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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Excellence Commercial Property & Facilities Management Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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Excellence

**EXCELLENCE COMMERCIAL PROPERTY &  
FACILITIES MANAGEMENT GROUP LIMITED**

**卓越商企服務集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 6989)**

**REVISION OF EXISTING ANNUAL CAPS AND  
SETTING OF NEW ANNUAL CAPS FOR  
EXISTING CONTINUING CONNECTED TRANSACTIONS  
AND**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



**裕韜資本有限公司**

**Euto Capital Partners Limited**

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Unless the context otherwise requires, capitalized terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 6 to 33 of this circular and a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 34 to 35 of this circular. A letter from Euto Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 36 to 82 of this circular.

A notice convening the EGM of the Company to be held at Greater Bay Area Room, 38A Floor, Tower 4, Excellence Century Center, Fuhua Third Road, Futian District, Shenzhen, Guangdong Province, PRC on Tuesday, 22 November 2022 at 10 a.m. is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the meeting (i.e. not later than 10 a.m on Sunday, 20 November 2022) or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

**ARRANGEMENTS FOR THE EGM IN LIGHT OF COVID-19**

To safeguard the health and safety of the Shareholders, the Company will implement the following precautionary measures at the EGM to prevent the spreading of the COVID-19:

- (1) Compulsory body temperature checks will be conducted for every attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the EGM venue and be requested to leave the EGM venue;
- (2) Every attendee will be required to wear surgical facial mask throughout the EGM and maintain a safe distance between seats. Please note that no masks will be provided at the EGM venue and attendees should wear their own masks; and
- (3) The Company will not provide refreshments and will not distribute corporate gifts.

Any person who does not comply with the precautionary measures may be denied entry into the EGM venue. In light of the continuing risks posed by the COVID-19, the Company encourages the Shareholders to consider appointing the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

8 November 2022

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

“2022 Supplemental Master Construction Material Trading Agreement”	the 2022 supplemental master construction material trading agreement dated 22 July 2022 entered into between our Company and Mr. Li Wa
“2022 Supplemental Master Property Management Services Agreement”	the 2022 supplemental master property management services agreement dated 22 July 2022 entered into between our Company and Mr. Li Wa
“2022 Supplemental Master Supply and Installation Agreement”	the 2022 supplemental master supply and installation agreement dated 22 July 2022 entered into between our Company and Mr. Li Wa
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	board of Directors
“Company”	Excellence Commercial Property & Facilities Management Group Limited, an exempted company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the main board of the Stock Exchange (Stock code: 6989)
“connected person(s)”	has the meaning as ascribed to it under the Listing Rules
“Construction Materials”	construction materials including wires and cables, ceramic tiles and wooden flooring
“controlling shareholder”	has the meaning as ascribed to it under the Listing Rules
“COVID-19”	the coronavirus disease which was first reported in late 2019
“Director(s)”	the director(s) of our Company
“EGM”	the extraordinary general meeting of the Company (or any adjournment thereof) to be convened and held at Greater Bay Area Room, 38A Floor, Tower 4, Excellence Century Center, Fuhua Third Road, Futian District, Shenzhen, Guangdong Province, PRC on Tuesday, 22 November 2022 at 10 a.m. or any adjournment thereof (as the case may be), the notice of which is set out on pages EGM-1 to EGM-3 of this circular

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## DEFINITIONS

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“Excellence Group”	Excellence Real Estate and its subsidiaries
“Excellence Real Estate”	Excellence Real Estate Group Co., Ltd. (卓越置業集團有限公司), a company established in the PRC with limited liability on 21 June 1996, which is indirectly owned as to 95% by Mr. Li Wa (李華) and 5% by Mr. Li Xiaoping (李曉平)
“Existing Annual Caps”	the annual caps under the Relevant Agreements for FY2022 (as the case may be)
“FY2020”	the financial year ended 31 December 2020
“FY2021”	the financial year ended 31 December 2021
“FY2022”	the financial year ending 31 December 2022
“FY2023”	the financial year ending 31 December 2023
“Group”	our Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the board comprising all the independent non-executive Directors namely, Mr. Huang Mingxiang, Mr. Kam Chi Sing and Ms. Liu Xiaolan, to advise the Independent Shareholders in respect of the Relevant Continuing Connected Transactions
“Independent Financial Adviser” or “Euto Capital”	Euto Capital Partners Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Relevant Continuing Connected Transactions
“Independent Shareholders”	the Shareholders other than Mr. Li Wa, Mr. Li Xiaoping and their associates or any Shareholder who has a material interest in the transactions who, pursuant to the Listing Rules, must abstain from voting on the resolutions approving the Relevant Continuing Connected Transactions and other related matters

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## DEFINITIONS

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“Independent Third Parties”	any entity or person who is not a connected person of our Company
“JLL”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, which is a well-known industry expert and an Independent Third Party
“Latest Practicable Date”	26 October 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Date”	19 October 2020
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Master Construction Material Trading Agreement”	the master construction material trading agreement dated 12 November 2021 entered into between our Company and Mr. Li Wa
“Master Property Management Services Agreement”	the master property management services agreement dated 5 October 2020 entered into between our Company and Mr. Li Wa
“Master Supply and Installation Agreement”	the master supply and installation agreement dated 5 October 2020 entered into between our Company and Mr. Li Wa
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Mr. Li Wa”	Mr. Li Wa (李華), a controlling shareholder of our Company
“Mr. Li’s Companies”	companies which are associates of Mr. Li Wa
“New Annual Caps”	the annual caps under the Supplemental Agreements for the financial years ending 31 December 2022 and 31 December 2023 accordingly (as the case may be)
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan

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## DEFINITIONS

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“Property Management Services”	the property management services to be provided by our Group under the Master Property Management Services Agreement, the service scope of which includes, but is not limited to, (i) pre-delivery services including (a) the on-site security, cleaning, and display units and on-site sales office management services; (b) preliminary planning and design consultancy services; (c) house inspection; and (d) pre-delivery cleaning services; and (ii) the property management services for the unsold residential property units and commercial properties owned and used by Mr. Li’s Companies
“Prospectus”	the prospectus of our Company dated 7 October 2020
“Relevant Agreements”	the Master Property Management Services Agreement, the Master Supply and Installation Agreement and the Master Construction Material Trading Agreement
“Relevant Continuing Connected Transactions”	the Supplemental Agreements and the transactions contemplated thereunder
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary shares with nominal value of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	registered holders of the Shares from time to time
“Shopping Mall A”	a shopping mall named One Avenue which is developed and owned by a company which is one of Mr. Li’s Companies and located at Futian District, Shenzhen with GFA of approximately 300,000 sq.m.
“sq.m.”	square metre(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreements”	the 2022 Supplemental Master Property Management Services Agreement, the 2022 Supplemental Master Supply and Installation Agreement and the 2022 Supplemental Master Construction Material Trading Agreement

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## DEFINITIONS

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“System Supply and Installation Services”      the system supply and installation services which our Group agreed to provide, which includes to provide assistance to the supply of the Systems and related installation services to Mr. Li’s Companies

“Systems”      the (a) ventilation and air conditioning system; (b) floor heating and water heating system; (c) light current engineering system, including but not limited to, the parking lot gates, the access gates and video surveillance cameras; (d) water supply and drainage engineering system and heavy current engineering system; and (e) electrical system

“%”      per cent.

\*      *For identification purposes only*

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LETTER FROM THE BOARD

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**EXCELLENCE COMMERCIAL PROPERTY &  
FACILITIES MANAGEMENT GROUP LIMITED**

**卓越商企服務集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 6989)**

*Executive Directors:*

Mr. Li Xiaoping (*Chairman*)

Ms. Guo Ying

*Non-executive Directors:*

Mr. Wang Dou

Mr. Wang Yinhu

*Registered Office:*

Cricket Square

Hutchins Drive

PO Box 2681

Grand Cayman

KY1-1111

Cayman Islands

*Independent Non-executive Directors:*

Mr. Huang Mingxiang

Mr. Kam Chi Sing

Ms. Liu Xiaolan

*Principal Place of Business in Hong Kong:*

40th Floor, Dah Sing Financial Centre

248 Queen's Road East

Wanchai

Hong Kong

8 November 2022

*To the Shareholders*

Dear Sir or Madam,

**REVISION OF EXISTING ANNUAL CAPS AND  
SETTING OF NEW ANNUAL CAPS FOR  
EXISTING CONTINUING CONNECTED TRANSACTIONS  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 22 July 2022 in relation to, among others, the Relevant Continuing Connected Transactions. Pursuant to the Listing Rules, the Supplemental Agreements constitute continuing connected transactions of the Company.

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## LETTER FROM THE BOARD

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As it is expected that the Existing Annual Caps will not be sufficient to meet the needs of our Group's business growth in the future and/or our Group will continue to carry out the connected transactions under the Relevant Agreements in FY2023, our Company therefore entered into the Supplemental Agreements for the purpose of extending the term of the Relevant Agreements, revising/increasing the Existing Annual Caps and setting the New Annual Caps.

The purposes of this circular are to provide the Shareholders with, among other things, (i) further details on the Relevant Continuing Connected Transactions; (ii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; and (iv) a notice of the EGM to consider and, if thought fit, to approve the Relevant Continuing Connected Transactions.

### **2022 SUPPLEMENTAL MASTER PROPERTY MANAGEMENT SERVICES AGREEMENT**

Reference is made to the section headed "Connected Transactions" in the Prospectus in respect of, among other things, the Master Property Management Services Agreement entered into between our Company and Mr. Li Wa for a term commencing from the Listing Date until 31 December 2022.

As it is expected that the Existing Annual Cap for the Master Property Management Services Agreement will not be sufficient to meet the needs of our Group's business growth in the future and our Group will continue to provide the Property Management Services to Mr. Li's Companies for FY2023, our Company therefore entered into the 2022 Supplemental Master Property Management Services Agreement for the purpose of extending the term of the Master Property Management Services Agreement, increasing the Existing Annual Cap and setting the New Annual Caps.

From 1 January 2022 and up to the Latest Practicable Date, none of the actual transaction amounts under the Master Property Management Services Agreement had exceeded the Existing Annual Cap for FY2022 under the Master Property Management Services Agreement.

#### **Principal terms**

The principal terms of the 2022 Supplemental Master Property Management Services Agreement are as follows:

- Date:** 22 July 2022
- Parties:** (a) our Company; and  
(b) Mr. Li Wa

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## LETTER FROM THE BOARD

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**Service scope:** Pursuant to the 2022 Supplemental Master Property Management Services Agreement, our Group will enter into individual agreements with Mr. Li's Companies to provide property management services, the service scope of which includes, but is not limited to, (i) pre-delivery services including (a) the on-site security, cleaning, and display units and on-site sales office management services; (b) preliminary planning and design consultancy services; (c) house inspection; and (d) pre-delivery cleaning services; and (ii) the property management services for the unsold residential property units and commercial properties owned and used by Mr. Li's Companies. The pre-delivery services are mainly provided to Mr. Li's Companies to assist in preparing, showcasing and marketing the properties developed by Mr. Li's Companies at a pre-sale stage while the property management services for the unsold residential property units and commercial properties owned and used by Mr. Li's Companies are mainly provided to Mr. Li's Companies to provide basic property management services to residential property units and commercial properties owned by Mr. Li's Companies.

**Term:** Subject to the Independent Shareholders' approval, the 2022 Supplemental Master Property Management Services Agreement will be for a term up to and including 31 December 2023. Subject to compliance with the Listing Rules, the 2022 Supplemental Master Property Management Services Agreement may be renewed by our Company and Mr. Li Wa by agreement in writing. Save for the revision of the Existing Annual Caps of the relevant transactions under the 2022 Supplemental Master Property Management Services Agreement, other terms of the Master Property Management Services Agreement remain unchanged.

## LETTER FROM THE BOARD

### Historical transaction amounts

For FY2020, FY2021 and the six months ended 30 June 2022 respectively, the total amount of service fees received and/or receivable by our Group under the Master Property Management Services Agreement are set out as below:

	(Audited)		(Unaudited)
	Year ended 31 December		Six months ended
	2020	2021	30 June
	(RMB'000)	(RMB'000)	2022
			(RMB'000)
(i) Pre-delivery services	127,240	187,897	147,043
(ii) Property management services for the unsold residential property units and commercial properties owned and used by Mr. Li's Companies	71,960	102,663	54,626
<b>Total service fees received/receivable by our Group under the Master Property Management Services Agreement</b>	<b>199,200</b>	<b>290,560</b>	<b>201,669</b>
Existing Annual Cap	204,806	291,739	370,300
Utilisation rate	97.3%	99.6%	54.5%

### Revision of Existing Annual Cap and the setting of New Annual Caps

The Existing Annual Cap and the New Annual Caps for FY2022 and FY2023 respectively by type of services for the Master Property Management Services Agreement will be as follows:

	Existing Annual Cap Year ending 31 December 2022 (RMB'000)	New Annual Caps Year ending 31 December 2022 2023 (RMB'000)	
(i) Pre-delivery services	284,082	320,103	316,570
(ii) Property management services for the unsold residential property units and commercial properties owned and used by Mr. Li's Companies	86,218	165,611	287,239
Buffer	–	5%	5%
<b>Existing/New Annual Caps for the Master Property Management Services Agreement</b>	<b>370,300</b>	<b>510,000</b>	<b>634,000</b>

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## LETTER FROM THE BOARD

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The New Annual Caps for the 2022 Supplemental Master Property Management Services Agreement were determined based on (including but not limited to):

- (i) the historical service fees received/receivable by our Group in relation to the provision of the Property Management Services during FY2020, FY2021 and the six months ended 30 June 2022;
- (ii) the estimated services fees receivable under the 2022 Supplemental Master Property Management Services Agreement for FY2022 and FY2023 respectively;
- (iii) a reasonable buffer of approximately 5% to cater for (a) the unexpected business growth; (b) the estimated inflation rate in the PRC; and (c) on the general assumption that there will not be any change or disruption in the market conditions, operation and business environment or government policies which may materially and adversely affect the businesses of our Group or Mr. Li's Companies during the transaction period;

*In respect of the annual caps for the Property Management Services of providing pre-delivery services:—*

- (iv) relating to the provision of on-site security, cleaning, and display units and on-site sales office management services, (a) the number of revenue-generating projects for FY2022 and FY2023, which are expected to be approximately 165 projects and 155 projects, respectively, under the 2022 Supplemental Master Property Management Services Agreement, as compared to 93 revenue-generating projects during FY2021 under the Master Property Management Services Agreement. Please see the table below for the estimated movement of the number of revenue-generating projects for FY2022 and FY2023:

	<b>Number of revenue-generating projects</b>
At the beginning of FY2022	93
(Estimated) New projects during FY2022	108
(Estimated) Projects that no longer require the provision of on-site security, cleaning, and display units and on-site sales office management services during FY2022	(36)
<b>As at the end of FY2022</b>	<b>165</b>
(Estimated) At the beginning of FY2023	165
(Estimated) New projects during FY2023	8
(Estimated) Projects that no longer require the provision of on-site security, cleaning, and display units and on-site sales office management services during FY2023	(18)
<b>As at the end of FY2023</b>	<b>155</b>

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## LETTER FROM THE BOARD

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and (b) the estimated average cost per staff member of the revenue-generating projects for FY2022 and FY2023, which are estimated to be approximately RMB7,800 per staff member and approximately RMB8,500 per staff member, respectively, as compared to approximately RMB7,800 per staff member for FY2021, are determined based on the minimum wage of different regions in the PRC, the historical and current business model and the number of staff required for each project which ranges from 4 to 65, which was determined based on the GFA of each project and the progress of selling the projects. For the project that required only 4 staff, it is a relatively small project of GFA of approximately 600 sq.m. and all the units were sold out in June 2022. The 4 staff mainly provided cleaning services, vehicles and personnel directing services, beverage serving services and other related services for the sales office of such project. While for the project that requires 65 staff, it is a project of GFA of approximately 66,000 sq.m. and the service only commenced in July 2021. The 65 staff mainly provides security services, disinfection services, customer services, beverage serving and reception services, cleaning services, facilities maintenance services and outsourcing supervision services;

- (v) relating to the provision of planning and design consultancy services, the estimated GFA of the revenue-generating residential projects in the relevant periods (approximately 16.9 million sq.m. and 11.1 million sq.m. during FY2022 and FY2023, respectively, as compared to approximately 9.4 million sq.m. sold by Mr. Li's Companies during FY2021), which is estimated based on the projects under development by Mr. Li's Companies (of approximately 64 projects as at 22 July 2022). Please see the table below for the estimated GFA of the revenue-generating residential projects for FY2022 and FY2023:

	<b>GFA of the revenue-generating residential property <i>million sq.m.</i></b>
At the beginning of FY2022	9.4
(Estimated) New projects during FY2022	7.7
(Estimated) Projects that no longer require the provision of planning and design consultancy services during FY2022	(0.2)
<b>As at the end of FY2022</b>	<b>16.9</b>
(Estimated) At the beginning of FY2023	16.9
(Estimated) New projects during FY2023	0.8
(Estimated) Projects that no longer require the provision of planning and design consultancy services during FY2023	(6.6)
<b>As at the end of FY2023</b>	<b>11.1</b>

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## LETTER FROM THE BOARD

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*In respect of the annual caps for the Property Management Services of providing property management services for the unsold residential property units and commercial properties owned and used by Mr. Li's Companies:-*

- (vi) the expected aggregate area of the unsold residential property units for FY2022 and FY2023 (approximately 378,000 sq.m. and 479,000 sq.m. for FY2022 and FY2023 respectively, compared to approximately 202,000 sq.m. of unsold property units for FY2021), which was determined with reference to (a) the historical average vacancy rate of approximately 6.3% for FY2021; (b) the expected total GFA under management (approximately 6.0 million sq.m. and 7.6 million sq.m. for FY2022 and FY2023 respectively, compared to 3.2 million sq.m. of total GFA under management for FY2021); and (c) an estimated average management fees to be charged per sq.m. (approximately RMB2.86 per sq.m. and RMB2.82 per sq.m. for FY2022 and FY2023 respectively, compared to RMB2.72 per sq.m. of average management fees charged for FY2021);
- (vii) the estimated GFA of the commercial properties under management (approximately 1.4 million sq.m. and 1.1 million sq.m. for FY2022 and FY2023 respectively), the estimation of which was based on the land bank of Mr. Li's Companies as of the Latest Practicable Date as well as their historical developed GFA for FY2021 (approximately 356,000 sq.m.);
- (viii) the proposed change in the arrangement for collecting property management service fees of Shopping Mall A. Please see the sub-section titled "Proposed change in the arrangement for collecting property management service fees of Shopping Mall A" below for further details; and
- (ix) according to the China Statistical Yearbook 2021 compiled by the National Bureau of Statistics of China, the total sale of commercial buildings in the PRC (comprising residential buildings, office buildings, buildings for business use and others in the real estate industry) increased from approximately RMB8,728 billion in 2015 to approximately RMB18,192.9 billion in 2021, with a compound annual growth rate of approximately 11.1%. Also, the floor space of commercial buildings (comprising residential buildings, office buildings, buildings for business use and others in the real estate industry) sold in the PRC increased from approximately 1.3 billion sq.m. in 2015 to approximately 1.8 billion sq.m. in 2021, with a compound annual growth rate of approximately 4.9%. Further, there was an increasing trend in the historical transaction amount under the Master Property Management Services Agreement from approximately RMB199.2 million in FY2020 to approximately RMB290.6 million in FY2021 and approximately RMB201.7 million for the six months ended 30 June 2022.

The reason for setting the New Annual Cap for FY2023 approximately 24% higher than that for FY2022 (despite the fact that the number of revenue-generating projects requiring our pre-delivery services in FY2022 and FY2023 are almost the same) is because of an anticipated demand from Mr. Li's Companies for our property management services for commercial properties owned and used by Mr. Li's Companies resulting from a proposed change in the

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## LETTER FROM THE BOARD

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arrangement of collecting property management service fees of Shopping Mall A. Please refer to the sub-section titled “Proposed change in the arrangement for collecting property management service fees of Shopping Mall A” for further details.

