

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.



Greentown Service Group Co. Ltd.

綠城服務集團有限公司

(A company incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 2869)

SUPPLEMENTAL ANNOUNCEMENT

(1) CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 51% EQUITY INTEREST IN ZHEJIANG GREENTOWN ARCHITECTURAL TECHNOLOGY CO., LTD* AND

(2) POSSIBLE CONTINUING CONNECTED TRANSACTION IN RELATION TO THE FRAMEWORK COOPERATION AGREEMENT

Reference is made to the announcement of Greentown Service Group Co. Ltd. (the “**Company**”) dated 14 December 2021 in relation to the acquisition of 51% equity interest in Zhejiang Lvke and the Framework Cooperation Agreement (the “**Announcement**”). Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the Announcement.

The Company would like to provide supplemental information to the Announcement as follows:

DETERMINATION BASIS OF THE CONSIDERATION

The Consideration was determined with reference to (i) the value of the entire equity interest in Zhejiang Lvke as at 30 September 2021, which was reflected in the valuation report of Zhejiang Lvke prepared by China Alliance Appraisal Co., Ltd. on 7 December 2021 based on the market comparison approach (the “**Valuation Report**”), as well as (ii) arm’s length negotiations among the Purchaser, Vendor 1 and Vendor 2.

As the operation of Zhejiang Lvke is mainly characterized by relying on its experience, process management, acquisition and integration of resources and human resources rather than having strong dependence on its assets for generating revenue and profit, the value of Zhejiang Lvke has little correlation with its assets. As such, neither the asset-based approach nor the price-to-book ratio approach was adopted as the valuation method. Instead, the PE

(price-to-earnings) ratio and the EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation and amortization) ratio were used as the value ratios in the valuation process.

Based on this market comparison method, the key steps adopted in the valuation process include:

- (a) selecting companies comparable to Zhejiang Lvke which have engaged in the same industry, i.e. engineering design and construction, and have been profitable in the recent two years;
- (b) adjusting the ratio multipliers of PE and EV/EBITDA of these comparable companies, in order to reflect the difference between such comparable companies and Zhejiang Lvke; and
- (c) applying the adjusted ratio multipliers to the relevant analysis parameters of the valued unit, in order to obtain the market value of Zhejiang Lvke.

From the above valuation process, the adjusted PE and EV/EBITDA of the comparable companies after deducting the liquidity discount were 14.48 times and 15.32 times respectively.

The value of the entire equity interest of Zhejiang Lvke, being RMB490,000,000, was the average value arrived at by multiplying the historical net profits and value of EBITDA of Zhejiang Lvke with the abovementioned ratio multipliers, and further adding the value of non-operating net assets.

The value of RMB490,000,000 formed the starting point of the parties' negotiation on the Consideration. Taking a more prudent approach towards and considering a more stringent policy for bad debt provision for accounts receivables, the Group considered that the valuation of Zhejiang Lvke should be reduced to reflect the risk of insufficient provision for bad debts in Zhejiang Lvke's historical accounts receivables, even though Zhejiang Lvke's accounting policy for provision for bad debts is in line with the relevant industry practice and accepted by its auditors. To this end, after arm's length commercial negotiation among the Purchaser, Vendor 1 and Vendor 2, the parties have agreed that the valuation should be adjusted to RMB410,000,000 for the purpose of calculating the Consideration.

In light of the above, as the Purchaser is only purchasing 51% interest in Zhejiang Lvke, the aggregate Consideration was therefore RMB209,100,000, representing 51% of RMB410,000,000. Thus, the Consideration is fair and reasonable and in the interest of the Company and its shareholders as a whole.

PERFORMANCE TARGETS

As disclosed in the section headed "Acquisition of 51% equity interest in Zhejiang Lvke — The Equity Transfer Agreement — Performance targets of Zhejiang Lvke and right to acquire remaining equity interests" in the Announcement, if the Performance Targets are not achieved, then the Vendors shall pay to the Purchaser a sum determined under the formula agreed by the parties (the "**Performance Targets Arrangement**").

