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中海物業

CHINA OVERSEAS PROPERTY

CHINA OVERSEAS PROPERTY HOLDINGS LIMITED

中海物業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2669)

**CONNECTED TRANSACTION
PROPOSED ACQUISITION OF SERVICE COMPANIES**

THE AGREEMENT

The Board is pleased to announce that on 11 October 2023 (after trading hours), the Company (as purchaser), the Vendor (a non-wholly owned subsidiary of CSC and a wholly-owned subsidiary of CSCDHL) (as vendor) and CSCDHL (as vendor's guarantor) entered into the Agreement, pursuant to which the Vendor conditionally agreed to sell and the Company conditionally agreed to purchase the Sale Share (which is the only issued share in the Target Company) at a consideration not exceeding HK\$950.0 million (subject to adjustment with reference to the Target Group Audited NAV and the Profit Guarantee Compensation).

LISTING RULES IMPLICATIONS

As at the date of this announcement, CSCEC is the ultimate holding company of each of the Company, CSC and CSCDHL. COHL, a subsidiary of CSCEC, is the controlling shareholder of each of the Company, CSC and CSCDHL by virtue of it being interested in approximately 61.18% of the issued share capital of the Company and approximately 64.81% of the issued share capital of CSC, which in turn is interested in approximately 70.78% of the issued share capital of CSCDHL. The Vendor, being a non-wholly owned subsidiary of CSC and a wholly-owned subsidiary of CSCDHL, is therefore a connected person of the Company. Accordingly, the entering into of the Agreement and the Proposed Acquisition constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Proposed Acquisition is more than 0.1% but all are less than 5%, the Proposed Acquisition is subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Proposed Acquisition is subject to the satisfaction (or, if applicable, waiver) of various conditions precedent, and therefore the Proposed Acquisition may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

THE AGREEMENT

The Board is pleased to announce that on 11 October 2023 (after trading hours), the Company, the Vendor (a non-wholly owned subsidiary of CSC and a wholly-owned subsidiary of CSCDHL) and CSCDHL entered into the Agreement for the sale and purchase of the Sale Share. The principal terms of the Agreement are summarised as follows:

Date

11 October 2023

Parties

- (1) the Vendor (as vendor);
- (2) the Company (as purchaser); and
- (3) CSCDHL (as vendor's guarantor).

Subject matter

Pursuant to the Agreement, the Vendor conditionally agreed to sell and the Company conditionally agreed to purchase the Sale Share, which is the only issued share in the Target Company, together with all the shareholder's rights and benefits attached to the Sale Share on Completion.

The Target Company is the sole shareholder of China Overseas Communications, which in turn is the sole shareholder of China Overseas Supervision. The principal activity of the Target Company is the holding of its interests in China Overseas Communications, which is principally engaged in the provision of communication engineering consultancy services in the PRC. China Overseas Supervision is a high-tech enterprise recognised by the PRC government authorities and is principally engaged in the provision of consultancy services for construction supervision and construction in the PRC.

Consideration and payment terms

The Consideration for the Sale Share shall be no more than HK\$950.0 million (the “**Initial Consideration**”) (subject to adjustment with reference to the Target Group Audited NAV and the Profit Guarantee Compensation). The Initial Consideration shall be settled as follows:

- (1) On the Completion Date, the Company (or its nominee) shall pay the Vendor a part payment of the Initial Consideration in the amount of HK\$855.0 million, representing 90% of the Initial Consideration (the “**Part Payment**”); and
- (2) Within 5 business days after the date on which the Vendor has received from the Company the unaudited consolidated financial statements of the Target Group for the year ending 31 December 2023, the Company shall pay the Vendor the remaining balance of the Initial Consideration after deducting the Part Payment, the NAV Adjustment (if any) and the Profit Guarantee Compensation (if any), provided that if the balance of the Initial Consideration after deducting the Part Payment is insufficient to cover the NAV Adjustment (if any) and the Profit Guarantee Compensation (if any), any such shortfall shall be paid by the Vendor to the Company within the aforesaid payment period.

The Company or the Vendor (as the case may be) shall make the above payments in cash by remittance or bank transfer to a bank account as designated by the other party (or its nominee) or other payment method as mutually agreed between the Company and the Vendor.