To conclude, there is an overall increase of the New Annual Caps from the Existing Cap because: (a) the Existing Annual Cap of the pre-delivery services for FY2022 is expected to increase from RMB284.1 million to RMB320.1 million and then remain relatively stable at RMB316.6 million for FY2023 primarily because: (i) the estimated number of revenue-generating projects will increase from 93 revenue-generating projects in FY2021 to 165 revenue-generating projects in FY2022 and then remain relatively stable at 155 revenue-generating projects in FY2023; and (ii) the GFA of the revenue generating residential projects is expected to increase from 9.4 million sq.m. in FY2021 to 16.9 million sq.m. in FY2022 and remain relatively stable at 11.1 million sq.m. in FY2023; and (b) the Existing Annual Cap of the property management services for the unsold residential property units and commercial properties owned and used by Mr. Li’s Companies is expected to increase from RMB86.2 million in FY2021 to RMB165.6 million in FY2022 and further increase to RMB287.2 million in FY2023 primarily because: (i) the aggregate area of the unsold residential property units is expected to increase from 202,000 sq.m. in FY2021 to 378,000 sq.m. in FY2022 and further increase to 479,000 sq.m. in FY2023; (ii) the GFA of the commercial properties under management is estimated to increase from 356,000 sq.m. in FY2021 to 1.4 million sq.m. in FY2022 and remain relatively stable at 1.1 million sq.m. in FY2023; and (iii) the proposed change in the arrangement of collecting property management service fees of Shopping Mall A, which is estimated to increase the service fees receivable under the 2022 Supplemental Master Property Management Services Agreement by approximately RMB107.0 million in FY2023.

### **Proposed change in the arrangement for collecting property management service fees of Shopping Mall A**

#### *Background*

During FY2022, our Group has been and will be collecting service fees for property management services provided to the tenants (which, to the best knowledge of the Directors after making reasonable enquiries, are Independent Third Parties) of Shopping Mall A directly from such tenants.

Our Group has been notified that starting from 1 January 2023, the holding company and landlord of Shopping Mall A (which is one of Mr. Li’s Companies) plans to centralise the collection of the rent and other service fees payable (including but not limited to the services fees for the property management service provided by our Group to the tenants (which, to the best knowledge of the Directors after making reasonable enquiries, are Independent Third Parties)) by the tenants of Shopping Mall A and then pay the service fees to our Group. The review and/or update of the service fees payable by such tenants continues to remain with our Group, which would be reviewed and/or updated according to the pricing policy of our Group as outlined below.

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## LETTER FROM THE BOARD

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The holding company of Shopping Mall A will collect the fees of the property management service provided by our Group from the tenants monthly and then pay the collected property management fees to our Group before the end of the following month. No service fees would be paid to the holding company of Shopping Mall A by our Group nor any interest would be charged against the holding company of Shopping Mall A by our Group because of this change in the arrangement of collecting property management service fees of Shopping Mall A.

The new arrangement is proposed and determined by the board of the holding company of Shopping Mall A. The holding company of Shopping Mall A is not wholly owned by Mr. Li or Mr. Li's Companies and the other shareholders of the holding company (and to the best knowledge of the Directors, their respective ultimate beneficial owners) of Shopping Mall A are Independent Third Parties except for Mr. Li Xiaoping, who is one of our executive Directors. As at the Latest Practicable Date, Mr. Li's indirect equity interest in the holding company of Shopping Mall A was approximately 47.15%. All the directors of the board of the holding company of Shopping Mall A are Independent Third Parties and none of the directors are appointed by Mr. Li or Mr. Li's Companies or Mr. Li Xiaoping. There is no similar arrangement proposed by other shopping malls wholly owned by Mr. Li or Mr. Li's Companies.

Apart from the aforementioned proposed change in collecting the property management fees from the tenants of Shopping Mall A, the scope of the property management services to be provided by our Group to Shopping Mall A remains unchanged.

*Reason for the proposed change in the collection of property management service fees of Shopping Mall A*

To the best knowledge of the Directors after making reasonable enquiries, the new arrangement for the collection of service fee is solely to centralise the collection of the rent and other service fees payable by the holding company of Shopping Mall A, and thus to facilitate the monthly payments of such tenants.

*Details of the analysis performed by the Board in assessing the fairness and reasonableness of the proposed change in the collection of property management service fees of Shopping Mall A*

The Board has considered the following factors in its analysis:

- (a) The holding company of Shopping Mall A as a customer of the Group is expected to contribute approximately RMB108.9 million and RMB107.0 million of revenue of our Group for FY2022 and FY2023, the latter of which represents approximately 90.3% of the 24% increase of the FY2023 New Annual caps for the 2022 Supplemental Master Property Management Services Agreement as compared with FY2022. According to the best knowledge of the Directors after making reasonable enquiries during the negotiation with the holding company of Shopping Mall A, the Directors believe that accepting the proposed arrangement by such customer is beneficial to our Group because it will help retain such customer;

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## LETTER FROM THE BOARD

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- (b) Given that the holding company of Shopping Mall A would collect the property management services fees under the proposed arrangement, it will also help follow-up on the outstanding payments directly from the tenants of Shopping Mall A, if any. Our Directors believe that would help reduce the administrative costs of our Group;
- (c) As advised by JLL:
- (i) such property management service fees collection method is commonly adopted in the market because tenants are less likely to owe payments to the landlord (which normally possesses a stronger bargaining power), and such method will reduce the possibility of tenants refusing to pay property management services fees due to unsatisfactory services and help reduce the time and human resources for collecting property management service fees;
  - (ii) two commercial buildings (as at the Latest Practicable Date, one of which was owned by a well-known company listed on the Stock Exchange and a well-known company listed on the Shanghai stock exchange) in Futian District, Shenzhen (at which Shopping Mall A is located) have adopted a similar property management service fees collection arrangement; and
  - (iii) such property management service fees collection arrangement is in line with market practice, and the proposed terms of which (including offering a one-month credit period to the landlord) are fair and reasonable;
- (d) A similar property management service fees collection arrangement (including offering a one-month credit period to the landlord) was also requested by two Independent Third Party customers of the Group in FY2021 and FY2022, one of which is an indirect subsidiary of a well-known e-commerce company listed on the Stock Exchange and the other is a well-known mobile phone manufacturer in the PRC. Please see below for further details:

	<b>Shopping Mall A</b>	<b>Commercial building owned by a subsidiary of a well-known e-commerce company listed on the Stock Exchange</b>	<b>Commercial building owned by a well-known mobile phone manufacturer in the PRC</b>
(Expected) payment credit period	(Our Group will issue an invoice detailing the property management service fees payable and the customer shall pay on or before the last calendar day of the following month upon receipt of such invoice.)	Our Group will issue an invoice detailing the property management service fees payable and the customer shall pay within 30 calendar days upon receipt of such invoice.	Our Group will issue an invoice detailing the property management service fees payable and the customer shall pay within 45 working days upon receipt of such invoice.

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## LETTER FROM THE BOARD

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- (e) In assessing the credit risk of the holding company of Shopping Mall A, our Directors have considered the following factors:
- (i) The holding company of Shopping Mall A is indirectly held by three property development companies. According to the sales leaderboard for the seven months ended 31 July 2022 in Shenzhen issued by E-House (China) Enterprise Holdings Limited (a company listed on the Stock Exchange (stock code: 2048)), which is a well-known real estate transaction service provider in the PRC, the three property development companies ranked 2nd, 6th and 11th, respectively, in terms of sales revenue. Also, according to China Index Academy, two of the three property development companies ranked 9th and 35th, respectively, among the “2022 Top 100 Property Development Companies in the PRC (2022中國房地產百強企業)” in terms of overall strength, considering factors including respective property development scale, profitability and growth potential; and
  - (ii) the occupancy rate of Shopping Mall A as at the Latest Practicable Date was approximately 94.0%.

As a result, our Directors believe that the credit risk of the holding company of Shopping Mall A in failing to repay the collected property management service fees is low; and

- (f) No extra costs would arise from accepting the proposed change in the arrangement for collecting property management service fees of Shopping Mall A.

To conclude, considering the above, our Directors believe that: (i) the benefits that could be brought to our Group and the shareholders as a whole by accepting the proposed change in the arrangement for collecting property management service fees of Shopping Mall A outweigh the low potential credit risk of the holding company of Shopping Mall A; and (ii) the aforementioned arrangement of collecting property management service fees of Shopping Mall A by the holding company of Shopping Mall A (including the credit period granted to the holding company of Shopping Mall A and repayment schedule of the collected property management service fees by the holding company of Shopping Mall A) is reasonable, on normal commercial terms and is in line with the credit period offered to other Independent Third Party customers of our Group and the market practice, and is in the interest of the Company and the shareholders as a whole.

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## LETTER FROM THE BOARD

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### Pricing policy

The service fees to be charged by our Group for the Property Management Services shall be determined with reference to the following key factors:

*In respect of the pricing policy of providing pre-delivery services:-*

- (i) the GFA, location and positioning of the properties;
- (ii) the anticipated operation costs (including but not limited to labor costs, administration costs, energy costs and costs of materials); and
- (iii) the prices charged by us for providing comparable services to Independent Third Parties.

*In respect of the pricing policy of providing the property management services for the unsold residential property units and commercial properties owned and used by Mr. Li's Companies:-*

- (i) the GFA, location and positioning of the properties;
- (ii) the anticipated operation costs (including but not limited to labor costs, administration costs, energy costs and costs of materials);
- (iii) the prices charged by three other service providers who provide comparable services for properties in close proximity of the properties managed by our Group would be obtained for comparison. The comparable pricing could be located on the websites of intermediary real estate agencies, including but not limited to Anjuke\* (安居客), Fangtianxia\* (房天下) and Diandianzu\* (點點租);
- (iv) the pricing of the property management fees are generally regulated by the government of the PRC in accordance with (a) the Measures for the Administration on Realty Management Fee\* (“物業服務收費管理辦法”); (b) Price Law of the People's Republic of China\* (“中華人民共和國價格法”); and (c) Regulation on Realty Management\* (“物業管理條例”);
- (v) the services fees charged for the Property Management Services for residential properties are further regulated and promulgated by the relevant local regulatory authorities, the range of which are published via the websites of the relevant local regulatory authorities. For example, the monthly services fees charged for the Property Management Services for residential properties located in Shenzhen should range from RMB0.6 per sq.m. to RMB3.9 per sq.m.; and
- (vi) the prices charged by us for providing comparable services to Independent Third Parties.

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## LETTER FROM THE BOARD

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In light of the foregoing key factors, our Group would determine the final services fees charged for the Property Management Services provided for a specific property in accordance with the following steps:

1. Propose a management service fee based on the information of the property, such as GFA, location and positioning.
2. Confirm the final service fee is in line with the applicable regulatory requirements (if applicable).

### **Internal control measures taken by our Company in relation to the pricing policy**

In order to ensure the final service fees charged by the Company will be no less favourable than that charged by the Group to customers that are Independent Third Parties and will be on normal commercial terms, our Company has adopted the internal control measures below:

1. the business department of our Company will review the final service fees to be charged by the Company under the agreements entered into under the 2022 Supplemental Master Property Management Services Agreement to ensure that such final service fees are no less favourable than that charged by the Group to customers that are Independent Third Parties and are on normal commercial terms before such agreements are concluded.
2. the finance department of our Company will review the relevant service fees and amounts of the continuing connected transaction under the 2022 Supplemental Master Property Management Services Agreement quarterly to ensure that such transactions comply with the relevant pricing policy (including but not limited to the prices charged by other service providers who provide comparable services, the monthly property management fees regulated by the applicable PRC laws and promulgated by the relevant local regulatory authorities and the prices charged by us for providing comparable services to Independent Third Parties).

### **Reasons for the revision of Existing Annual Cap and the setting of New Annual Caps**

Our Group has been providing Property Management Services to Mr. Li's Companies. With the business expansion of Mr. Li's Companies, there has been an increase in the demand for our Property Management Services:

- (i) the demand of Mr. Li's Companies for the pre-delivery services of our Property Management Services is expected to further increase in FY2022 with the increase in the demand for our pre-delivery services of Mr. Li's Companies due to the business expansion of Mr. Li's Companies and remain relatively stable in FY2023 because it is estimated that there will be 108 new projects requiring the pre-delivery services of our Group in FY2022 and there will only be 8 new projects requiring the same services in FY2023. Our Directors are of the view that the COVID-19 situation will have minimal effect on the demand for our pre-delivery services of Mr. Li's Companies during the remaining months of FY2022 and FY2023;

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## LETTER FROM THE BOARD

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- (ii) the demand for the property management services for the unsold residential property units is expected to increase because more projects are expected to be delivered by Mr. Li's Companies during the remaining months of FY2022 and FY2023, and thus will increase the property management fees receivable for vacant units before such units are rented out or sold. Although the demand for property management services for the existing unsold residential property units is expected to decrease in the second half of FY2022 and in FY2023 when the COVID-19 situation is expected to be under control in the PRC and thus the expected decrease in vacant units, the increase in services resulting from the number of projects to be delivered by Mr. Li's Companies during the remaining months of FY2022 and FY2023 is expected to net off such decrease, and thus resulting in a net increase in the demand of Mr. Li's Companies for property management services for the unsold residential property units for both FY2022 and FY2023; and
  
- (iii) the demand for the property management services for commercial properties owned and used by Mr. Li's Companies is expected to increase due to a proposed arrangement of collecting property management fees from tenants of Shopping Mall A which is to take place in FY2023 and expected to contribute approximately 21.9% increase of the FY2023 New Annual Caps for the 2022 Supplemental Master Property Management Services Agreement as compared with FY2022. Please refer to page 13 of this circular for further details of such proposed arrangement.

It is therefore expected that the transaction amount under the Master Property Management Services Agreement for FY2022 will exceed the Existing Annual Cap. It is also expected that our Group will continue to provide Property Management Services to Mr. Li's Companies for FY2023. Therefore, our Company entered into the 2022 Supplemental Master Property Management Services Agreement for the purpose of extending the term of the Master Property Management Services Agreement, increasing the Existing Annual Cap and setting the New Annual Caps. Having considered the foregoing (including the pricing policy for the services fees charged by our Group for the Property Management Services), the Directors are of the view that the New Annual Caps of the 2022 Supplemental Master Property Management Services Agreement are fair and reasonable.

### **2022 SUPPLEMENTAL MASTER SUPPLY AND INSTALLATION AGREEMENT**

Reference is made to the section headed "Connected Transactions" in the Prospectus in respect of, among other things, the Master Supply and Installation Agreement entered into between our Company and Mr. Li Wa for a term commencing from the Listing Date until 31 December 2022.

As it is expected that the Existing Annual Cap for the Master Supply and Installation Agreement will not be sufficient to meet the needs of our Group's business growth in the future and our Group will continue to provide the System Supply and Installation Services to Mr. Li's Companies for FY2023, our Company therefore entered into the 2022 Supplemental Master Supply and Installation Agreement for the purpose of extending the term of the Master Supply and Installation Agreement, increasing the Existing Annual Cap and setting the New Annual Caps.

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## LETTER FROM THE BOARD

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From 1 January 2022 and up to the Latest Practicable Date, none of the actual transaction amounts under the Master Supply and Installation Agreement had exceeded the Existing Annual Cap for FY2022 under the Master Supply and Installation Agreement.

### Principal terms

The principal terms of the 2022 Supplemental Master Supply and Installation Agreement are as follows:

**Date:** 22 July 2022

**Parties:** (a) our Company; and  
(b) Mr. Li Wa

**Term:** Subject to the Independent Shareholders' approval, the 2022 Supplemental Master Supply and Installation Agreement will be for a term up to and including 31 December 2023. Subject to compliance with the Listing Rules, the 2022 Supplemental Master Supply and Installation Agreement may be renewed by our Company and Mr. Li Wa by agreement in writing. Save for the revision of the Existing Annual Caps of the relevant transactions under the 2022 Supplemental Master Supply and Installation Agreement and the revision of the service scope, other terms of the Master Supply and Installation Agreement remain unchanged.

### Historical transaction amounts

For FY2020, FY2021 and the six months ended 30 June 2022 respectively, the total contract value with Mr. Li's Companies in relation to the Master Supply and Installation Agreement are set out as below:

	<b>(Audited)</b>		<b>(Unaudited)</b>
	<b>Year ended 31 December</b>		<b>Six months</b>
	<b>2020</b>	<b>2021</b>	<b>ended</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<b>30 June</b>
			<b>2022</b>
			<i>(RMB'000)</i>
Total contract value with Mr. Li's Companies in relation to the Master Supply and Installation Agreement	107,400	127,108	212,858
Existing Annual Cap	108,566	150,000	235,000
Utilisation rate	98.9%	84.7%	90.6%

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## LETTER FROM THE BOARD

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### Revision of Existing Annual Cap and the setting of New Annual Caps

The Existing Annual Cap for the Master Supply and Installation Agreement for FY2022 is RMB235.0 million.

The New Annual Caps for the 2022 Supplemental Master Supply and Installation Agreement for FY2022 and FY2023 are RMB243.2 million and RMB312.7 million, respectively (calculated on the basis of fees paid/payable by Mr. Li's Companies instead of contract value), which were determined based on:

- (i) the revenue generated from the provision of the System Supply and Installation Services during FY2020 and FY2021 and the six months ended 30 June 2022, which were RMB69.5 million, RMB129.0 million and RMB100.6 million, respectively;
- (ii) the estimated selling price of the Systems and the service fee chargeable for the provision of the System Supply and Installation Services, which have increased by approximately 5.2% and 5.8% when compared to the estimations made when the Existing Annual Cap for FY2022 was determined due to the prevailing market conditions;
- (iii) the estimated number of projects requiring the System Supply and Installation Services (approximately 114 projects and 116 projects for FY2022 and FY2023, respectively, as compared to 60 projects that required the System Supply and Installation Services during FY2021) under the existing signed agreements pursuant to the Master Supply and Installation Agreement;
- (iv) the installation schedules of the Systems in each individual agreement entered/to be entered into with Mr. Li's Companies under the 2022 Supplemental Master Supply and Installation Agreement, which are generally spread across three years and the revenue recognition rate of the System Supply and Installation Services of a project for the first, second and third year, which are on average 28.4%, 37.5% and 24.1%, respectively, are estimated based on the development progress of the property projects of Mr. Li's Companies during the relevant years;
- (v) the estimated fees receivable under the 2022 Supplemental Master Supply and Installation Agreement for FY2022 and FY2023 respectively;
- (vi) the estimated capacity of our Group in providing the System Supply and Installation Services for FY2022 and FY2023 respectively;
- (vii) according to the China Statistical Yearbook 2021 compiled by the National Bureau of Statistics of China, we noted that the total installation output value in the PRC increased from approximately RMB1,449.1 billion in 2015 to approximately RMB2,447.9 billion in 2021, with a compound annual growth rate of approximately 7.3%. Further, there was an increasing trend in the historical transaction amount under the Master Supply and Installation Agreement from approximately RMB69.5 million in FY2020 to approximately RMB129.0 million in FY2021 and approximately RMB100.6 million for the six months ended 30 June 2022; and

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## LETTER FROM THE BOARD

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- (viii) a reasonable buffer of approximately 5% to cater for (a) the unexpected business growth; (b) the estimated inflation rate in the PRC; and (c) on the general assumption that there will not be any change or disruption in the market conditions, operation and business environment or government policies which may materially and adversely affect the businesses of our Group or Mr. Li's Companies during the transaction period.

The reason for setting the New Annual Cap for FY2023 approximately 28% higher than that for FY2022 is because of the installation schedule of the Systems in each individual agreement entered/to be entered into with Mr. Li's Companies under the 2022 Supplemental Master Supply and Installation Agreement. The installation of the Systems and the provision of the System Supply and Installation Services are generally spread across three years. The revenue recognition rates of the System Supply and Installation Services of a project for the first, second and third year are on average 28.4%, 37.5% and 24.1%, respectively, which are estimated based on the development progress of the property projects of Mr. Li's Companies during the relevant years. As a result, the fees payable by Mr. Li's Companies to our Group for FY2023 are higher than that for FY2022 by approximately 28%.

