



25 November 2022

*To: The independent board committee and the independent shareholders
of Xingye Wulian Service Group Co., Ltd.*

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 25 November 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter of advice forms part. Capitalised terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed “Definitions” in the Circular unless the context requires otherwise.

References are made to the prospectus of the Company dated 25 February 2020 (the “**Prospectus**”) and the announcement of the Company dated 28 August 2020 in relation to the continuing connected transactions under the Master Property Management Framework Agreements and the Master Property Engineering Framework Agreements, and the Supplemental Agreements to the Master Property Management Framework Agreements, respectively.

The Company intends to continue with the Master Property Management Framework Agreements (as amended by the Supplemental Agreements) and the Master Property Engineering Framework Agreements and to renew the relevant agreements on or before their expiry date on 31 December 2022. Accordingly, the Board announces that on 20 October 2022, the Company entered into (a) the 2022 Master Property Management Framework Agreements and (b) the 2022 Master Property Engineering Framework Agreements with each of Ever Diamond, Zensun Enterprises and Zensun Development respectively.

According to the Letter from the Board, the Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules and are subject to the announcement, circular and independent shareholders' approval requirements thereunder.

The Independent Board Committee comprising Mr. Xu Chun, Mr. Feng Zhidong and Mr. Zhou Sheng (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements (including the Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements at the EGM. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates. We consider ourselves independent to form our opinion in respect of the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements.

BASIS OF OUR OPINION

In formulating our opinion with regard to the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Prospectus and the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the EGM. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or future prospects of the Group, Zensun Group or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we did not conduct any investigation into the accuracy and completeness of such information.

In addition, Shareholders should note that as the Annual Caps are relating to future events and estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2025, and they do not represent forecasts of revenues or costs to be recorded from the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements. Consequently, we express no opinion as to how closely the actual revenues and costs to be recorded from the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements will correspond with the Annual Caps.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements, we have taken into consideration the following principal factors and reasons:

1. Background of the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements

Principal business of the Group

Established in 1999, the Group is a reputable property management service provider in Henan Province. The Group provides a wide range of property management services which include, amongst others, security, cleaning, greening and gardening, parking space management, repair and maintenance for common areas and customer services, and other value-added services.

The scope of property management services that are typically provided by the Group is as follows:

- *Security services* – access control into the building, patrolling within the building and its vicinity, video surveillance, carpark security, fire safety management, visitors registration and emergency response.
- *Cleaning, greening and gardening services* – general cleaning, garbage collection, greening and gardening services to common areas of the properties.
- *Parking space management services* – daily operation and maintenance of the car parks of properties under management by providing cleaning, security and facilities management services.
- *Repair, maintenance and management services* – repair, maintenance and management of (i) fire facilities and safety signs, such as fire alarm system, smoke sensors, fire extinguisher and conduct regular fire drills; (ii) utilities facilities such as lighting, drainage and sewage systems, water supply, water pump and tank systems; and (iii) security facilities such as entrance barrier and surveillance cameras, in common areas.
- *Customer services* – customer handling and feedback services in ensuring customers' satisfaction.

The scope of value-added services that are typically provided by the Group includes repair and maintenance for exclusive use areas, renovation waste clearance and intermediary leasing services, etc.

The Group's portfolio of properties under management expanded rapidly in recent years. The year-on-year expansion of the aggregate GFA of properties under management of the Group was approximately 33.3%, 50.0%, 29.2% and 110.7% from 2018 to 2021. As at 31 December 2021, the aggregate GFA of properties under the Group's management was approximately 6.6 million square metres (sq.m.).

Starting from October 2017, the Group also provides its customers with property engineering services which include planning, design and installation of security and surveillance systems, access control systems, carpark management systems and construction site management systems.

