

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.



China South City Holdings Limited
華南城控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 1668)

(1) CONNECTED AND DISCLOSEABLE TRANSACTION IN RELATION TO THE PROPOSED DISPOSAL OF 50% EQUITY INTEREST IN THE TARGET COMPANY;

(2) CONNECTED AND MAJOR TRANSACTION IN RELATION TO THE PUT OPTION;

(3) CONNECTED AND MAJOR TRANSACTION IN RELATION TO THE CALL OPTION;

AND

(4) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE PROPOSED PROPERTY MANAGEMENT TRANSACTIONS

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

ANGLO CHINESE 英高
CORPORATE FINANCE, LIMITED

THE DISPOSAL

The Board is pleased to announce that, on 15 July 2022 (after trading hours), the Vendor, the Purchaser and the Company entered into the Equity Transfer Agreement, pursuant to which the Vendor agreed to sell and the Purchaser agreed to purchase, 50% equity interest in the Target Company at the Consideration of RMB1,256,600,000 (equivalent to approximately HK\$1,457,656,000).

Upon Completion, the Vendor will hold 50% equity interest in the Target Company. The Target Company will cease to be a subsidiary of the Company and its financial results will not be consolidated into the Group's financial statements.

PUT OPTION

Pursuant to the Equity Transfer Agreement, the Company and the Vendor granted to the Purchaser the Put Option, pursuant to which the Purchaser is entitled to sell all or part of the shares held by it in the Target Company to the Company and/or the Vendor at its discretion upon the occurrence of the Put Option Triggering Events, at the Exercise Price.

CALL OPTION

Pursuant to the Equity Transfer Agreement, the Purchaser granted to the Company and the Vendor the Call Option, pursuant to which the Company and the Vendor are entitled to purchase all or part of the shares held by the Purchaser in the Target Company at their discretion upon the occurrence of the Call Option Triggering Event, at the Exercise Price.

THE PROPERTY MANAGEMENT TRANSACTIONS

Pursuant to the Equity Transfer Agreement, upon Completion, the Company shall (i) engage the Target Group to manage all present and future property projects owned by the Group and (ii) use its best endeavours to procure the engagement of the Target Group in respect of the property management of present and future property projects developed by the Group. As at the date of this announcement, the total contracted area under management and chargeable area under management of the property projects (i) owned or developed by the Group and (ii) managed by the Target Group are 20.81 million sq. m. and 15.32 million sq. m., respectively. Accordingly, the Company and the Target Company have entered into the Property Management Transactions Framework Agreement on 15 July 2022 (after trading hours) for the provision of property management services by the Target Group to the Group for the period from the date of Completion to 31 March 2025.

LISTING RULES IMPLICATIONS

The Disposal

As one or more of the applicable percentage ratios in respect of the Disposal exceed 5% but all of them are less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, the Purchaser holds approximately 29.28% of the Shares in issue. Accordingly, the Purchaser is a substantial shareholder of the Company and hence a connected person of the Company, and the Disposal constitutes 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 Disposal exceed 5%, the Disposal is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Separately, as the Business Equity Value constitutes a profit forecast under Rule 14.61 of the Listing Rules, the Company will make a further announcement in accordance with the requirements under Rule 14.60A of the Listing Rules, which sets out, among other things, the principal assumptions, including commercial assumptions, upon which the Business Equity Value is based; a letter from the Board setting out the confirmation that the Business Equity Value is made after due and careful enquiry; and a letter from the Company's reporting accountant confirming the calculations for the Business Equity Value and that the calculations do not involve the adoption of accounting policies as required by the Listing Rules.

Put Option

As one or more of the applicable percentage ratios in respect of the Put Option exceed 25% but all of them are less than 100%, the Put Option constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As mentioned above, the Purchaser is a substantial shareholder of the Company and hence a connected person of the Company, and the Put Option constitutes 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 Put Option exceeds 5%, the Put Option is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Call Option

As one or more of the applicable percentage ratios in respect of the Call Option exceed 25% but all of them are less than 100%, the Call Option constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As mentioned above, the Purchaser is a substantial shareholder of the Company and hence a connected person of the Company, and the Call Option constitutes 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 Call Option exceeds 5%, the Call Option is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Disposal, the Put Option and the Call Option are part and parcel to the same transactions, and any one such component cannot proceed unless all of these components are approved, the Company will seek Independent Shareholders' approval for each of the Disposal, the Put Option and the Call Option under the same single resolution at the EGM.

The Property Management Transactions

Upon Completion, the Target Company will become a subsidiary of the Purchaser, which is a substantial shareholder of the Company. Accordingly, the Property Management Transactions will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the annual caps for the Property Management Transactions exceed 5%, the Property Management Transactions are subject to the reporting, annual review, announcement and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

EGM

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, approve the Equity Transfer Agreement (including the Put Option and the Call Option), the Property Management Transactions Framework Agreement and the transactions contemplated thereunder (including the annual caps for the Property Management Transactions). As at the date of this announcement, the Purchaser holds approximately 29.28% of the Shares in issue, and hence will abstain from voting on the resolution(s) in respect of the Disposal (including the Put Option and the Call Option) and the Property Management Transactions. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, no other Shareholder will be required to abstain from voting on the resolution(s) in respect of the Disposal (including the Put Option and the Call Option) and the Property Management Transactions at the EGM.

