濱江服務

BINJIANG SERVICE

Binjiang Service Group Co. Ltd.

濱江服務集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3316)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING

Reference is made to the announcement of Binjiang Service Group Co. Ltd. (the "**Company**", together with its subsidiaries, the "**Group**") dated 29 May 2023 (the "**Announcement**") in relation to the change in use of proceeds from the Global Offering. Unless otherwise defined herein, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcement.

The Board would like to provide the shareholders of the Company and potential investors with the following additional information regarding the reallocation of the Unutilised Net Proceeds.

Factors determining the allocation of Net Proceeds at time of listing

At the time of the Company's listing, the Company made reference to the following key factors in determining its overall future plan and use of proceeds and the allocation of use of the Net Proceeds:

1. Acquisition of property management companies located in major cities in the Yangtze River Delta to further increase the Group's market share in the existing market, and also in new cities such as Shenzhen to expand the Group's geographical coverage

(a) The Group's strategy at the time of the listing was to expand through a combination of organic growth, acquisition and cooperation with local governments and other property developers. As the Group's business scale at the time of its listing was relatively modest and the brand had rather concentrated areas of influence, the market generally expected companies like the Company to achieve rapid expansion after listing through mergers and acquisitions. According to the Company's industry consultant, China Index Academy ("**CIA**"), the property management service industry in China was highly fragmented with significant potential for consolidation. Hence, the Company's management decided to adopt mergers and acquisitions as an expansion strategy to increase scale and influence.

(b) As the Group had established itself as a reputable property management service provider in Yangtze River Delta with a focus on high-end residential properties, the Company's management considered that its acquisition targets should include businesses in the same geographical location to increase management concentration, so that the Group could benefit from its subsequent management and promotion of value-added services. At the same time, acquisition of and/or investment in businesses located in new cities (other than Hangzhou, the key market of the Group at time of its listing) and other new potential complementary businesses in Yangtze River Delta would facilitate the Group's entry into new markets and expansion of new businesses and speed up the promotion and establishment of the Group's brand awareness and reputation in Yangtze River Delta.

(c) The Company's management made reference to the Group's business scale and market position at the time of listing and expected price-to-earnings ratio and valuation of the Group at the relevant time to estimate the acceptable monetary amount to be invested. As at 31 August 2018, the Company recorded revenue of approximately RMB307 million and net profit of approximately RMB50.746 million. To ensure (i) the targets would bring stable operation and profitability to the Group and would not subject the Group to undue risk and liability; (ii) the maintenance of the Group's brand in providing high-quality services; (iii) the achievement of business and corporate culture synergies with the Group; (iv) closer supervision over the targets to control overall operational risks, the Company's management decided that a company with revenue exceeding RMB50 million or net profit exceeding RMB10 million (the "**Criteria**") would be a target appropriate to the scale of the Company at the time. Furthermore, the valuation of property management companies around the time of listing was taken into account to decide an acceptable acquisition range for the Company. Accordingly, the Company planned to acquire one to two property management companies that satisfy the Criteria with 35% of the Net Proceeds.

2. ***Investment in the asset management platform to engage in the operation of industrial parks***

(d) As the business focus of the Group had been property management of residential properties in Yangtze River Delta, leveraging its experience in property management and operation, and having considered that (i) the development of industrial parks was supported by the PRC government's policies such as tax reliefs; (ii) the lease periods were usually relatively long (around 15–20 years); (iii) the occupancy rates were generally high with relatively high return; (iv) the customer base would generally be broad including potential listing candidates and high-tech companies; and (v) long-term service apartments can be developed in industrial parks to cater to the accommodation needs of the tenants' employees, the Company's management was of the view that operation of industrial parks could complement the Group's property management service business and create synergies with the Group's existing businesses, enrich the Group's business profile and comprehensive management capability and improve the Group's revenue stream.

(e) According to CIA, the industrial park management services and long-term service apartment markets in China had relatively low market concentration rates at the time and were at a stage where market players were racing to gain market share.

(f) The Company's management decided that approximately 20% of the Net Proceeds allocated for investment in the asset management platform to engage in industrial park operation would be mainly used to settle the upfront rental expenses for the first six months to one year lease of industrial park and expenses for renovation and office equipment and facilities. The Company planned to lease an industrial park with an area of not less than 30,000 square meters within the first three years after the listing. Based on the market information available to the Company's management at the time, an industrial park with an area of around 30,000 square meters was relatively modest in size when compared to other industrial parks in the market. It was considered appropriate as the Group did not have any prior experience in industrial park operation and such scale of operation should be relatively manageable for a new market player like the Group. The Company's management took into account the daily rent and renovation cost per square meter and expenses for office equipment and facilities estimated based on its market experience to determine the upfront expenses for operating an industrial park. Accordingly, the Company expected to invest in one asset management platform in the three years after listing.