The scope of property engineering services that are typically provided by the Group is as follows:

- *Security and surveillance systems* – a CCTV system installed at property sites which connects to the Group’s property management system to enable real time monitoring.
- *Access control systems* – a system comprising smart card system, entry-exit system and video intercom system for monitoring entry into and out of the premises.
- *Carpark management systems* – a system comprising automatic licence plate detection and recognition systems installed at the entrances and exits of the car parks to identify vehicles such that only vehicles which have their licence plate details stored on the system can enter into the car park. Parking fees can be paid automatically via the platform.
- *Construction site management systems* – a system comprising facial recognition systems, smart card systems, CCTV systems and security cameras to keep track of the attendance of construction workers and ensure the security in construction sites, such as record of entry and exit time of workers.

Extracted from the annual reports of the Company for the years ended 31 December 2021 and 2020 and the Prospectus, the table below demonstrates the audited revenue of the Group generated from the property management and value-added services and property engineering services segments over the past five years:

| | For the year ended 31 December | | | | |
|--|---------------------------------------|----------------|----------------|----------------|----------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Property management and value-added services | 228,374 | 165,008 | 149,249 | 107,480 | 76,068 |
| Property engineering services | 45,722 | 45,904 | 34,143 | 18,297 | N/A |

As depicted by the above table, the Group’s segment revenue from property management and value-added services has been rising substantially during the past five consecutive years. In 2021, in view of the intensified competition in the property management services industry, the Group formulated new strategy to expand its pipeline property portfolio to residential properties other than non-residential properties. This new strategy has been successful in

bringing additional revenue to the Group. Revenue from property management and value-added services hence rose by approximately 38.4% in 2021 as compared to 2020. As regards the property engineering services segment, revenue also rose from approximately RMB18.3 million for the year ended 31 December 2018 to approximately RMB45.7 million for the year ended 31 December 2021, representing a cumulative growth of approximately 149.9%.

Information on members of Zensun Group

As extracted from the Letter from the Board, to the best of the Directors' knowledge, Ever Diamond Group is principally engaged in property development business in the PRC, Zensun Development Group is engaged in construction and renovation works in the PRC and Zensun Enterprises Group is engaged in property development, property investment, property management and sales services, and securities trading and investment.

Overview of the property management and property engineering services industry of Henan Province and Zhengzhou City

We understand that the Company had commissioned an independent industry consultant to conduct an analysis of the property management and property engineering services industry in Henan Province and Zhengzhou City, the report of which was included in the Prospectus (the "**Research Report**"). With reference to the Research Report and our further independent research, it is noted that the Group is operating under the market environment as summarised below:

Based on the statistics released by the National Bureau of Statistics, the total value and GFA of commodity properties sold in Henan Province was approximately RMB18,193.0 billion and 1,794.3 million sq.m., respectively, in 2021, increasing by approximately 4.8% and 1.9%, respectively, as compared to 2020. Whereas in Zhengzhou City, the total GFA of commodity properties under construction, newly commenced construction and completed was approximately 205.0 million sq.m., 31.7 million sq.m. and 21.9 million sq.m., respectively, in 2021, changing by approximately 5.4%, (3.7)% and 50.0%, respectively, as compared to 2020.

At the same time, both Henan Province and Zhengzhou City witnessed steady urbanization in recent years with the urbanization rate reaching approximately 56.5% and 79.1%, respectively, in 2021, increasing by approximately 1.0% and 0.7%, respectively, as compared to 2020. In addition, the per capita annual disposable income for urban population in Henan Province and Zhengzhou City has both been climbing in line with the national average growth. It is expected that the development of the property management and property engineering services industry will be boosted, as demand for higher quality property management and property engineer services will surge along with the improving livelihood.