If the Target Group Audited NAV calculated based on the Consolidated Audited Accounts is less than the amount of the Target Group NAV calculated based on the Consolidated Management Accounts, any such difference shall be applied as an adjustment to the Initial Consideration (the “**NAV Adjustment**”). No adjustment will be required if the Target Group Audited NAV calculated based on the Consolidated Audited Accounts is greater than the amount of the Target Group NAV calculated based on the Consolidated Management Accounts.

The Company will pay the Consideration from the internal resources and/or available banking facilities of the Group.

Basis for determination of the Consideration

The Consideration was determined after arm's length negotiations between the Vendor and the Company, having taken into account, among other things:

- (1) the synergy expected to be brought by the Proposed Acquisition, since the supervision and technical consultancy businesses of the Target Group can complement and integrate with the Group's development of whole-process property consultation and management services, thus strengthening the Group's principal business;
- (2) the Target Group's proven track record to provide supervision services as evident by China Overseas Supervision's ability to obtain the Comprehensive Qualification in Engineering Supervision (工程監理綜合資質) issued by the Ministry of Housing and Urban-Rural Development (住房和城鄉建設部) of the PRC, being one of the highest standards for the provision of supervision services in Mainland China;
- (3) the existing traditional supervision, project management and whole-process consultancy contract portfolio with around 128 projects under the Target Group's management, which is expected to generate a steady stream of income;
- (4) the experienced human resources team of the Target Group;
- (5) the promising future business prospects of the supervision market in Mainland China; and
- (6) the fair value of the Sale Share as at 30 September 2023 in the amount of approximately HK\$983.0 million as stated in the valuation report prepared by an independent professional valuer adopting the market approach. According to the valuation report, the market approach is a valuation approach which considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. The market approach was selected due to the nature of the business operations of the Target Group and the availability of market information. The valuation was supported by customary valuation assumptions.

In addition, the Directors consider that the Consideration is justifiable based on the quantitative analysis set out below:

- (1) From the earnings perspective and based on the Consolidated Management Accounts, the Company assessed that the annualized average profit attributable to the owners of the Target Group during the track record period from 1 January 2021 to 31 August 2023 would amount to approximately HK\$54.17 million, representing a historical price to earnings ratio ("**P/E Ratio**") of approximately 17.54 times as compared to the Initial Consideration of HK\$950.0 million.

- (2) Based on the profit attributable to the owners of the Company for the year ended 31 December 2022 of HK\$1,273.1 million, the P/E Ratio of the Company would be approximately 22.67 times based on the average market capitalisation of approximately HK\$28,859 million (average market capitalisation for the last five trading days prior to the signing date of the Agreement). The P/E Ratio of the Target Group calculated above is lower than that of the Company.
- (3) Based on a feasibility report for the Proposed Acquisition prepared by the Company and considered by the Board, the Company has also reviewed the historical P/E Ratios (as at 21 September 2023) of 4 Target Group's peer companies which are primarily engaged in supervision business in Mainland China and listed on the Beijing, Shanghai and Shenzhen Stock Exchange. The historical P/E Ratios of those 4 companies ranged from approximately 15.92 times to approximately 82.41 times and their average P/E Ratio is approximately 34.93 times with a median of approximately 20.70 times. Hence, the P/E Ratio of the Target Group calculated above is lower than such mean and median P/E Ratios of its peer companies.

In light of the above, the Directors consider that the Consideration is fair and reasonable and in the interests of the Company and its shareholders as a whole.

Conditions Precedent

Completion is subject to the satisfaction (or, if applicable, waiver) of the following Conditions:

- (1) the Company having completed its due diligence investigations pursuant to the terms of the Agreement and confirmed in writing that it is satisfied with the results thereof;
- (2) the CSCDHL Independent Shareholders having approved the Agreement and the transactions contemplated thereunder by way of ordinary resolution(s) at the CSCDHL EGM in compliance with the applicable requirements under the Listing Rules;
- (3) the Vendor and each member of the Target Group having obtained the necessary permissions, consents and approvals for the Agreement and the transactions contemplated thereunder (other than the approval of the CSCDHL Independent Shareholders mentioned in item (2) above);
- (4) the Company having obtained the necessary permissions, consents and approvals for the Agreement and the transactions contemplated thereunder;
- (5) the representations, warranties and undertakings made by the Vendor and CSCDHL under the Agreement remaining true and not misleading as at Completion; and

- (6) there having been no material adverse change to each member of the Target Group from the date of the Agreement to the Completion Date.