In assessing whether the Performance Targets are achieved, the income and gain which are not generated in Zhejiang Lvke's ordinary and usual course of business (the "**Extraordinary Income**") and the revenue and profits generated from Vendor 1 under the Framework Cooperation Agreement (the "**Revenue from Vendor 1**") will also be included in the audited actual accumulated revenue and net profits of three years, which is in line with the usual accounting treatment adopted in formulating the amount of such revenue and net profits in audit reports.

The Extraordinary Income only accounted for an insignificant portion of Zhejiang Lvke's historical total income, and such proportion is expected to remain the same. Also, Zhejiang Lvke has, within its ordinary and usual course of business, been providing services to Vendor 1 in a consistent manner and on fair market terms since 2016, which has since then formed part of the stable revenue of Zhejiang Lvke.

Given that the transactions under the Framework Cooperation Agreement are also fair and reasonable, the Company considered that it is fair and reasonable to include such revenue and profits from the services rendered to Vendor 1 as part of Zhejiang Lvke's audited actual accumulated revenue and net profits of three years, especially considering that such practice is in line with Zhejiang Lvke's historical accounting practice long preceding the commencement of negotiation for the Acquisition.

Taking into account the above and the fact that the inclusion of the Performance Targets Arrangement in the Acquisition was a result of the negotiation among the parties for the commercial benefit in favour of the Group, which serves to provide additional safeguard to the Company's investment, the independent non-executive Directors consider that the Consideration is fair and reasonable and in the interest of the Company and its shareholders as a whole even without taking into account the Performance Targets Arrangement; and that the Performance Targets Arrangement is fair and reasonable and is in the interest of the Company and its shareholders as a whole with or without including the Extraordinary Income and Revenue from Vendor 1.

In addition, having reviewed the terms of the Acquisition and considered the reasons for and benefits of the underlying transaction as a whole, the independent non-executive Directors are of the view that the Group's decision to undertake the Acquisition was based on the comprehensive consideration of the strategic significance and business synergy that it can bring to the Group and the Consideration was determined with reference to the Valuation Report prepared by a qualified independent third-party appraiser. The Directors (including the independent non-executive Directors) have approved the Acquisition with all the terms and conditions of the Acquisition (including the Consideration) being taken into account as a whole, and not solely based on any individual element (e.g. the Performance Targets Arrangement) separately. Given the Consideration is fair and reasonable and the Performance Targets Arrangement is merely an additional commercial guarantee for the benefits of the Company and its shareholders as mentioned above, the Performance Targets Arrangement will not affect the reasonableness and fairness of the Acquisition. At the same time, for the reasons set out above, the independent non-executive Directors also believe that it is fair and reasonable to include the Extraordinary Income and Revenue from Vendor 1 as part of Zhejiang Lvke's audited actual accumulated revenue and net profits of three years.

ORIGINAL ACQUISITION COST OF 51% EQUITY INTEREST

Vendor 1 acquired 51% of the equity interest of Zhejiang Lvke on 23 January 2013 by way of setting up a joint venture and its subscribed capital contribution was RMB5,100,000. Given that it has not acquired any equity interest of Zhejiang Lvke from third parties, its actual contribution to the registered capital of Zhejiang Lvke is RMB5,100,000.

COMPLIANCE WITH DEED OF NON-COMPETITION

Based on the reasons set out in the Announcement, the independent non-executive Directors are of the view that Mr. Song's residue personal interest in Zhejiang Lvke will not be in breach of the Deed of Non-competition, and they have no objection to the Acquisition.

By Order of the Board
Greentown Service Group Co. Ltd.
YANG Zhangfa
Chairman

Hangzhou, the PRC

10 January 2022

As at the date of this announcement, the executive Directors are Mr. YANG Zhangfa (Chairman), Mr. WU Zhihua and Mr. CHEN Hao; the non-executive Directors are Mr. SHOU Bainian, Ms. XIA Yibo, Ms. LI Hairong and Mr. ZENG Yiming; and the independent non-executive Directors are Mr. LI Feng, Mr. POON Chiu Kwok, Mr. WONG Ka Yi and Ms. WU Aiping.

* *For identification purposes only*