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Lushang Life Services Co., Ltd.

魯商生活服務股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2376)

**MAJOR TRANSACTION AND
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS –
NEW MASTER DEPOSIT SERVICES AGREEMENT**

THE NEW MASTER DEPOSIT SERVICES AGREEMENT

The Board announces that on June 9, 2023 (after trading hours), the Company has entered into the New Master Deposit Services Agreement for a term commencing from the Effective Date to December 31, 2025.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Commercial Finance is a wholly-owned subsidiary of Shandong Commercial, a controlling shareholder of the Company, and therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the New Master Deposit Services Agreement entered into by the Company will constitute continuing connected transactions of the Company.

As the highest applicable percentage ratio (other than the profits ratio) as defined under the Listing Rules in respect of the highest annual cap under the New Master Deposit Services Agreement exceeds 5%, the New Master Deposit Services Agreement and the transactions contemplated thereunder will be subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further, as the highest applicable percentage ratio in respect of the highest annual cap under the New Master Deposit Services Agreement exceeds 25%, the transaction contemplated under the Deposit Service Framework Agreement also constitutes a major transaction of the Company. The New Master Deposit Services Agreement and the transaction contemplated thereunder will be subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

GENERAL INFORMATION

A circular containing, among other things, (i) further information on the New Master Deposit Services Agreement and the transactions contemplated thereunder; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM, is expected to be despatched to the Shareholders on or before June 15, 2023.

BACKGROUND

Reference is made to the Prospectus in respect of, among other things, the Existing Master Deposit Services Agreement.

As the Existing Master Deposit Services Agreement will be expiring on the date of the AGM and the Company is expected to carry on the transactions contemplated thereunder upon its expiry, the Company and Commercial Finance entered into the New Master Deposit Services Agreement on June 9, 2023 (after trading hours).

The principal terms of the New Master Deposit Services Agreement are set out below:

THE NEW MASTER DEPOSIT SERVICES AGREEMENT

Date

June 9, 2023

Parties

- (a) The Company; and
- (b) Commercial Finance.

Term

Subject to compliance with the Listing Rules, from the Effective Date to December 31, 2025 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.

Subject matter

Under the New Master Deposit Services Agreement, the Group has agreed to use the deposit services provided by Commercial Finance (the “**Deposit Services**”). Pursuant to the New Master Deposit Services Agreement, the Group may deposit its funds in Commercial Finance from time to time.

Based on information available and to the best knowledge of the Directors, Commercial Finance is a non-bank financial institution established in May 1996 with a credit rating of 2A provided by CBIRC. As at the date of this announcement, based on public record, the Finance Permit Licence (金融許可證) held by Commercial Finance is valid and has not been withdrawn or revoked.

The relevant parties shall enter into individual deposit services agreements, terms of which shall be consistent with the principal terms of the New Master Deposit Services Agreement in all material aspects.

Pricing policy

The fees of the Deposit Services shall be determined on arm’s length basis in accordance with the following policy:

- (i) the interest rate in respect of the deposits placed by the Group with Commercial Finance will be equal to or higher than the interest rate offered by independent banks or other financial institutions in China for comparable deposits of the same type and term; and
- (ii) the commercial terms provided by Commercial Finance in respect of the Deposit Services will be equal to or more favourable compared to those offered to the Group by Independent Third Parties.

Payment arrangement

The payment mechanism for all fees and payments pursuant to the New Master Deposit Services Agreement should be specified in the relevant specific agreement to be entered into by the parties.

Historical transaction amount

The existing maximum daily deposit balances (including paid interests) which the Group deposits with Commercial Finance for the year ended December 31, 2022 and for the period from January 1, 2022 until the date of the AGM will not exceed RMB250.0 million and RMB250.0 million, respectively.

The actual maximum daily deposit balances (including paid interests) for the year ended December 31, 2022 and for the period from January 1, 2023 to the date of this announcement under the Existing Master Deposit Services Agreement was RMB248.8 million, representing a utilization rate of almost 100%.

Proposed annual caps

The proposed caps under the New Master Deposit Services Agreement for the period from the Effective Date to December 31, 2023 and the two years ending December 31, 2025, respectively are as follows:

	For the period from the Effective Date to December 31, 2023 (RMB'000)	For the year ending December 31, 2024 2025 (RMB'000)	
Maximum daily deposit balance	350,000	350,000	350,000
Maximum interest income	7,040	7,040	7,040

The above annual caps were determined with reference to, among other things, the following factors:

In relation to deposit amount

- (i) the historical maximum daily deposit balances under the Existing Master Deposit Services Agreement;
- (ii) the cash and cash equivalent of approximately RMB429 million as of December 31, 2022, which represents a significant increase of approximately 56% as compared to the amount of RMB275 million as at December 31, 2021 and generally in line with the increase in the proposed annual caps of approximately 40% as compared to the annual caps under the Existing Master Deposit Services Agreement; and
- (iii) the deposit balance (including paid interests) of approximately RMB248.83 million with Commercial Finance as of December 31, 2022.