GENERAL

An Independent Board Committee, comprising the independent non-executive Directors, has been established to advise the Independent Shareholders on the Disposal (including the Put Option and the Call Option) and the Property Management Transactions (including the annual caps therefor). Anglo Chinese Corporate Finance, Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further details of the Equity Transfer Agreement (including the Put Option and the Call Option), the Property Management Transactions Framework Agreement and the transactions contemplated thereunder, (ii) a letter from the Independent Board Committee, (iii) a letter from the reporting accountant of the Company, (iv) a letter from the Independent Financial Adviser, together with the notice of the EGM and a form of proxy, is expected to be despatched to the Shareholders on or before 31 August 2022 as additional time will be required to finalise certain information to be included in the circular.

Completion of the Disposal is subject to fulfilment (or, where applicable, waiver) of the conditions as set out in the Equity Transfer Agreement and the approval of Independent Shareholders at the EGM, and the Disposal may or may not proceed. The Property Management Transactions are subject to the Completion of the Disposal and the approval of Independent Shareholders at the EGM, and the Property Management Transactions may or may not proceed. Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the Shares. If in doubt, Shareholders and potential investors are recommended to consult their professional adviser(s).

(I) EQUITY TRANSFER AGREEMENT

The Board is pleased to announce that on 15 July 2022 (after trading hours), the Vendor, the Purchaser and the Company entered into the Equity Transfer Agreement in relation to the Disposal.

The key terms of the Equity Transfer Agreement, among others, are set out below:

Date: 15 July 2022 (after trading hours)

Parties: (i) the Vendor;
(ii) the Purchaser; and
(iii) the Company.

Subject Matter

The Vendor agreed to sell and the Purchaser agreed to purchase the Sale Interest.

Upon Completion, the Vendor will hold 50% equity interest in the Target Company. The Target Company will be consolidated in the accounts of the Purchaser and the Target Company will cease to be a subsidiary of the Company.

Consideration

The Consideration for the Disposal is RMB1,256,600,000 (equivalent to approximately HK\$1,457,656,000) and will be payable by the Purchaser to the Vendor in cash in the following manner:

- (1) RMB753,960,000 (equivalent to approximately HK\$874,593,600), being 60% of the Consideration (the “**First Instalment**”), to be paid within 10 Business Days after the receipt of notification of satisfaction of conditions precedent for the First Instalment from the Vendor to the Purchaser;
- (2) RMB376,980,000 (equivalent to approximately HK\$437,296,800), being 30% of the Consideration (the “**Second Instalment**”), to be paid within 10 Business Days after the receipt of notification of satisfaction of conditions precedent for the Second Instalment from the Vendor to the Purchaser; and
- (3) RMB125,660,000 (equivalent to approximately HK\$145,765,600), being 10% of the Consideration (the “**Third Instalment**”), to be paid within 10 Business Days after the receipt of notification of satisfaction of conditions precedent for the Third Instalment from the Vendor to the Purchaser.

If there is any material loss of the Target Company being a loss of more than RMB1,000,000 (equivalent to approximately HK\$1,160,000) for each individual item which is not in the ordinary course of business during the period from the date of 30 September 2021 to Completion, the Company and the Vendor will be responsible for such loss.

Basis of Consideration

The Consideration was determined based on arm’s length negotiations between the Vendor and the Purchaser and with reference to (i) the appraised value of 100% equity interest of the Target Company as at 30 September 2021, which amounts to approximately RMB2,766,316,500 (equivalent to approximately HK\$3,208,927,140) (the “**Business Equity Value**”), based on the valuation (“**Valuation**”) conducted by an independent valuer; and (ii) the retained profits of the Target Group of approximately RMB253,113,981 (equivalent to approximately HK\$293,612,218) as at 30 September 2021 prepared to be distributed to the Vendor.

To arrive at the Business Equity Value, the independent valuer adopted the asset-based approach and income approach. Therefore, the Business Equity Value constitutes a profit forecast under Rule 14.61 of the Listing Rules.

Conditions Precedent

The following conditions shall be satisfied (or waived by the Purchaser) on or before the payment of each of the First Instalment, the Second Instalment and the Third Instalment:

- (1) the execution and the coming into effect of the Equity Transfer Agreement;

- (2) the representations and warranties made by the Vendor and the Company set forth in the Equity Transfer Agreement remaining true and accurate, and the Vendor and the Company not having materially breached any of their undertakings or obligations under the Equity Transfer Agreement;
- (3) the absence of any applicable laws, regulations, departmental rules, listing rules or prohibition orders prohibiting the Disposal, any non-compliances with any applicable laws, regulations, departmental rules, listing rules or prohibition orders regarding the Disposal, or any laws or orders rendering the Disposal illegal, restricted or otherwise prohibited which have been formulated, published, promulgated, implemented or passed by any government department; and
- (4) the absence of any appeal that has occurred or is reasonably expected to occur against the business of the Target Company, its subsidiary and branches which may restrict or prohibit the Disposal or, based on the reasonable judgement of the Purchaser in good faith, render the Disposal unachievable or illegal.

