
	<u>130.9</u>	<u>101.8</u>	<u>93.2</u>
Total	<u>130.9</u>	<u>101.8</u>	<u>93.2</u>

Basis of the Proposed Annual Caps

In determining the Proposed Annual Caps, the Directors have considered the following factors:

- (i) the basis of pricing policy for Property Management Services, Sales Coordination Services and Ancillary Property Management Services in each of Beijing, Chongqing, Tianjin, Chengdu, Tangshan, Guiyang, Shenyang, Harbin, Hainan, Hunan etc.;
- (ii) the respective historical transaction amount in relation to the Existing Master Services Agreement and Supplemental Master Services Agreement for the two years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021 (as mentioned above), respectively;

- (iii) the estimated transaction amount revenue to be recognised in relation to the New Master Services Agreement pursuant to existing contracts and the expected time and volume of delivery for the existing property management projects;
- (iv) the estimated size of projects to be managed by the Group according to the updated development plan of property management projects, sales coordination projects and ancillary property management projects provided by Hevol Real Estate for the coming three years period ending 31 December 2024;
- (v) the local market rates for the provision of similar services in each city are used as the basis of pricing policy for Property Management Services, Sales Coordination Services and Ancillary Property Management Services, respectively; and
- (vi) a reasonable buffer of approximately 15% buffer to cater for unexpected business growth, inflation and currency fluctuations and on the general assumption that there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group and the Hevol Real Estate Group during the projected period.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Group is principally engaged in property management services, community value-added services and non-property owner valued-added services in the PRC whereas the Hevol Real Estate Group is principally engaged in property development business in the PRC.

The Company has continuously spent efforts in developing the Group's business and to maximize returns to Shareholders, and has been actively communicating with the Hevol Real Estate Group for possible future projects and business plans. The transactions contemplated under the New Master Services Agreement are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group. Accordingly, the entering into the New Master Services Agreement is in the interests of the Company and the Shareholders as a whole.

The Directors (excluding the independent non-executive Directors) are of the view that the transactions contemplated under the New Master Services Agreement (i) have been negotiated on an arm's length basis; (ii) are in the ordinary and usual course of business of the Group, (iii) on normal commercial terms or better that are fair and reasonable, and (iv) in the interests of the Company and the Shareholders as a whole. The Directors (excluding the independent non-executive Directors) also confirm that the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Mr. Liu, a non-executive Director and Ms. Hu, an executive Director have abstained from voting on the relevant Board resolutions approving the New Master Services Agreement and the transactions contemplated thereunder, and the Proposed Annual Caps since they have material interests in the New Master Services Agreement. Save as disclosed above, none of the other Directors has material interests in the New Master Services Agreement and therefore no other Director has abstained from voting on the relevant Board resolutions approving the New Master Services Agreement and the transactions contemplated thereunder, and the Proposed Annual Caps.

INTERNAL CONTROL

The Group will undertake the following internal control measures to monitor the continuing connected transactions:

- (a) the finance department staff, and the finance department manager will prepare the relevant information and the chief financial officer will conduct checks once every three months and half year to review and assess whether the transactions are conducted in accordance with the terms of the New Master Services Agreement;
- (b) the finance department staff and the finance department manager will prepare the relevant information and the chief financial officer will monitor the monthly transaction amounts between the Group and the Hevol Real Estate Group under the New Master Services Agreement and report to the management of the Group to ensure that the transaction amounts will not exceed the Proposed Annual Caps;
- (c) the finance department staff and the finance department manager will prepare the relevant information and the chief financial officer will monitor the prices and terms of the New Master Services Agreement by obtaining at least two quotations for each type of services from independent third parties when the New Master Services Agreement and the individual ancillary agreements are renewed. They will work together to ensure that the transactions contemplated under the New Master Services Agreement are conducted on normal commercial terms and at prices and terms no more favourable than those offered by the Group to independent third parties;
- (d) the finance department is required to present a summary of continuing connected transactions of the Group to the internal control and compliance department for review. The internal control and compliance department shall assess whether such transactions will constitute any disclosure and approval requirement in accordance with the Listing Rules. The continuing connected transactions report is required to be submitted to the audit committee for review during every six months period and the year end;
- (e) the independent non-executive Directors will review the continuing connected transactions every year and confirm that the transactions have been conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, and in accordance with the New Master Services Agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- (f) the Company will engage its auditors to report on the continuing connected transactions every year. The auditors of the Company will review and confirm in the annual report of the Company whether the transactions (i) have been approved by the Board; (ii) were entered into, in all material respects, in accordance with the New Master Services Agreement; and (iii) have not exceeded the Proposed Annual Caps.