In accordance with the Measures on the Charges of Property Management Enterprise in Zhengzhou (《鄭州市物業服務收費管理辦法》) (Zheng Jia Gong [2014] No. 4) (jointly issued by the Zhengzhou Price Bureau and the Zhengzhou Housing Security and Real Estate Administration Bureau on 1 August 2014 and came into effect on 1 September 2014),

non-residential property management service fees were allowed to be freely negotiated between the property management services companies and the property owners. According to the Research Report, since then, property management service fees of non-residential properties have been determined by factors including the quality of property projects, service level provided and the affordability level of owners in different regions and cities. Set out below are the historical and forecasted average property management fees of non-residential properties in Henan Province and Zhengzhou City as extracted from the Research Report:

| | | | | | | | | <i>(in RMB/sq.m./month)</i> | | |
|-----------------------|------|------|------|------|------|-------|-------|-----------------------------|-------|-------|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E | 2022E | 2023E |
| Henan Province | 4.76 | 4.80 | 4.84 | 4.94 | 5.09 | 5.18 | 5.27 | 5.36 | 5.45 | 5.54 |
| Zhengzhou City | 5.67 | 5.70 | 5.77 | 5.88 | 6.07 | 6.18 | 6.28 | 6.39 | 6.50 | 6.62 |

As for the property engineering services industry, according to the Research Report, it started to emerge in the PRC since the early 1990s, and achieved breakthrough in 2000 by the setting up of industry standards and advancement of technology which enabled its spread to encompass larger geographical coverage and building types. Based on the forecast of the Research Report, the future growth of the property engineering services industry will take place at a compound annual growth rate of approximately 13.0% from 2019 to 2023, with the market size attaining approximately RMB466.8 billion by 2023.

Reasons for the Transactions

As aforesaid, the Group is principally engaged in the provision of property management and value-added services and property engineering services, and both service segments have been expanding robustly in recent years in terms of service scope, scale of operation as well as revenue generating power.

As advised by the Directors, Ever Diamond Group and Zensun Enterprises Group engage in property development business in the PRC and, from time to time, the Group will provide Property Management and Value-added Services to their property development projects. On the other hand, Zensun Development Group engages in construction and renovation works in the PRC and, from time to time, the Group will provide Property Engineering Services for the properties that it is engaged for renovation works. The Group has been providing Property Management and Value-added Services as well as the Property Engineering Services to Zensun Group for a long time, thereby having established a long mutually benefit working relationship. For the two years ended 31 December 2021 and the nine months ended 30 September 2022, the Group has completed 49 projects for provision of Property Management and Value-added Services and 52 Property Engineering Services work. Based on the historical transaction amounts, the Board is confident that the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements will continue to bring in steady stream of revenue to the Group.

Taking into account the robust expansion of the Group's principal business in the provision of property management and value-added services and property engineering services and the expected continual demand for Property Management and Value-added Services and Property Engineering Services by Ever Diamond Group, Zensun Development Group and Zensun Enterprises Group (as the case may be), we concur with the Directors that the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

2. Principal terms of the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements

The 2022 Ever Diamond Master Property Management Framework Agreement and the 2022 Zensun Enterprises Master Property Management Framework Agreement

Principal terms of the 2022 Ever Diamond Master Property Management Framework Agreement and the 2022 Zensun Enterprises Master Property Management Framework Agreement are summarised as follows:

- Parties:** Under the 2022 Ever Diamond Master Property Management Framework Agreement:
- (1) The Company; and
 - (2) Ever Diamond.
- Under the 2022 Zensun Enterprises Master Property Management Framework Agreement:
- (1) The Company; and
 - (2) Zensun Enterprises.
- Term:** Commencing from the Effective Date and shall continue up to and including 31 December 2025, unless terminated earlier.
- Subject matter:** Pursuant to the 2022 Ever Diamond Master Property Management Framework Agreement and the 2022 Zensun Enterprises Master Property Management Framework Agreement, the Group shall provide the following Property Management and Value-added Services to Ever Diamond Group and Zensun Enterprises Group:
- property management services which include, amongst others, security, cleaning, greening and gardening, parking space management, repair and maintenance for (i) common areas of properties under management; (ii) sales offices and show flats; and (iii) exclusive use areas designated by Ever Diamond or Zensun Enterprises (as the case may be); and
 - value-added services which include repair and maintenance for exclusive use areas, renovation waste clearance, intermediary leasing services, etc.

Pricing policy:

The basis for charging the fees depend on the nature of the Property Management and Value-added Services provided.