The following conditions shall be satisfied (or waived by the Purchaser) on or before the payment of the First Instalment:

- (1) the involvement of the personnel appointed by the Purchaser, within five Business Days after the date of the Equity Transfer Agreement, for the purpose of joint supervision with the Target Company over material cash payments of the Target Company and the use of the Target Company's seal, which in each case shall be confirmed in writing by such personnel.

The following conditions shall be satisfied (or waived by the Purchaser) on or before the payment of the Second Instalment:

- (1) the approval by the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder having been obtained;
- (2) the approvals by the Anti-Monopoly Bureau of the State Administration for Market Regulation regarding review of concentration of business operators (where applicable) and other regulatory departments in respect of the Disposal (including the approval required under the Listing Rules) having been obtained;
- (3) all relevant market supervision, commercial, taxation and foreign exchange control registration in respect of the Disposal having been completed;
- (4) all receivables of the Target Group due from the Group as at the date of the Valuation having been collected; and
- (5) the Vendor and the Company not having breached any terms of the Equity Transfer Agreement during the period from 30 September 2021 to Completion.

If the conditions for the payment of the Second Instalment are not satisfied within six months after the date of the Equity Transfer Agreement, unless otherwise agreed by the parties, the Vendor shall, within five Business Days from the earlier of (i) the date on which the relevant regulatory department has determined not to approve the Disposal; or (ii) the date falling six months after the date of the Equity Transfer Agreement, return the First Instalment with interest to the Purchaser. The interest shall be calculated based on the following formula:

$$A \times 8\% \times B/360$$

A = amount of the First Instalment

B = number of days from date of payment of the First Instalment to the date of return of the First Instalment

The following conditions shall be satisfied (or waived by the Purchaser) on or before the payment of the Third Instalment:

- (1) six months having passed after Completion and the audit report of the Target Group for the year ending 31 December 2022 having been issued;
- (2) all charges, pledges, guarantees and other rights (including but not limited to a guarantee in form of certificate of deposit for a bill of acceptance of China South International Industrial Material City (Shenzhen) Company Limited, a subsidiary of the Company, in the amount of RMB120 million (equivalent to approximately HK\$139.2 million)) provided by the Target Group to the Group having been discharged; and
- (3) the Vendor and the Company not having breached any terms of the Equity Transfer Agreement during the period from the date of Completion to (i) the date falling six months after Completion; or (ii) the date of issue of the audit report of the Target Group for the year ending 31 December 2022, whichever is later.

Completion

Completion shall mean completion of the registration of the transfer of the Sale Interest from the Vendor to the Purchaser, which is expected to be shortly before the date of payment of the Second Instalment.

Performance Guarantee

The Vendor and the Company have undertaken that the audited net profit (before or after excluding non-recurring items, whichever is lower, and after deducting any profits or losses from the provision of property management services by the Target Group to the property projects introduced by the Purchaser and its subsidiaries) of the Target Group for each year during the Performance Guarantee Period will not be less than the following respective minimum performance requirement for that year (the “**Performance Guarantee**”):

Year of performance	Guaranteed net profit
2022	RMB228 million (equivalent to approximately HK\$264.5 million)
2023	RMB240 million (equivalent to approximately HK\$278.4 million)
2024	RMB257 million (equivalent to approximately HK\$298.1 million)

Compensation for Performance Guarantee

The audit report of the Target Group shall be issued by an auditor approved by the Vendor and the Purchaser within 90 days after the end of each of the years during the Performance Guarantee Period. If (i) the actual audited net profit (before or after excluding non-recurring items, whichever is lower, and after deducting any profits or losses from the provision of property management services by the Target Group to the properties introduced by the Purchaser and its subsidiaries) of the Target Group for any such year falls below 90% of the guaranteed net profit for that year, or (ii) the aggregate actual audited net profit (before or after excluding non-recurring items, whichever is lower, and after deducting any profits or losses from the provision of property management services by the Target Group to the properties introduced by the Purchaser and its subsidiaries) of the Target Group during the Performance Guarantee Period falls below the aggregate guaranteed net profit during that same period, the Vendor and the Company shall pay to the Purchaser compensation in cash as calculated based on the following formula within 60 days after the issue of the audit report for the relevant year:

$$(A-B)/C \times D - E$$

A = aggregate guaranteed net profit for the portion of the Performance Guarantee Period ending on the last day of the year

B = aggregate actual audited net profit (before or after excluding non-recurring items, whichever is lower, and after deducting any profits or losses from the provision of property management services by the Target Group to the property projects introduced by the Purchaser and its subsidiaries) for the portion of the Performance Guarantee Period ending on the last day of the year

C = aggregate guaranteed net profit during the Performance Guarantee Period (i.e. RMB725 million (equivalent to approximately HK\$841 million))

D = the Consideration received

E = aggregate compensation for Performance Guarantee paid as at the end of the year

For the avoidance of doubt, in the event that the aggregate actual audited net profit is higher than the aggregate guaranteed net profit during the Performance Guarantee Period, the Vendor and the Company may not request for refund from the Purchaser of any compensation paid by the Vendor or the Company to the Purchaser during the Performance Guarantee Period.