### **Pricing policy**

The fees to be received by our Group under the 2022 Supplemental Master Supply and Installation Agreement shall be determined with reference to: (i) historical transaction amounts and the fees charged by the Group for providing similar services to Independent Third Parties; (ii) (in relation to the fees for the Systems) the cost of the systems purchased from Independent Third Parties plus a reasonable average mark-up rate of 10%, which is determined based on historical average profit rate; and (iii) (in relation to the fees for providing the System Supply and Installation Services) the labor costs for providing such services, which were determined based on the minimum wage of particular regions in the PRC.

### **Internal control measures taken by our Company in relation to the pricing policy**

In order to ensure the final service fees charged by the Company will be no less favourable than that charged by the Group to customers that are Independent Third Parties and will be on commercial terms, our Company has adopted the internal control measures below:

1. the business department of our Company will review the final service fees to be charged by the Company under the agreements entered into under the 2022 Supplemental Master Supply and Installation Agreement to ensure that such final service fees are no less favourable than that charged by the Group to customers that are Independent Third Parties and are on normal commercial terms before such agreements are concluded.
2. the finance department of our Company will review the relevant service fees and amounts of the continuing connected transaction under the 2022 Supplemental Master Supply and Installation Agreement quarterly to ensure that such transactions comply with the relevant pricing policy.

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## LETTER FROM THE BOARD

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### **Reasons for the revision of Existing Annual Cap and the setting of New Annual Caps**

With the increase in the properties owned by Mr. Li's Companies, it is expected that there will also be an increase in the demand of Mr. Li's Companies for the provision of the System Supply and Installation Services, and our Group has the capacity to provide sufficient System Supply and Installation Services to meet the demand from Mr. Li's Companies. In addition, with the refined business process, the basis for calculating the transaction amount between our Group and Mr. Li's Companies has been changed from considering the contractual amount signed by both parties to the fees paid/payable by Mr. Li's Companies to our Group for rendering services, so as to better reflect the transaction amount of the relevant transactions.

It is therefore expected that the transaction amount under the Master Supply and Installation Agreement for FY2022 will exceed the Existing Annual Cap. It is also expected that our Group will continue to provide the System Supply and Installation Services to Mr. Li's Companies for FY2023. Therefore, our Company entered into the 2022 Supplemental Master Supply and Installation Agreement for the purpose of extending the term of the Master Supply and Installation Agreement, increasing the Existing Annual Cap and setting the New Annual Caps. Having considered the foregoing (including the pricing policy for the services fees charged by our Group for the System Supply and Installation Services), the Directors are of the view that the New Annual Caps of the 2022 Supplemental Master Supply and Installation Agreement are fair and reasonable.

### **2022 SUPPLEMENTAL MASTER CONSTRUCTION MATERIAL TRADING AGREEMENT**

Reference is made to the announcement dated 12 November 2021 of our Company in respect of, among other things, the Master Construction Material Trading Agreement entered into between our Company and Mr. Li Wa for a term commencing from 12 November 2021 until 31 December 2022.

As it is expected that the Existing Annual Cap for the Master Construction Material Trading Agreement will not be sufficient to meet the needs of our Group's business growth in the future and our Group will continue to supply the Construction Materials to Mr. Li's Companies for FY2023, our Company therefore entered into the 2022 Supplemental Master Construction Material Trading Agreement for the purpose of extending the term of the Master Construction Material Trading Agreement, increasing the Existing Annual Cap and setting the New Annual Caps.

From 1 January 2022 and up to the Latest Practicable Date, none of the actual transaction amounts under the Master Construction Material Trading Agreement had exceeded the Existing Annual Cap for FY2022 under the Master Construction Material Trading Agreement.

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## LETTER FROM THE BOARD

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### Principal terms

The principal terms of the 2022 Supplemental Master Construction Material Trading Agreement are as follows:

- Date:** 22 July 2022
- Parties:** (a) our Company; and  
(b) Mr. Li Wa
- Term:** Subject to the Independent Shareholders' approval, the 2022 Supplemental Master Construction Material Trading Agreement will be for a term up to and including 31 December 2023. Subject to compliance with the Listing Rules, the 2022 Supplemental Master Construction Material Trading Agreement may be renewed by our Company and Mr. Li Wa by agreement in writing. Save for the revision of the Existing Annual Caps of the relevant transactions under the 2022 Supplemental Master Construction Material Trading Agreement, other terms of the Master Construction Material Trading Agreement remain unchanged.

### Historical transaction amounts

For FY2020, FY2021 and the six months ended 30 June 2022 respectively, the total amount of fees received and/or receivable by our Group under the Master Construction Material Trading Agreement are set out as below:

	<b>(Audited)</b>		<b>(Unaudited)</b>
	<b>Year ended 31 December</b>		<b>Six months</b>
	<b>2020</b>	<b>2021</b>	<b>ended</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<b>30 June</b>
			<b>2022</b>
			<i>(RMB'000)</i>
Total fees received/receivable by our Group under the Master Construction Material Trading Agreement	–	96,323	87,556
Existing Annual Cap	–	115,000	120,000
Utilisation rate	–	83.8%	73.0%

### Revision of Existing Annual Cap and the setting of New Annual Caps

The Existing Annual Cap for the Master Construction Material Trading Agreement for FY2022 is RMB120.0 million.

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## LETTER FROM THE BOARD

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The New Annual Caps under the 2022 Supplemental Master Construction Material Trading Agreement for FY2022 and FY2023 are RMB448.0 million and RMB733.0 million, respectively, which were determined based on:

- (i) the historical transaction amounts under the Master Construction Material Trading Agreement during FY2021 and the six months ended 30 June 2022;
- (ii) the number of estimated revenue-generating contracts under the 2022 Supplemental Master Construction Material Trading Agreement (approximately 323 contracts (approximately 18.0% of which is expected to generate more than RMB1 million of revenue for our Group) and 367 contracts (approximately 15.0% of which is expected to generate more than RMB1 million of revenue for our Group) are expected to generate revenue for our Group for FY2022 and FY2023, respectively, as compared to 26 revenue-generating contracts (approximately 65.0% of which generated more than RMB1 million of revenue for our Group) under the Master Construction Material Trading Agreement during FY2021);
- (iii) the timetable and amount of providing the Construction Materials to Mr. Li's Companies of each individual agreement entered/to be entered into with Mr. Li's Companies under the 2022 Supplemental Master Construction Material Trading Agreement. Such individual agreements generally have a term of three years and the fees receivable for the provision of Construction Materials for the first, second and third year are on average 19.9%, 35.0% and 40.1%, respectively, of the total fees receivable of each individual agreement, which are estimated based on the development progress of the property projects of Mr. Li's Companies during the relevant years;
- (iv) the performance of the contracts entered into under the Master Construction Material Trading Agreement, which should have taken place during the six months ended 30 June 2022 but had been suspended due to COVID-19, is estimated to resume and proceed expeditiously during the six months ending 31 December 2022. The Directors believe this will significantly increase the total fees received/receivable by our Group under the Master Construction Material Trading Agreement during the remaining months of 2022;
- (v) the estimated increase in demand of Mr. Li's Companies for the Construction Materials during FY2022 and FY2023, taking into account the possibility that Mr. Li's Companies will develop additional 82 and 89 property projects from which our Group would be able to generate revenue during FY2022 and FY2023, respectively;
- (vi) the potential increase in the unit price of the Construction Material due to the prevailing market conditions, which is estimated to increase approximately 4.4%-10.2% in FY2022 and FY2023 when compared to that in FY2021;

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## LETTER FROM THE BOARD

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- (vii) the potential increase in the operation costs in the provision of Construction Materials, including but not limited to logistics costs and labor costs, which are estimated to increase approximately 3.9%-4.7% in FY2022 and FY2023 when compared to that in FY2021;
- (viii) according to the China Statistical Yearbook 2021 compiled by the National Bureau of Statistics of China, the total construction output value in the PRC increased from approximately RMB18,075.7 billion in 2015 to approximately RMB29,307.9 billion in 2021, with a compound annual growth rate of approximately 7.2%. There was an increasing trend in the historical transaction amount under the Master Construction Material Trading Agreement from approximately RMB96.3 million in FY2021 and approximately RMB87.6 million for the six months ended 30 June 2022; and
- (ix) a reasonable buffer of approximately 5% to cater for (a) the unexpected business growth; (b) the estimated inflation rate in the PRC; and (c) on the general assumption that there will not be any change or disruption in the market conditions, operation and business environment or government policies which may materially and adversely affect the businesses of our Group or Mr. Li's Companies during the transaction period.

### **Pricing Policy**

The selling price of the Construction Materials supplied by our Group shall be determined with reference to (i) the anticipated operation costs (including but not limited to costs of materials, logistics costs and labor costs); and (ii) the selling price determined by the Independent Third Parties for providing the comparable construction materials which could be gathered from online public information, including but not limited to Aicaiyou\* (百度愛採購) and JD.com\* (京東). The selling price of the Construction Materials would be determined by the cost of the Construction Materials purchased from Independent Third Parties plus a reasonable average mark-up rate of 9%, which would be reviewed and/or renewed from time to time. The Board believes that Mr. Li's Companies purchase the Construction Materials from our Group at a mark-up instead of purchasing the Construction Materials from Independent Third Parties because: (a) our Group has developed long-term business relationships with the suppliers of Construction Materials and thus our Group could help Mr. Li's Companies to reduce time costs and labor costs in finding reputable suppliers and negotiating with various suppliers for the Construction Materials; (b) our Group will conduct quality checks on the Construction Materials to ensure such Construction Materials are of satisfactory quality before delivering them to the respective property construction sites of Mr. Li's Companies and also provide after-sales services to follow up on unsatisfactory Construction Materials; (c) our Group will deliver the Construction Materials to the respective property construction sites of Mr. Li's Companies; (d) our Group has always been a reliable supplier in providing Construction Materials of satisfactory quality since the commencement of the Master Construction Material Trading Agreement in November 2021; and (e) we have established a stable and trusted business relationship with Mr. Li's Companies by providing management services for the properties developed by Excellence Real Estate (one of Mr. Li's Companies) since 2000.

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## LETTER FROM THE BOARD

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The details of the payment mechanism for the payments due to our Group shall be agreed by the relevant parties under separate agreements with reference to the normal commercial terms comparable to those for provision of comparable construction materials by Independent Third Parties to Mr. Li's Companies.

### **Internal control measures taken by our Company in relation to the pricing policy**

In order to ensure the final service fees charged by the Company will be no less favourable than that charged by the Group to customers that are Independent Third Parties and will be on commercial terms, our Company has adopted the internal control measures below:

1. the business department of our Company will review the final selling prices to be charged by the Company under the agreements entered into under the 2022 Supplemental Master Construction Material Trading Agreement to ensure that such final selling prices are no less favourable than that charged by the Group to customers that are Independent Third Parties and are on normal commercial terms before such agreements are concluded.
2. the finance department of our Company will review the relevant service fees and amounts of the continuing connected transaction under the 2022 Supplemental Master Construction Material Trading Agreement quarterly to ensure that such transactions comply with the relevant pricing policy.

### **Reasons for the revision of Existing Annual Cap and the setting of New Annual Caps**

Considering (i) the number of existing properties owned, used, developed or being developed by Mr. Li's Companies; (ii) the estimated increase in the number of property projects to be developed by Mr. Li's Companies; and (iii) the increasing demand for well-decorated apartments from end customers of Mr. Li's Companies, it is expected that there will be an increase in the purchase demand for the Construction Materials by Mr. Li's Companies.

It is therefore expected that the transaction amount under the Master Construction Material Trading Agreement for FY2022 will exceed the Existing Annual Cap in respect of the Master Construction Material Trading Agreement. It is also expected that our Group will continue to supply the Construction Materials to Mr. Li's Companies for FY2023. Therefore, our Company entered into the 2022 Supplemental Master Construction Material Trading Agreement for the purpose of extending the term of the Master Construction Material Trading Agreement, increasing the Existing Annual Cap and setting the New Annual Caps. Having considered the foregoing (including the pricing policy for the selling price of the Construction Materials charged by our Group), the Directors are of the view that the New Annual Caps of the 2022 Supplemental Master Construction Material Trading Agreement are fair and reasonable.

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## LETTER FROM THE BOARD

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### INTERNAL CONTROL

In order to further safeguard the interests of the Shareholders as a whole, our Group has implemented the following internal control measures in relation to the continuing connected transactions under the Supplemental Agreements:

- (i) the finance department will closely monitor the transactions and notify the management of the Company if the aggregate transaction amount is close to 85% of the annual caps, which could ensure the transaction amount does not exceed the annual cap of each of the Supplemental Agreements. When the aggregate transaction amount attains or exceeds 85% of the annual caps, the finance department will immediately notify the relevant departments and subsidiaries of our Group of the remaining transaction amount under the applicable annual caps. After receiving the notification from the finance department, the relevant departments and subsidiaries of our Group will report to the finance department of the continuing connected transactions that are expected to occur in the remaining period of the relevant financial year and their respective estimated transaction amounts on a real-time basis starting from the date of receiving such notification until the last day of the applicable financial year to ensure that the transaction amount of the continuing connected transactions will not exceed the annual cap of each of the Supplemental Agreements within the applicable financial year. If the annual cap of any of the Supplemental Agreements within the applicable financial year is expected to be exceeded, our finance department will immediately notify the management of the Company and the Board, which will immediately proceed to making the application for increasing the relevant annual cap and the Company will re-comply with the applicable listing rule requirements accordingly;
- (ii) the implementation of specific contracts shall be subject to the appropriate approval of the general manager of the business department, finance department, risk control department and management of the Group to ensure that the contracts are in line with the pricing policy and principal terms of each of the Supplemental Agreements;
- (iii) the general manager of the business department of the Group will conduct regular reviews to keep abreast of the prevailing fee level in the market and the market conditions for the purpose of considering if the price charged for a specific transaction is fair and reasonable and is in accordance with the pricing policy;
- (iv) our Company's external auditors will review the continuing connected transactions under each of the Supplemental Agreements annually to confirm, among other things, whether the pricing policies have been adhered to and whether the relevant annual caps have been complied with;
- (v) the independent non-executive Directors will continue to review the continuing connected transactions under each of the Supplemental Agreements annually to confirm whether such continuing connected transactions have been conducted in the

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## LETTER FROM THE BOARD

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ordinary and usual course of business of our Group, on normal commercial terms or better, on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by our Company are adequate and effective to ensure that such continuing connected transactions are conducted in accordance with the pricing policies;

- (vi) the risk management department of the Group will review the internal control procedures adopted by our Company annually to confirm that they are adequate and effective to ensure that such continuing connected transactions are conducted in accordance with the Supplemental Agreements and the pricing policies, and the relevant annual caps have been complied with; and
- (vii) our Company has employed a reputable audit firm as our external internal control consultant this year to conduct a general review on the internal control policies/procedures put in place by our Company, including the internal control procedures put in place by our Company to monitor the continuing connected transactions under each of the Supplemental Agreements to ensure that such continuing connected transactions are conducted in accordance with the Supplemental Agreements and the pricing policies, and the relevant annual caps have been complied with.

### INFORMATION OF THE PARTIES

#### **Our Company**

Our Company was incorporated in the Cayman Islands on 13 January 2020 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands. Our Company is an investment holding company and its subsidiaries are principally engaged in the provision of property management services and related value-added services in the PRC.

#### **The Group**

The Group is a leading commercial property management service provider in the PRC. Founded in 1999, our Group has been focusing on providing commercial property management services for about 20 years, and has established market reputation and a premium brand.

#### **Mr. Li Wa and Mr. Li's Companies**

Mr. Li Wa is the founder of Excellence Real Estate and had over 25 years of experience in real estate investment, property development and corporate management. He is a controlling shareholder of our Company. According to the Research Center of China Real Estate Information Corporation, the contracted sales amounts of Mr. Li's Companies which are engaging in property development ranked number 27 in the first half of 2022 in the PRC.

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## LETTER FROM THE BOARD

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### IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Mr. Li Wa is a controlling shareholder of our Company and is therefore a connected person of our Company under the Listing Rules. Accordingly, the transactions contemplated under the Supplemental Agreements will constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, our Company has to re-comply with the requirements under Chapter 14A of the Listing Rules applicable to respective annual caps of the transactions under the Relevant Agreements before the Existing Annual Caps are exceeded or our Company proposes to renew the Relevant Agreements.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the New Annual Caps for each of the Supplemental Agreements exceed 5%, according to Chapter 14A of the Listing Rules, the transactions contemplated thereunder will be subject to, among others, the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will disclose the information in relation to the Relevant Continuing Connected Transactions in its annual reports in accordance with Rule 14A.49 of the Listing Rules.

### BOARD APPROVAL

As Excellence Group forms part of Mr. Li's Companies and that (i) Mr. Li Xiaoping serves as a vice chairman and president of Excellence Real Estate and a director or general manager in certain subsidiaries of Excellence Group; (ii) Mr. Wang Yinhu serves as a general manager of the financing department of Excellence Group; and (iii) Mr. Wang Dou serves as a director and vice president of Excellence Group and a director in certain subsidiaries of Excellence Group, each of Mr. Li Xiaoping, Mr. Wang Yinhu and Mr. Wang Dou are considered as having material interests in the Supplemental Agreements and the transactions contemplated thereunder. Accordingly, Mr. Li Xiaoping, Mr. Wang Yinhu and Mr. Wang Dou were required to abstain from voting on the relevant resolutions at the Board meeting. Save as disclosed, none of the Directors was required to abstain from voting on the relevant resolutions at the Board meeting.

### INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Mr. Huang Mingxiang, Mr. Kam Chi Sing and Ms. Liu Xiaolan, being all of the independent non-executive Directors, has been established to advise the Independent Shareholders on the fairness and reasonableness of the terms of the Supplemental Agreements, after taking into account the recommendations of the Independent Financial Adviser.

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## LETTER FROM THE BOARD

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Euto Capital has been appointed as the Independent Financial Adviser to the Company to provide the Independent Board Committee and the Independent Shareholders with independent advice in connection with the Relevant Continuing Connected Transactions.

### EGM

Set out on pages EGM-1 to EGM-3 of this circular is a notice convening the EGM which will be held at Greater Bay Area Room, 38A Floor, Tower 4, Excellence Century Center, Fuhua Third Road, Futian District, Shenzhen, Guangdong Province, PRC on Tuesday, 22 November 2022 at 10 a.m. At the EGM, resolutions will be proposed to the Shareholders to consider and, if thought fit, to approve the Relevant Continuing Connected Transactions by ordinary resolutions.

A form of proxy for use at the EGM is enclosed herewith. If you are not able to attend and/or vote at the EGM in person, you are requested to complete the form of proxy and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM (i.e. not later than 10 a.m. on Sunday, 20 November 2022) or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

As at the Latest Practicable Date, Mr. Li Wa and his associates are interested in 722,440,000 Shares, representing approximately 59.20% of the issued share capital of the Company, while Mr. Li Xiaoping and his associates are interested in 118,392,000 Shares, representing approximately 9.70% of the issued share capital of the Company. Accordingly, Mr. Li Wa, Mr. Li Xiaoping and their respective associates shall abstain from voting on the proposed resolutions approving the Relevant Continuing Connected Transactions at the EGM.

Save for the above, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, none of the other Shareholders is required to abstain from voting on the resolutions in respect of the Relevant Continuing Connected Transactions to be proposed at the EGM.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman of the general meeting, in good faith, decides to allow a resolution which relates purely to procedural or administrative matter to be voted by a show of hands. Accordingly, each of the resolutions put to vote at the EGM will be taken by way of poll.