For property management services for (i) common areas of properties under management; and (ii) exclusive use areas designated by Ever Diamond or Zensun Enterprises, fees to be charged are based on a unit rate for each square metre of GFA being managed by the Group.

For property management services for sales offices and show flats (save for greening and gardening services), fees to be charged are based on a fixed sum per month determined by a mark-up of approximately 8% on cost incurred by the Group in providing the services.

For each property project requiring property management services in common areas, the Group shall receive tender invitations from Ever Diamond Group or Zensun Enterprises Group. For other Property Management and Value-added Services (including property management services to sales offices and show flats and exclusive use areas designated by Ever Diamond or Zensun Enterprises, and value-added services), the Group shall receive quotations invitations from Ever Diamond Group or Zensun Enterprises Group.

If the Group decides to submit a tender or quotation, the Group shall determine its tender sum or quotation either based on a unit rate or fixed sum as set out above after taking into account (i) the nature and location of the properties; (ii) scope and quality of the service required; (iii) expected operational costs (including staff costs, subcontracting costs, material costs and operational administrative expenses); (iv) standard fees or pricing guidance on property management fees designated by local government and/or relevant regulatory authorities (if any); (v) the 50% discount for the property management fees the Group usually offers for unsold properties; and (vi) potential competitors' pricing. The service fees and terms set out in the tender or quotation shall be no less favourable to the Group than the standard fees to be offered and terms available to Independent Third Parties.

As confirmed by the Directors, the unit rate of the service fees that the Group charged to Ever Diamond Group and Zensun Enterprises Group was determined in accordance with the standard pricing terms maintained by the Group (the “**Standard Pricing Terms**”), i.e. for common areas of properties under management and exclusive use areas, subject to factors such as the nature and location of the properties and scope and quality of the service required, a unit rate ranging from approximately RMB3.0 per sq.m./month to RMB12.4 per sq.m./month, which were fairly applicable to all customers. As also shown in the sub-section headed “Overview of the property management and property engineering services industry of Henan Province and Zhengzhou City” of this letter of advice, according to the Research Report, the forecasted average property management service fees of non-residential properties in Henan Province and Zhengzhou City from 2020 to 2022 were approximately RMB5.36 per sq.m./month and RMB6.39 per sq.m./month, respectively. The unit rate of the service fees that the Group charged to Ever Diamond Group and Zensun Enterprises Group, which averaged to approximately RMB7.7 per sq.m./month, was therefore acceptable as compared to the average market rates.

In addition, based on our independent research, the results of which to the best of our knowledge are fair and exhaustive, the mark-up of 8% on cost for providing the Property Management and Value-added Services adopted by the Group is within the range of and higher than the net profit margin of five out of the 11 comparable companies. The comparable companies are Hong Kong listed companies which are principally engaging in similar businesses as the Group, being the provision of property management and related services within the PRC, and are of similar market capitalization as the Company (i.e. below HK\$400 million as at 20 October 2022) (Note: the Company’s market capitalization was approximately HK\$304 million as at 20 October 2022). The table below sets out our relevant findings:

| Company name (stock code) | Approximate market capitalization as at 20 October 2022 (HK\$ million) | Net profit margin in 2021 |
|--|---|------------------------------|
| Jiayuan Services Holdings Limited (1153) | 294 | 12.25% |
| Zhong Ao Home Group Limited (1538) | 261 | 5.67% |
| Xinyuan Property Management Service (Cayman) Ltd. (1895) | 272 | 15.91% |
| Ye Xing Group Holdings Limited (1941) | 90 | 9.12% |
| AUX International Holdings Limited (2080) | 239 | 3.44% |
| Ling Yue Services Group Limited (2165) | 149 | 13.05% |
| Kaisa Prosperity Holdings Limited (2168) | 358 | 2.13% |
| Beijing Capital Jiaye Property Services Co., Limited (2210) | 79 | 6.26% |
| Zhenro Services Group Limited (6958) | 379 | 13.07% |
| Sundy Service Group Co. Ltd (9608) | 234 | 17.27% |
| Fineland Living Services Group Limited (9978) | 58 | 3.53% |

Furthermore, for unsold properties, a 50% discount on the property management service fees is usually offered by the Group. According to the Research Report, the range of discounts on property management service fees for unsold properties in Henan Province and Zhengzhou City is from 50% to 70%, with an average of around 53%. Thus, the Group's practice of offering 50% discount on property management service fees for unsold properties is in line with the market norm.