In relation to interest amount

- (i) the percentage, being approximately 27.38%, of the total deposits by the Company with Commercial Finance being kept in current account. Such percentage is derived from the average percentage of the total deposit by the Company with Commercial Finance being kept in current account as at December 31, 2021 and 2022;
- (ii) the percentage, being approximately 72.62%, of the total deposits by the Company with Commercial Finance being kept as fixed deposit. Such percentage is derived from the average percentage of the total deposit by the Company with Commercial Finance being kept as fixed deposit as at December 31, 2021 and 2022; and
- (iii) the existing maximum interest rate to be offered by Commercial Finance of approximately 3.5% per annum for five-year fixed deposits, of approximately 2.25% per annum for one-year fixed deposits, approximately 2.05% per annum for six-month fixed deposits, approximately 1.85% per annum for three-month fixed deposits, approximately 0.8% per annum for one-day notice deposits and approximately 0.35% per annum for current deposits, which shall be subject to the relevant guiding opinions as published by the People's Bank of China from time to time.

Reasons for and benefits of entering into the New Master Deposit Services Agreement

The Group has engaged Commercial Finance to provide Deposit Services since 2019. It is expected that the Group will continue to do so in its ordinary and usual course of business upon expiry of the Existing Master Deposit Services Agreement. The Company consider that using the Deposit Services provided by Commercial Finance could allow it to (but is not obliged to) use the deposit services provided by Commercial Finance in order to deploy and manage the Group's financial resources in a more flexible and efficient manner.

For avoidance of doubt, the New Master Deposit Services Agreement does not restrict the Group to use the services provided by other commercial banks or independent financial institutions in China. The Group may make choices at its discretion based on its business needs and the costs and quality of relevant services.

Prior to entering into the New Master Deposit Services Agreement, the management of the Group has conducted due diligence and assessment on the financial capability of Commercial Finance by reviewing the audited financial statements of Commercial Finance. According to the audited financial statements of Commercial Finance as provided to the Company by Commercial Finance, as of December 31, 2022, Commercial Finance had total assets of approximately RMB8,490.6 million, registered capital of RMB2 billion and a capital adequacy ratio of 27.6%. During the year ended December 31, 2022, the Group's deposit in Commercial Finance only accounted for a very small scale of the total deposits placed in it and hence, the Group is not its major customer. In addition, the proposed annual cap for the maximum daily deposit balance of RMB350 million only accounts for approximately 14.29% of the net asset value of Commercial Finance of approximately RMB2,449.1 million as at December 31, 2022.

The Directors have also reviewed the information published by Commercial Finance and did not note any material adverse matters in relation to Commercial Finance which would materially impair its financial capability as at the date of this announcement. The finance department of the Company will continue to monitor and prudently manage its operating cash inflows and outflows as well as its overall working capital requirements, and report to the senior management of the Company on a regular basis. Based on the above, the Directors are of the view that Commercial Finance has a sound credit worthiness and financial capacity as at the date of this announcement.

The Directors (excluding the independent non-executive Directors, whose view will be provided after taking into account the advice of the Independent Financial Adviser) are of the view that the terms of the New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps therefor) are fair and reasonable, on normal commercial terms and will be conducted in the ordinary course of business of the Group and in the interests of the Company and its Shareholders as a whole.

INTERNAL CONTROL MEASURES

In respect of the Deposit Services, the Company has adopted internal policies and measures in relation to cash management. In particular:

- (i) the Company has adopted a treasury management policy for managing its cashflow and utilizing surplus cash reserves;

- (ii) before placing any new deposit with Commercial Finance, the finance department of the Group will obtain interest rates quoted by People's Bank of China and two major domestic commercial banks in the PRC. Such information together with the quote by Commercial Finance will be submitted to the chief financial officer of the Company for approval to ensure terms offered by Commercial Finance shall not be less favourable to the Group than terms offered by commercial banks who are Independent Third Parties;
- (iii) the finance department will be responsible for closely monitoring the ongoing and continuing cash deposits at Commercial Finance and the interest income to ensure the annual caps will not be exceeded;
- (iv) the internal audit department of the Group will conduct regular checks to review and assess whether the deposit services have been provided in accordance with the terms of the relevant agreements and on normal commercial terms;
- (v) the implementation and enforcement of such transactions with Commercial Finance would be independently scrutinized by the independent non-executive Directors so that appropriate measures can be taken by the Company to adjust the level of deposits with Commercial Finance on a timely basis; and
- (vi) the auditors of the Company will also conduct an annual review on the pricing terms and annual caps of the relevant continuing connected transactions.

The independent non-executive Directors will continue to review the transactions contemplated under the New Master Deposit Services Agreement and the auditors of the Company will also conduct an annual review on the pricing terms and proposed annual caps.

INFORMATION ON THE PARTIES

The Group is principally engaged in the provision of property management services, community value-added services and value-added services to non-property owners in the PRC.