An announcement on the poll results will be published by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

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## LETTER FROM THE BOARD

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### CLOSURE OF REGISTER OF MEMBERS

The EGM will be held on Tuesday, 22 November 2022. For the purpose of determining the identity of the Shareholders entitled to attend and vote at the EGM, the register of members of the Company will be closed from Saturday, 19 November 2022 to Tuesday, 22 November 2022 both dates inclusive, during which period no transfer of Shares will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 18 November 2022.

### RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on pages 34 to 35 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the proposed resolutions to approve the Relevant Continuing Connected Transactions; and (ii) the letter from the Independent Financial Adviser as set out on pages 36 to 82 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the Relevant Continuing Connected Transactions.

The Independent Board Committee, having taken into account, among other things, the advice of the Independent Financial Adviser, is of the view that the Relevant Continuing Connected Transactions are in the ordinary and usual course of business of the Group, the terms of the Relevant Continuing Connected Transactions are fair and reasonable, on normal or better commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM in respect of the approval of the Relevant Continuing Connected Transactions.

The Directors (including the independent non-executive Directors, after considering the advice from the Independent Financial Adviser) are of the view that the Relevant Continuing Connected Transactions are in the ordinary and usual course of business of the Group, the terms of the Relevant Continuing Connected Transactions are fair and reasonable, on normal or better commercial terms and in the interests of the Company and the Shareholders as a whole and therefore recommend you to vote in favour of the ordinary resolution to be proposed at the EGM.

### ARRANGEMENTS FOR THE EGM IN LIGHT OF COVID-19

To safeguard the health and safety of the Shareholders, the Company will implement the following precautionary measures at the EGM to prevent the spreading of the COVID-19:

- (1) Compulsory body temperature checks will be conducted for every attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the EGM venue and be requested to leave the EGM venue;

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## LETTER FROM THE BOARD

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- (2) Every attendee will be required to wear surgical facial mask throughout the EGM and maintain a safe distance between seats. Please note that no masks will be provided at the EGM venue and attendees should wear their own masks; and
- (3) The Company will not provide refreshments and will not distribute corporate gifts.

Any person who does not comply with the precautionary measures may be denied entry into the EGM venue. In light of the continuing risks posed by the COVID-19, the Company encourages the Shareholders to consider appointing the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

### GENERAL INFORMATION

Your attention is drawn to Appendix I headed “General Information” to this circular.

### MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

Yours faithfully  
By order of the Board  
**Excellence Commercial Property &  
Facilities Management Group Limited**  
**Li Xiaoping**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter of recommendation, prepared for the purpose of incorporation in this circular, from the Independent Board Committee to the Independent Shareholders in respect of approving the Relevant Continuing Connected Transactions.*



### **EXCELLENCE COMMERCIAL PROPERTY & FACILITIES MANAGEMENT GROUP LIMITED**

**卓越商企服務集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 6989)**

8 November 2022

*To the Independent Shareholders*

Dear Sir or Madam,

#### **REVISION OF EXISTING ANNUAL CAPS AND SETTING OF NEW ANNUAL CAPS FOR EXISTING CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 8 November 2022 (the “**Circular**”) issued by the Company to the Shareholders of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the terms of Relevant Continuing Connected Transactions are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole, and how the Independent Shareholders should vote at the EGM, after taking into account the recommendation of the Independent Financial Adviser.

Euto Capital has been appointed by the Board as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders in connection with the Relevant Continuing Connected Transactions. Details of the advice from the Independent Financial Adviser, together with the reasons for its opinion, the key assumptions made and the factors taken into consideration in forming its opinion, are set out in its letter on pages 36 to 82 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 6 to 33 of the Circular and the general information set out in Appendix I of the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the information as set out in the letter from the Board, the terms and conditions of the Relevant Continuing Connected Transactions, the factors and reasons considered by, and the opinion of the Independent Financial Adviser as set out in its letter of advice, we are of the view that the Relevant Continuing Connected Transactions are in the ordinary and usual course of business of the Group, the terms of the Relevant Continuing Connected Transactions are fair and reasonable, on normal or better commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the approval of Relevant Continuing Connected Transactions to be proposed at the EGM.

Yours faithfully

For and on behalf of the  
the Independent Board Committee

**Excellence Commercial Property & Facilities Management Group Limited**

**Huang Mingxiang**

*Independent*

*Non-executive Director*

**Kam Chi Sing**

*Independent*

*Non-executive Director*

**Liu Xiaolan**

*Independent*

*Non-executive Director*

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## LETTER FROM EUTO CAPITAL

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*Set out below is the text of a letter received from Euto Capital, the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders in respect of the Relevant Continuing Connected Transactions for the purpose of inclusion in this circular.*



裕韜資本有限公司  
Euto Capital Partners Limited

Euto Capital Partners Limited  
Room 2418, Wing On Centre,  
111 Connaught Road Central,  
Hong Kong

T +852 3106 2393  
F +852 3582 4722  
www.eutocapital.com

8 November 2022

*To the Independent Board Committee and the Independent Shareholders of Excellence Commercial Property & Facilities Management Group Limited.*

Dear Sirs and Madams,

**CONTINUING CONNECTED TRANSACTIONS  
AND  
REVISION OF EXISTING ANNUAL CAPS AND  
SETTING OF NEW ANNUAL CAPS FOR  
EXISTING CONTINUING CONNECTED TRANSACTIONS**

### INTRODUCTION

We refer to our appointment as the independent financial adviser (the “**Independent Financial Adviser**”) to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of (a) the 2022 Supplemental Master Property Management Services Agreement; (b) the 2022 Supplemental Master Supply and Installation Agreement; and (c) the 2022 Supplemental Master Construction Material Trading Agreement and the transactions contemplated thereunder and the New Annual Caps (the “**Transactions**”), particulars of which are set out in the section headed “Letter from the Board” (the “**Letter**”) contained in the Circular of the Company to the Shareholders dated 8 November 2022 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

#### 1. Background of the Transactions

Reference is made to the Letter.

On 22 July 2022 (after trading hours), the Company entered into (a) the 2022 Supplemental Master Property Management Services Agreement; (b) the 2022 Supplemental Master Supply and Installation Agreement; and (c) the 2022 Supplemental Master Construction Material Trading Agreement with Mr. Li Wa, for the purpose of extending the term of the Relevant Agreements, revising/increasing the Existing Annual Caps and/or setting the New Annual Caps as it is expected that the Existing Annual Caps will not be sufficient to meet the needs of the Group’s business growth in the future and/or the Group will continue to carry out the aforementioned connected transactions in FY2023.

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## LETTER FROM EUTO CAPITAL

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### 2. Implication under the Listing Rules

As at the Latest Practicable Date, Mr. Li Wa is a controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Supplemental Agreements will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the New Annual Caps for the 2022 Supplemental Master Property Management Services Agreement, the 2022 Supplemental Master Supply and Installation Agreement and the 2022 Supplemental Master Construction Material Trading Agreement exceed 5%, according to Chapter 14A of the Listing Rules, the transactions contemplated thereunder will be subject to, among others, the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Excellence Group forms part of Mr. Li's Companies and that (i) Mr. Li Xiaoping serves as a vice chairman and president of Excellence Real Estate and a director or general manager in certain subsidiaries of Excellence Group; (ii) Mr. Wang Yinhu serves as a general manager of the financing department of Excellence Group; and (iii) Mr. Wang Dou serves as a director and vice president of Excellence Group and a director in certain subsidiaries of Excellence Group, each of Mr. Li Xiaoping, Mr. Wang Dou and Mr. Wang Yinhu are considered as having material interests in the Supplemental Agreements and the transactions contemplated thereunder. Accordingly, Mr. Li Xiaoping, Mr. Wang Dou and Mr. Wang Yinhu were required to abstain from voting on the relevant resolutions at the Board meeting. Save as disclosed, none of the Directors was required to abstain from voting on the relevant resolutions at the Board meeting.

### INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Huang Mingxiang, Mr. Kam Chi Sing and Ms. Liu Xiaolan, has been established to consider and advise the Independent Shareholders as to whether the terms of (a) the 2022 Supplemental Master Property Management Services Agreement; (b) the 2022 Supplemental Master Supply and Installation Agreement; and (c) the 2022 Supplemental Master Construction Material Trading Agreement and the transactions contemplated thereunder and the New Annual Caps are (i) fair and reasonable; (ii) on normal commercial terms or better and in the ordinary and usual course of business of the Company; (iii) in the interests of the Company and the Shareholders as a whole; and (iv) how the Independent Shareholders should vote in favour of the Transactions. None of the members of the Independent Board Committee has any material interest in the Transactions.

In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of the Listings Rules, our role is to give an independent opinion to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of (a) the 2022 Supplemental the Master Supply and Installation Agreement; (b) the 2022 Supplemental Master Property Management Services

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## LETTER FROM EUTO CAPITAL

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Agreement; and (c) the 2022 Supplemental Master Construction Material Trading Agreement and the transactions contemplated thereunder and the New Annual Caps are (i) fair and reasonable; (ii) on normal commercial terms or better and in the ordinary and usual course of business of the Company; (iii) in the interests of the Company and the Independent Shareholders as a whole; and (iv) how the Independent Shareholders should vote in favour of the Transactions. None of the members of the Independent Board Committee has any material interest in the Transactions.

### OUR INDEPENDENCE

We, Euto Capital Partners Limited (“**Euto Capital**”), have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard, and such appointment has been approved by the Independent Board Committee pursuant to the Listing Rules.

Euto Capital is a licensed corporation licensed under the Securities and Futures Ordinance (“**SFO**”) to carry out Type 6 (advising on corporate finance) regulated activity. Euto Capital has participated in and completed various independent financial advisory transactions since 2015. Ms. Wendy Liu (“**Ms. Liu**”) is the person signing off the opinion letter from Euto Capital contained in the Circular. Ms. Liu has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2014. Ms. Liu has participated in and completed various independent financial advisory transactions in Hong Kong.

As at the Latest Practicable Date, we confirmed that there is no relationship or interest between Euto Capital and the Company or any other parties that could reasonably be regarded as hindrance to Euto Capital’s independence as set out under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions.

We are not associated with and have no significant connection financially or otherwise, with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations.

Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. We are not aware of the existence of or change in any circumstances that would affect our independence.

Accordingly, we consider that we have performed all reasonable steps as required under the Listing Rules and are eligible to give independent advice on the terms of (a) the 2022 Supplemental Master Property Management Services Agreement; (b) the 2022 Supplemental Master Supply and Installation Agreement; and (c) the 2022 Supplemental Master Construction Material Trading Agreement and the transactions contemplated thereunder and the New Annual Caps.

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## LETTER FROM EUTO CAPITAL

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### BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the terms of (a) the 2022 Supplemental Master Supply and Installation Agreement; (b) the 2022 Supplemental Master Property Management Services Agreement; and (c) the 2022 Supplemental Master Construction Material Trading Agreement and the transactions contemplated thereunder and the New Annual Caps, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries (the “**Management**”).

We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true and that all expectations and intentions of the Directors and the Management, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors and the Management. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed.

We consider that we have been provided with, and we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors and the Management. We have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Company or its future prospects.

We have assumed that the transactions will be consummated in accordance with the terms and conditions set forth in the Circular without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the transactions, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the transactions. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

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## LETTER FROM EUTO CAPITAL

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We consider that we have reviewed all currently available information and documents, among others: (i) the prospectus of the Company dated 7 October 2020; (ii) the annual report of the Company for FY2021 (the “**2021 Annual Report**”); (iii) the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”); (iv) the announcement of the Company dated 12 November 2021 in relation to the entering into of the Master Construction Material Trading Agreement; (v) the announcement of the Company dated 22 July 2022 in relation to the entering into of the Supplemental Agreements; (vi) the historical transactions documents between the Group and Independent Third Parties in relation to the provision of Property Management Services, System Supply and Installation Services and the supply of Construction Materials; (vii) the schedules provided by the Company in relation to the Relevant Continuing Connected Transactions; (viii) the basis and assumptions of the transactions contemplated under the Supplemental Agreements and the New Annual Caps; and (ix) the internal control guideline of the Company which are made available to us and enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Relevant Continuing Connected Transactions, as referred to in Rule 13.80 of the Listing Rules (including the notes thereof) in formulating our opinion and recommendation.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of (a) the 2022 Supplemental Master Property Management Services Agreement; (b) the 2022 Supplemental Master Supply and Installation Agreement; and (c) the 2022 Supplemental Master Construction Material Trading Agreement and the transactions contemplated thereunder and the New Annual Caps, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

#### **1. Background of the Transactions**

The Board of Directors announced that on 22 July 2022 (after trading hours), the Company entered into (a) the 2022 Supplemental Master Property Management Services Agreement; (b) the 2022 Supplemental Master Supply and Installation Agreement; and (c) the 2022 Supplemental Master Construction Material Trading Agreement with Mr. Li in relation to the provision of services under the Relevant Agreements to Mr. Li by the Company.

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## LETTER FROM EUTO CAPITAL

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### 1.1 Information of the Company

The Group is a leading commercial property management service provider in the PRC. Founded in 1999, the Group has been focusing on providing commercial property management services for about 20 years, and has established reputation in the market and a premium brand.

Set out below is the summary of the Group's financial information for the six months ended 30 June 2022 and 2021 and the years ended 31 December 2021 and 2020 as extracted from the 2022 Interim Report and the 2021 Annual Report:

	Six months ended		For the year ended	
	30 June		31 December	
	2022	2021	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue				
– Basic property management services	1,358,388	1,269,176	2,630,752	2,110,988
– Value-added services	475,632	359,008	780,520	358,604
– Other services	–	–	–	511
– Revenue from other sources	28,913	2,466	55,794	54,984
Total Revenue	1,862,933	1,652,847	3,467,066	2,525,087
Net Profit	328,387	290,611	547,481	355,922

Based on the 2021 Annual Report, the Company's operating income reached approximately RMB3,467.1 million in 2021, with a year-on-year growth of approximately 37.3%, of which the basic property service income from third parties accounted for approximately 60.7% and posted a gross profit of approximately RMB959.6 million, with an annual growth rate of approximately 44.6%; and the comprehensive gross profit rate was 27.7%, representing an increase of approximately 1.4 percentage points as compared with 2020. For FY2021, the Group's net profit amounted to approximately RMB547.5 million (2020: approximately RMB355.9 million), representing an increase of approximately 53.8% from last year. The Group's gross profit was approximately RMB959.6 million, representing an increase of approximately 44.6% from RMB663.8 million in 2020. The gross profit margin increased to approximately 27.7% in 2021 from approximately 26.3% in 2020.

According to the 2022 Interim Report, during the six months ended 30 June 2022, with the unremitting efforts of all staff member of the Company, the Company achieved remarkable operating results, mainly represented by the rapid growth of operating income and profit, the continuous improvement of profit margins and the increase in the proportion of value-added services. The Company's operating income reached RMB1,862.93 million with a year-on-year growth of 12.7%, of which the basic property service income from third parties accounted for 57.5% and posted a gross profit of RMB529.76 million, with an annual growth rate of 8.4%; and the comprehensive gross profit margin was 28.4%, representing a decrease of 1.2 percentage points as compared with the corresponding period in 2021. Net profit attributable to the parent company amounted to RMB311.01 million, up by 15.0% year-on-year; and net profit margin was 17.6%, remaining the same level as the corresponding period in 2021.

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## LETTER FROM EUTO CAPITAL

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The gross profit margin of basic property management services was approximately 22.9% (2020: approximately 24.1%), representing a decrease of 1.2 percentage points from last year, mainly attributable to the cessation of the reduction or exemption of social insurance contributions under the regulatory support policy implemented in 2020 to mitigate the impact of the COVID-19 pandemic.

For the six months ended 30 June 2022, the Group's gross profit was RMB529.76 million, representing an increase of 8.4% from RMB488.88 million for the corresponding period in 2021. The gross profit margin decreased slightly to 28.4% for the six months ended 30 June 2022 from 29.6% for the corresponding period in 2021, which remains at a good level.

LETTER FROM EUTO CAPITAL

	For the six months ended 30 June				For the year ended 31 December			
	2022		2021		2021		2020	
	GFA under management	Revenue	GFA under management	Revenue	GFA under management	Revenue	GFA under management	Revenue
	(sq.m. '000)	(RMB'000)	(sq.m. '000)	(RMB'000)	(sq.m. '000)	(RMB'000)	(sq.m. '000)	(RMB'000)
	%	(%)	%	(%)	%	(%)	%	(%)
Commercial properties	23,027	1,061,228	16,941	940,190	17,932	1,961,514	16,671	1,563,195
– Excellence Group	2,906	373,918	2,791	354,618	2,906	718,459	2,878	587,576
– Third-party property developers	20,121	687,310	14,150	585,572	15,026	1,243,055	13,793	975,619
Public and industrial properties	8,585	93,711	6,510	179,410	9,248	350,351	5,825	327,248
Residential properties	18,472	203,449	11,747	149,576	14,023	318,887	9,522	220,545
<b>Total</b>	<b>50,084</b>	<b>1,358,388</b>	<b>35,198</b>	<b>1,269,176</b>	<b>41,203</b>	<b>2,630,752</b>	<b>32,018</b>	<b>2,110,988</b>
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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## LETTER FROM EUTO CAPITAL

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Based on the 2021 Annual Report, adhering to the goal of rapidly expanding management scale, the Group has achieved rapid growth in contracted GFA and GFA under management by virtue of multiple driving forces. For FY2021, the contracted GFA was approximately 56.8 million sq.m., representing an increase of approximately 26.9% for the year ended 31 December 2020, with 558 contracted projects. For FY2021, the GFA under management amounted to approximately 41.2 million sq.m., with 521 projects under management, representing an increase of approximately 28.7% and 28.3%, respectively, as compared to those as at 31 December 2020. The increase in the GFA under management was mainly derived from: (i) commercial and residential projects developed by Excellence Group which were under continuous control of the Group, with an additional GFA under management of 4.5 million sq.m. during the reporting period; and (ii) projects developed by third-party property developers with an additional GFA under management of 4.7 million sq.m.

For the six months ended 30 June 2022, the Group's contracted GFA was approximately 68.94 million sq.m., representing an increase of approximately 35.1% over the corresponding period in 2021, with 627 contracted projects. For the six months ended 30 June 2022, the GFA under management amounted to approximately 50.08 million sq.m., representing an increase of approximately 42.3% as compared with the corresponding period in 2021 with 530 projects under management.

The Company's core competitive strengths boosted its continuous expansion of the commercial business. The Group continued to consolidate its leading position in the third-party market expansion in terms of commercial property management. With the growing number of the Group's strategic customers and their increasing market influence, the Group's market share and project density in target cities are on the rise. The Company will continue to create value for shareholders based on forward-looking planning on customers, industry trend and regions.

### ***1.2 Information of Mr. Li and Mr. Li's Companies***

Mr. Li Wa is the founder of Excellence Real Estate and has had over 25 years of experience in real estate investment, property development and corporate management. He is a controlling shareholder of the Company. According to Research Center of China Real Estate Information Corporation, the contracted sales amounts of Mr. Li's Companies which engaging in property development ranked number 27 in first half of 2022 in the PRC.

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## LETTER FROM EUTO CAPITAL

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In formulating our opinion and recommendation to the Independent Board Committee and Independent Shareholders in respect of (a) the 2022 Supplemental Master Property Management Services Agreement; (b) the 2022 Supplemental Master Supply and Installation Agreement; and (c) the 2022 Supplemental Master Construction Material Trading Agreement, the transactions contemplated thereunder and the New Annual Caps, we have taken into account the principal factors and reasons set out below:

### **THE 2022 SUPPLEMENTAL MASTER PROPERTY MANAGEMENT SERVICES AGREEMENT**

#### **Reasons for and benefits of entering into the 2022 Supplemental Master Property Management Services Agreement**

With reference to the Letter, the Group had previously entered into the Master Property Management Services Agreement in 2020 to formalize the Property Management Services after the listing of the Company for a term commencing from the Listing Date until 31 December 2022. As it is expected that the Existing Annual Cap for the Master Property Management Services Agreement will not be sufficient to meet the needs of the Group's business growth in the future and the Group will continue to provide the Property Management Services to Mr. Li's Companies for FY2023, the Company therefore entered into the 2022 Supplemental Master Property Management Services Agreement for the purpose of extending the term of the Master Property Management Services Agreement, increasing the Existing Annual Cap and setting the New Annual Caps.