As further advised by the Directors, the Group was required to submit a tender or quotation for provision of Property Management and Value-added Services to Zensun Group. Upon successful winning of the tender, the Group would enter into an individual property management services agreement with Zensun Group based on the bidding proposal submitted by the Group. For our due diligence purpose, we have reviewed ten samples of the relevant tender documents which were selected by us on a random basis and were considered to be sufficient and representative.

In view of the foregoing, we consider that the terms of the 2022 Ever Diamond Master Property Management Framework Agreement and the 2022 Zensun Enterprises Master Property Management Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

The 2022 Zensun Development Master Property Management Framework Agreement

Principal terms of the 2022 Zensun Development Master Property Management Framework Agreement are summarised as follows:

- Parties:** (1) The Company; and
(2) Zensun Development.
- Term:** Commencing from the Effective Date and shall continue up to and including 31 December 2025, unless terminated earlier.
- Subject matter:** Pursuant to the 2022 Zensun Development Master Property Management Framework Agreement, the Group shall provide the following Property Management and Value-added Services to Zensun Development Group:
- property management services which include, amongst others, security, cleaning, greening and gardening, parking space management, repair and maintenance for common areas and customer services; and
 - value-added services which include repair and maintenance for exclusive use areas, renovation waste clearance, intermediary leasing services, etc.

The Property Management and Value-added Services to Zensun Development Group will usually be provided in the construction site or renovation site where Zensun Development Group undertakes construction or renovation works.

Pricing policy:

The fees to be charged for the Property Management and Value-added Services will usually be a lump-sum fee charged on each construction site or renovation site and such fee will be determined after taking into account:

- (a) the nature and location of the properties;
- (b) the length or service period, scope and quality of the service required;
- (c) the expected operational costs (including staff costs, subcontracting costs, material costs and operational administrative expenses);
- (d) the 50% discount for the property management fees the Group usually offers for unsold properties; and
- (e) the pricing of Property Management and Value-added Services offered by the Group to other Independent Third Parties in pre-development stages.

In order to ensure that the fees charged by the Group to Zensun Development Group would be comparable to/no less favourable than the fees charged to other Independent Third Parties, the marketing department of the Group shall review at least two recent contracts entered into by the Group and Independent Third Parties for provision of the Property Management and Value-added Services in pre-development stages to ensure that the price and terms offered to Zensun Development Group shall be no less favourable to the Group than that offered to Independent Third Parties.

As advised by the Directors, the Company will take into account factors (a) to (e) above to determine the fees to be charged for the Property Management and Value-added Services. We consider factors (a) to (c) to be fair and reasonable. Factor (d), the 50% discount for the property management fees, is also in line with the market norm according to the Research Report. Given that the Group shall further review the comparable contracts for provision of the Property Management and Value-added Services to Independent Third Parties to ensure that the price and terms offered to Zensun Development Group shall be no less favourable, the fairness and reasonableness of fees to be charged to Zensun Development Group is warranted. Based on our due diligence review, the implicit unit rate of the service fees that the Group charged

to Zensun Development Group ranged from approximately RMB2.8 per sq.m./month to RMB10.5 per sq.m./month, with an average of approximately RMB6.7 per sq.m./month which was also acceptable as compared to the average market rates according to the Research Report.

