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豐盛服務集團有限公司
FSE SERVICES GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 331)

INSIDE INFORMATION AND BUSINESS UPDATE: SALE OF THE LAUNDRY GROUP

THE DISPOSAL

This announcement is made by the Company pursuant to Rule 13.09(2)(a) of the Listing Rules and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

On 31 December 2020, the Group completed its disposal of the Laundry Group through the sale of the Sale Share to the Purchaser at a consideration of HK\$4,000,000 pursuant to the Agreement in respect of the Disposal, the date, parties and principal terms of which are set out in this announcement.

REASONS FOR AND THE BENEFITS OF THE DISPOSAL

The impact of COVID-19 outbreak has significant adverse impact on the revenue of the Laundry Group and ended up with the Laundry Group having been making loss for the year ended 30 June 2020. The prospect of the Laundry Group is far from being optimistic in the near future, in particular, in view of the continued adverse impact of the COVID-19 outbreak on the general economy of Hong Kong. Substantial amount of capital injection from the Group would be required for capital expenses for replacing aged plants and machinery in the coming years had the Laundry Group not been disposed of by the Group. The Disposal provides the Group with a good opportunity to dispose of its loss making operation and to minimise the adverse impact on the performance of the Group.

As part of the Disposal and except as agreed by both parties, employees of the Laundry Group have been laid off prior to Completion. The Group will offer employment opportunities within other members of the Group to the affected employees of the Laundry Group.

The Directors consider that the terms of the Disposal are fair and reasonable, the Disposal is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PURCHASER

The shareholders of the Purchaser are members of a family having a long and established history of laundry business in Hong Kong.

The Purchaser and its ultimate beneficial owners are Independent Third Parties save that one of the shareholders of the Purchaser holding a 10% interest in the Purchaser was a director of the Laundry Group (other than the Laundry Group Holding Company) in the past 12-months.

LISTING RULES IMPLICATIONS

The Purchaser is not a connected person of the Company. The Disposal does not constitute a connected transaction for the Company under Chapter 14A.

As all the applicable Percentage Ratios in respect of the Disposal does not exceed 5%, the Disposal does not constitute a discloseable transaction for the Company either and is not subject to announcement and shareholders' approval requirements under Chapter 14.

This announcement is made by the Company pursuant to Rule 13.09(2)(a) of the Listing Rules and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

THE DISPOSAL

On 31 December 2020, the Group completed its disposal of the Laundry Group through the sale of the Sale Share to the Purchaser pursuant to the Agreement in respect of the Disposal, the date, parties and principal terms of which are set out below.

The Agreement

Date: 9 December 2020

Parties:

- Vendor : Crystal Brilliant Limited, an indirect wholly-owned subsidiary of the Company.
- Purchaser : Eastern Harbour Limited (“Information of the Purchaser” in this announcement sets out the further information of the Purchaser).
- Guarantor : a shareholder of the Purchaser, who has agreed to guarantee the full performance and discharge by the Purchaser of its obligations under the Agreement.

Assets sold and Excluded Assets retained by the Group under the Agreement

Effectively, the entirety of the Laundry Group, save the Excluded Assets, was sold to the Purchaser through the sale of the Sale Share, representing the entire issued share capital of the Laundry Group Holding Company, which in turn is the holding company of the other members of the Laundry Group.

“Information of the Laundry Group” in this announcement sets out the further information on the Laundry Group.

The following (“**Excluded Assets**”) are excluded from the Disposal:

- (1) gross revenue (including interest income), cash, bank balances and all receivables (including but not limited to trade receivables, rental payable to the Laundry Group under the sub-letting mentioned in (3) below, other rent, water and electricity deposits, refundable tax (including provisional profits tax)) of or as the case may be, payable to the Laundry Group up to and as at the Completion Date;
- (2) all the machinery and facilities of which the Laundry Group is the owner and located at the workshop leased by the Laundry Group in Wanchai;
- (3) (a) the rental income after the Completion Date from sub-letting of certain factory premises by the Laundry Group to a third party for telecommunication transmission and related purpose; and (b) the licence fee paid in respect of such use for telecommunication transmission and related purpose, until transfer or the taking up of the sub-letting by the landlord of the factory premises; and
- (4) the entire amount of all refunds and/or payments from the trustee of the Mandatory Provident Fund to members of the Laundry Group in respect of long service payment or severance payments otherwise payable to the employees of the Laundry Group who have been laid off prior to Completion.