Corporate Governance

After Completion, the board of directors of the Target Company will comprise of five directors, three of which will be nominated by the Purchaser and two of which will be nominated by the Vendor.

The Target Company shall distribute at least 50% of its distributable net profits in each year as dividend to shareholders, provided that it does not have a negative cash flow.

(II) PUT OPTION

Pursuant to the Equity Transfer Agreement, the Company and the Vendor granted to the Purchaser the Put Option, pursuant to which the Purchaser is entitled to sell, within three years after Completion, all or part of the equity interests held by it in the Target Company to the Company and/or the Vendor at its discretion, upon the occurrence of the following triggering events (the “**Put Option Triggering Events**”):

- (1) there exists any event in relation to the Target Company, including but not limited to fraud, financial fraud, off-the-books expenses which should be disclosed but not disclosed, liabilities, external guarantees, tax liabilities, litigation and arbitration, administrative penalties, major defects in internal control and other matters and circumstances which have material adverse impact on the Target Company or the Vendor is in breach of any laws and regulations which have material adverse impact on the Target Company;
- (2) the Group having breached the representations and warranties as set out in the Equity Transfer Agreement in relation to the non-compete with the business of the Target Company;
- (3) the Group having breached the Equity Transfer Agreement and failed to take remedial actions within 10 Business Days after the Purchaser has requested remedial actions in writing;
- (4) The Target Company failing to meet 70% of the Performance Guarantee for two consecutive years;
- (5) any compensation to be provided by the Vendor to the Purchaser under the Performance Guarantee reaching or exceeding 50% of the Consideration; or

the Purchaser having reasonably assessed the performance of the Target Company, after the end of the Performance Guarantee Period and within 90 days after the issue of the audit report of the Target Company, considered that its purchase of 50% equity interest in the Target Company has not achieved its strategic target. The Exercise Price shall be calculated based on the following formula and be settled in cash:

$$A + B - C$$

A = proportionate amount of Consideration corresponding to the percentage of equity interest held by the Purchaser in the Target Company which are to be repurchased by the Company and/or the Vendor (the “**Equity Interest to be Repurchased**”);

B = (i) $A \times 8\%$ x the number of days from the date of Consideration paid by the Purchaser to the Vendor to the Exercise Price received by the Purchaser/360; or (ii) the proportionate accumulated audited net profits of the Target Group (for the period from the date First Instalment paid by the Purchaser to the Vendor to the date of the Exercise Price received by the Purchaser) corresponding to the Equity Interest to be Repurchased, whichever is higher;

C = accumulated cash dividend received by the Purchaser during the period when the Purchaser is the holder of the Equity Interest to be Repurchased, if any.

For illustrative purpose, the estimated Exercise Price for the Put Option is approximately RMB1.4 billion (equivalent to approximately HK\$1.6 billion), assuming (i) the Equity Interest to be Repurchased will be 50% equity interest held by the Purchaser in the Target Company; (ii) the accumulated net profits of the Target Group will be equal to the accumulated net profits of Performance Guarantee; (iii) 50% of cash dividend will be distributed to the Purchaser during the period when the Purchaser is the holder of the Equity Interest to be Repurchased.

In the event that the Purchaser exercises the Put Option to request the Vendor or the Company to repurchase all or part of the equity interests held by the Purchaser in the Target Company, the amount of compensation paid by the Vendor or the Company to the Purchaser pursuant to the Performance Guarantee shall be deducted from the Exercise Price.

(III) CALL OPTION

Pursuant to the Equity Transfer Agreement, the Purchaser granted to the Company and the Vendor the Call Option, pursuant to which the Company and the Vendor are entitled to purchase, within three years after Completion, all or part of the equity interests held by the Purchaser in the Target Company at their discretion if any compensation to be provided by the Vendor to the Purchaser under the Performance Guarantee reaches or exceeds 50% of the Consideration (the “**Call Option Triggering Event**”).

The Exercise Price shall be calculated based on the same formula for the Put Option and be settled in cash.

In the event that the Vendor or the Company exercises the Call Option to repurchase all or part of the equity interests held by the Purchaser in the Target Company, the amount of compensation paid by the Vendor or the Company to the Purchaser pursuant to the Performance Guarantee shall be deducted from the Exercise Price.

For illustrative purpose, the estimated Exercise Price for the Call Option is approximately RMB1.4 billion (equivalent to approximately HK\$1.6 billion), assuming (i) the Equity Interest to be Repurchased will be 50% equity interest held by the Purchaser in the Target Company; (ii) the accumulated net profits of the Target Group will be equal to the accumulated net profits of Performance Guarantee; (iii) 50% dividend will be distributed to the Purchaser during the period when the Purchaser is the holder of the Equity Interest to be Repurchased.