The Directors consider that the personnel authorised to execute the above internal control measures possess relevant experience and expertise in relation thereto, and the above internal control measures can ensure that the transactions contemplated under the New Master Services Agreement (including the Proposed Annual Caps) will be conducted on normal commercial terms in a manner not prejudicial to the interests of the Company and its Shareholders.

INFORMATION OF THE PARTIES

The Group

The Company is an exempted company with limited liability under the Companies Law of the Cayman Islands. The Group is principally engaged in property management services, community value-added services and non-property owner value-added services in the PRC.

Hevol Real Estate

Hevol Real Estate is a company established as a limited liability company under the laws of the PRC on 28 March 2001 and is principally engaged in property development in the PRC. Hevol Real Estate is owned as to 80% and 20% by Hevol Investment and Shanghai Hengjiu respectively.

Hevol Investment

Hevol Investment is a company established as a limited liability company under the laws of the PRC on 14 March 2001, which is owned as to 80% and 20% by Mr. Liu, a Controlling Shareholder and a non-executive Director, and Ms. Hu, an executive Director, respectively.

Shanghai Hengjiu

Shanghai Hengjiu is a company established as a limited liability company under the laws of the PRC on 14 June 2005, which is owned by Ms. Hu as to 60% and Ms. Liu as to 40%.

IMPLICATIONS UNDER THE LISTING RULES

As Hevol Real Estate is owned as to 80% by Hevol Investment which in turn is owned as to 80% by Mr. Liu, a Controlling Shareholder and a non-executive Director, each of Hevol Investment and Hevol Real Estate is an associate of Mr. Liu and a connected person of the Group. Accordingly, the transactions under the New Master Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable ratios under the Listing Rules in respect of the Proposed Annual Caps are higher than 5%, the New Master Services Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps) are subject to the reporting, annual review, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will comply with the annual review requirements under Rules 14A.55 to 14A.59 of the Listing Rules in relation to the New Master Services Agreement and the continuing connected transactions (including the Proposed Annual Caps).

GENERAL

An Independent Board Committee comprising all the independent non-executive Directors has been established by the Company to consider the New Master Services Agreement and the transactions contemplated thereunder, and the Proposed Annual Caps, and to advise the Independent Shareholders as to whether the terms of the New Master Services Agreement and the continuing connected transactions (including the Proposed Annual Caps) are on normal commercial terms or better and fair and reasonable, and in the interests of the Company and the Shareholders as a whole. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

EGM

An EGM will be held by the Company for Independent Shareholders to consider and, if thought fit, approve (among other things) the New Master Services Agreement and the transactions contemplated thereunder, and the Proposed Annual Caps.

Brilliant Brother will (and any other Shareholder who is involved or interested in the New Master Services Agreement will be required to) abstain from voting on the resolutions to be proposed at the EGM for approving the New Master Services Agreement and the transactions contemplated thereunder, and the Proposed Annual Caps. Save for Brilliant Brother, to the best knowledge of the Company, none of the Shareholders are required to abstain from voting on the ordinary resolution proposed at the EGM to consider and, if thought fit, to approve, among other things, the New Master Services Agreement and the transactions contemplated thereunder, and the Proposed Annual Caps.

A circular containing, among others, the particulars of the New Master Services Agreement together with (i) the details of the New Master Services Agreement and the Proposed Annual Caps; (ii) a letter from the Board; (iii) a letter from the Independent Board Committee; (iv) a letter from the Independent Financial Adviser; and (v) a notice of the EGM is expected to be despatched to the Shareholders no more than 15 business days after the publication of this announcement.