The Consideration and its payment term

The Consideration for the Disposal in the amount of HK\$4,000,000 has been paid in full by the Purchaser on Completion.

The Consideration was agreed at after arm’s length negotiations between the Vendor and the Purchaser having taken into consideration various factors, including but not limited to, (i) the loss making financial performance of the Laundry Group for the year ended 30 June 2020; (ii) the continuing adverse impact of COVID-19 on the laundry business of the Laundry Group and the uncertainty going forward; (iii) the likelihood of the Laundry Group remains to be loss making going forward given the unprecedented adverse impact of COVID-19 on the laundry business in Hong Kong; and (iv) substantial capital expenses required for maintaining the operation of the laundry business of the Laundry Group if the Group were not to dispose of it.

Post-Completion arrangements

The following post-Completion transitional arrangements are implemented:

- (1) In anticipation of the time required for a smooth handover and transition of the laundry business of the Laundry Group to the Purchaser after Completion:
 - (a) in consideration of the Purchaser agreeing to vacate the premises in Fanling leased by the Laundry Group and the time required to dismantle and remove all plants and machinery located at such leased premises, which is expected to require 4 months, the Vendor shall lease and pay the rental of such leased premises up to 30 April 2021; and
 - (b) the Vendor shall maintain its guarantee provided to a bank for a guarantee provided by the bank to The Hong Kong and China Gas Co. Ltd. for payment of gas charges by the Laundry Group up to 30 April 2021 provided that the Purchaser shall indemnify the Vendor for all costs, expenses and liabilities as may be incurred or suffered by the Group to the bank under the bank guarantee.
- (2) To facilitate the return of the Excluded Assets to the Group and checking of the relevant books and records post-Completion by the Group, the Laundry Group shall either engage the accounting staff from the Vendor as seconded staff to the Laundry Group or continue the employment of the current head of account of the Laundry Group for a period of 3 months from the Completion Date provided that each of the Vendor and the Purchaser shall bear 50% of the salary of the head of accounting of the Laundry Group.

After Completion, the Vendor shall be entitled to and the Purchaser agrees to pay to the Vendor (or as it may direct) 1% of the audited annual gross revenue of the Laundry Group from its existing customers net of any discount to the existing customers agreed between members of the Laundry Group and the existing Customers for a period of five years from 1 January 2021 to 31 December 2025 (both days inclusive).

INFORMATION ON THE LAUNDRY GROUP

General

The Laundry Group is principally engaged in the provision of laundry services which offer laundry, dry cleaning and linen management services to corporate customers, including major high-end hotels, restaurant chains, theme parks, airlines and clubs and also operate dry cleaning and laundry retail valet outlets under its “Kleaners” brand in Hong Kong.

Financial information of the Laundry Group

Set out below is a summary of the unaudited consolidated financial information of the Laundry Group for the periods mentioned below:

	For the year ended 30 June 2019	For the year ended 30 June 2020
	<i>(HKD '000)</i>	<i>(HKD '000)</i>
	(unaudited)	(unaudited)
Net profit (loss) before tax	3,233	(37,857)
Net profit (loss) after tax	2,698	(31,129)

As at the Completion Date, the unaudited consolidated total net asset of the Laundry Group net of the Excluded Assets was approximately HK\$30 million.

FINANCIAL EFFECT OF THE DISPOSAL ON THE COMPANY

Following Completion, members of the Laundry Group are no longer subsidiaries of the Company and their results of operation and financial position will not be consolidated in the financial statements of the Group.

For illustration purpose and subject to audit, a pre-tax loss of approximately HK\$26 million is expected to be recognised by the Company for the year ending 30 June 2021 as a result of the Disposal (representing the difference between the amounts of the Consideration and the net asset value of the Laundry Group net of the Excluded Assets at the Completion Date). The actual amount of loss to be recognised by the Company will be subject to audit and may be different from the amount of loss expected to be recognised.

INFORMATION ON THE PURCHASER

The Purchaser is a company incorporated in Hong Kong with limited liability principally engaged in investment holding.