(IV) PROPERTY MANAGEMENT TRANSACTIONS

Pursuant to the Equity Transfer Agreement, upon Completion, the Company shall (i) engage the Target Group to manage all present and future property projects owned by the Group and (ii) use its best endeavours to procure the engagement of the Target Group in respect of the property management of present and future property projects developed by the Group. As at the date of this announcement, the total contracted area under management and chargeable area under management of the property projects (i) owned or developed by the Group and (ii) managed by the Target Group are 20.81 million sq. m. and 15.32 million sq. m., respectively. Accordingly, the Company and the Target Company have entered into the Property Management Transactions Framework Agreement on 15 July 2022 (after trading hours) for the provision of property management services by the Target Group for the period from the date of Completion to 31 March 2025.

Pursuant to the Property Management Transactions Framework Agreement, the Group may from time to time enter into Specific Agreements with the Target Group for the provision of property management services, which shall set out the detailed terms for the relevant transactions contemplated under the Property Management Transactions Framework Agreement and are, in the ordinary and usual course of business, after arm's length negotiation, on normal commercial terms and no less favourable than those agreed with Independent Third Parties. The Specific Agreements shall conform with the principles and provisions set out in the Property Management Transactions Framework Agreement and shall be in compliance with the Listing Rules. If there is any conflict between any provision of the Specific Agreement and the relevant provision(s) of the Property Management Transactions Framework Agreement, such provision(s) of the Specific Agreement shall be amended.

Key terms of the Property Management Transactions Framework Agreement, among others, are set out below:

- Date:** 15 July 2022 (after trading hours)
- Parties:**
- (1) The Company
 - (2) The Target Company
- Term:** Effective from the date of Completion to 31 March 2025 (both days inclusive), subject to termination as agreed by both parties
- Subject matter:** Property management services from the Target Group to the Group, including security, cleaning service, customer service, maintenance of order, parking management, equipment and facility maintenance, pre-delivery consultancy services, sales office coordination, gardening and road maintenance and polishing services.
- Pricing basis:** The parties to the Property Management Transactions Framework Agreement have agreed as follows:
- (a) each transaction contemplated under the Property Management Transactions Framework Agreement will be negotiated on an arm's length basis to ensure the relevant pricing terms are on normal commercial terms and no less favourable than those being agreed with the Independent Third Parties for comparable transactions;
 - (b) the property management fee for each property used or leased by the Group will be the multiple of the area of the relevant property (in sq. m.) and the property management fee of the relevant property project per sq. m.;

- (c) the property management fee per sq. m. for each property project shall be determined based on (a) reasonable costs of the Target Group, which mainly comprise of (x) labour costs with reference to the size of the relevant property projects and (y) other costs such as utility expenses, subcontracting costs, maintenance expenses, administrative cost, daily operational cost, fee for professional services and (b) standard unit rates ranging from RMB1/month to RMB20/month (which varies primarily based on the types of property, size of the relevant property, the geographical location of the relevant property projects, the expectation of service quality and expected operational costs in the area), and also determined by reference to (x) the market price of similar services and (y) the impact of inflation and fluctuation in costs, in accordance with usual commercial terms;
- (d) for ancillary services such as advertising, public venue and various management services, park lighting, park road, professional fire crew, a margin of around 10% above cost will be charged;
- (e) the property management fee for vacant units will be calculated based on the below formulas:
 - (i) Commercial property projects: the area of vacant units (in sq. m.) x the property management fee of the relevant property per sq. m. x 30%; and
 - (ii) Residential property projects: the area of vacant units (in sq. m.) x the property management fee of relevant property per sq. m. x 100%.

During the term of the Property Management Transactions Framework Agreement, the Company will as an internal control measure, make reference to the fees and terms in relation to the provision of management services of similar nature and of similar terms by Independent Third Parties (if any) on a regular basis and compare them with the fees and terms for the provision of services by the Target Group to the Group to ensure that the fees payable by the Group to the Target Group will be no less favourable than the fees payable to Independent Third Parties for the provision of services of similar nature and of similar terms, and are based on normal commercial terms and fair and reasonable.

Payment:

The time and means of payment shall be agreed by the relevant parties with reference to customary business terms to be arrived through arm's length negotiations, being normal commercial terms comparable to those for similar or comparable services.

The following table sets out the amounts of historical transactions for property management services provided by the Target Group to the Group:

For the year ended 31 March 2020 <i>HK\$'000</i>	For the year ended 31 March 2021 <i>HK\$'000</i>	For the year ended 31 March 2022 <i>HK\$'000</i>
146,440	88,436	110,922

The following table sets out the annual caps for the continuing connected transactions contemplated under the Property Management Transactions Framework Agreement:

For the year ending 31 March 2023 <i>HK\$'000</i>	For the year ending 31 March 2024 <i>HK\$'000</i>	For the year ending 31 March 2025 <i>HK\$'000</i>
309,100	399,400	393,300

The annual caps for Property Management Transactions have been determined with reference to a number of factors, including, among other things:

- (i) the scope of services required;
- (ii) as at the date of this announcement, the total contracted area under management and chargeable area under management of the property projects (i) owned or developed by the Group and (ii) managed by the Target Group as at the date of this announcement, which are 20.81 million sq. m. and 15.32 million sq. m., respectively;
- (iii) the expected increase in relevant staff costs and the administrative and daily operational costs;
- (iv) the possible increase in the services required, depending on the actual circumstances;
- (v) the expected delivery of property projects owned and developed by the Group;
- (vi) the estimated vacancy rate of the areas under management;
- (vii) the historical transaction amounts paid to the Target Group for provision of property management services to the Group;
- (viii) the management fees charged by Independent Third Parties for services in similar scope and quality provided to the Group;
- (ix) potential inflation and currency exchange fluctuation; and
- (x) a reasonable buffer for unexpected increase in management fee.