DEFINITIONS

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

“Ancillary Property Management Services”	mainly include consultancy and planning services, preliminary-stage property management start-up services, property management services of properties held by the Hevol Real Estate Group, inspection services, repair services, cleaning services and formaldehyde removal services regarding the New Master Services Agreement
“Board”	the board of Directors of the Group
“Brilliant Brother”	Brilliant Brother Group Limited, the Controlling Shareholder of the Company

“Commencement Date”	the date immediately after the fulfillment of all conditions set out in the New Master Services Agreement
“Company”	Hevol Services Group Co. Limited (stock code: 6093), a company incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“continuing connected transactions”	the transactions contemplated under the New Master Services Agreement
“Controlling Shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the directors of the Company
“EGM”	the extraordinary general meeting to be convened and held by the Company to consider and if thought fit, approve, the New Master Services Agreement, the Proposed Annual Caps and the transactions contemplated thereunder
“Existing Master Services Agreement”	the master services agreement entered into between the Company and Hevol Real Estate on 27 June 2019 (and amended by the Supplemental Master Services Agreement), pursuant to which the Group agreed to provide property management services and sales coordination services to the Hevol Real Estate Group
“Group”	the Company and its subsidiaries
“Hevol Investment”	Hevol Holding Group Limited (和泓控股集團有限公司), a company established as a limited liability company under the laws of the PRC on 14 March 2001, which is owned as to 80% by Mr. Liu and as to 20% by Ms. Hu and a connected person of the Group
“Hevol Real Estate”	Hevol Real Estate Group Limited (和泓置地集團有限公司), a company established as a limited liability company under the laws of the PRC on 28 March 2001, which is owned by Hevol Investment as to 80% and Shanghai Hengjiu as to 20%, a company ultimately controlled by Mr. Liu and a connected person of the Group
“Hevol Real Estate Group”	Hevol Real Estate and the subsidiaries of Hevol Real Estate, companies ultimately controlled by Mr. Liu and a connected person of the Group
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Independent Board Committee”	an independent board committee of the Company comprising all of the independent non-executive Directors, established to advise the Independent Shareholders with regard to the terms of the New Master Services Agreement, the Proposed Annual Caps and the transactions contemplated thereunder
“Independent Financial Adviser”	Advent Corporate Finance Limited, a corporation licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to conduct Type 6 (Advising on Corporate Finance) regulated activities and the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the terms of the New Master Services Agreement, the Proposed Annual Caps and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders other than Brilliant Brother, its associates and any Shareholder with a material interest in the transactions contemplated under the New Master Services Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Liu”	Mr. Liu Jiang (劉江), a Controlling Shareholder and a non-executive Director
“Ms. Hu”	Ms. Hu Hongfang (胡洪芳), an executive Director
“Ms. Liu”	Ms. Liu Yu (劉玉), an individual employed by Hevol Real Estate Group
“New Master Services Agreement”	the master services agreement entered into between the Company and Hevol Real Estate on 31 December 2021 in relation to the provision of various services and transactions, a summary of the terms of which is set out in this announcement
“PRC”	the People’s Republic of China
“Property Management Services”	mainly including (i) security services, (ii) repair and maintenance services, and (iii) cleaning and garden landscape maintenance services regarding the New Master Services Agreement
“Proposed Annual Caps”	the proposed annual monetary cap(s) for the continuing connected transactions for the period from the Commencement Date to 31 December 2024
“Prospectus”	the prospectus of the Company dated 27 June 2019
“RMB”	Renminbi, the lawful currency of the PRC

“Sales Coordination Services”	mainly including sales assistance services such as display unit management services, market planning services and visitor reception and consultation services regarding the New Master Services Agreement
“Shanghai Hengjiu”	Shanghai Hengjiu Investment Limited (上海恒久投資有限公司), a company established as a limited liability company under the laws of the PRC on 14 June 2005, which is owned by Ms. Hu as to 60% and Ms. Liu as to 40%
“Share(s)”	ordinary shares of US\$0.00001 each in the capital of the Company
“Shareholder(s)”	registered holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Master Services Agreement”	the supplemental master services agreement the Company entered into with Hevol Real Estate on 29 April 2020, pursuant to which the Group agreed to provide the ancillary property management services to the Hevol Real Estate Group and to revise the annual caps of the Existing Master Services Agreement
“%”	per cent.

By order of the Board of Directors
Hevol Services Group Co. Limited
Wang Wenhao
Executive Director

Hong Kong, 31 December 2021

As at the date of this announcement, the Board comprises two executive Directors, namely Ms. Hu Hongfang and Mr. Wang Wenhao, two non-executive Directors, namely Mr. Liu Jiang and Mr. Zhou Wei, and four independent non-executive Directors, namely Dr. Chen Lei, Mr. Fan Chi Chiu, Mr. Li Yongrui and Mr. Qian Hongji.