The shareholders of the Purchaser are members of a family having a long and established history of laundry business in Hong Kong.

The Purchaser and its ultimate beneficial owners are Independent Third Parties save that one of the shareholders of the Purchaser holding a 10% interest in the Purchaser was a director of the Laundry Group (other than the Laundry Group Holding Company) in the past 12-months.

INFORMATION ON THE GROUP

The Company is an investment holding company and the holding company of the Group. The principal businesses of the Group include the provision of electrical and mechanical engineering services, environmental management services, facility services (including cleaning and, prior to completion of the Disposal, laundry services), property and facility management services and trading of building materials.

REASONS FOR AND THE BENEFITS OF THE DISPOSAL

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As part of the Disposal and except as agreed by both parties, employees of the Laundry Group have been laid off prior to Completion. The Group will offer employment opportunities within other members of the Group to the affected employees of the Laundry Group.

The Directors consider that the terms of the Disposal are fair and reasonable, the Disposal is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As set out in “Information on the Purchaser” in this announcement, the Purchaser is not a connected person of the Company. The Disposal does not constitute a connected transaction for the Company under Chapter 14A.

As all the applicable Percentage Ratios in respect of the Disposal does not exceed 5%, the Disposal does not constitute a discloseable transaction for the Company either and is not subject to announcement and shareholders’ approval requirements under Chapter 14.

DEFINITIONS

In this announcement, all references to Rules and Chapters are references to Rules and Chapters of the Listing Rules unless otherwise stated.

Unless the context otherwise requires, the following terms have the following meanings when used in this announcement:

“Agreement”	the agreement for sale and purchase of the Sale Share entered into between the Vendor as vendor, the Purchaser as purchaser and the Guarantor as guarantor on 9 December 2020
“Board”	the board of Directors
“Company”	FSE Services Group Limited (豐盛服務集團有限公司), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 331)

“Completion”	the completion of the Disposal in accordance with the Agreement
“Completion Date”	31 December 2020 on which Completion have taken place
“connected person”	has the meaning ascribed to it in the Listing Rules
“Consideration”	HK\$4,000,000, being the consideration for the Sale Share paid by the Purchaser to the Vendor under the Agreement
“Director(s)”	the director(s) of the Company
“Disposal”	the sale of the Laundry Group through the sale of the Sale Share to the Purchaser under and pursuant to the Agreement
“Excluded Assets”	has the meaning as defined the paragraph “Assets sold and Excluded Assets retained by the Group under the Agreement” in this announcement
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of The People’s Republic of China
“Independent Third Party”	a third party independent of and not connected with the Company and any connected person of the Company and is itself not a connected person of the Company
“Laundry Group”	Laundry Group Holding Company and its direct or indirect wholly-owned subsidiaries comprising Bright Team Enterprises Limited, New China Laundry Limited and Kleaners Limited all incorporated in Hong Kong within limited liability
“Laundry Group Holding Company”	New China Steam Laundry Limited, a company incorporated in the British Virgin Islands with limited liability and the holding company of the Laundry Group
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Percentage Ratios”	the applicable percentage ratios under Rule 14.07
“Purchaser”	Eastern Harbour Limited, a company incorporated in Hong Kong with limited liability

“Sale Share”	the one share in issue of the Laundry Group Holding Company of par value of HK\$1.00 representing the entire issued share capital of the Laundry Group Holding Company legally and beneficially owned by the Vendor
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Crystal Brilliant Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

By order of the Board
FSE Services Group Limited
Chan Ju Wai
Company Secretary

Hong Kong, 31 December 2020

As at the date of this announcement, the Board comprises Dr. Cheng Kar Shun, Henry (Chairman) and Mr. Wong Kwok Kin, Andrew as non-executive directors, Mr. Lam Wai Hon, Patrick (Vice Chairman), Mr. Poon Lock Kee, Rocky (Chief Executive Officer), Mr. Doo William Junior Guilherme, Mr. Lee Kwok Bong, Mr. Soon Kweong Wah and Mr. Wong Shu Hung (Dr. Cheng Chun Fai as his alternate) as executive directors, Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, Stephen, Mr. Lee Kwan Hung, Eddie and Dr. Tong Yuk Lun, Paul as independent non-executive directors.