In view of the foregoing, we consider that the terms of the 2022 Zensun Development Master Property Management Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

The 2022 Master Property Engineering Framework Agreements

Principal terms of the 2022 Ever Diamond Master Property Engineering Framework Agreement, the 2022 Zensun Development Master Property Engineering Framework Agreement and the 2022 Zensun Enterprises Master Property Engineering Framework Agreement are summarised as follows:

- Parties:**
- Under the 2022 Ever Diamond Master Property Engineering Framework Agreement:
- (1) The Company; and
 - (2) Ever Diamond.
- Under the 2022 Zensun Development Master Property Engineering Framework Agreement:
- (1) The Company; and
 - (2) Zensun Development.
- Under the 2022 Zensun Enterprises Master Property Engineering Framework Agreement:
- (1) The Company; and
 - (2) Zensun Enterprises.
- Term:**
- Commencing from the Effective Date and shall continue up to and including 31 December 2025, unless terminated earlier.

Subject matter:

Pursuant to the 2022 Master Property Engineering Framework Agreements, the Group shall provide the following Property Engineering Services to Ever Diamond Group, Zensun Development Group and Zensun Enterprises Group:

- procurement, planning, design, installation, commissioning and testing of equipment and materials for the perimeter prevention system, surveillance system, visual intercom system, electronic patrol system, background music system, vehicle management system, pedestrian management system, construction site management system, wireless wifi system, LED display, and its intelligent basic network system, etc.;
- submission of all technical documents required for equipment and material inspection, testing, operation, maintenance, training and other requirements for each system; and
- warranty services during the warranty period.

Pricing policy:

The fees to be charged for the Property Engineering Services will be determined after taking into account the complexity and the scope of service required. The service fees shall not be less favourable than the fees to be charged to Independent Third Parties.

In order to ensure that the fees charged by the Group to Zensun Group would be comparable to/no less favourable than the fees charged to other Independent Third Parties, the Group shall conduct market research and make reference to the price of successful tenders of Zensun Group to understand at least two potential competitors' pricing and the fees charged by the Group to Zensun Group shall not be less favourable to the Group than the fees charged by Independent Third Parties.

In addition, the Group may receive tender invitations from Zensun Group for provision of the Property Engineering Services. If the Group decides to submit a tender or quotation, the Group shall determine its tender sum or quotation based on a unit rate or fixed sum after taking into account (i) the materials to be used in the systems to be installed and the quality required; (ii) the expected operational costs (including staff costs and material costs); and (iii) competitors' pricing. The service fees and terms set out in the tender or quotation shall be no less favourable to the Group than the fees charged by Independent Third Parties.

We understand from the Directors that the service fees for the Property Engineering Services were fixed with reference to relevant price information collected through market research, after taking to account the complexity and the scope of service required. Normally, the service fees were a fixed sum per month determined by a margin on cost for providing the Property Engineering Services. Based on the information provided by the Company, the net profit margins of the individual property engineering agreements entered into between the Group and Zensun Group were around 8% to 10% which was acceptable based on the peers' profit margin comparison as discussed in Section 2 above.

For our due diligence purpose, we have requested the Company to provide us with 20 samples of individual property engineering agreements entered into between the Group (as service provider) and members of Zensun Group (as service recipients). From the sample agreements provided, we noted that their salient terms include:

| | |
|--|--|
| Responsibilities | The Group was typically responsible for providing services in accordance with the scope and standards prescribed in the relevant agreement and in compliance with all applicable laws and regulations. |
| Payment terms | Payment was generally due upon achieving certain milestones or successful completion of property engineering services. |
| Warranty | The Group was required to provide further warranty period after the date of delivery of service. |
| Rights and obligations of property developers | Property developers were responsible for paying the service fees. They were also responsible for assisting in the property engineering process in their best endeavors and monitoring and inspecting the progress and quality of the services. |
| Termination | If the Group failed to provide the services in accordance with the scope and standards prescribed in the relevant agreement, the Group was required to take necessary rectification measures within the period required by the property developers. In the event that the Group failed to do so, property developers had the right to terminate the agreement. |
| Dispute resolution | Parties were typically required to resolve any contractual disputes through negotiations or mediation first, failing which the dispute was to be resolved through court proceedings. |

We are of the opinion that the above salient terms are on normal commercial terms.

For our due diligence purpose, we have also reviewed five samples of the relevant tender documents which were selected by us on a random basis and were considered to be sufficient and representative.

