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Huafa Property Services Group Company Limited
華發物業服務集團有限公司

(Incorporated in Bermuda with limited liability)
(Stock code: 982)

CONTINUING CONNECTED TRANSACTIONS
(1) SUPPLEMENTAL AGREEMENT TO PROCUREMENT
COOPERATION FRAMEWORK AGREEMENT
AND
(2) REVISION OF ANNUAL CAP

References are made to the announcement of the Company dated 20 December 2019 and the circular dated 27 December 2019 in relation to, inter alia, the Procurement Cooperation Framework Agreement entered into between Zhuhai Huafa Property Management and Zhuhai Huafa dated 20 December 2019.

Pursuant to the Procurement Cooperation Framework Agreement, Zhuhai Huafa Property Management will procure Products and Services from Zhuhai Huafa Group for a term commencing on 17 January 2020 until 31 December 2022. Products and Services include (a) products including (i) vehicles for office use and municipal engineering vehicles; (ii) office stationery, learning cards and other products; and (iii) plants for office decoration; and (b) services including (i) leasing of venues for events; (ii) visual identity logo design, printing and production; (iii) human resources services; (iv) information installation services such as development of management platform, service platform and other system services; and (v) employee outpatient emergency group medical insurance, and major illness insurance and accident and injury insurance.

The Company has been closely monitoring the progress of its continuing connected transactions with Zhuhai Huafa under the Procurement Cooperation Framework Agreement. In view of (i) the requirements to equip with specified municipal engineering vehicles under a potential service contract for a municipal project in Zhuhai providing municipal road maintenance, sanitation and cleaning services; (ii) the COVID-19 pandemic which resulted in the need to procure anti-epidemic supplies for our business and employees; (iii) the implementation of an incentive program to encourage our employees to enhance their knowledge and skills through self-learning; (iv) the demand for installing video conferencing systems, remote documents back up systems and other related systems to provide remote working environment for our business and employees due to the COVID-19 pandemic, and the maintenance and development service required for the existing information management and service platforms; and (v) the need to recruit suitable personnel to take up key positions as our scale of business grows and provide on-job training for mid-level and senior management employees to allow us to continue to provide professional and quality property management services to our customers, taking into account the historical transaction amounts, it is expected that additional Products and Services will have to be procured from Zhuhai Huafa Group and therefore the transaction amounts of the continuing connected transactions under the Procurement Cooperation Framework Agreement for the year ending 31 December 2021 will exceed the Original Annual Cap. In addition, as the scale of our business expands, in particular our increasing number of municipal projects, there is a need for Huafa MCS to lease a venue for its office use and administrative functions. As such, the Board considers that the Original Annual Cap under the Procurement Cooperation Framework Agreement shall be revised to satisfy the business needs of Zhuhai Huafa Property Management Group for the year ending 31 December 2021.

On 22 June 2021 (after trading hours), Zhuhai Huafa Property Management and Zhuhai Huafa entered into the Supplemental Agreement to (a) revise the existing scope of Services to cover (i) leasing of venues for office use and (ii) information maintenance services such as maintenance of management platform, service platform and other system services; and (b) increase the Original Annual Cap to the Revised Annual Cap for the year ending 31 December 2021.

As at the date of this announcement, Zhuhai Huafa is an indirect controlling shareholder of the Company holding approximately 36.88% of the total issued share capital of the Company. Accordingly, Zhuhai Huafa is a connected person of the Company under the Listing Rules, and each of the transactions contemplated under the Procurement Cooperation Framework Agreement (as supplemented by the Supplemental Agreement) constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, the Company should re-comply with the applicable requirements under Chapter 14A of the Listing Rules before the Original Annual Cap is exceeded. As the highest of the applicable percentage ratios in respect of the Revised Annual Cap (except the profits ratio) for the transactions contemplated under the Procurement Cooperation Framework Agreement (as supplemented by the Supplemental Agreement) are more than 0.1% but less than 5%, the transactions contemplated under the Procurement Cooperation Framework Agreement (as supplemented by the Supplemental Agreement) and the Revised Annual Cap are subject to the reporting, announcement and annual review requirements, but exempt from independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

References are made to the announcement of the Company dated 20 December 2019 and the circular dated 27 December 2019 in relation to, inter alia, the Procurement Cooperation Framework Agreement entered into between Zhuhai Huafa Property Management and Zhuhai Huafa dated 20 December 2019.