From 1 January 2022 and up to the Latest Practicable Date, none of the actual transaction amounts under the Master Property Management Services Agreement had exceeded the Existing Annual Cap for FY2022 under the Master Property Management Services Agreement.

As set out in the Circular, we noticed that the Company has taken into account the business expansion of Mr. Li's Companies and there has been an increase in the demand for the Group's Property Management Services.

The Directors consider that:

- (i) the demand of Mr. Li's Companies for the pre-delivery services of the Property Management Services is expected to further increase in FY2022 with the increase in the demand of Mr. Li's Companies due to business expansion and remain relatively stable in FY2023 because it is estimated that there will be 108 new projects requiring the pre-delivery services of the Group in FY2022 and there will only be 8 new projects requiring the same services in FY2023. The Directors are of the view that the COVID-19 situation will have minimal effect on the demand for the Company's pre-delivery services of Mr. Li's Companies during the remaining months of FY2022 and FY2023;
- (ii) the demand for the property management services for the unsold residential property units is expected to increase because more projects are expected to be delivered by Mr. Li's Companies during the remaining months of FY2022 and FY2023, and thus will increase the property management fees receivable for vacant units before such units are rented out or sold. Although the demand for property management services for the existing unsold residential property units and commercial properties owned and used by Mr. Li's Companies is expected to decrease in the second half of

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## LETTER FROM EUTO CAPITAL

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FY2022 and in FY2023 when the COVID-19 situation is expected to be under control in the PRC and thus the expected decrease in vacant units, the increase in services resulting from the number of projects to be delivered by Mr. Li's Companies during the remaining months of FY2022 and FY2023 is expected to net off such decrease, and thus resulting in a net increase in the demand of Mr. Li's Companies for property management services for the unsold residential property units for both FY2022 and FY2023; and

- (iii) the demand for the property management services for commercial properties owned and used by Mr. Li's Companies is expected to increase due to a proposed arrangement of collecting property management fees from tenants of a Shopping Mall A which is expected to take place in FY2023 and expected to contribute approximately 21.9% increase of the FY2023 New Annual Caps for the 2022 Supplemental Master Property Management Services Agreement as compared with FY2022. Please refer to page 13 of this circular for further details of such proposed arrangement.

It is therefore expected that the transaction amount under the Master Property Management Services Agreement for FY2022 will exceed the Existing Annual Cap. It is also expected that the Group will continue to provide Property Management Services to Mr. Li's companies for FY2023. Therefore, the Company entered into the 2022 Supplemental Master Property Management Services Agreement for the purpose of extending the term of the Master Property Management Services Agreement, increasing the Existing Annual Cap and setting the New Annual Caps.

We noted that the utilisation rate of the Existing Annual Cap for FY2022 under the Master Property Management Services Agreement for the six months ended 30 June 2022 was approximately 54.5%, which was more than 50% of the pro-rated annual cap for 2022.

Having considered that, (i) the Group is principally engaged in property management services; (ii) the Management considered that the transactions contemplated under the 2022 Supplemental Master Property Management Services Agreement, shall be conducted in accordance with the relevant pricing policy and in the ordinary and usual course of business of the Group; (iii) the revenue to be generated from the above said services shall broaden the income of the Group; (iv) the utilization rate of the Existing Annual Cap; and (v) the New Annual Caps, if approved, would facilitate the transactions contemplated under the 2022 Supplemental Master Property Management Services Agreement, for the two years ending 31 December 2023 to ensure that they can be carried out in an effective and efficient manner without the need for the Company to seek Shareholders' approval on a transaction-by-transaction basis, we concur with the Directors' view that the transactions contemplated under the 2022 Supplemental Master Property Management Services Agreement are in the interests of the Company as a whole.

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## LETTER FROM EUTO CAPITAL

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### **Principal terms of the 2022 Supplemental Master Property Management Services Agreement**

The principal terms of the 2022 Supplemental Master Property Management Services Agreement are as follows:

- Date:** 22 July 2022
- Parties:** (a) the Company; and  
(b) Mr. Li Wa
- Service scope:** Pursuant to the 2022 Supplemental Master Property Management Services Agreement, the Group will enter into individual agreements with Mr. Li's Companies to provide Property Management Services, the service scope of which includes, but is not limited to, (i) pre-delivery services including (a) the on-site security, cleaning, and display units and on-site sales office management services; (b) preliminary planning and design consultancy services; (c) house inspection; and (d) pre-delivery cleaning services; and (ii) the property management services for the unsold residential property units and commercial properties owned and used by Mr. Li's Companies. The pre-delivery services are mainly provided to Mr. Li's Companies to assist in preparing, showcasing and marketing the properties developed by Mr. Li's Companies at a pre-sale stage while the property management services for the unsold residential property units and commercial properties owned and used by Mr. Li's Companies are mainly provided to Mr. Li's Companies to provide basic property management services to residential property units and commercial properties owned by Mr. Li's Companies.
- Term:** Subject to the Independent Shareholders' approval, the 2022 Supplemental Master Property Management Services Agreement will be for a term up to 31 December 2023. Subject to compliance with the Listing Rules, the 2022 Supplemental Master Property Management Services Agreement may be renewed by the Company and Mr. Li Wa by agreement in writing. Save for the revision of the Existing Annual Caps of the relevant transactions under the 2022 Supplemental Master Property Management Services Agreement, other terms of the Master Property Management Services Agreement remain unchanged.

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## LETTER FROM EUTO CAPITAL

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### Pricing Policy

The service fees to be charged by the Group for the Property Management Services shall be determined on arm's length basis with reference to the following key factors:

*In respect of the pricing policy of providing pre-delivery services:–*

- (i) the GFA, location and positioning of the properties;
- (ii) the anticipated operation costs (including but not limited to labor costs, administration costs, energy costs and costs of materials);
- (iii) the prices charged by the Company for providing at least three other service providers who provide comparable services to Independent Third Parties for properties in close proximity of the properties managed by the Group would be obtained for comparison (if applicable).

*In respect of the pricing policy of providing the property management services for the unsold residential property units and commercial properties owned and used by Mr. Li's Companies:–*

- (i) the GFA, location and positioning of the properties;
- (ii) the anticipated operation costs (including but not limited to labor costs, administration costs, energy costs and costs of materials);
- (iii) the prices charged by three other service providers who provide comparable services for properties in close proximity of the properties managed by our Group would be obtained for comparison. The comparable pricing could be located on the websites of intermediary real estate agencies, including but not limited to Anjue\* (安居客), Fangtianxia\* (房天下) and Diandianzu\* (點點租) (if applicable);
- (iv) the pricing of the property management fees are generally regulated by the government of the PRC in accordance with (a) the Measures for the Administration on Realty Management Fee\* (“物業服務收費管理辦法”); (b) Price Law of the People's Republic of China\* (“中華人民共和國價格法”); and (c) Regulation on Realty Management (“物業管理條例”)\* (if applicable);
- (v) the services fees charged for the Property Management Services for residential properties are further regulated and promulgated by the relevant local regulatory authorities (if applicable), the range of which are published via the websites of the relevant local regulatory authorities. For example, the monthly services fees charged

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## LETTER FROM EUTO CAPITAL

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for the Property Management Services for residential properties located in Shenzhen charged by Company was RMB3.8 per sq.m which was within the local regulatory authorities in FY2021 and FY2022 range from RMB0.6 per sq.m. to RMB3.9 per sq.m.; and

- (vi) the prices charged by the Company for providing comparable services to Independent Third Parties.

In light of the foregoing key factors, the Group would determine the final services fees charged for the Property Management Services provided for a specific property in accordance with the following steps:

1. Propose a management service fee based on the information of the property, such as GFA, location and positioning.
2. Confirm the final service fee is in line with the applicable regulatory requirements (if applicable).

### **Internal control measures taken by the Company in relation to the pricing policy**

In order to ensure the final service fees charged by the Company will be no less favourable than that charged by the Group to customers that are Independent Third Parties and will be on normal commercial terms, the Company has adopted the internal control measures below:

1. the business department of the Company will review the final service fees to be charged by the Company under the agreements entered into under the 2022 Supplemental Master Property Management Services Agreement to ensure that such final service fees are no less favourable than that charged by the Group to customers that are Independent Third Parties and are on normal commercial terms before such agreements are concluded.
2. the finance department of the Company will review the relevant service fees and amounts of the continuing connected transaction under the 2022 Supplemental Master Property Management Services Agreement quarterly to ensure that such transactions comply with the relevant pricing policy (including but not limited to the prices charged by other service providers who provide comparable services, the monthly property management fees regulated by the applicable PRC laws and promulgated by the relevant local regulatory authorities and the prices charged by the Company for providing comparable services to Independent Third Parties).

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## LETTER FROM EUTO CAPITAL

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In relation to our due diligence, we have reviewed both the Master Property Management Services Agreement and the 2022 Supplemental Master Property Management Services Agreement and noted that the pricing and other principal terms of the 2022 Supplemental Master Property Management Services Agreement continues to follow those of the Master Property Management Services Agreement. Secondly, the service fees to be charged for the Property Management Services will be determined after arm's length negotiations with reference to the prevailing market price quoted on the websites of intermediary real estate agencies (if applicable), we also noted that the Company considered the historical transaction amounts and the fees charged by the Group for providing similar services to Independent Third Parties customers. On a random sampling basis, we have reviewed 10 contracts with Independent Third Parties customers with contract dates from January 2021 to December 2021 and noted that the fees charged for the Property Management Services to Mr. Li's Companies was not higher than the guidance price of such services for similar type of property projects issued by the local government and was not lower than the fees charged to the Independent Third Parties customers. Therefore, we are of the view that the terms of the 2022 Supplemental Master Property Management Services Agreement shall be no less favourable to the Group than those entered into between the Group and Independent Third Parties for the provision of similar services.

According to the internal control procedures set out above, before entering into any specific contract, we noted that (i) the management and relevant personnel of the Group is required to make reference to three comparable services contracts offered to other Independent Third Parties customers (if available), or obtain the prevailing market rate (if applicable), the guidance price of such services for similar type of property projects issued by the local government (if applicable); (ii) the management and relevant personnel of the Group will review and assess the terms of any specific contract to ensure that they are consistent with the principles and provisions set out in the 2022 Supplemental Master Property Management Services Agreement; and (iii) the management and relevant personnel of the Group will conduct regular checks on a quarterly basis to review the relevant records to ensure the price charged and other terms offered by the Group to the Mr. Li's Companies are no more favourable than those offered to Independent Third Parties customers. We consider that the internal control procedures contained in the internal control manual of the Group are sufficient and effective to ensure that the final service fee charged by the Company will be no less favourable to that charged by the Group to Independent Third Party customers and on normal commercial terms.

In addition, we have assessed the fairness and reasonableness of the pricing mechanism by reviewing a total of 20 sample contracts with Mr. Li's Companies with contract dates from January 2021 to May 2022, which were selected on a random basis in relation to the provision of Property Management Services contemplated under the 2022 Supplemental Master Property Management Services Agreement, and compared against contracts between the Group and Independent Third Parties customers. We noted that the contracts were based on substantially the same requirements and/or specification for the provision of Property Management Services to both connected parties and Independent Third Parties customers. For the pricing policy of the sample transactions, we noted that it is in line with the Group's pricing policy as set out

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## LETTER FROM EUTO CAPITAL

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above, that the service fees of the Property Management Services, will be determined with reference to the prevailing market price (taking into account the location of the property projects or properties, the scope of services and the anticipated operation costs to be incurred including but not limited to labor costs, administration costs, energy costs and costs of materials). As discussed with the Management, they will also consider the historical transaction amounts and the fees charged by the Group for providing similar services to Independent Third Parties customers. We also noted that the fees charged for the provision of Property Management Services was not higher than the guidance price of such services for similar type of property projects issued by the local government and was not lower than the fees charged to the Independent Third Parties customers. Based on the above, we are of the view that the pricing policy is fair and reasonable. The prices charged to Mr. Li's Companies for the provision of Property Management Services are in line with the prices charged by the Company to Independent Third Party customers.

### **Our analysis regarding the 2022 Supplemental Master Property Management Services Agreement**

We have (i) reviewed the 2022 Supplemental Master Property Management Services Agreement and the Master Property Management Services Agreement which mentions that the terms of services provided by the Company to Mr. Li's Companies as contemplated under the 2022 Supplemental Master Property Management Services Agreement; and (ii) obtained samples of Property Management Services contracts entered into between the Group and Independent Third Parties. We compared the principal terms of the abovementioned property management services contracts and found that the nature of the Property Management Services provided to other Independent Third Parties, under the contracts which we have obtained for sampling is similar to the Property Management Services to be provided under the 2022 Supplemental Master Property Management Services Agreement. We are therefore of the view that the terms of the service contracts under the 2022 Supplemental Master Property Management Services Agreement is on normal commercial terms and in the ordinary and usual course of business of the Group.

In addition, as stated in the 2021 Annual Report, the year of 2021 marked the 40th anniversary of the development of the property management industry. China successively released positive signs at the policy level, and relevant departments successively issued a number of policy documents to continuously promote the development of the industry. In 2021, the Company captured market opportunities to strengthen their leading edge in the commercial property market, and continued to expand their management scale in office buildings and commercial complexes. Therefore, the entering of the 2022 Supplemental Master Property Management Services Agreement is in line with the business development plan of the Company.

After having conducted the aforementioned works, we are of the view that the terms of the 2022 Supplemental Master Property Management Services Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM EUTO CAPITAL

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### Historical transaction amounts

For FY2020, FY2021 and the six months ended 30 June 2022 respectively, the total amount of service fees received and/or receivable by the Group under the Master Property Management Services Agreement are set out as below:

	(Audited)		(Unaudited)
	Year ended 31 December		Six months
	2020	2021	ended 30 June
	(RMB'000)	(RMB'000)	2022
			(RMB'000)
(i) Pre-delivery services	127,240	187,897	147,043
(ii) Property management services for the unsold residential property units and commercial properties owned and used by Mr. Li's Companies	71,960	102,663	54,626
<b>Total service fees received/receivable by our Group under the Master Property Management Services Agreement</b>	<b>199,200</b>	<b>290,560</b>	<b>201,669</b>
Existing Annual Cap	204,806	291,739	370,300
Utilisation rate	97.3%	99.6%	54.5%

### Revision of Existing Annual Cap and the Setting of New Annual Caps

The Existing Annual Cap and the New Annual Caps for FY2022 and FY2023 respectively by type of services for the Master Property Management Services Agreement will be as follows:

	Existing Annual Cap Year ending 31 December 2022 (RMB'000)	New Annual Caps Year ending 31 December	
		2022 (RMB'000)	2023 (RMB'000)
(i) Pre-delivery services	284,082	320,103	316,570
(ii) Property management services for the unsold residential property units and commercial properties owned and used by Mr. Li's Companies	86,218	165,611	287,239
Buffer	–	5%	5%
<b>Existing/New Annual Caps for the Master Property Management Services Agreement</b>	<b>370,300</b>	<b>510,000</b>	<b>634,000</b>

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## LETTER FROM EUTO CAPITAL

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The New Annual Caps for the 2022 Supplemental Master Property Management Services Agreement were determined based on (including but not limited to):

- (i) the historical service fees received/receivable by the Group of the Property Management Services during FY2020, FY2021 and the six months ended 30 June 2022;
- (ii) the estimated services fees receivable under the 2022 Supplemental Master Property Management Services Agreement for FY2022 and FY2023 respectively;
- (iii) a reasonable buffer of approximately 5% to cater for (a) the unexpected business growth; (b) the estimated inflation rate in the PRC; and (c) on the general assumption that there will not be any change or disruption in the market conditions, operation and business environment or government policies which may materially and adversely affect the businesses of the Group or Mr. Li's Companies during the transaction period;

***In respect of the annual caps for the Property Management Services of providing pre-delivery services:-***

- (iv) relating to the provision of on-site security, cleaning, and display units and on-site sales office management services, (a) the number of revenue-generating projects for FY2022 and FY2023 are expected to be approximately 165 and 155 projects, respectively, under the 2022 Supplemental Master Property Management Services Agreement as compared to 93 revenue-generating projects during FY2021 under the Master Property Management Services Agreement. Please see the table below for the estimated movement of the number of revenue-generating projects for FY2022 and FY2023:

	<b>Number of revenue-generating projects</b>
At the beginning of FY2022	93
(Estimated) New projects during FY2022	108
(Estimated) Projects that no longer require the provision of on-site security, cleaning, and display units and onsite sales office management services during FY2022	(36)
<b>As at the end of FY2022</b>	<b>165</b>
(Estimated) At the beginning of FY2023	165
(Estimated) New projects during FY2023	8
(Estimated) Projects that no longer require the provision of on-site security, cleaning, and display units and onsite sales office management services during FY2023	(18)
<b>As at the end of FY2023</b>	<b>155</b>

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and (b) the estimated average cost per staff member of the revenue-generating projects for FY2022 and FY2023, which are estimated to be approximately RMB7,800 per staff member and approximately RMB8,500 per staff member, respectively, as compared to approximately RMB7,800 per staff member for FY2021, are determined based on the minimum wage of different regions in the PRC, the historical and current business model and the number of staff member required for each project which ranges from 4 to 65, which was determined based on the GFA of each project and the progress of selling the projects. For the project that required only 4 staff, it is a relatively small project of GFA of approximately 600 sq.m. and all the units were sold out in June 2022. The 4 staff mainly provided cleaning services, vehicles and personnel directing services, beverage serving services and other related services for the sales office of such project. While for the project that is estimated to be requiring 65 staff, it is a project of GFA of 66,000 sq.m.. The 65 staff mainly provides security services, disinfection services, customer services, beverage serving and reception services, cleaning services, facilities maintenance services and outsourcing supervision services;

- (v) relating to the provision of planning and design consultancy services, the estimated GFA of the revenue-generating residential projects in the relevant periods (approximately 16.9 million sq.m and 11.1 million sq.m. during FY2022 and FY2023, respectively, as compared to approximately 9.4 million sq.m. sold by Mr. Li's Companies during FY2021), which is estimated based on the projects under development by Mr. Li's Companies (of approximately 64 projects as at 22 July 2022). Please see the table below for the estimated GFA of the revenue generating residential properties for FY2022 and FY2023:

	<b>GFA of the revenue-generating residential property</b> <i>million sq.m.</i>
At the beginning of FY2022	9.4
(Estimated) New projects during FY2022	7.7
(Estimated) Projects that no longer require the provision of planning and design consultancy services during FY2022	(0.2)
<b>As at the end of FY2022</b>	<b>16.9</b>
(Estimated) At the beginning of FY2023	16.9
(Estimated) New projects during FY2023	0.8
(Estimated) Projects that no longer require the provision of planning and design consultancy services during FY2023	(6.6)
<b>As at the end of FY2023</b>	<b>11.1</b>

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## LETTER FROM EUTO CAPITAL

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*In respect of the annual caps for the Property Management Services of providing property management services for the unsold residential property units and commercial properties owned and used by Mr. Li's Companies:–*

- (vi) the expected aggregate area of the unsold residential property units for FY2022 and FY2023 (approximately 378,000 sq.m. and 479,000 sq.m. for FY2022 and FY2023 respectively, compared to approximately 202,000 sq.m. of unsold property units for FY2021), which was determined with reference to (a) the historical average vacancy rate of approximately 6.3% for FY2021; (b) the expected total GFA under management (approximately 6.0 million sq.m. and 7.6 million sq.m. for FY2022 and FY2023 respectively, compared to 3.2 million sq.m. of total GFA under management for FY2021) of the relevant periods; and (c) an estimated average management fees to be charged per sq.m. (approximately RMB2.86 per sq.m. and RMB2.82 per sq.m. for FY2022 and FY2023 respectively, compared to RMB2.72 per sq.m. of average management fees charged for FY2021);
- (vii) the estimated GFA of the commercial properties expected to be developed by Mr. Li's Companies in the relevant periods (approximately 1.4 million sq.m. and 1.1 million sq.m. for FY2022 and FY2023 respectively), the estimation of which was based on the land bank of Mr. Li's Companies as of the Latest Practicable Date as well as their historical developed GFA for FY2021 (approximately 356,000 sq.m.);
- (viii) the proposed change in the arrangement for collecting property management service fees of Shopping Mall A. Please see the sub-section titled "Proposed change in the arrangement for collecting property management service fees of Shopping Mall A" below for further details; and
- (ix) according to the China Statistical Yearbook 2021 compiled by the National Bureau of Statistics of China, the total sale of commercial buildings in the PRC (comprising residential buildings, office buildings, buildings for business use and others in the real estate industry) increased from approximately RMB8,728 billion in 2015 to approximately RMB18,192.9 billion in 2021, with a compound annual growth rate of approximately 11.1%. Also, the floor space of commercial buildings (comprising residential buildings, office buildings, buildings for business use and others in the real estate industry) sold in the PRC increased from approximately 1.3 billion sq.m. in 2015 to approximately 1.8 billion sq.m. in 2021, with a compound annual growth rate of approximately 4.9%. Further, there was an increasing trend in the historical transaction amount under the Master Property Management Services Agreement from approximately RMB199.2 million in FY2020 to approximately RMB290.6 million in FY2021 and approximately RMB201.7 million for the six months ended 30 June 2022.