Based on information available and to the best knowledge of the Directors, Commercial Finance is a non-bank financial institution established in May 1996 with a credit rating of 2A provided by CBIRC. It is principally engaged in handling financial affairs, credit authentication and related consulting and financing advisory matters for member units, absorbing deposits from member units, etc. and a wholly-owned subsidiary of Shandong Commercial.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Commercial Finance is a wholly-owned subsidiary of Shandong Commercial, a controlling shareholder of the Company, and therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the New Master Deposit Services Agreement will also constitute continuing connected transactions of the Company.

As the highest applicable percentage ratio (other than the profits ratio) as defined under the Listing Rules in respect of the highest annual cap for the New Master Deposit Services Agreement exceeds 5%, the New Master Deposit Services Agreement and the transactions contemplated thereunder will be subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further, as the highest applicable percentage ratio in respect of the highest annual cap under the New Master Deposit Services Agreement exceeds 25%, the transactions contemplated under the Deposit Service Framework Agreement also constitute a major transaction of the Company. The New Master Deposit Services Agreement and the transactions contemplated thereunder will be subject to the reporting, announcement, circular (including independent financial advice) and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

BOARD APPROVAL

At the Board meeting held to approve the New Master Deposit Services Agreement, none of the Directors has or is deemed to have a material interest in the New Master Deposit Services Agreement and is required to abstain from voting on the relevant Board resolution approving the New Master Deposit Services Agreement.

GENERAL INFORMATION

The Company will convene and hold the EGM at which Shareholders will, among other things, consider and if thought fit, approve the New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps therefor).

Voting at the EGM will be conducted by way of poll. Shandong Commercial Associates shall abstain from voting on the proposed resolution approving the New Master Deposit Services Agreement and the transactions contemplated thereunder at the EGM.

The Independent Board Committee (comprising all the independent non-executive Directors) has been established to advise the Independent Shareholders on the New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps therefor). Dongxing has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further information on the New Master Deposit Services Agreement and the transactions contemplated thereunder; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM, is expected to be despatched to the Shareholders on or before June 15, 2023.

DEFINITIONS

“AGM”	the 2023 annual general meeting of the Company (or any adjournment thereof)
“associate(s)”	shall have the same meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“Commercial Finance”	Shandong Commercial Group Finance Co., Ltd. (山東省商業集團財務有限公司), a wholly-owned subsidiary of Shandong Commercial

“Company”	Lushang Life Services Co., Ltd. (魯商生活服務股份有限公司) (formerly known as Shandong Lushang Property Services Co., Ltd. (山東魯商物業服務有限公司)), a company established in the PRC with limited liability on March 24, 2006 and converted into a joint stock company with limited liability on March 12, 2021 and the H Shares of which are listed on the Stock Exchange (stock code: 2376)
“connected person(s)”	shall have the same meaning as ascribed to it under the Listing Rules
“controlling shareholder(s)”	shall have the same meaning as ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) issued by the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid for in Renminbi
“Effective Date”	the date immediately following the EGM
“EGM”	the 2023 first extraordinary general meeting of the Company (or any adjournment thereof) to be convened and held for the purpose of considering and, if thought fit, approving, the New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps therefor)
“Existing Master Deposit Services Agreement”	the master deposit services agreement entered into by the Company and Commercial Finance on June 22, 2022
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“H Share(s)”	the ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is/are listed on the Main Board of the Stock Exchange and subscribed for and traded in Hong Kong dollars
“Independent Board Committee”	the independent board committee established by the Board, comprising all the independent non-executive Directors, namely Ms. Leung Bik San, Ms. Chen Xiaojing and Mr. Ma Tao, to advise the Independent Shareholders in respect of the New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps therefor)
“Independent Financial Adviser” or “Dongxing”	Dongxing Securities (Hong Kong) Company Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps therefor)
“Independent Shareholders”	the Shareholders who are not required to abstain from voting at the EGM for the relevant resolution with respect to the New Master Deposit Services Agreement and the transactions contemplated thereunder
“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 of Hong Kong Limited

“New Master Deposit Services Agreement”	the master deposit services agreement entered into by the Company and Commercial Finance on June 9, 2023
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus of the Company dated June 27, 2022
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Commercial”	Shandong Commercial Group Co., Ltd. (山東省商業集團有限公司), a company established in the PRC with limited liability on November 26, 1992 and a controlling shareholder of the Company
“Share(s)”	ordinary shares with nominal value of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Domestic Share(s) and H Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board
Lushang Life Services Co., Ltd.
Wang Zhongwu
Chairman and executive Director

Hong Kong, June 9 2023

As at the date of this announcement, the Board comprises Mr. WANG Zhongwu as Chairman and executive Director, Mr. SHAO Meng and Mr. YANG Yunlong as executive Directors, Ms. LI Lu and Ms. LUO Ye as non-executive Directors, and Ms. LEUNG Bik San, Ms. CHEN Xiaojing and Mr. MA Tao as independent non-executive Directors.