The annual caps for Property Management Transactions are higher than the historical transaction amounts paid to the Target Group because the Target Company will cease to be a subsidiary of the Company upon Completion. It is expected that the management fee under the Property Management Transactions Framework Agreement to be paid to the Target Group will be higher than the historical management fee paid, in order to better reflect the level of management fees charged by Independent Third Parties for services in similar scope and quality provided to the Group. In addition, the Target Group has started to charge management fee for certain vacant units since 2022 so it is expected that the total management fee to be charged by the Target Group will increase.

REASONS FOR AND BENEFITS OF THE EQUITY TRANSFER AGREEMENT AND THE PROPERTY MANAGEMENT TRANSACTIONS

The Directors consider that the Disposal will be able to:

- (i) improve the liquidity of the Group as the Consideration will be settled in cash;
- (ii) potentially improve the value of the 50% equity interest in the Target Company which will be retained by the Group. As a state-owned property management business usually has a higher price-to-earnings ratio than that of a non-state-owned property management business and the Target Company will become a subsidiary of the Purchaser upon Completion, it is expected that the value of the Target Company may potentially become higher as part of the Purchaser's group and the value of the 50% equity interest in the Target Company held by the Company may also potentially be higher; and
- (iii) create synergy for the Group as the Purchaser intends to, pursuant to the Equity Transfer Agreement, engage the Target Company to provide management service for properties developed and/or held by it or its subsidiaries.

The Directors believe that the Disposal is beneficial to the financial position and future business development of the Group.

The Target Group has been providing property management services to the Group since 2004. By entering into the Property Management Transactions Framework Agreement, the Group will continue to have access to quality property management services provided by the Target Group. Moreover, the Target Group has extensive experiences in providing property management services for commercial and logistics parks and trade centres, which is a rare competitive strength in the industry. The Directors believe that it is beneficial to the business of the Group to engage the Target Group for providing property management services to the Group as it is competitive in terms of price, efficiency, quality and reliability in the provision of such services.

The Directors, including independent non-executive Directors, are of the view that the terms of the Equity Transfer Agreements (including the Put Option and the Call Option), the Property Management Transactions Framework Agreement and the the transactions contemplated thereunder (including the annual caps for the Property Management Transactions) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL IMPLICATIONS AND USE OF PROCEEDS FROM THE DISPOSAL

Based on the Consideration, the Group expects to recognise an unaudited estimated pre-tax disposal gain of approximately HK\$2.7 billion before costs and expenses from the Disposal under the Hong Kong Financial Reporting Standards. The actual gain on the Disposal to be recorded by the Group is subject to audit and may be different from the estimated amount. The Group intends to use the net proceeds from the Disposal to strengthen the general working capital of the Group.

IMPLICATIONS UNDER THE LISTING RULES

The Disposal

As one or more of the applicable percentage ratios in respect of the Disposal exceed 5% but all of them are less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, the Purchaser holds approximately 29.28% of the Shares in issue. Accordingly, the Purchaser is a substantial shareholder and hence a connected person of the Company, and the Disposal constitutes 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 Disposal exceed 5%, the Disposal is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Separately, as the Business Equity Value constitutes a profit forecast under Rule 14.61 of the Listing Rules, the Company will make a further announcement in accordance with the requirements under Rule 14.60A of the Listing Rules, which sets out, among other things, the principal assumptions, including commercial assumptions, upon which the Business Equity Value is based; a letter from the Board setting out the confirmation that the Business Equity Value is made after due and careful enquiry; and a letter from the Company's reporting accountant confirming the calculations for the Business Equity Value and that the calculations do not involve the adoption of accounting policies as required by the Listing Rules.

Put Option

As one or more of the applicable percentage ratios in respect of the Put Option exceed 25% but all of them are less than 100%, the Put Option constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As mentioned above, the Purchaser is a substantial shareholder and hence a connected person of the Company, and the Put Option constitutes 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 Put Option exceeds 5%, the Put Option is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Call Option

As one or more of the applicable percentage ratios in respect of the Call Option exceed 25% but all of them are less than 100%, the Call Option constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As mentioned above, the Purchaser is a substantial shareholder and hence a connected person of the Company, and the Call Option constitutes 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 Call Option exceeds 5%, the Call Option is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Disposal, the Put Option and the Call Option are part and parcel to the same transactions, and any one such component cannot proceed unless all of these components are approved, the Company will seek Independent Shareholders' approval for each of the Disposal, the Put Option and the Call Option under the same single resolution at the EGM.