Pursuant to the Procurement Cooperation Framework Agreement, Zhuhai Huafa Property Management will procure Products and Services from Zhuhai Huafa Group for a term commencing on 17 January 2020, being the date on which all the conditions precedent of the Procurement Cooperation Framework Agreement having been fulfilled, until 31 December 2022. Products and Services include (a) products including (i) vehicles for office use and municipal engineering vehicles; (ii) office stationery, learning cards and other products; and (iii) plants for office decoration; and (b) services including (i) leasing of venues for events; (ii) visual identity logo design, printing and production; (iii) human resources services; (iv) information installation services such as development of management platform, service platform and other system services; and (v) employee outpatient emergency group medical insurance, and major illness insurance and accident and injury insurance.

The Company has been closely monitoring the progress of its continuing connected transactions with Zhuhai Huafa under the Procurement Cooperation Framework Agreement. In view of (i) the requirements to equip with specified municipal engineering vehicles under a potential service contract for a municipal project in Zhuhai providing municipal road maintenance, sanitation and cleaning services; (ii) the COVID-19 pandemic which resulted in the need to procure anti-epidemic supplies for our business and employees; (iii) the implementation of an incentive program to encourage our employees to enhance their knowledge and skills through self-learning; (iv) the demand for installing video conferencing systems, remote documents back up systems and other related systems to provide remote working environment for our business and employees due to the COVID-19 pandemic, and the maintenance and development service required for the existing information management and service platforms; and (v) the need to recruit suitable personnel to take up key positions as our scale of business grows and provide on-job training for mid-level and senior management employees to allow us to continue to provide professional and quality property management services to our customers, taking into account the historical transaction amounts, it is expected that additional Products and Services will have to be procured from Zhuhai Huafa Group and therefore the transaction amounts of the continuing connected transactions under the Procurement Cooperation Framework Agreement for the year ending 31 December 2021 will exceed the Original Annual Cap. In addition, as the scale of our business expands, in particular our increasing number of municipal projects, there is a need for Huafa MCS to lease a venue for its office use and administrative functions. As such, the Board considers that the Original Annual Cap under the Procurement Cooperation Framework Agreement shall be revised to satisfy the business needs of Zhuhai Huafa Property Management Group for the year ending 31 December 2021.

THE SUPPLEMENTAL AGREEMENT

A summary of the principal terms of the Supplemental Agreement is as follows:

Date: 22 June 2021

Parties: (1) Zhuhai Huafa Property Management; and
(2) Zhuhai Huafa

Terms amended: Scope of Services:

The existing scope of Services of “leasing of venues for events” is revised to cover “leasing of venues for events or office use”

The existing scope of Services of “information installation services such as development of management platform, service platform and other system services” is revised to cover “information installation and maintenance services such as development, installation and maintenance of management platform, service platform and other system services”

Annual cap:

The annual cap of the transaction amounts for the Products and Services procured by the Zhuhai Huafa Property Management Group from Zhuhai Huafa Group pursuant to the Procurement Cooperation Framework Agreement be increased from RMB5.65 million for the year ending 31 December 2021 to RMB17.04 million for the year ending 31 December 2021.

Save for the above revisions, all other major terms of the Procurement Cooperation Framework Agreement (including the annual cap for the year ending 31 December 2022) remain unchanged. The Company will re-comply with the applicable requirements under Chapter 14A of the Listing Rules before the annual cap for the year ending 31 December 2022 is exceeded.

