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FINANCIAL STREET PROPERTY CO., LIMITED

金融街物業股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1502)

DISCLOSEABLE TRANSACTION

ACQUISITION OF 70% EQUITY INTERESTS IN TARGET COMPANY

INTRODUCTION

Reference is made to the announcement of the Company dated 23 June 2021 in relation to the letter of intent for the potential acquisition of part of the equity interest of a property service company incorporated in Hong Kong. On 21 March 2023, the Company entered into the Share Sale and Purchase Agreement with the Vendor and the Target Company, pursuant to which the Vendor has conditionally agreed to sell and the Company has conditionally agreed to acquire, the Sale Shares which represent 70% of the equity interest in the Target Company for a maximum total consideration of HKD154 million, subject to the terms and conditions as set out in the Share Sale and Purchase Agreement.

Upon completion of the Acquisition, the Target Company will become a direct subsidiary of the Company and its financial information will be consolidated into the financial statements of the Group.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios for the Acquisition exceeds 5% but all the applicable percentage ratios are below 25%, the entering into of the Share Sale and Purchase Agreement constitutes a discloseable transaction of the Company and is therefore subject to reporting and announcement requirements, but exempt from the shareholders' approval requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

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THE SHARE PURCHASE AGREEMENT

Date: 21 March 2023

Parties: (i) The Company (as the Purchaser);
(ii) Ms. Cheng Pui Yi (as the Vendor); and
(iii) The Target Company.

To the best of the Directors' knowledge, information and belief after making all reasonable enquiries, the Target Company and its ultimate beneficial owner (being the Vendor) are Independent Third Parties of the Company and its connected person(s) as at the date of this announcement.

Subject Matter

Pursuant to the Share Sale and Purchase Agreement, the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares. Upon completion of the Acquisition, the Target Company will become a direct subsidiary of the Company and its financial information will be consolidated into the financial statements of the Group.

Conditions precedent

The purchase and sale of the Sale Shares shall be subject to the following conditions: the approval of the purchase and sale of the Sale Shares by the competent state-owned assets supervision authority, and the equity consideration converted from the evaluation and approval results shall not lower than the total Consideration of the Share Sale and Purchase Agreement.

Consideration and Payment Terms

The Consideration is tentatively determined to be HKD154 million which was determined after arm's length negotiations between the Company and the Vendor by reference to, among others, (i) the appraised value of the Target Company as determined by a the valuer; (ii) the performance undertaking by the Target Company, (iii) the Target Company's scale of operation, financial position and its historical financial performance; and (iv) the industry in which the Target Company operates.

The Consideration will be payable to the Vendor in cash in two payment instalments in the following manner:

- (i) 80% of the total Consideration, being HK\$123,200,000, shall be payable (after deduction of any items as contemplated under the Share Sale and Purchase Agreement) by the Purchaser upon (i) fulfillment of the conditions precedent and completion of approval, registration or filing for the export of the Consideration amount and other regulatory procedures; (ii) the issuance of the independent audit (or review, as the Purchaser may determine) results for the year ended 31 December 2022; and
- (ii) 20% of the total Consideration, being HK\$30,800,000, shall be payable (after deduction of any items/compensation as contemplated under the Share Sale and Purchase Agreement) by the Purchaser to the Vendor upon (i) fulfillment of the conditions precedent and completion of approval, registration or filing for the export of the Consideration amount and other regulatory procedures, and (ii) the accumulated actual revenue and the accumulated actual net profit excluding non-recurring gains (after tax) for the performance commitment period having been validly audited and confirmed.

The Consideration will be financed by the net proceeds from the listing of the H Shares on the Stock Exchange on 6 July 2020.

Completion

The Acquisition will be completed on the Completion Date upon the approval of the competent state-owned assets supervision and administration authority of the final consideration.

Performance Undertaking

The Vendor undertakes to the Purchaser that the performance targets for the four years ended/ending 31 December 2022, 2023, 2024 and 2025, in accordance to the applicable accounting standards adopted by the Target Company in the respective year, are as follows:

	For the year ended/ending 31 December				Total
	2022	2023	2024	2025	
	(HKD)	(HKD)	(HKD)	(HKD)	(HKD)
Audited revenue	127,726,200	143,478,261	165,217,391	188,695,652	625,117,504
Audited net profit excluding non-recurring gains (after tax)	15,192,183	15,579,909	19,484,369	22,203,958	72,460,419

Both the Company and the Target Company will review annually the financial performance of the Target Company against the agreed performance targets.