The Property Management Transactions

Upon Completion, the Target Company will become a subsidiary of the Purchaser, which is a substantial shareholder of the Company. Accordingly, the Property Management Transactions will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the annual caps for the Property Management Transactions exceed 5%, the Property Management Transactions are subject to the reporting, annual review, announcement and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

INFORMATION ON THE PARTIES TO THE EQUITY TRANSFER AGREEMENT AND THE PROPERTY MANAGEMENT TRANSACTIONS FRAMEWORK AGREEMENT

The Group

The Group is engaged in development and operation of large-scale integrated logistics and trade centres in China. It provides professional integrated logistics and trading platforms with comprehensive value-added ancillary services and facilities, including but not limited to logistics and warehousing services, property management, outlet operations, e-commerce services, convention and exhibition services – to assist small-to-medium enterprises in modernising the way they conduct business.

Capitalising on the Group's unique and flexible business model, proven operational capabilities and extensive experience in co-operating with local governments to support urbanization and industrial upgrade throughout China, the Group has developed an extensive network with eight projects in different provincial capitals and municipalities across the nation, including Shenzhen, Nanning, Nanchang, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing.

The Vendor

The Vendor is principally engaged in investment holding and is an indirect wholly-owned subsidiary of the Company.

The Purchaser

Established by the Shenzhen Municipal Government in September 2011, the Purchaser is a municipal state-owned enterprise set up for the purpose of accelerating the reform of investment and financing system and promoting the integration process of the Special Zone. In February 2016, the municipal government further clarified the Purchaser as the municipal operating entity for infrastructure investment, construction and operation, with its principal activities including infrastructure investment, construction and operation, development, construction and operation of industrial park, strategic emerging industry investment, regional economic cooperation and PPP project implementation. Over the past decade since its establishment, the Purchaser has effectively played its role of major infrastructure construction, industrial upgrading and expanding the room of development, and providing support for the industry cooperation.

During the “14th Five-Year Plan” period, the Purchaser will adhere to the corporate mission of “a new integrated operator of urban development with a demonstration role around the country” and plays its role as “four cores”: infrastructure investment, construction and operation, industrial park development and operation, comprehensive for marine industry development and green environmental protection industry development. The Purchaser will carry out the task of regional economic collaboration, and strive to become an integrated operator of new urban development to play an exemplary role across the country, a state-owned strategic carrier to support the building of Shenzhen into a global maritime center city, and a state-owned functional carrier to help Shenzhen build a modern, international and innovative city. The Purchaser is committed to becoming one of Shenzhen “100 billion backbone state-owned groups” with high quality, and helping Shenzhen to become an innovative and creative metropolitan for start-ups with global influence and a city example of a modern and strong socialist country.

The Target Company

The Target Company is a limited liability company established in the PRC. It is principally engaged in the provision of property management services.

The unaudited net asset value of the Target Group (prepared in accordance with the Hong Kong Financial Reporting Standards) as at 31 March 2022 was approximately RMB375,227,000 (equivalent to approximately HK\$435,263,320). The unaudited profit before and after taxation of the Target Group (prepared in accordance with the Hong Kong Financial Reporting Standards) for the financial years ended 31 March 2021 and 31 March 2022 are set out below:

	For the year ended 31 March 2021 <i>RMB'000</i> (Unaudited)	For the year ended 31 March 2022 <i>RMB'000</i> (Unaudited)
Profit before taxation	110,824	119,317
Profit after taxation	82,228	89,488

EGM

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, approve the Equity Transfer Agreement (including the Put Option and the Call Option), the Property Management Transactions Framework Agreement and the transactions contemplated thereunder (including the annual caps for the Property Management Transactions). As at the date of this announcement, the Purchaser holds approximately 29.28% of the Shares in issue, and hence will abstain from voting on the resolution(s) in respect of the Disposal (including the Put Option and the Call Option) and the Property Management Transactions. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, no other Shareholder will be required to abstain from voting on the resolution(s) in respect of the Disposal (including the Put Option and the Call Option) and the Property Management Transactions at the EGM.

GENERAL

An Independent Board Committee, comprising the independent non-executive Directors, has been established to advise the Independent Shareholders on the Disposal (including the Put Option and the Call Option) and the Property Management Transactions (including the annual caps therefor). Anglo Chinese Corporate Finance, Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further details of the Equity Transfer Agreement (including the Put Option and the Call Option), the Property Management Transactions Framework Agreement and the transactions contemplated thereunder, (ii) a letter from the Independent Board Committee, (iii) a letter from the reporting accountant of the Company, (iv) a letter from the Independent Financial Adviser, together with the notice of the EGM and a form of proxy, is expected to be despatched to the Shareholders on or before 31 August 2022 as additional time will be required to finalise certain information to be included in the circular.

Completion of the Disposal is subject to fulfilment (or, where applicable, waiver) of the conditions as set out in the Equity Transfer Agreement and the approval of Independent Shareholders at the EGM, and the Disposal may or may not proceed. The Property Management Transactions are subject to the Completion of the Disposal and the approval of Independent Shareholders at the EGM, and the Property Management Transactions may or may not proceed. Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the Shares. If in doubt, Shareholders and potential investors are recommended to consult their professional adviser(s).