If the Conditions are not fulfilled (or, if applicable, waived) on or before 31 December 2023 (or such later date as mutually agreed in writing between the Company and the Vendor), the Agreement will lapse and cease to be of any further effect.

Completion

Subject to the satisfaction (or, if applicable, waiver) of the Conditions, Completion shall take place at the Hong Kong office of the Vendor, and/or such other location as mutually agreed between the Company and the Vendor no later than 4:00 pm simultaneously on the Completion Date.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company.

Profit Guarantee by the Vendor and CSCDHL

Pursuant to the Agreement, the Vendor guarantees to the Company, among others, the unaudited consolidated net profit after tax of the Target Group for the year ending 31 December 2023 will be no less than HK\$50,000,000 (the “**Guaranteed Profit**”). If the actual unaudited consolidated net profit after tax of the Target Group for the year ending 31 December 2023 is less than the amount of the Guaranteed Profit, any such shortfall shall be regarded as a compensation to be made by the Vendor and/or CSCDHL to the Company and be applied as an adjustment to the Initial Consideration (the “**Profit Guarantee Compensation**”).

Warranties

The Vendor has provided warranties that are customary for transactions of this scale and nature.

Guarantee by CSCDHL

The performance and observance of the terms and conditions under the Agreement by the Vendor are guaranteed by CSCDHL in favour of the Company.

Potential continuing connected transactions upon Completion

There are existing services agreements entered into between the members of the Target Group and members of COLI Group, COGO Group and CSC Group, which are expected to continue following Completion. The transactions contemplated under such existing services agreements will constitute continuing connected transactions of the Group upon Completion and will be covered by the COLI Services Agreement, the COGO Services Agreement and the CSC Services Agreement (details of which were disclosed in the announcement and the circular of the Company dated 28 April 2023 and 30 May 2023 respectively) and the corresponding annual caps until 30 June 2026. The Company will comply with applicable Listing Rules requirements for such transactions as and when appropriate.

FINANCIAL INFORMATION ON THE TARGET GROUP

The Target Company is a special purpose vehicle established by the Vendor on 14 July 2023 to hold its equity interests in China Overseas Communications and China Overseas Supervision. China Overseas Supervision was acquired by the CSCDHL Group at a consideration of RMB70.0 million.

Since the Target Company was established in 2023, whereas China Overseas Communications and China Overseas Supervision were established before 2021, the pro forma unaudited consolidated net profit before and after taxation of the Target Group for each of the two financial years ended 31 December 2021 and 31 December 2022 are set out below:

	For the year ended 31 December	
	2021	2022
	HK\$'000	HK\$'000
	<i>(Approximate amount)</i>	
Net profit before taxation	80,279	46,265
Net profit after taxation	60,146	63,764

As at 31 August 2023, the unaudited consolidated net asset value of the Target Group is approximately HK\$339,875,000.

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE AGREEMENT

The Proposed Acquisition will provide a good opportunity for the Group to expand its business presence and operating scales in Mainland China, and to enable the Group to strengthen its position and competitiveness as one of the leading property management companies in the Mainland China, having considered the following factors:

- (1) In order to implement and focus on the strategic positioning of the Group as an urban space comprehensive operator, it is the Group's major objective to engage in and expand its urban operation service field, including the supervision business. As China Overseas Supervision holds the Comprehensive Qualification in Engineering Supervision (工程監理綜合資質) issued by the Ministry of Housing and Urban-Rural Development (住房和城鄉建設部) of the PRC, the Proposed Acquisition is in line with the strategic positioning of the Group.
- (2) China Overseas Supervision operates a light asset operation business, which is consistent with the Group's development strategy of adhering to light asset operations.

- (3) The Proposed Acquisition will strengthen the Group's principal business, since the supervision and technical consultancy businesses of the Target Group can complement and integrate with the Group's development of whole-process property consultation and management services.
- (4) The existing traditional supervision, project management and whole-process consultancy contract portfolio with around 128 projects under the Target Group's management is expected to generate a steady stream of income.
- (5) The Proposed Acquisition is expected to enhance the profit margin of the Group, as the Target Group has a higher profit margin than the Group.