If the Target Company fails to meet the agreed performance targets during the four-year performance commitment period, the Company has the right to make one-off valuation adjustment which the Vendor shall pay the Purchaser in full as compensation according to the result of such calculation in the manner set out below (whichever is higher), in the following year after the expiry of the four-year performance commitment period:

$$\begin{aligned} \text{(i) Compensation amount} &= \text{Total consideration} \times \frac{\text{HKD625,117,504} - \text{the accumulated actual revenue for 2022-2025}}{\text{HKD625,117,504}}; \text{ or} \\ \text{(ii) Compensation amount} &= \text{Total consideration} \times \frac{\text{HKD72,460,419} - \text{the accumulated actual net profit excluding non-recurring gains after tax for 2022-2025}}{\text{HKD72,460,419}} \end{aligned}$$

Guarantee by the Vendor

The performance undertaking is secured by the remaining 20% of the Consideration receivable by the Vendor in 2026 and the Vendor's 30% equity interests in, and the derivative rights thereto of, the Target Company, which the Vendor has pledged in favour of the Company pursuant to the Deed of Share Charge separately entered into. The Company shall be entitled to set off the remaining 20% of the Consideration to the extent of the total Consideration with an amount equivalent to the compensation and/or exercise its right under the guarantee to adjust the total Consideration upon calculation

of the compensation amount, if any, by both parties, or exercise its rights under the Deed of Share Charge. For further details, please refer to the paragraph headed “Performance Undertaking” above.

Award

In order to incentivise the performance of the Target Company, during the four-year performance commitment period, if the Target Company audited operating revenue exceeds HKD625,117,504 in aggregate and the audited net profit excluding non-recurring gains (after tax) exceeds HKD72,460,419 in aggregate, the Target Company shall pay the Vendor a one-off performance incentive in the following year after the expiry of the four-year performance commitment period. The performance incentive shall be 40% of the amount in excess of the above audited accumulated net profit excluding non-recurring gains (after tax) (i.e. HKD72,460,419). The remaining net profit of the Target Company after the distribution of the one-off performance incentive will be distributed to the Target Company’s shareholders in proportion to their respective shareholding.

Transitional Period

Profit or loss incurred by the Target Company during the Transitional Period shall be enjoyed or borne by the Company (70%) and the Vendor (30%) in proportion to the shareholding structure of the Target Company upon completion of the Acquisition pursuant to the Share Sale and Purchase Agreement.

During the Transitional Period, the Vendor has the obligation to conduct the business in good faith and in the best interests of the Target Company.

Transfer of Target Company’s shares

Any proposed sale, transfer or disposal of the shares of the Target Company held by any of the shareholders to any third party during the performance commitment period shall be deemed prohibited and constitute a breach of the Share Sale and Purchase Agreement unless the Company terminates the Share Purchase Agreement and sells, transfers or disposes of its shares in accordance with the agreement. If, after the expiration of the performance commitment period, the Vendor intends to sell, transfer or dispose of her shares to any third party, or create or allow any encumbrances on her shares, prior written consent must be obtained from the Company.

INFORMATION ABOUT THE PARTIES AND THE TARGET COMPANY

The Company

The Company is a joint stock company established under the laws of the People's Republic of China with limited liability, of which the H Shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. As one of the leading comprehensive property management service providers for commercial and business properties in China, the Company focuses on mid- to high-end property management services. The Company has been providing property management services for over 28 years since 1994, covering a wide range of properties and providing property owners and residents with tailored quality services through a one-stop service platform to improve the quality and satisfaction of their living and working space.

The Target Company

The Target Company was incorporated under the laws of Hong Kong on 11 September 2000 and is principally engaged in property management, security services, facility management and engineering consultancy services in Hong Kong with over 20 years of experience in the field of property management. As at 30 September 2022, 22 projects and over 63,400 units, including commercial and residential properties, were under management by the Target Company, respectively. The Target Company is wholly-owned by the Vendor, who is currently one of the directors of the Target Company.