DEFINITIONS

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

“Board”	the board of Directors
“Business Days”	statutory working days in the PRC, excluding Saturdays or Sundays and public holiday in the PRC
“Call Option”	the option granted by the Purchaser to the Company and the Vendor and exercisable by the Company and the Vendor to request the Purchaser to sell to them part or all of the equity interests held by the Purchaser in the Target Company pursuant to the terms and conditions in the Equity Transfer Agreement
“Company”	China South City Holdings Limited (華南城控股有限公司), a company incorporated in Hong Kong with limited liability and the Shares are listed on the Stock Exchange
“Completion”	completion of the Disposal in accordance with the Equity Transfer Agreement
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Consideration”	the consideration payable by the Purchaser to the Vendor for the Disposal, which amounts to RMB1,256,600,000 (equivalent to approximately HK\$1,457,656,000)
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of 50% equity interest by the Vendor to the Purchaser in accordance with the Equity Transfer Agreement
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve, among other matters, the Equity Transfer Agreement (including the Put Option and the Call Option), the Property Management Transactions Framework Agreement and the transactions contemplated thereunder (including the annual caps for the Property Management Transactions)
“Equity Transfer Agreement”	the sale and purchase agreement dated 15 July 2022 and entered into among the Vendor, the Purchaser and the Company for the sale and purchase of the Sale Interest

“Exercise Price”	the exercise price for the Put Option and the Call Option pursuant to the Equity Transfer Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company whose members comprise all independent non-executive Directors to advise the Independent Shareholders on the Disposal (including the Put Option and the Call Option) and the Property Management Transactions (including the relevant annual caps)
“Independent Financial Adviser”	Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the Independent Financial Adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal (including the Put Option and the Call Option) and the Property Management Transactions (including the annual caps therefor)
“Independent Shareholders”	Shareholders other than the Purchaser
“Independent Third Party(ies)”	independent third party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and Directors, chief executive, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Performance Guarantee Period”	the years ending 31 December 2022, 2023 and 2024
“Person”	includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of state (in each case whether or not being a separate legal entity)
“PRC”	the People’s Republic of China

“Property Management Transactions”	the provision of property management services by the Target Company to the Company in accordance with the Property Management Transactions Framework Agreement
“Property Management Transactions Framework Agreement”	the framework agreement dated 15 July 2022 and entered into among the Target Company and the Company in relation to the Property Management Transactions
“Purchaser”	Shenzhen SEZ Construction and Development Group Co., Ltd. (深圳市特區建設發展集團有限公司), a company established in the PRC and a wholly-owned subsidiary of Shenzhen State-owned Assets Supervision and Administration Commission
“Put Option”	the option granted by the Company and the Vendor to the Purchaser and exercisable by the Purchaser to request the Company and/or Vendor to re-purchase from it part or all of the equity interests held by the Purchaser in the Target Company pursuant to the terms and conditions in the Equity Transfer Agreement
“RMB”	Renminbi, the legal currency of the PRC
“Sale Interest”	equity interest which represent 50% equity interest in the Target Company
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	the registered holder(s) of the Share(s)
“Specific Agreement(s)”	the specific individual agreement(s) that may be entered into between the relevant member(s) of the Group and the Target Group in relation to the provision of property management services by the Target Group, in accordance with the principles and terms of the Property Management Transactions Framework Agreement
“sq. m.”	square meter
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	with respect to any Person, any corporation, association or other business entity which such Person, its direct or indirect holding companies, its subsidiaries or fellow subsidiaries, which individually or collectively, is or are entitled to more than 50% of its economic interests

“substantial shareholder(s)”	has the same meaning ascribed thereto under the Listing Rules
“Target Company”	Shenzhen First Asia Pacific Property Management Company Limited (深圳第一亞太物業管理有限公司), a limited liability company established in the PRC
“Target Group”	the Target Company, its subsidiary and branches
“Vendor”	First Asia Pacific Group Company Limited (第一亞太集團有限公司), a company with limited liability incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“%”	per cent

For the purpose of this announcement, unless otherwise indicated, the exchange rate of RMB1.00 = HK\$1.16 has been used, where applicable, for purpose of illustration only and it does not constitute any representation that any amount has been, could have been or may be exchanged at that rate or at any other rate.

For and on behalf of the Board
China South City Holdings Limited
CHENG Chung Hing
Chairman and Executive Director

Hong Kong, 18 July 2022

As at the date of this announcement, the Executive Directors of the Company are Mr. Cheng Chung Hing, Ms. Geng Mei, Mr. Wan Hongtao, Mr. Qin Wenzhong and Ms. Cheng Ka Man Carman; the Non-Executive Directors of the Company are Mr. Cheng Tai Po and Mr. Lei Ming; and the Independent Non-Executive Directors of the Company are Mr. Leung Kwan Yuen Andrew, GBM, GBS, JP, Mr. Li Wai Keung, Mr. Hui Chiu Chung, JP and Ms. Shen Lifeng.