3. Updating of management service systems, recruitment and nurturing of talents

(g) As the scale of the Group continued to grow, the cost of labor would also increase accordingly. Since the Group expected further growth in the years after the listing, the Group needed to update the Company's management service systems, recruit and nurture talents and enhance work efficiency while maintaining service quality.

4. Establishment of joint venture companies or platform through the cooperation with local governments and property developers

(h) The Group first attempted establishing joint ventures with state-owned enterprise in January 2018. A subsidiary of the Company, and Hangzhou Jianggan District Urban Construction Comprehensive Development Co., Ltd. (杭州江干區城市建設綜合開發有限公司) jointly established Hangzhou Binhe Property Management Co., Ltd. (杭州濱合物業管理有限公司 ("**Binhe PM**"), pursuant to which the Company held 51% of the equity interest. The Company would be responsible for the actual business operation of Binhe PM, setting and implementing standards and personnel training to provide high quality property management services. Binhe PM began to undertake projects such as government buildings and cultural and sports centers in Jianggan, Hangzhou, since July 2018. As acquisition was more commonly adopted and accepted by the market as a suitable growth strategy at the time, while the Company's strategy of establishing joint ventures with governments, state-owned enterprises and property developers for business expansion was not widely recognized and the Group's experience in this regard was also relatively limited, the Company's management allocated only 10% of the Net Proceeds for establishment of joint venture companies or platform to engage in the business of property management.

Implementation of the acquisition and investment plan post-listing

After the Company's listing, the Group began to identify suitable targets for acquisitions and investments. It has conducted due diligence on three potential acquisition targets, including (i) engaging PRC legal counsel to perform legal due diligence on the potential acquisition targets to identify potential risks to the Group; (ii) engaging accountants to perform financial due diligence on the potential acquisition targets to understand their overall historical financial performance and potential impact on the financial performance the Group; and/or (iii) conducting onsite visits of the property portfolio undertaken by the potential acquisition targets and performed internal evaluation to assess their business operations, management and infrastructure. The Group did not proceed to acquisition or investment for reasons including uncertainty on business sustainability, financial performance, compliance risk, over-reliance on shareholders and additional amount of resources and investment to be committed.

Other than the three identified targets mentioned above, the Group was also approached with information about potential acquisition or investment opportunities of two companies. Such opportunities did not proceed to formal negotiations or due diligence since the Company's management did not think they were suitable potential targets for the Company considering their financial condition, business prospects and potential scale of acquisition.

In order to stay alert of the latest industry developments for a proper and informed assessment of acquisition or investment targets and opportunities in the market, the Company had also been conducting research and analysis of the market after its listing. As a result of the change in circumstances post-listing (including the COVID-19 outbreak and resurgence, the introduction of "Three Red Lines" (三條紅線) and the deteriorated financial condition of property developers), the overall financial performance of the listed market players was not materially improved by the revenue and net profit contribution of acquisition targets based on the management's expectation and many of the potential acquisition and investment targets in the market, including industrial parks whose rental demands from small and medium-sized enterprises and start-up businesses decreased thereby affecting occupation rates and income of the parks, were also adversely affected and incurred losses and debt, hence exposing the Group to heightened risk in acquisition and investment activities.

Further details for the reallocation

As the Group has successfully grown and expanded its business organically via third-party projects and establishment of joint ventures, and considering the cost effectiveness and efficiency and the source of quality projects secured by such expansion channels, the Company was of the view that adjustment to the original acquisition and investment plans is required to respond responsibly and flexibly to change in circumstances.

Accordingly, the Company re-allocated the Unutilized Net Proceeds to the continual development of the Group's management service systems and establishment of joint ventures. The Company intends to continue adopting the operational model of Binhe PM and establish joint ventures companies to engage in the business of property management with the Unutilized Net Proceeds.

As of December 2022, leveraging the Group's reputation and brand influence in the industry, the Group had established 24 joint venture companies to engage in the business of property management by generally adopting the operational model of Binhe PM. Having accumulated years of experience in establishing and operating joint ventures, the Group believes that business expansion through the establishment of joint ventures (i) enables the Group to gain access to quality assets and projects; (ii) ensures the projects managed by the joint ventures would be more in line with the Group's standard since the Group can retain actual business operation and management control over the joint venture; (iii) requires less capital commitment; and (iv) reduces the Group's exposure to creditor's claims and liabilities accrued from prior operations.

Save as disclosed in this announcement, all other information in the Announcement remains unchanged.

By Order of the Board
Binjiang Service Group Co. Ltd.
Zhu Lidong
Chairman and Executive Director

Hangzhou, PRC
June 28, 2023

As at the date of this announcement, the Board comprises Mr. Zhu Lidong and Ms. Zhong Ruoqin as executive directors; Mr. Mo Jianhua, Mr. Qi Jiaqi and Mr. Cai Xin as non-executive directors; Mr. Ding Jiangang, Mr. Li Kunjun and Ms. Cai Haijing as independent non-executive directors.