The Directors (including the independent non-executive Directors) are of the view that the entering into of the Agreement and the Proposed Acquisition is on normal commercial terms and in the ordinary and usual course of business of the Group, the terms of the Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, CSCEC is the ultimate holding company of each of the Company, CSC and CSCDHL. COHL, a subsidiary of CSCEC, is the controlling shareholder of each of the Company, CSC and CSCDHL by virtue of it being interested in approximately 61.18% of the issued share capital of the Company and approximately 64.81% of the issued share capital of CSC, which in turn is interested in approximately 70.78% of the issued share capital of CSCDHL. The Vendor, being a non-wholly owned subsidiary of CSC and a wholly-owned subsidiary of CSCDHL, is therefore a connected person of the Company. Accordingly, the entering into of the Agreement and the Proposed Acquisition constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Proposed Acquisition is more than 0.1% but all are less than 5%, the Proposed Acquisition is subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors has any material interest in the Agreement and the Proposed Acquisition. Save for Mr. Zhang Guiqing, being the chairman and executive Director of the Company and a director of COHL, and Mr. Ma Fujun, being a non-executive Director of the Company and a director of COHL, have voluntarily abstained from voting, none of the Directors have abstained from voting on the resolutions passed by the Board approving the Agreement and the Proposed Acquisition.

INFORMATION ON THE PARTIES

The Group is one of the leading property management companies in the PRC with operations also covering Hong Kong and Macau and is principally engaged in the provision of property management services, value-added services and car parking spaces trading business.

The Vendor is a company incorporated in the BVI with limited liability and is a wholly-owned subsidiary of CSCDHL. The principal business of the Vendor is investment holding.

The CSCDHL Group is principally engaged in general contracting business, facade contracting business (including design, engineering, manufacture and installation of curtain wall system) and operating management business.

CSC is interested in approximately 70.78% of the issued share capital of CSCDHL. CSC and its subsidiaries (excluding members of the CSCDHL Group) are principally engaged in construction business, infrastructure investments and prefabricated constructions.

CSCEC (a state-owned corporation in the PRC) is the ultimate controlling shareholder of the Company, CSC and CSCDHL. CSCEC, together with its subsidiaries (excluding those listed on any stock exchange), is a conglomerate principally engaged in building construction, international contracting, real estate development and investment, infrastructure construction and investment and design and prospecting.

The Proposed Acquisition is subject to the satisfaction (or, if applicable, waiver) of various conditions precedent, and therefore the Proposed Acquisition 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 shall have the meanings set out below unless the context requires otherwise:

“Agreement”	the sale and purchase agreement in relation to the Proposed Acquisition dated 11 October 2023 entered into amongst the Company, the Vendor and CSCDHL
“Board”	the board of Directors
“BVI”	the British Virgin Islands

“China Overseas Communications”	深圳中海通信工程監理有限公司 (Shenzhen China Overseas Communications Engineering Supervision Limited*), a company incorporated in the PRC with limited liability, and a wholly-owned subsidiary of the Target Company
“China Overseas Supervision”	中海監理有限公司 (China Overseas Supervision Limited*), a company incorporated in the PRC with limited liability, and a wholly-owned subsidiary of China Overseas Communications
“COGO”	China Overseas Grand Oceans Group Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 81)
“COGO Group”	COGO and its subsidiaries from time to time
“COGO Services Agreement”	the framework agreement dated 28 April 2023 entered into between the Company and COGO in respect of the provision of the property management services and value-added services as disclosed in the announcement and the circular of the Company dated 28 April 2023 and 30 May 2023 respectively
“COHL”	China Overseas Holdings Limited, a company incorporated in Hong Kong with limited liability, the controlling shareholder of each of the Company, CSC and CSCDHL
“COLI”	China Overseas Land & Investment Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 688)
“COLI Group”	COLI and its subsidiaries (excluding subsidiary(ies) listed on any stock exchange) from time to time
“COLI Services Agreement”	the framework agreement dated 28 April 2023 entered into between the Company and COLI in respect of the provision of the property management services and value-added services as disclosed in the announcement and the circular of the Company dated 28 April 2023 and 30 May 2023 respectively