In view of the foregoing, we consider that the terms of the 2022 Master Property Engineering Framework Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. The Annual Caps

The Property Management Annual Caps

The following table illustrates (i) the historical transaction amounts for the Property Management and Value-added Services provided by the Group to each of Ever Diamond Group, Zensun Enterprises Group and Zensun Development Group; and (ii) the proposed annual caps for the three years ending 31 December 2025 under the 2022 Master Property Management Framework Agreements (the “**Property Management Annual Caps**”):

| | The historical transaction amounts | | |
|---------------------------------|------------------------------------|--------------------|---|
| | 2020 | 2021 | For the nine months ended 30 September 2022 |
| | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| Ever Diamond Group | 14.6 | 12.7 | 11.2 |
| Zensun Enterprises Group | 12.2 | 29.1 | 15.5 |
| Zensun Development Group | 0.02 | 0.2 | 0.15 |

| | The Property Management Annual Caps | | |
|---------------------------------|-------------------------------------|--------------------|--------------------|
| | 2023 | 2024 | 2025 |
| | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| Ever Diamond Group | 12.7 | 12.9 | 13.0 |
| Zensun Enterprises Group | 28.9 | 31.6 | 32.3 |
| Zensun Development Group | 3.2 | 3.7 | 3.9 |

As advised by the Directors, when determining the Property Management Annual Caps, they have taken into account (i) the historical transaction amounts; (ii) the properties to be delivered by Zensun Group based on their current development schedule and plans for 2023 to 2025; and (iii) the percentage of historical and expected unsold GFA for properties delivered or to be delivered by Zensun Group which require the Property Management and Value-added Services.

For our due diligence purpose, we have requested and obtained the full schedule of the properties to be delivered by Zensun Group for 2023 to 2025 which require the Property Management and Value-added Services, with detailed information regarding the expected delivery date and sales timetable of each of those properties. We have also requested and obtained the list of other pipeline properties which are on schedule to be developed by Zensun Group, with detailed information regarding the expected GFA to be delivered, the roll-out plan and expected proportion of unsold properties of those pipeline properties. Among those projects as listed out for calculations of the Property Management Annual Caps, we have randomly selected and reviewed 30 of them to check as if the contract values and expected term of services as stated in the Property Management Annual Caps' calculations match with the corresponding agreement terms.

After reviewing the aforesaid documents and calculations, it is noted that the Property Management Annual Caps were reasonably estimated based on the projects need of Zensun Group.

Furthermore, we noted that the proposed annual caps under the 2022 Ever Diamond Master Property Management Framework Agreement are largely comparable to the historical transaction amounts for 2022. Whereas those under the 2022 Zensun Enterprises Master Property Management Framework Agreement are relatively higher than the actual transaction amount for 2022 (as annualized based on the nine-month figure) but are comparable to that for 2021. Upon our enquiry, the Directors advised us that as there has been delay in construction and delivery of some of the property projects of Zensun Enterprises Group as a result of the Covid-19 pandemic, the actual transaction amount for the nine months ended 30 September 2022 was relatively lower. Notwithstanding this, it is expected that the demand for Property Management and Value-added Services from Zensun Enterprises Group will bounce back to the 2021 level in the near future. With regard to the proposed annual caps under the 2022 Zensun Development Master Property Management Framework Agreement, they are much higher than the historical transaction amount for 2022 given that a number of new individual property management agreements have been/will be entered into between the Group and Zensun Development Group in 2022, resulting in substantial increase in the expected transaction amounts in the coming few years.