REVISED ANNUAL CAP UNDER THE SUPPLEMENTAL AGREEMENT

The Original Annual Cap and the Revised Annual Cap for the year ending 31 December 2021 are set out below:

	For the year ending 31 December 2021 (RMB'million)
Original Annual Cap	5.65
Revised Annual Cap	17.04

The historical transaction amounts under the Procurement Cooperation Framework Agreement for the year ended 31 December 2020 was approximately RMB6.24 million.

Payment, pricing policy and internal control measures

The payment arrangement of the procurement price is made with reference to market practice and the payment arrangement of similar transactions between the Parties and the independent third parties to ensure the payment arrangement is no less favourable to Zhuhai Huafa Property Management than those available from independent third parties.

The procurement price of the Products and Services shall be determined after arm's length negotiations between the Parties.

The procurement price for the procurement of the Products shall be determined with reference to the (i) procurement plan of Zhuhai Huafa Property Management and (ii) the contractual amount of individual procurement agreement signed between the Parties in the prevailing year taking into consideration inflation, the advancement and replacement of equipment (including vehicles) required for provision of services under the service contracts undertaken or to be undertaken, the type and amount of anti-epidemic supplies required for our business and employees, the number, level and position of employees eligible for participation in the self-learning incentive program and the type and amount of stored-value gift cards as rewards of such program, and the same or substantially similar products with comparable order quantities and quality offered by independent third parties.

The procurement price for the procurement of the Services shall be determined based on prevailing market prices and the contractual amount of individual procurement agreements signed between the Parties. For the information installation and maintenance service, the procurement price shall be determined with reference to the type of systems and system services required and the same or substantial similar services offered by independent third parties. For the human resources service, apart from making reference to the same or substantial similar services offered by independent third parties, the procurement price of training service shall be determined with reference to the type and period of training required and the number of attendees, while the procurement price of recruitment service shall be determined with reference to the number of mid-level or senior level employees recruited with the recruitment service and a percentage of the annual salary of such employees. For the leasing of venue for events or office use, the procurement price of the lease shall be determined with reference to the size, proximity, location and specification of similar property offered by independent third parties.

Save as disclosed above, the payment and pricing policy of the Procurement Cooperation Framework Agreement and the internal control measures as disclosed in the circular of the Company dated 27 December 2019 remain unchanged.

Details of the major terms of the Procurement Cooperation Framework Agreement are set out in the paragraph headed “(B) CONTINUING CONNECTED TRANSACTION SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT REQUIREMENTS BUT EXEMPT FROM THE INDEPENDENT SHAREHOLDERS’ APPROVAL REQUIREMENT – 1. Procurement Cooperation Framework Agreement” and the internal control measures are set out in the paragraph headed “(D) INTERNAL CONTROL MEASURES” in the circular of the Company dated 27 December 2019.

BASIS OF DETERMINING THE REVISED ANNUAL CAP

The Revised Annual Cap is determined primarily with reference to:

- (1) the historical transaction amounts of the Products and Services procured by Zhuhai Huafa Property Management Group from Zhuhai Huafa Group for the year ended 31 December 2020;
- (2) the procurement plan of Zhuhai Huafa Property Management Group to satisfy the latest business needs, including satisfying the requirements under a potential service contract which may be undertaken, requirements to undertake preventive and control of epidemic measures, implementation of self-learning incentive program for employees, development of remote working environment system and system maintenance, training and recruitment services required and a venue for Huafa MCS’s office use and administrative functions;