The unaudited net assets of the Target Company as at 31 December 2022 was approximately HKD75 million. The financial information of the Target Company for the two years ended 31 December 2022 are as follows:

	For the year ended 31 December 2021 (Unaudited) (HKD'000)	For the year ended 31 December 2022 (Unaudited) (HKD'000)
Profit before tax	19,427	17,543
Profit after tax	16,408	15,525

As at the date of this announcement, the Target Company is owned as to 100% by the Vendor.

REASONS FOR AND BENEFITS OF THE SHARE PURCHASE AGREEMENT

Based on strategic development and needs, the Company seeks extensive opportunities for market cooperation through acquisitions and investments as one of the ways to expand its scale of business. As the place of origin of China's property management industry, Hong Kong has developed a mature overall market operating model and sophisticated service concepts. The Target Company has a stable operating performance and rich management experience. The Acquisition will further enhance the business scale and market competitiveness of the Group.

The Directors (including the independent non-executive Directors) consider that the terms of the Share Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable and the entering into of the Share Sale and Purchase Agreement are in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios for the Acquisition exceeds 5% but all the applicable percentage ratios are below 25%, the entering into of the Share Sale and Purchase Agreement constitutes a discloseable transaction of the Company and is therefore subject to reporting and announcement requirements, but exempt from the shareholders' approval requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“Acquisition”	the acquisition of the Sale Shares by the Company from the Vendor pursuant to the Share Sale and Purchase Agreement;
“Board”	the board of Directors;
“Company”	Financial Street Property Co., Limited (金融街物業股份有限公司), a company established in the PRC with limited liability, whose H shares are listed on the main board of the Stock Exchange;
“Consideration”	the consideration to be paid in two instalments by the Company to the Vendor, being HKD154 million (subject to the approval of the relevant state-owned assets supervision and administration authority);
“Deed of Share Charge”	the deed of share charge to be entered into between the Company and Ms. Cheng in respect of the pledge of the equity interests and their derivative rights held by Ms. Cheng in the Target Company;

“excluding non-recurring gains”	excluding non-recurring gains;
“Group”	the Company and its subsidiaries as at the date of this announcement;
“H Share(s)”	overseas listed foreign shares in the ordinary share capital of the Company with a nominal value of RMB1.0 each, which are subscribed for and traded in Hong Kong dollars and listed on the Main Board of the Stock Exchange;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Third Party(ies)”	individual(s) or company(ies) and their respective ultimate beneficial owner(s), who or which, to the best of the Directors’ knowledge, information and belief, after making all reasonable enquiries, is/are not connected with the Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Sale Shares”	70% of the total issued share capital of the Target Company (including the share capital and retained earnings corresponding to all assets and liabilities attached to the shares as of the evaluation base date);
“Share Sale and Purchase Agreement”	the share sale and purchase agreement dated 21 March 2023 entered into between the Company, the Vendor and the Target Company in relation to the Acquisition;
“Shareholder(s)”	shareholder(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Target Company”	Top Property Services Company Limited (置佳物業服務有限公司), a company incorporated in Hong Kong with limited liability and is wholly owned by Ms. Cheng as at the date of this announcement;
“Transitional Period”	the period from the 30 September 2022 (being the valuation date of the Target Company) to the Completion Date;
“Completion Date”	the last natural day of the natural month following the effective date of the Share Sale and Purchase Agreement;

“Vendor” Ms. Cheng Pui Yi, being the ultimate beneficial owner of the Target Company; and

“%” per cent.

By order of the Board
Financial Street Property Co., Limited
Sun Jie
Chairman

Beijing, the PRC, 21 March 2023

As at the date of this announcement, members of the Board comprises Mr. Sun Jie and Ms. Xue Rui as executive Directors, Mr. Shen Mingsong, Mr. Liang Jianping, Mr. Li Liang and Ms. Zhao Lu as non-executive Directors, and Mr. Song Baocheng, Ms. Tong Yan and Ms. Lu Qing as independent non-executive Directors.