The reason for setting the New Annual Cap for FY2023 approximately 24% higher than that for FY2022 (despite the fact that the number of revenue-generating projects requiring the pre-delivery services in FY2022 and FY2023 are almost the same) is because of an anticipated demand from Mr. Li's Companies for the property management services for commercial properties owned and used by Mr. Li's Companies resulting from a proposed change in the arrangement of collecting property management service fees of Shopping Mall A. Please refer to the sub-section titled "Proposed change in the arrangement for collecting property management service fees of Shopping Mall A" for further details.

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## LETTER FROM EUTO CAPITAL

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To conclude, there is an overall increase of the New Annual Caps from the Existing Cap because: (a) the Existing Annual Cap of the pre-delivery services for FY2022 is expected to increase from RMB284.1 million to RMB320.1 million and then remain relatively stable at RMB316.6 million for FY2023 primarily because: (i) the estimated number of revenue-generating projects will increase from 93 revenue-generating projects in FY2021 to 165 revenue-generating projects in FY2022 and then remain relatively stable at 155 revenue-generating projects in FY2023; and (ii) the GFA of the revenue generating residential projects is expected to increase from 9.4 million sq.m. in FY2021 to 16.9 million sq.m. in FY2022 and remain relatively stable at 11.1 million sq.m. in FY2023; and (b) the Existing Annual Cap of the property management services for the unsold residential property units and commercial properties owned and used by Mr. Li's Companies is expected to increase from RMB86.2 million in FY2021 to RMB165.6 million in FY2022 and further increase to RMB287.2 million in FY2023 primarily because: (i) aggregate area of the unsold residential property units is expected to increase from 202,000 sq.m. in FY2021 to 378,000 sq.m. in FY2022 and further increase to 479,000 sq.m. in FY2023; (ii) the GFA of the commercial properties under management is estimated to increase from 356,000 sq.m. in FY2021 to 1.4 million sq.m. in FY2022 and remain relatively stable at 1.1 million sq.m. in FY2023; and (iii) the proposed change in the arrangement of collecting property management service fees of Shopping Mall A, which is estimated to increase the service fees receivable under the 2022 Supplemental Master Property Management Services Agreement by approximately RMB107.0 million in FY2023.

### **Proposed change in the arrangement for collecting property management service fees of Shopping Mall A**

#### *Background*

During FY2022, the Group has been and will be collecting service fees for property management services provided to/to be provided the tenants (which, to the best knowledge of the Directors after making reasonable enquiries, are Independent Third Parties) of Shopping Mall A directly from such tenants.

The Group has been notified that starting from 1 January 2023, the holding company and landlord of Shopping Mall A (which is one of Mr. Li's Companies), plans to centralise the collection of the rent and other service fees payable (including but not limited to the services fees for the property management service provided by the Group to the tenants (which, to the best knowledge of the Directors after making reasonable enquiries, are Independent Third Parties)) by the tenants of Shopping Mall A and then pay the service fees to the Group. The review and/or update of the service fees payable by such tenants continues to remain with the Group, which would be reviewed and/or updated according to the pricing policy of the Group as outlined below.

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## LETTER FROM EUTO CAPITAL

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The holding company of Shopping Mall A will collect the fees of the property management service provided by the Group from the tenants monthly and then pay the collected property management fees to the Group before the end of the following month. No service fees would be paid to the holding company of Shopping Mall A by the Group nor any interest would be charged against the holding company of Shopping Mall A by the Group because of this change in the arrangement of collecting property management service fees of Shopping Mall A.

The new arrangement is proposed and determined by the board of the holding company of Shopping Mall A. The holding company of Shopping Mall A is not wholly owned by Mr. Li or Mr. Li's Companies and the other shareholders of the holding company (and to the best knowledge of the Directors, their respective ultimate beneficial owners) of Shopping Mall A are Independent Third Parties except for Mr. Li Xiaoping, who is one of the executive Directors. As at the Latest Practicable Date, Mr. Li's indirect equity interest in the holding company of Shopping Mall A was approximately 47.15%. All the directors of the board of the holding company of Shopping Mall A are Independent Third Parties and none of the directors are appointed by Mr. Li or Mr. Li's Companies or Mr. Li Xiaoping. There is no similar arrangement proposed by other shopping malls wholly owned by Mr. Li or Mr. Li's Companies.

Apart from the aforementioned proposed change in collecting the property management fees from the tenants of Shopping Mall A, the scope of the property management services to be provided by the Group to Shopping Mall A remains unchanged.

*Reason for the proposed change in the collection of property management service fees of Shopping Mall A*

To the best knowledge of the Directors after making reasonable enquiries, the new arrangement for the collection of service fee is solely to centralise the collection of the rent and other service fees payable by the holding company of Shopping Mall A, and thus to facilitate the monthly payments of such tenants.

*Details of the analysis performed by the Board in assessing the fairness and reasonableness of the proposed change in the collection of property management service fees of Shopping Mall A*

The Board has considered the following factors in its analysis:

- (a) the holding company of Shopping Mall A as a customer of the Group is expected to contribute approximately RMB108.9 million and RMB107.0 million of revenue of the Group for FY2022 and FY2023, the latter of which represents approximately 90.3% of the 24% increase of the FY2023 New Annual caps for the 2022 Supplemental Master Property Management Services Agreement as compared with FY2022. According to the best knowledge of the Directors after making reasonable enquiries during the negotiation with the holding company of Shopping Mall A, the Directors believe that accepting the proposed arrangement by such customer is beneficial to the Group because it will help retain such customer;

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## LETTER FROM EUTO CAPITAL

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- (b) given that the holding company of Shopping Mall A would collect the property management services fees under the proposed arrangement, it will also help follow-up on the outstanding payments directly from the tenants of Shopping Mall A, if any. The Directors believe that would help reduce the administrative costs of the Group;
- (c) As advised by JLL:
  - (i) such property management service fees collection method is commonly adopted in the market because tenants are less likely to owe payments to the landlord (which normally possesses a stronger bargaining power), and such method will reduce the possibility of tenants refusing to pay property management services fees due to unsatisfactory services and help reduce the time and human resources for collecting property management service fees;
  - (ii) two commercial buildings (as at the Latest Practicable Date, one of which was owned by a well-known company listed on the Stock Exchange and a well-known company listed on the Shanghai stock exchange) in Futian District, Shenzhen (at which Shopping Mall A is located) have adopted a similar property management service fees collection arrangement; and
  - (iii) such property management service fees collection arrangement is in line with market practice, and the proposed terms of which (including offering a one-month credit period to the landlord) are fair and reasonable;

Therefore, JLL is of the view that such practice is in line with market practice, the terms are fair and reasonable and on normal commercial terms. Based on the opinion of JLL, we concur with the view of JLL;

With regard to the due diligence work done by us, we have conducted an interview with JLL to understand the nature of the proposed change in the arrangement for collecting property management service fees of Shopping Mall A. JLL is an international real estate consultancy group, which provides a range of services including valuation and consultancy for occupiers, investors and developers across all sectors of the real estate market for over 240 years of history. JLL has licensed offices in Beijing, Shanghai, Guangzhou, Shenzhen and Chengdu in China, as well as Hong Kong, Singapore and other cities in Asia. Since JLL is a well-known international industry expert in the real estate sector, we believe the opinion given by JLL is reliable. Since the abovementioned property management service fees collection method is a specific arrangement between the landlords, tenants and the property management services companies in the real estate markets, and details of such arrangement is not readily available in the public, we can only rely on the data provided in JLL's opinion. In addition, regarding the information provided by JLL, we noted that the two comparable companies adopting similar property management service fees collection method are listed on the Stock Exchange and the Shanghai stock exchange with market capitalisation of approximately HK\$101 billion and RMB633 billion, respectively. Since both companies are listed companies with high market capitalisation, we are of the view that the data provided by JLL is representative.

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- (d) a similar property management service fees collection arrangement (including offering a one-month credit period to the landlord) was also requested by two Independent Third Party customers of the Group in FY2021 and FY2022, one of which is an indirect subsidiary of a well-known e-commerce company listed on the Stock Exchange and the other is a well-known mobile phone manufacturer in the PRC. Please see below for further details:

	<b>Shopping Mall A</b>	<b>Commercial building owned by a subsidiary of a well-known e-commerce company listed on the Stock Exchange</b>	<b>Commercial building owned by a well-known mobile phone manufacturer in the PRC</b>
(Expected) payment credit period	(the Group will issue an invoice detailing the property management service fees payable and the customer shall pay on or before the last calendar day of the following month upon receipt of such invoice.)	the Group will issue an invoice detailing the property management service fees payable and the customer shall pay within 30 calendar days upon receipt of such invoice.	the Group will issue an invoice detailing the property management service fees payable and the customer shall pay within 45 working days upon receipt of such invoice.

Based on the information in the table above, the Group also offered at least a 30 days credit period to the two customers which are Independent Third Parties, therefore we are of the view that the terms of the revised fee collection method is consistent with other comparable transactions entered into by the Company with Independent Third Parties.

- (e) In assessing the credit risk of the holding company of Shopping Mall A, the Directors have considered the following factors:
- (i) the holding company of Shopping Mall A is indirectly held by three property development companies. According to the sales leaderboard for the seven months ended 31 July 2022 in Shenzhen issued by E-House (China) Enterprise Holdings Limited (a company listed on the Stock Exchange (stock code: 2048)), which is a well-known real estate transaction service provider in the PRC, the three property development companies ranked 2nd, 6th and 11th, respectively, in terms of sales revenue. Also, according to China Index Academy, two of the three property development companies ranked 9th and

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35th, respectively, among the “2022 Top 100 Property Development Companies in the PRC” (2022中國房地產百強企業) in terms of overall strength, considering factors including respective property development scale, profitability and growth potential; and

- (ii) the occupancy rate of Shopping Mall A as at the Latest Practicable Date was approximately 94.0%,

As a result the Directors believe that the credit risk of the holding company of Shopping Mall A in failing to repay the collected property management service fees is low and the credit risk assessment performed above is sufficient. Based on the above, we concurred with the view of the Directors; and

- (f) no extra costs would arise from accepting the proposed change in the arrangement for collecting property management service fees of Shopping Mall A.

To conclude, considering the above, the Directors believe that: (i) the benefits that could be brought to the Group and the shareholders as a whole by accepting the proposed change in the arrangement for collecting property management service fees of Shopping Mall A outweigh the low potential credit risk of the holding company of Shopping Mall A; and (ii) the aforementioned arrangement of collecting property management service fees of Shopping Mall A by the holding company of Shopping Mall A (including the credit period granted to the holding company of Shopping Mall A and repayment schedule of the collected property management service fees by the holding company of Shopping Mall A) is reasonable, on normal commercial terms and is in line with the credit period offered to other Independent Third Party customers of the Group and the market practice, and is in the interest of the Company and the shareholders as a whole. As discussed with the Company, we understand that this is a normal commercial arrangement between the landlord and the property management company. The service fees payable to the Group remains unchanged. Therefore, we are of the view that this arrangement is fair and reasonable and on normal commercial terms.

### **The New Annual Caps**

In our assessment of the reasonableness of the New Annual Caps under the 2022 Supplemental Master Property Management Services Agreement, we have reviewed the estimated total amount of Property Management Services providing to Mr. Li’s Companies for the two years ending 31 December 2023 and the underlying basis and assumptions respectively. We understand that the Property Management Services provided to Mr. Li’s Companies include but is not limited to (i) pre-delivery services including (a) the on-site security, cleaning, and display units and on-site sales office management services; (b) preliminary planning and design consultancy services; (c) house inspection; and (d) pre-delivery cleaning services; and (ii) the property management services for the unsold residential property units and commercial properties owned and used by Mr. Li’s Companies. We have discussed with the Company

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regarding the below factors and concurred with the Company's view that it is reasonable and in the interests of both the Company and the Shareholders to set the New Annual Caps at the proposed levels, after taking the following into consideration:

- (i) the projection of the estimated property management fees payable by Mr. Li's Companies (the "**Properties Schedule**") which was prepared by the Management of the Company for the purpose of determining the New Annual Caps for the two years ending 31 December 2023 under the 2022 Supplemental Master Property Management Services Agreement. The Properties Schedule listed out the property units developed/expected to be developed by Mr. Li's Companies. For our due diligence purpose, we have obtained relevant documents for these projects, including signed contracts. We have also reviewed the calculation of the New Annual Caps which was prepared primarily based on i) the GFA/estimated GFA of existing and potential projects of Mr. Li's Companies and ii) estimated staff member cost to be incurred for each project. Based on our review and discussion with the Management, such estimated property management services fee has been confirmed and agreed by Mr. Li. According to the Management, such estimated property management services fee payable by Mr. Li are determined after discussion with Mr. Li, having taken into account the total GFA of existing projects and estimated total GFA of the properties expected to be developed by Mr. Li's Companies for the two years ending 31 December 2023 based on the development plan of Mr. Li's Companies provided to the Group;
- (ii) with a view to assess the reasonableness of the fee estimations under the New Annual Caps, we have performed work to assess the relevant price and quantity information, including, among others, obtained and reviewed the historical contracts, selected on a random basis, with a view to assess the reasonableness of the estimated price applied, we have compared 10 contracts entered between the Group and the Independent Third Parties (the "**Historical I3P Contracts**") with contract dates from January 2021 to December 2021 and noted that the estimated service fees for property units of which the Group may provide to Mr. Li Companies are broadly in line with that of the Historical I3P Contracts of similar and comparable nature. Based on the information provided by the Company, thereafter determine a price to be offered to Mr. Li's Companies which would not be less favourable than the price offered by the Company to Independent Third Parties under the prevailing market conditions;
- (iii) with a view to assess the reasonableness for calculating the annual caps for the Property Management Services for providing the on-site security, cleaning and display units and on-site sales office management services and preliminary planning, we have reviewed the Properties Schedule and signed contracts/proposals entered between the Group and Mr. Li's Companies and noted that the fees are based on location of the properties, GFA and the number of staff member required for the projects. We noted that the price charged to Mr. Li's Companies is no less favourable than the price offered by the Company to Independent Third Parties;

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- (iv) the operations of property management of providing preliminary planning and design consultancy services are affected by the regulatory environment and measures affecting the PRC property management industry. The specific pricing principles shall be determined by the competent price administration departments and property administration department of the local governments of each province, autonomous region and municipality. According to Administrative Measures on Property Management Service Charges (《物業服務收費管理辦法》), except the circumstance where the government guidance price shall be implemented, the market-based price applies to the property management fees. As confirmed by the Management, for the services provided by the Group to Mr. Li's Companies, the standard of such fees is determined by the Group and Mr. Li's Companies through negotiation. We have compared the government-guided property management fees and the management fees charged by the Company to Mr. Li's Companies, and noted that the management fees charged by the Company to Mr. Li's Companies range from RMB5 per sq.m to RMB15 per sq.m which is in line with the government-guided property management fees; and
- (v) in order to allow certain flexibility for any unexpectation in respect of the Property Management Services to be undertaken under the 2022 Supplemental Master Property Management Services Agreement, the New Annual Caps have included a buffer of approximately 5% for the two years ending 31 December 2023. We have discussed with the Management of the Company that, a moderate buffer is provided to cater for (a) unexpected business growth; (b) the estimated inflation rate in the PRC; and (c) on the general assumption that there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group or Mr. Li's Companies for the two years ending 31 December 2023. We consider it is justifiable for the contracting parties to provide a reasonable buffer to accommodate any upward changes in the Property Management Services and any unexpected changes in labour cost and unexpected fluctuation in cost of raw material and ancillary services for the two years ending 31 December 2023.

In addition, we have also considered the below quantitative factors:

- (i) there will be 165 and 155 revenue-generating contracts for FY2022 and FY2023 respectively, representing approximately 77.4% and 66.7% increase as compared to 93 revenue-generating projects during FY2021 under the Master Property Management Services Agreement; and the estimated GFA of the residential properties expected to be sold by Mr. Li's Companies is approximately 16.9 million sq.m. and 11.1 million sq.m. during FY2022 and FY2023, respectively, representing approximately 79.8% and 18.1% increase as compared to 9.4 million sq.m. sold by Mr. Li's Companies during FY2021 for the pre-delivery services;

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- (ii) the expected aggregate area of the unsold property units is approximately 371,000 sq.m. and 454,000 sq.m. for FY2022 and FY2023 respectively, representing approximately 83.7% and 124.8% increase as compared to 202,000 sq.m. of unsold property units for FY2021;
- (iii) the GFA of the commercial properties under management is approximately 6.0 million sq.m. and 7.6 million sq.m. for FY2022 and FY2023 respectively, representing approximately 87.5% and 137.5% increase as compared to 3.2 million sq.m. of total GFA under management for FY2021;
- (iv) the estimated average price per staff member of the revenue-generating projects for FY2022 and FY2023, which are estimated to be approximately RMB7,800 per staff member and approximately RMB8,500 per staff member, respectively, as compared to approximately RMB7,800 per staff member for FY2021;
- (v) the framework agreement between the Company and Mr. Li's Companies showing that Mr. Li's Companies plan to collect the service fees for the Property Management Services provided by the Group from the tenants of a shopping mall directly and then pay the service fees to the Group for the purpose of administrative convenience; and
- (vi) according to the China Statistical Yearbook 2021 compiled by the National Bureau of Statistics of China, we noted that the total sale of commercial buildings in the PRC (comprising residential buildings, office buildings, buildings for business use and others in the real estate industry) increased from approximately RMB8,728 billion in 2015 to approximately RMB18,192.9 billion in 2021, with a compound annual growth rate of approximately 11.1%. Also, the floor space of commercial buildings (comprising residential buildings, office buildings, buildings for business use and others in the real estate industry) sold in the PRC increased from approximately 1.3 billion sq.m. in 2015 to approximately 1.8 billion sq.m. in 2021, with a compound annual growth rate of approximately 4.9%. We also noted that there was an increase trend in historical transaction amount under the Master Property Management Services Agreement from approximately RMB199.2 million in FY2020 to approximately RMB290.6 million in FY2021 and approximately RMB201.7 million for the six months ended 30 June 2022.