- (3) in terms of additional Products to be procured, (i) the estimated total purchase price of RMB5.04 million for procurement of seven specified municipal engineering vehicles, ranging from approximately RMB0.30 million to RMB1.70 million per vehicle, required for provision of services under a potential service contract for a municipal project in Zhuhai which may be awarded to Huafa MCS; (ii) the projected procurement volume of anti-epidemic supplies to satisfy the requirements to undertake anti-epidemic measures for approximately RMB1.48 million; and (iii) the projected procurement volume of stored-value gift cards with a total value of approximately RMB1.31 million for our managerial, technical and front-line employees of various levels who are eligible for participation in the self-learning incentive program in recognition of the employee's efforts and expenses spent in purchasing self-learning materials and books;
- (4) in terms of additional Services to be procured, (i) the need to install video conferencing systems, remote documents back up systems and other related systems to provide remote working environment for our business and employees brought by the impact on the new normal resulted from the COVID-19 pandemic, and the maintenance and development service required for the existing information management and service platforms to accommodate the business needs for a total sum of approximately RMB2.53 million; (ii) the estimated total procurement cost of RMB1.50 million for the procurement of human resources services including recruitment and training services required to recruit suitable personnel to take up key positions and provide on-job training for mid-level and senior management employees; and (iii) the total annual rental of an office premise of approximately 560 square metres in Zhuhai City for the use by Huafa MCS of approximately RMB0.24 million; and
- (5) the additional Products and Services to be procured in a total amount of approximately RMB12.10 million will be partially offset by the reduction of procurement of employee medical insurance as estimated under the Original Annual Cap.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL AGREEMENT

To offer flexibility for Zhuhai Huafa Property Management Group to procure Services that can cater for its latest business needs due to the expansion of our business, the services to be procured by the Zhuhai Huafa Property Management from Zhuhai Huafa Group will have to cover leasing of venues for office use and information maintenance services required for the existing information management and service platforms. Further, the Company anticipates that, as disclosed above, the demand for procurement of Products and Services by the Zhuhai Huafa Property Management Group from Zhuhai Huafa Group under the Procurement Cooperation Framework Agreement will increase. The transactions are necessary for the property management business operations and administration and in line with the interests of the Group and the Shareholders as a whole. Zhuhai Huafa Property Management has been purchasing products and services from Zhuhai Huafa for a long period of time. In view of the long term relationship between Zhuhai Huafa Property Management and Zhuhai Huafa and the increasing demand for Products and Services, it is desirable for the Company to secure reliable and stable supply of Products and Services from Zhuhai Huafa Group.

The Directors (including the independent non-executive Directors but excluding all executive Directors and one of our non-executive Directors, Ms. Zhou Youfen, who abstained from voting) are of the view that the Procurement Cooperation Framework Agreement (as supplemented by the Supplemental Agreement) and the Revised Annual Cap are on normal commercial terms, fair and reasonable, in the ordinary and usual course of business of the Group, and in the interests of the Company and its shareholders as a whole.

INFORMATION OF THE PARTIES

The Company

The Company is an investment holding company incorporated in Bermuda. The principal business activities of the Group are the provision of (i) property management services in the PRC; and (ii) hotel advisory and exhibition services in the PRC.

Zhuhai Huafa Property Management

Zhuhai Huafa Property Management has become an indirect wholly-owned subsidiary of the Company since January 2020. Zhuhai Huafa Property Management Group has been providing property management services in the PRC for more than 30 years. Zhuhai Huafa Property Management Group is principally engaged in three main business lines, namely, (i) property management services, which primarily consists of the provision of security, cleaning, greening, gardening and repair and maintenance services, (ii) value-added services to property owners, which mainly include home living services, office building customised services and common area value-added services; and (iii) other value-added services, which mainly involves support services for municipal projects, cleaning, greening, repair and maintenance services to property developers at the pre-delivery stage, and consultancy services to property developers for the management of their pre-sale activities.