In light of all the above, we are of the opinion that the Property Management Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

The Property Engineering Annual Caps

The following table illustrates (i) the historical transaction amounts for the Property Engineering Services provided by the Group to each of Ever Diamond Group, Zensun Development Group and Zensun Enterprises Group; and (ii) the proposed annual caps for the three years ending 31 December 2025 under the 2022 Master Property Engineering Framework Agreements (the “**Property Engineering Annual Caps**”):

| | The historical transaction amounts | | |
|---------------------------------|---|--------------------|--------------------------------------|
| | | | For the nine months ended |
| | 2020 | 2021 | 30 September 2022 |
| | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| Ever Diamond Group | 15.8 | 11.3 | 6.8 |
| Zensun Development Group | 15.0 | 17.6 | 13.5 |
| Zensun Enterprises Group | 14.9 | 16.9 | 18.6 |

| | The Property Engineering Annual Caps | | |
|---------------------------------|---|--------------------|--------------------|
| | 2023 | 2024 | 2025 |
| | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| Ever Diamond Group | 12.9 | 12.9 | 11.6 |
| Zensun Development Group | 19.3 | 20.3 | 21.3 |
| Zensun Enterprises Group | 26.6 | 29.7 | 32.1 |

As advised by the Directors, when determining the Property Engineering Annual Caps, they have taken into account: (i) the historical transaction amounts; (ii) the number of projects for which the Group had been engaged by Zensun Group to provide Property Engineering Services; (iii) the number of property projects under development and planning by Zensun Group requiring Property Engineering Services based on their current development schedule and plans for 2023 to 2025; and (iv) the expected annual increment in service fees for the Property Engineering Services to be charged by the Group.

For our due diligence purpose, we have requested and obtained the full schedule of the projects under development of Zensun Group which require the Property Engineering Services, with detailed information regarding the expected working timetable and completion date of each of those properties. We have also requested and obtained the list of other pipeline projects which are on schedule to be developed by Zensun Group, with detailed information regarding the expected GFA to be constructed, the roll-out and expected development plan of those pipeline properties. Among those projects as listed out for calculations of the Property Engineering Annual Caps, we have randomly selected and reviewed 20 of them to check as if the contract values and expected term of services as stated in the Property Engineering Annual Caps’ calculations match with the corresponding agreement terms.

After reviewing the aforesaid documents and calculations, it is noted that the Property Engineering Annual Caps were reasonably estimated based on the projects need of Zensun Group.

Furthermore, we noted that the Property Engineering Annual Caps are largely comparable to their respective historical transaction amounts for 2022 (as annualized based on the nine-month figure), with slight annual growth. We understand from the Directors that such slight growth represents the expected annual increment in service fees for the Property Engineering Services to be charged by the Group. In this relation, we noted that according to the Research Report, there would be a 4% to 10% annual increment in the service fees for the Property Engineering Services to be charged by the Group judging from the service fees charged by other system developers and solution providers, the economic growth of Henan Province and the expected inflation rate. As such, we are of the view that the aforesaid increment is acceptable.

In light of all the above, we are of the opinion that the Property Engineering Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

4. Internal control and compliance with the Listing Rules

As referred to in the Letter from the Board, the Group has formulated a series of internal control measures to supervise the Transactions.


Moreover, the Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 and 14A.55 of the Listing Rules pursuant to which (i) the amounts of the Transactions must be restricted by the respective Annual Caps for the years concerned under the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements; (ii) the terms of the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements (together with the Annual Caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements (together with the Annual Caps) must be included in the Company's subsequent published annual reports and financial accounts. Moreover, as stipulated under Rule 14A.56 of the Listing Rules, auditors of the Company must provide a letter to the Board confirming, among other things, that the Transactions are carried out in accordance with the pricing policies of the Company, and the Annual Caps are not being exceeded. In the event that the total amounts of the Transactions exceed their respective Annual Caps, or that there is any material amendment to the terms of the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements, the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

With the internal control measures of the Group as well as the aforesaid stipulated requirements for continuing connected transactions of the Listing Rules in place, the Transactions will be monitored and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements (including the Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the 2022 Master Property Management Framework Agreements and the 2022 Master Property Engineering Framework Agreements, and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

**Yours faithfully,
For and on behalf of
VBG Capital Limited**

A handwritten signature in black ink, appearing to read 'Doris Sing' followed by some initials 'RC'.

Doris Sing
Managing Director

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 17 years of experience in corporate finance industry.