Given all the factors above, we are of the view that it is fair and reasonable to revise the Existing Annual Cap for the Master Property Management Services Agreement for FY2022 to RMB510.0 million, which is about 1.4 times of the Existing Annual Cap. Due to the proposed change in the arrangement of collecting property management service fees mentioned in the above, which represents approximately 90.3% of the 24% increase of the FY2023 New Annual caps for the 2022 Supplemental Master Property Management Services Agreement as compared with FY2022, we are of the view that it is fair and reasonable to set the New Annual Cap for the Master Property Management Services Agreement for FY2023 at RMB634.0 million.

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In view of the above, we considered the basis for determining the New Annual Caps under the 2022 Supplemental Master Property Management Services Agreement and the year-on-year increase of the New Annual Caps to be fair and reasonable.

Having considered the foregoing (including the pricing policy for the services fees charged by the Group for the Property Management Services), the Directors are of the view that the New Annual Caps (including the year-on-year increase) of the 2022 Supplemental Master Property Management Services Agreement are fair and reasonable.

### **THE 2022 SUPPLEMENTAL MASTER SUPPLY AND INSTALLATION AGREEMENT**

#### **Reasons for and benefits of entering into the 2022 Supplemental Master Supply and Installation Agreement**

With reference to the Letter, the Group had previously entered into the Master Supply and Installation Agreement in 2020 to formalize the System Supply and Installation Services after the listing of the Company for a term commencing from the Listing Date until 31 December 2022. As it is expected the Existing Annual Cap for the Master Supply and Installation Agreement will not be sufficient to meet the needs of the Group's business growth in the future and the Group will continue to provide the System Supply & Installation Services to Mr. Li's Companies for FY2023, the Company therefore entered into the 2022 Supplemental Master Supply and Installation Agreement for the purpose of extending the term of the Master Supply and Installation Agreement, increasing the Existing Annual Cap and setting the New Annual Caps.

From 1 January 2022 and up to the Latest Practicable Date, none of the actual transaction amounts under the Master Supply and Installation Agreement had exceeded the Existing Annual Cap for FY2022 under the Master Supply and Installation Agreement.

As set out in the Circular, we noticed that the Company has taken into consideration that with the increase in the properties owned by Mr. Li's Companies, it is expected that there will also be an increase in the demand of Mr. Li's Companies for the provision of the System Supply & Installation Services, and the Group has the capacity to provide sufficient System Supply & Installation Services to meet the demand from Mr. Li's Companies. In addition, with the refined business process, the basis for the calculation of the transaction amount between the Group and Mr. Li's Companies has been changed from considering the contractual amount signed by both parties to the fees paid/payable by Mr. Li's Companies to the Group for rendering services, so as to better reflect the transaction amount of the relevant transactions.

It is therefore expected that the transaction amount under the Master Supply and Installation Agreement for FY2022 will exceed the Existing Annual Cap. It is also expected that the Group will continue to provide the System Supply & Installation Services to Mr. Li's

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Companies for FY2023. Therefore, the Company entered into the 2022 Supplemental Master Supply and Installation Agreement for the purpose of extending the term of the Master Supply and Installation Agreement, increasing the Existing Annual Cap and setting the New Annual Caps.

We noted that the utilisation rate of the Existing Annual Cap for FY2022 under the Master Supply and Installation Agreement for the six months ended 30 June 2022 was approximately 90.0%, which was close to fully utilizing the Existing Annual Cap.

Having considered that, (i) the Management considered that the transactions contemplated under the 2022 Supplemental Master Supply and Installation Agreement shall be conducted in accordance with the relevant pricing policy and in the ordinary and usual course of business of the Group; (ii) the 2022 Supplemental Master Supply and Installation Agreement will provide the Group with stable income and allow it to maximise the profits and to enhance its economies of scale, (iii) utilisation rate of the Existing Annual Cap; and (iv) the New Annual Caps, if approved, would facilitate the transactions contemplated under the 2022 Supplemental Master Supply and Installation Agreement, for the two years ending 31 December 2023 to ensure that they can be carried out in an effective and efficient manner without the need for the Company to seek Shareholders' approval on a transaction-by-transaction basis, we concur with the Directors' view that the transactions contemplated under the 2022 Supplemental Master Supply and Installation Agreement are in the interests of the Company as a whole.

### **Principal terms of the 2022 Supplemental Master Supply and Installation Agreement**

The principal terms of the 2022 Supplemental Master Supply and Installation Agreement are as follows:

- Date:** 22 July 2022
- Parties:** (a) the Company; and  
(b) Mr. Li Wa
- Term:** Subject to the Independent Shareholders' approval, the 2022 Supplemental Master Supply and Installation Agreement will be for a term up to 31 December 2023. Subject to compliance with the Listing Rules, the 2022 Supplemental Master Supply and Installation Agreement may be renewed by the Company and Mr. Li Wa by agreement in writing. Save for the revision of the Existing Annual Caps of the relevant transactions under the 2022 Supplemental Master Supply and Installation Agreement and the revision of the service scope, other terms of the Master Supply and Installation Agreement remain unchanged.

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### **Pricing policy**

The fees to be received by the Group under the 2022 Supplemental Master Supply and Installation Agreement shall be determined on arm's length basis with reference to: (i) historical transaction amounts and the fees charged by the Group for providing similar services to Independent Third Parties customers; (ii) (in relation to the fees for the Systems) the cost of the Systems purchased from Independent Third Parties plus a reasonable average mark-up rate of 10%, which is determined based on historical average profit rate; and (iii) (in relation to the fees for providing the System Supply and Installation Services) the labor costs for providing such services, which were determined based on the minimum wage of particular regions in the PRC.

### **Internal control measures taken by the Company in relation to the pricing policy**

In order to ensure the final service fees charged by the Company will be no less favourable than that charged by the Group to customers that are Independent Third Parties and will be on normal commercial terms, the Company has adopted the internal control measures below:

1. the business department of the Company will review the final service fees to be charged by the Company under the agreements entered into under the 2022 Supplemental Master Supply and Installation Agreement to ensure that such final service fees are no less favourable than that charged by the Group to customers that are Independent Third Parties and are on normal commercial terms before such agreements are concluded.
2. the finance department of the Company will review the relevant service fees and amounts of the continuing connected transaction under the 2022 Supplemental Master Supply and Installation Agreement quarterly to ensure that such transactions comply with the relevant pricing policy.

According to the internal control procedures set out above, we noted that before entering into any specific contract (i) the management and relevant personnel of the Group is required to make reference to the comparable services offered to other Independent Third Parties customers, or obtain the prevailing market rate (if applicable), (ii) the management and relevant personnel of the Group will review and assess the terms of any specific contract contemplated under the 2022 Supplemental Supply and Installation Agreement to ensure that they are consistent with the principles and provisions set out in the 2022 Supplemental Master Supply and Installation Agreement; and (iii) the management and relevant personnel of the Group will conduct regular checks on a quarterly basis to review the relevant records to ensure the price charged and other terms offered by the Group to Mr. Li's Companies are no more favourable than those offered to Independent Third Parties customers. Based on the above, we consider that the internal control procedures contained in the internal control manual of the

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Group are sufficient and effective to ensure that the final service fee charged by the Company will be no less favourable to that charged by the Group to Independent Third Party customers and on normal commercial terms.

In addition, we have assessed the fairness and reasonableness of the pricing mechanism by reviewing a total of 20 sample contracts with Mr. Li's Companies with contract dates from January 2021 to May 2022, which were selected on a random basis in relation to the provision of System Supply and Installation Services, and compared against the contracts between the Group and Independent Third Parties customers. On a random sampling basis, we have reviewed 4 contracts with Independent Third Parties customers with contract dates from January 2021 to December 2021 (no contract is being signed with Independent Third Parties from January 2022 to May 2022) and noted that the contracts were based on substantially the same requirements and/or specification for the provision of System Supply and Installation Services to both connected parties and Independent Third Parties customers. We also noted that the service fees is based on the expected scope and scale of works as well as the prevailing market prices (taking into account the location and the conditions of the properties, purchasing cost of the Systems, and the anticipated operation costs including labor costs and material costs). We have obtained and reviewed the prevailing market prices of the relevant system on a sampling basis, and are of the view that the price charged by the Company is broadly in line with the prevailing market prices. As discussed with the Management, they will also consider the historical transaction amounts and the fees charged by the Group for providing similar services to Independent Third Parties customers. We also noted that the fees charged for the System Supply and Installation Services was not lower than the fees charged to the Independent Third Parties customers. Based on the above, we are of the view that the pricing policy is fair and reasonable. The prices charged to Mr. Li's Companies for System Supply and Installation Services are in line with the prices charged by the Company to Independent Third Party customers.

### **Our analysis regarding the 2022 Supplemental Master Supply and Installation Agreement**

We have (i) reviewed the 2022 Supplemental Master Supply and Installation Agreement and the Master Supply and Installation Agreement which mentions that the terms of services provided by the Company to Mr. Li's Companies as contemplated under the 2022 Supplemental Master Supply and Installation Agreement; and (ii) obtained samples of System Supply and Installation Services contracts entered into between the Group and Independent Third Parties. We compared the principal terms of the aforementioned System Supply and Installation Services contracts and found that the nature of the System Supply and Installation Services provided to other Independent Third Parties under the contracts which we have obtained for sampling is similar to the System Supply and Installation Services to be provided under the 2022 Supplemental Master Supply and Installation Agreement. We are therefore of the view that the terms under the 2022 Supplemental Master Supply and Installation Agreement is on normal commercial terms and in the ordinary and usual course of business of the Group.

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After having conducted the aforementioned works, we are of the view that the terms of the 2022 Supplemental Master Supply and Installation Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### The New Annual Caps

#### Historical transaction amounts

For FY2020, FY2021 and the six months ended 30 June 2022, respectively, the total amount of fees received and/or receivable by the Group under the Master Supply and Installation Agreement are set out as below:

	<b>(Audited)</b>		<b>(Unaudited)</b>
	<b>Year ended 31 December</b>		<b>Six months</b>
	<b>2020</b>	<b>2021</b>	<b>ended 30 June</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Total contract value with Mr. Li's Companies in relation to the Master Supply and Installation Agreement	107,400	127,108	212,858
Existing Annual Cap	108,566	150,000	235,000
Utilisation rate	98.9%	84.7%	90.6%

#### Revision of Existing Annual Cap and the Setting of New Annual Caps

The Existing Annual Cap for the Master Supply and Installation Agreement is RMB235.0 million.

The New Annual Caps for the 2022 Supplemental Master Supply and Installation Agreement for FY2022 and FY2023 are RMB243.2 million and RMB 312.7 million respectively, which is calculated on the basis of fees paid/payable by Mr. Li's Companies instead of contract value which were determined based on:

- (i) the revenue generated from the provision of the System Supply and Installation Services during FY2020, FY2021 and the six months ended 30 June 2022 which were RMB69.5 million, RMB129.0 million and RMB100.6 million, respectively;
- (ii) the estimated selling price of the Systems and the service fee chargeable for the provision of the System Supply and Installation Services, which have increased by approximately 5.2% and 5.8% when compared to the estimations made when the Existing Annual Cap for FY2022 was determined due to the prevailing market conditions;

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- (iii) the estimated number of projects requiring the System Supply and Installation Services of approximately 114 projects and 116 projects for FY2022 and FY2023, respectively, as compared to 60 projects that required the System Supply and Installation Services during FY2021 under the existing signed agreements pursuant to the Master Supply and Installation Agreement;
- (iv) the installation schedules of the Systems in each individual agreement entered/to be entered into with Mr. Li's Companies under the 2022 Supplemental Master Supply and Installation Agreement, which are generally spread across three years and the revenue recognition rate of the System Supply and Installation Services of a project for the first, second and third year, which are on average 28.4%, 37.5% and 24.1%, respectively, are estimated based on the development progress of the property projects of Mr. Li's Companies during the relevant years;
- (v) the estimated fees receivable under the 2022 Supplemental Master Supply and Installation Agreement for FY2022 and FY2023, respectively;
- (vi) the estimated capacity of the Group in providing the System Supply and Installation Services for FY2022 and FY2023, respectively;
- (vii) according to the China Statistical Yearbook 2021 compiled by the National Bureau of Statistics of China, we noted that the total installation output value in the PRC increased from approximately RMB1,499.1 billion in 2015 to approximately RMB2,447.9 billion in 2021, with a compound annual growth rate of approximately 7.3%. There was an increasing trend in the historical transaction amount under the Master Supply and Installation Agreement from approximately RMB69.5 million in FY2020 to approximately RMB129.0 million in FY2021 and approximately RMB100.6 million for the six months ended 30 June 2022; and
- (viii) a reasonable buffer of approximately 5% to cater for (a) the unexpected business growth; (b) the estimated inflation rate in the PRC; and (c) on the general assumption that there will not be any change or disruption in the market conditions, operation and business environment or government policies which may materially and adversely affect the businesses of the Group or Mr. Li's Companies during the transaction period.

In our assessment of the reasonableness of the New Annual Caps under the 2022 Supplemental Master Supply and Installation Agreement, we have reviewed the schedule of the estimated total amount of System Supply and Installation Services (“**Supply and Installation Project Schedule**”), providing to Mr. Li's Companies for the two years ending 31 December 2023 and the underlying basis and assumptions respectively. We have discussed with the Company regarding the below factors and concurred with the Company's view that it is reasonable and in the interests of both the Company and the Shareholders to set the New Annual Caps at the proposed levels, after taking the following into consideration:

- (i) we have performed work to assess the relevant price and quantity information used in deriving the New Annual Caps including, among others, obtained and reviewed the historical contracts, selected on a random basis, with a view to assess the

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reasonableness of the estimated price applied, entered between the Group and the Independent Third Parties and noted that the estimated revenue for the installation units of which the Company to provide the System Supply and Installation Services and the estimated fee to be charged by the Group are broadly in line with that of the Independent Third Parties contracts of similar and comparable nature;

- (ii) we also noted that the estimated fees of which is based on the expected scope and scale of works as well as the prevailing market prices (taking into account the location and the conditions of the properties, purchasing cost of the Systems, and the anticipated operation costs including labor costs and material costs). We have obtained and reviewed the prevailing market prices of the relevant system on a sampling basis, and are of the view that the price charged by the Company is broadly in line with the prevailing market prices;
- (iii) we noted that the estimated selling price of the Systems and the service fee chargeable for the provision of the System Supply and Installation Services have increased by approximately 5.2% and 5.8% when compared to the estimations made with the Existing Annual Cap for FY2022, the Management advised that the percentage increase is calculated based on the trend of the Secondary Industry Value Added Index and Tertiary Industry Value Added Index in the PRC from 2019 to 2021;
- (iv) obtained and reviewed the Supply and Installation Project Schedule, which listed out the number of expected projects under the existing signed agreements and the estimated number of contracts to be entered into pursuant to the 2022 Supplemental Master Supply and Installation Agreement, 144 signed contracts and estimated 66 contracts to be signed under the New Annual Caps from Mr. Li's Company. With the increase of the number of projects to be signed under the New Annual Caps, the increments is considered reasonable. For our due diligence purpose, we have obtained relevant documents for these projects, including signed contracts, strategic corporation agreements and internal communication record;
- (v) according to the China Statistical Yearbook 2021 compiled by the National Bureau of Statistics of China, we noted that the total installation output value in the PRC increased from approximately RMB1,499.1 billion in 2015 to approximately RMB2,447.9 billion in 2021, with a compound annual growth rate of approximately 7.3%. We also noted that there was an increasing trend in the historical transaction amount under the Master Supply and Installation Agreement from approximately RMB69.5 million in FY2020 to approximately RMB129 million in FY2021 and approximately RMB100.6 million for the six months ended 30 June 2022; and
- (vi) in order to allow certain flexibility for any unexpectation in respect of the System Supply and Installation Services to be undertaken under the 2022 Supplemental Master Supply and Installation Agreement, the New Annual Caps have included a buffer of approximately 5% for the two years ending 31 December 2023. We have

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discussed with the Management of the Company that, a moderate buffer is provided to cater for the (a) unexpected business growth; (b) the estimated inflation rate in the PRC; and (c) on the general assumption that there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group or Mr. Li's Companies for the two years ending 31 December 2023. We considered it is justifiable for the contracting parties to provide a reasonable buffer to accommodate any upward changes in the System Supply and Installation Services and any unexpected changes in labour cost and unexpected fluctuation in cost of raw material and ancillary services for the two years ending 31 December 2023.

In addition, we have also considered the below quantitative factors: we noted that the Supply and Installation Project Schedule to Mr. Li's Companies listed out 114 and 116 revenue-generating contracts for FY2022 and FY2023, respectively, representing approximately 90.0% and 93.3% increase as compared to 60 revenue-generating contracts during FY2021. We also understand from the Management that the revenue recognition of providing the System Supply and Installation Services is based on the terms of projects which is normally three years. Given there is a substantial increase in the number of contracts which are expected to generate revenue for the Group for FY2022 and FY2023 comparing to the 60 revenue generating contracts for FY2021, we are of the view that it is fair and reasonable to revise the Existing Annual Cap for the Master Supply and Installation Agreement and set a New Annual Cap for FY2023.

In view of the above, we considered the basis for determining the New Annual Caps under the 2022 Supplemental Master Supply and Installation Agreement and the year-on-year increase of the New Annual Caps to be fair and reasonable.

Having considered the foregoing (including the pricing policy for the services fees charged by the Group for the System Supply and Installation Services), the Directors are of the view that the New Annual Caps (including the year-on-year increase) of the 2022 Supplemental Master Supply and Installation Agreement are fair and reasonable.

### **THE 2022 SUPPLEMENTAL MASTER CONSTRUCTION MATERIAL TRADING AGREEMENT**

#### **Reasons for and benefits of entering into the 2022 Supplemental Master Construction Material Trading Agreement**

With reference to the Letter, in respect of the Master Construction Material Trading Agreement entered into between the Company and Mr. Li's Companies for a term commencing from 12 November 2021 until 31 December 2022. As it is expected the Existing Annual Cap for the Master Construction Material Trading Agreement will not be sufficient to meet the needs of the Group's business growth in the future and the Group will continue to supply the Construction Materials to Mr. Li's Companies in 2023, the Company therefore entered into the

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## LETTER FROM EUTO CAPITAL

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2022 Supplemental Master Construction Material Trading Agreement for the purpose of extending the term of the Master Construction Material Trading Agreement, increasing the Existing Annual Cap and setting the New Annual Caps.

From 1 January 2022 and up to the Latest Practicable Date, none of the actual transaction amounts under the Master Construction Material Trading Agreement had exceeded the Existing Annual Cap for FY2022 under the Master Construction Material Trading Agreement.

As set out in the Circular, we noticed that the Company has taken into consideration (i) the number of existing properties owned or used or developed or being developed by Mr. Li's Companies, (ii) the estimated increase in the number of property projects to be developed by Mr. Li's Companies, and (iii) the increasing demand for well-decorated apartments from end customers of Mr. Li's Companies, it is expected that there will be an increase in the purchase demand for the Construction Materials by Mr. Li's Companies.

It is therefore expected that the transaction amount under the Master Construction Material Trading Agreement for FY2022 will exceed the Existing Annual Cap in respect of the Master Construction Material Trading Agreement. It is also expected that the Group will continue to supply the Construction Materials to Mr. Li's Companies in 2023. Therefore, the Company entered into the 2022 Supplemental Master Construction Material Trading Agreement for the purpose of extending the term of the Master Construction Material Trading Agreement, increasing the Existing Annual Cap and setting the New Annual Caps.

We noted that the utilisation rate of the Existing Annual Cap for FY2022 under the Master Construction Material Trading Agreement for the six months ended 30 June 2022 was approximately 70.0%.

Having considered that, (i) the Management considered that the transactions contemplated under the 2022 Supplemental Master Construction Material Trading Agreement, shall be conducted in accordance with the relevant pricing policy and in the ordinary and usual course of business of the Group; (ii) the 2022 Supplemental Master Construction Material Trading Agreement will provide the Group with stable income and allow it to maximize the profits and to enhance its economies of scale; (iii) the utilisation rate of the Existing Annual Cap; and (iv) the New Annual Caps, if approved, would facilitate the transactions contemplated under the 2022 Supplemental Master Construction Material Trading Agreement, for the two years ending 31 December 2023 to ensure that they can be carried out in an effective and efficient manner without the need for the Company to seek Shareholders' approval on a transaction-by-transaction basis, we concur with the Directors' view that the transactions contemplated under the 2022 Supplemental Master Construction Material Trading Agreement are in the interests of the Company as a whole.