“Company”	China Overseas Property Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 2669)
“Completion”	completion of the Proposed Acquisition pursuant to the terms and conditions of the Agreement
“Completion Date”	the last business day of the calendar month or the third business day (whichever is later) after all the Conditions (except Conditions (5) and (6), which shall remain true at Completion) have been satisfied (or, if applicable, waived) (or such other date as mutually agreed in writing between the Company and the Vendor)
“Conditions”	the conditions precedent to the Completion of the Proposed Acquisition as contained under the Agreement
“connected person(s)”, “controlling shareholder(s)”, “percentage ratio(s)” and “subsidiary(ies)”	each has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration for the Sale Share payable by the Company to the Vendor pursuant to the Agreement (subject to adjustment with reference to the Target Group Audited NAV and the Profit Guarantee Compensation)
“Consolidated Audited Accounts”	the consolidated pro forma audited accounts of the Target Group for the eight months ended 31 August 2023 to be provided by the Vendor to the Company before Completion
“Consolidated Management Accounts”	the consolidated pro forma management accounts of the Target Group for the eight months ended 31 August 2023 provided by the Vendor to the Company
“CSC”	China State Construction International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 3311), and a controlling shareholder of CSCDHL

“CSC Group”	CSC and its subsidiaries from time to time (excluding CSCDHL Group)
“CSC Services Agreement”	the framework agreement dated 28 April 2023 entered into between the Company and CSC in respect of the provision of the property management services and value-added services as disclosed in the announcement and the circular of the Company dated 28 April 2023 and 30 May 2023 respectively
“CSCDHL”	China State Construction Development Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 830)
“CSCDHL EGM”	the extraordinary general meeting of the shareholders of CSCDHL to be convened for the passing of an ordinary resolution by the CSCDHL Independent Shareholders to approve the Agreement and the transactions contemplated thereunder
“CSCDHL Group”	CSCDHL and its subsidiaries from time to time
“CSCDHL Independent Shareholders”	the shareholders of CSCDHL who are not required to abstain from voting on the ordinary resolution(s) to be proposed at the CSCDHL EGM for approving the Agreement and the transactions contemplated thereunder
“CSCEC”	中國建築集團有限公司 (China State Construction Engineering Corporation*), a state-owned corporation organised and existing under the laws of the PRC, and the ultimate holding company of each of the Company, CSC and CSCDHL
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries from time to time
“Guaranteed Profit”	has the meaning defined in the section headed “Profit Guarantee by the Vendor and CSCDHL” in this announcement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Initial Consideration”	has the meaning defined in the section headed “Consideration and payment terms” in this announcement
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macao Special Administrative Region of the PRC
“NAV”	net asset value
“NAV Adjustment”	has the meaning defined in the section headed “Consideration and payment terms” in this announcement
“Part Payment”	has the meaning defined in the section headed “Consideration and payment terms” in this announcement
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, Macau and Taiwan
“Profit Guarantee Compensation”	has the meaning defined in the section headed “Profit Guarantee by the Vendor and CSCDHL” in this announcement
“Proposed Acquisition”	the proposed acquisition of the Sale Share by the Company from the Vendor as contemplated under the Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Share”	the only issued share in the Target Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Project Supervision Limited, a company incorporated in the BVI with limited liability, and a direct wholly-owned subsidiary of the Vendor as at the date of this announcement
“Target Group”	collectively the Target Company, China Overseas Communications and China Overseas Supervision

“Target Group Audited NAV”	(i) the audited consolidated total assets of the Target Group less (ii) the audited consolidated total liabilities as at the date of the Consolidated Audited Accounts
“Target Group NAV”	(i) the unaudited consolidated total assets of the Target Group less (ii) the unaudited consolidated total liabilities as at the date of the Consolidated Management Accounts
“Vendor”	Netfortune Enterprise Limited, a company incorporated in the BVI with limited liability, and a wholly-owned subsidiary of CSCDHL
“%”	per cent.

* *For identification purpose only.*

By order of the Board
China Overseas Property Holdings Limited
Zhang Guiqing
Chairman and Executive Director

Hong Kong, 11 October 2023

As at the date of this announcement, the Board comprises nine Directors, of which four are Executive Directors, namely Mr. Zhang Guiqing (Chairman), Mr. Xiao Junqiang (Chief Executive Officer), Mr. Pang Jinying (Vice President) and Mr. Kam Yuk Fai (Chief Financial Officer); two are Non-executive Directors, namely Mr. Ma Fujun and Mr. Guo Lei; and three are Independent Non-executive Directors, namely, Mr. Yung, Wing Ki Samuel, Mr. So, Gregory Kam Leung and Mr. Lim, Wan Fung Bernard Vincent.