Zhuhai Huafa

Zhuhai Huafa is a state-owned conglomerate based in Zhuhai and is wholly-owned by the State-owned Asset Supervision and Administration Commission of Zhuhai Municipal People's Government* (珠海市人民政府國有資產監督管理委員會). Zhuhai Huafa, through its subsidiaries, is principally engaged in four core business sectors of urban city operations, real estate development, financial industry, and business investment, as well as two comprehensive supplementary businesses commerce and trade services and modern services.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Zhuhai Huafa is an indirect controlling shareholder of the Company holding approximately 36.88% of the total issued share capital of the Company. Accordingly, Zhuhai Huafa is a connected person of the Company under the Listing Rules, and each of the transactions contemplated under the Procurement Cooperation Framework Agreement (as supplemented by the Supplemental Agreement) constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, the Company should re-comply with the applicable requirements under Chapter 14A of the Listing Rules before the Original Annual Cap is exceeded. As the highest of the applicable percentage ratios in respect of the Revised Annual Cap (except the profits ratio) for the transactions contemplated under the Procurement Cooperation Framework Agreement (as supplemented by the Supplemental Agreement) are more than 0.1% but less than 5%, the transactions contemplated under the Procurement Cooperation Framework Agreement (as supplemented by the Supplemental Agreement) and the Revised Annual Cap are subject to the reporting, announcement and annual review requirements, but exempt from independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL INFORMATION

Since all executive Directors and Ms. Zhou Youfen, a non-executive Director, are also directors or senior management members of Zhuhai Huafa and therefore are deemed to have material interests in the Supplemental Agreement, each of them has abstained from voting on the board resolutions approving the Supplemental Agreement and the transactions contemplated thereunder and the Revised Annual Cap.

DEFINITIONS

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

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“PRC”	the People’s Republic of China
“Company”	Huafa Property Services Group Company Limited (華發物業服務集團有限公司), a company incorporated in Bermuda with limited liability, the shares of which are listed and traded on the Main Board of the Stock Exchange (Stock code: 982)
“connected person”	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 director(s) of the Company
“Group”	the Company and its subsidiaries from time to time

“Huafa MCS”	Zhuhai Huafa Municipal Comprehensive Services Co., Ltd* (珠海華發市政綜合服務有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company and a direct wholly-owned subsidiary of Zhuhai Huafa Property Management, primarily engaging in provision of professional municipal comprehensive services
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Original Annual Cap”	RMB5.65 million, being the existing annual cap amount for the year ending 31 December 2021 pursuant to the Procurement Cooperation Framework Agreement
“Parties”	the parties to the Supplemental Agreement and Procurement Cooperation Framework Agreement, being Zhuhai Huafa Property Management and Zhuhai Huafa
“Procurement Cooperation Framework Agreement”	the framework agreement dated 20 December 2019 entered into between Zhuhai Huafa Property Management and Zhuhai Huafa in respect of Products and Services
“Products and Services”	various types of products and services procured by Zhuhai Huafa Property Management Group from Zhuhai Huafa Group pursuant to the Procurement Cooperation Framework Agreement
“Revised Annual Cap”	RMB17.04 million, being the new annual cap amount for the year ending 31 December 2021 as revised pursuant to the Supplemental Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement entered into between Zhuhai Huafa Property Management and Zhuhai Huafa on 22 June 2021 (after trading hours) to supplement the Procurement Cooperation Framework Agreement
“Zhuhai Huafa”	Zhuhai Huafa Group Co., Ltd. * (珠海華發集團有限公司), a state-owned enterprise wholly-owned by the State-owned Asset Supervision and Administration Commission of Zhuhai Municipal People’s Government and a controlling shareholder of the Company

“Zhuhai Huafa Group”	Zhuhai Huafa and its subsidiaries and associates excluding the Group
“Zhuhai Huafa Property Management”	Zhuhai Huafa Property Management Services Co., Ltd.* (珠海華發物業管理服務有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Zhuhai Huafa Property Management Group”	Zhuhai Huafa Property Management and its subsidiaries from time to time

By order of the Board
Huafa Property Services Group Company Limited
Li Guangning
Executive Director and Chairman

Hong Kong, 22 June 2021

As at the date of this announcement, the board of directors of the Company comprises Mr. Li Guangning (Executive Director and Chairman), Mr. Xie Wei (Executive Director and Chief Executive Officer), Ms. Guo Jin and Mr. Tze Kan Fat (all being Executive Directors); Ms. Zhou Youfen and Mr. Shong Hugo (all being Non-executive Directors); Dr. Chen Jieping, Mr. Pu Yonghao and Mr. Guo Shihai (all being Independent Non-executive Directors).

* *For identification purpose only*