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## LETTER FROM EUTO CAPITAL

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### **Principal terms of the 2022 Supplemental Master Construction Material Trading Agreement**

The principal terms of the 2022 Supplemental Master Construction Material Trading Agreement are as follows:

- Date:** 22 July 2022
- Parties:** (a) the Company; and  
(b) Mr. Li Wa
- Term:** Subject to the Independent Shareholders' approval, the 2022 Supplemental Master Construction Material Trading Agreement will be for a term up to 31 December 2023. Subject to compliance with the Listing Rules, the 2022 Supplemental Master Construction Material Trading Agreement may be renewed by the Company and Mr. Li Wa by agreement in writing. Save for the revision of the Existing Annual Caps of the relevant transactions under the 2022 Supplemental Master Construction Material Trading Agreement, other terms of the Master Construction Material Trading Agreement remain unchanged.

### **Pricing Policy**

The selling price of the Construction Materials supplied by the Group shall be determined after arm's length negotiations with reference to (i) the anticipated operation costs (including but not limited to costs of materials, logistics costs and labor costs); and (ii) the selling price determined by Independent Third Parties for providing the comparable construction materials which could be gathered from online public information, including but not limited to Aicaiyou (百度愛採購), and JD.com\* (京東). The selling price of the Construction Materials would be determined by the cost of the Construction Materials purchased from Independent Third Parties plus a reasonable average mark-up rate of 9% for the transactions which would be reviewed and/or renewed from time to time. The Board believes that Mr. Li's Companies purchase the Construction Materials from the Group at a mark-up instead of purchasing the Construction Materials from Independent Third Parties because: (a) the Group has developed long-term business relationships with the suppliers of Constructions Materials and thus the Group could help Mr. Li's Companies to reduce time costs and labor costs in finding reputable suppliers and negotiating with various suppliers for the Construction Materials; (b) the Group will conduct quality checks on the Construction Materials to ensure such Construction Materials are of satisfactory quality before delivering them to the respective property construction sites of Mr. Li's Companies; (c) the Group will deliver the Construction Materials to the respective property construction sites of Mr. Li's Companies; (d) the Group has always been a reliable supplier in providing Construction Materials of satisfactory quality since the commencement of the Master Construction Material Trading Agreement in November 2021; and (e) the

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## LETTER FROM EUTO CAPITAL

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Company have established a stable and trusted business relationship with Mr. Li's Companies by providing management services for the properties developed by Excellence Real Estate (one of Mr. Li's Companies) since 2000.

The details of the payment mechanism for the payments due to the Group shall be agreed by the relevant parties under separate agreements with reference to the normal commercial terms comparable to those for provision of comparable construction materials by Independent Third Parties to Mr. Li's Companies.

### **Internal control measures taken by the Company in relation to the pricing policy**

In order to ensure the final service fees charged by the Company will be no less favourable than that charged by the Group to customers that are Independent Third Parties and will be on normal commercial terms, the Company has adopted the internal control measures below:

1. the business department of the Company will review the final selling prices to be charged by the Company under the agreements entered into under the 2022 Supplemental Master Construction Material Trading Agreement to ensure that such final selling prices are no less favourable than that charged by the Group to customers that are Independent Third Parties and are on normal commercial terms before such agreements are concluded.
2. the finance department of the Company will review the relevant service fees and amounts of the continuing connected transaction under the 2022 Supplemental Master Construction Material Trading Agreement quarterly to ensure that such transactions comply with the relevant pricing policy.

According to the internal control procedures set out above, we noted that before entering into any specific contract (i) the management and relevant personnel of the Group is required to make reference to the comparable services offered to other Independent Third Parties customers, or obtain the prevailing market rate (if applicable), (ii) the management and relevant personnel of the Group will review any specific contract and assess the terms to ensure that they are consistent with the principles and provisions set out in the 2022 Supplemental Master Construction Material Trading Agreement; and (iii) the management and relevant personnel of the Group will conduct regular checks on a quarterly basis to review the relevant records to ensure the price charged and other terms offered by the Group to Mr. Li's Companies are no more favourable than those offered to Independent Third Parties customers. Based on the above, we consider that the internal control procedures contained in the internal control manual of the Group are sufficient and effective to ensure that the final selling prices charged by the Company to Mr. Li's Companies will be no less favourable to that charged by the Group to Independent Third Party customers and on normal commercial terms.

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In addition, we have assessed the fairness and reasonableness of the pricing mechanism by obtaining and reviewing a total of 20 sample contracts with Mr. Li's Companies with contract dates from January 2021 to May 2022, which were selected on a random basis in relation to the supply of Construction Material contemplated under the 2022 Supplemental Master Construction Material Trading Agreement and compared against the contracts between the Group and Independent Third Parties customers. We noted that the contracts were based on substantially the same requirements and/or specification for the provision of Construction Material to both connected parties and Independent Third Parties. For the pricing policy of the sample transactions, we noted that it is in line with the Group's pricing policy as set out above, that the fees of the Construction Material, will be determined with reference to the prevailing market price quoted from relevant websites. As discussed with the Management, they will also consider the historical transaction amounts and the fees charged by the Group for providing similar services to Independent Third Parties customers. We also noted that the fees to be charged for the Construction Materials to Mr. Li's Companies was not lower than the fees charged to Independent Third Parties customers. Based on the above, we are of the view that the pricing policy is fair and reasonable. The prices charged to Mr. Li's Companies for Construction Material are in line with the prices charged by the Company to Independent Third Party customers.

### The New Annual Caps

#### Historical transaction amounts

For FY2020, FY2021 and the six months ended 30 June 2022, respectively, the total amount of fees received and/or receivable by the Group under the Master Construction Material Trading Agreement are set out as below:

	<b>(Audited)</b>		<b>(Unaudited)</b>
	<b>Year ended 31 December</b>		<b>Six months</b>
	<b>2020</b>	<b>2021</b>	<b>ended 30 June</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Total fees received/receivable by our Group under the Master Construction Material Trading Agreement	–	96,323	87,556
Existing Annual Cap	–	115,000	120,000
Utilisation rate	–	83.8%	73.0%

#### Revision of Existing Annual Cap and the Setting of New Annual Caps

The Existing Annual Cap for the Master Construction Material Trading Agreement for FY2022 is RMB120.0 million.

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## LETTER FROM EUTO CAPITAL

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The New Annual Caps under the 2022 Supplemental Master Construction Material Trading Agreement for FY2022 and FY2023 are RMB448.0 million and RMB733.0 million, respectively, which were determined based on:

- (i) the historical transaction amounts under the Master Construction Material Trading Agreement during FY2021 and the six months ended 30 June 2022;
- (ii) the number of estimated revenue-generating contracts under the 2022 Supplemental Master Construction Material Trading Agreement (approximately 323 contracts (approximately 18.0% of which is expected to generate more than RMB1 million of revenue for our Group) and 367 contracts approximately 15.0% of which is expected to generate more than RMB1 million of revenue for our Group) are expected to generate revenue for the Group for FY2022 and FY2023 respectively, as compared to 26 revenue-generating contracts (approximately 65.0% of which generated more than RMB1 million of revenue for our Group) under the Master Construction Material Trading Agreement during FY2021);
- (iii) the timetable and amount of Construction Materials to be provided to Mr. Li's Companies of each individual agreement entered/to be entered into with Mr. Li's Companies under the 2022 Supplemental Master Construction Material Trading Agreement. Such individual agreements generally have a term of three years and the fees receivable for the provision of Construction Materials for the first, second and third year are on average 19.9%, 35.0% and 40.1%, respectively, of the total fees receivable of each individual agreement, which are estimated based on the development progress of the property projects of Mr. Li's Companies during the relevant years;
- (iv) the performance of the contracts entered into under the Master Construction Material Trading Agreement, which should have taken place during the six months ended 30 June 2022 but had been suspended due to COVID-19, is estimated to resume and proceed expeditiously during the six months ending 31 December 2022. The Directors believe this will significantly increase the total fees received/receivable by the Group under the Master Construction Material Trading Agreement during the remaining months of 2022;
- (v) the estimated increase in demand of Mr. Li's Companies for the Construction Materials during FY2022 and FY2023, taking into account the possibility that Mr. Li's Companies will develop additional 82 and 89 property projects from which our Group would be able to generate revenue during FY2022 and FY2023, respectively;
- (vi) the potential increase in the unit price of the Construction Material due to the prevailing market conditions, which is estimated to increase approximately 4.4%-10.2% in FY2022 and FY2023 when compared to that in FY2021;

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- (vii) the potential increase in the operation costs in the provision of Construction Materials, including but not limited to logistics costs and labor costs which are estimated to increase approximately 3.9%-4.7% in FY2022 and FY2023 when compared to that in FY2021;
- (viii) according to the China Statistical Yearbook 2021 compiled by the National Bureau of Statistics of China, the total construction output value in the PRC increased from approximately RMB18,075.7 billion in 2015 to approximately RMB29,307.9 billion in 2021, with a compound annual growth rate of approximately 7.2%. There was an increasing trend in the historical transaction amount under the Master Construction Material Trading Agreement from approximately RMB96.3 million in FY2021 to approximately RMB87.6 million for the six months ended 30 June 2022; and
- (ix) a reasonable buffer of approximately 5% to cater for (a) unexpected business growth; (b) the estimated inflation rate in the PRC; and (c) on the general assumption that there will not be any change or disruption in market conditions, operation and business environment or government policies which may materially and adversely affect the businesses of the Group or Mr. Li's Companies during the transaction period.

### **The New Annual Caps**

In our assessment of the reasonableness of the New Annual Caps under the 2022 Supplemental Master Construction Material Trading Agreement, we have reviewed the estimated total amount of Construction Materials (“**Trading Project Schedule**”) providing to Mr. Li's Companies for the two years ending 31 December 2023 and the underlying basis and assumptions respectively. We have discussed with the Company regarding the below factors and concurred with the Company's view that it is reasonable and in the interests of both the Company and the Shareholders to set the New Annual Caps at the proposed levels, after taking the following into consideration:

- (i) we have performed work to assess the relevant price and quantity information used in deriving the New Annual Caps including, among others, obtained and reviewed the historical contracts, selected on a random basis, with a view to assess the reasonableness of the estimated price applied, entered between the Group and the Independent Third Parties and noted that the estimated revenue for which the Company to supply the construction materials and the estimated fee to be charged by the Group are broadly in line with that of the Independent Third Parties of similar and comparable nature;
- (ii) obtained Trading Project Schedule from the Management, which listed out the number of expected projects under the existing signed agreement and the estimated number of agreements to be entered into pursuant to the 2022 Supplemental Master Construction Material Trading Agreement, 204 signed contracts and estimated 163 contracts to be signed under the New Annual Caps from Mr. Li's Company. With the

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increase of the number of projects to be signed under the New Annual Caps, the increments are considered reasonable. For our due diligence purpose, we have obtained relevant documents for these projects, including signed contracts, strategic corporation agreements and internal communication record;

- (iii) we also noted that the estimated selling price of the Construction Materials supplied by the Group shall be determined after arm's length negotiations with reference to (i) the anticipated operation costs (including but not limited to costs of materials, logistics costs and labor costs); and (ii) the selling price determined by the Independent Third Parties for providing the comparable construction materials. We have obtained and reviewed the prevailing market prices of the relevant construction materials on a sampling basis, and are of the view that the prices charged by the Company is broadly in line with the prevailing market prices and is in line with the prices charged to Independent Third Parties;
- (iv) according to the China Statistical Yearbook 2021 compiled by the National Bureau of Statistics of China, we noted that the total construction output value in the PRC increased from approximately RMB18,075.7 billion in 2015 to approximately RMB29,307.9 billion in 2021, with a compound annual growth rate of approximately 7.2%. We also noted that there was an increasing trend in historical transaction amount under the Master Construction Material Trading Agreement from approximately RMB96.3 million in FY2021 to approximately RMB87.6 million for the six months ended 30 June 2022; and
- (v) in order to allow certain flexibility for any unexpectation in respect of the Constructions Materials to be undertaken under the 2022 Supplemental Master Construction Material Trading Agreement, the New Annual Caps have included a buffer of approximately 5% for the two years ending 31 December 2023. We have discussed with the Management that, a moderate buffer is provided to cater for (a) unexpected business growth; (b) the estimated inflation rate in the PRC; and (c) on the general assumption that there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group or Mr. Li's Companies for the two years ending 31 December 2023. We considered it is justifiable for the contracting parties to provide a reasonable buffer to accommodate any upward changes in the supply of Construction Materials and any unexpected fluctuation in cost of raw material and ancillary services for the two years ending 31 December 2023.

In addition, we have also considered the below quantitative factors: we noted that the Trading Project Schedule to Mr. Li's Companies listed out 323 and 367 revenue-generating contracts for FY2022 and FY2023 respectively, representing approximately 1,142.3% and 1,311.5% increase, as compared to 26 revenue-generating contracts during FY2021. We also understand from the Management that the revenue recognition of the supply of Construction Materials is based on the terms of projects which is normally three years. Given there is a

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substantial increase in the number of contracts which are expected to generate revenue for the Group for FY2022 and FY2023 comparing to the 26 revenue-generating contracts for FY2021, we are of the view that it is fair and reasonable to revise the Existing Annual Cap for the Master Construction Material Trading Agreement for FY2022 to RMB448.0 million, which is about 3.7 times of the Existing Annual Cap. Due to the nature of supplying of Construction Materials, the fee receivable will be the highest in the third year, which is 40.1%, we are of the view that it is fair and reasonable to set the New Annual Caps for Master Construction Material Trading Agreement for FY2023 at RMB733.0 million.

In view of the above, we considered the basis for determining the New Annual Caps under the 2022 Supplemental Master Construction Material Trading Agreement and the year-on-year increase of the New Annual Caps to be fair and reasonable.

Having considered the foregoing (including the pricing policy for the selling price of the Construction Materials charged by the Group), the Directors are of the view that the New Annual Caps (including the year-on-year increase) of the 2022 Supplemental Master Construction Material Trading Agreement are fair and reasonable.

### INTERNAL CONTROL

In order to further safeguard the interests of the Shareholders as a whole, the Group has implemented the following internal control measures in relation to the continuing connected transactions under the Supplemental Agreements:

- (i) the general manager of the business department and finance department will closely monitor the transactions and notify the management of the Company if the aggregate transaction amount is close to 85% of the annual caps, which could ensure that the transaction amount does not exceed the annual cap of each of the Supplemental Agreements. When the aggregate transaction amount attains or exceeds 85% of the annual caps, the finance department will immediately notify the relevant departments and subsidiaries of our Group of the remaining transaction amount under the applicable annual caps. After receiving the notification from the finance department, the relevant departments and subsidiaries of our Group will report to the finance department of the continuing connected transactions that are expected to occur in the remaining period of the relevant financial year and their respective estimated transaction amounts on a real-time basis starting from the date of receiving such notification until the last day of the applicable financial year to ensure that the transaction amount of the continuing connected transactions will not exceed the annual cap of each of the Supplemental Agreements within the applicable financial year. If the annual cap of any of the Supplemental Agreements within the applicable financial year is expected to be exceeded, our finance department will immediately notify the management of the Company and the Board, which will immediately proceed to making the application for increasing the relevant annual cap and the Company will re-comply with the applicable listing rule requirements accordingly;

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- (ii) the implementation of specific contracts shall be subject to the appropriate approval of the general manager of the business department, finance department, risk control department and management of the Group to ensure that the contracts are in line with the pricing policy and principal terms of each of the Supplemental Agreements. With the review of contracts by different departments of the Company, we believe the terms of each specific contract will be no less favourable to the Group than those offered by the Group to Independent Third Parties;
- (iii) the general manager of the business department of the Group will conduct regular reviews to keep abreast of the prevailing fee level in the market and the market conditions for the purpose of considering if the price charged for a specific transaction is fair and reasonable and is in accordance with the pricing policy; we believe this internal control procedure could ensure the fees charged by the Group to Mr. Li' Companies will be in line with the fees charged by the Group to Independent Third Parties;
- (iv) the Company's external auditors will review the transactions as contemplated under the Supplemental Agreements annually to confirm, among other things, whether the pricing policies have been adhered to and whether the relevant annual caps have been complied with. We understand the Company must engage its auditor to report on the continuing connected transactions every year and to comment on the above-mentioned issues pursuant to rule 14A.56 to 14A.58 of the Listing Rules. As such, we are of the view that the Company's auditor will review the transactions contemplated under the Supplemental Agreements to confirm that the transactions thereunder have not exceeded the New Annual Caps on a yearly basis;
- (v) the independent non-executive Directors will review the transactions contemplated under the Supplemental Agreements annually to confirm whether such transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions are conducted in accordance with the pricing policies. We have reviewed the profiles of all independent non-executive Directors in the Annual Report and noted that all of them has extensive experience in listed companies. Therefore, we considered that the independent non-executive Directors are capable of fully implementing the relevant internal control measures in respect of the transactions contemplated under the Supplemental Agreements;
- (vi) the risk management department of the Group will review the internal control procedures adopted by the Company annually to confirm that they are adequate and effective to ensure that such continuing connected transactions are conducted in accordance with the Supplemental Agreements and the pricing policies, and the relevant annual caps have been complied with. We believe this internal control

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## LETTER FROM EUTO CAPITAL

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procedures could ensure the continuing connected transactions will not exceed the New Annual Caps and the fees charged by the Group to Mr. Li' Companies will be in line with the fees charged by the Group to Independent Third Parties; and

- (vii) the Company has employed a reputable audit firm as the external internal control consultant this year to conduct a general review on the internal control policies/procedures put in place by the Company, including the internal control procedures put in place by the Company to monitor the continuing connected transactions under each of the Supplemental Agreements to ensure that such continuing connected transactions are conducted in accordance with the Supplemental Agreements and the pricing policies, and the relevant annual caps have been complied with. We are of the view that this practice can ensure the effectiveness of the internal control policies implemented by the Company.

Furthermore, we have also reviewed the letter issued by the auditor of the Company regarding the continuing connected transactions of the Company for FY2021, pursuant to which nothing has come to the attention of the auditor that causes them to believe that the continuing connected transactions entered into by the Group (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods and services by the Group; (iii) were not entered into, in all material respects, in accordance with the terms of the relevant agreements governing such transactions; and (iv) have exceeded the corresponding annual cap amounts.

In light of the above conditions, we concur with the view of the Directors (including the independent non-executive Directors) that the procedures to be adopted by the Group to govern the continuing connected transactions are sufficient and effective to ensure that such transactions will be conducted under normal commercial terms and are not prejudicial to the interests of the Company and the Independent Shareholders.

The Directors consider that the implemented internal control system of the Group is adequate to ensure that the transactions as contemplated under the (a) the 2022 Supplemental Master Property Management Services Agreement; (b) the 2022 Supplemental Master Supply and Installation Agreement; and (c) the 2022 Supplemental Master Construction Material Trading Agreement will be on normal commercial terms and no less favourable to the Company than those offered by Independent Third Parties.

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## LETTER FROM EUTO CAPITAL

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### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we considered that (a) the 2022 Supplemental Master Property Management Services Agreement; (b) the 2022 Supplemental Master Supply and Installation Agreement; and (c) the 2022 Supplemental Master Construction Material Trading Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group; and the New Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the Transactions and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully  
For and on behalf of  
**Euto Capital Partners Limited**  
**Wendy Liu**  
*Director*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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 herein or this circular misleading.

## 2. EXPERT AND CONSENT

The following is the qualification of the expert who has given its opinion, advice or report contained in this circular:

<b>Name</b>	<b>Qualification</b>
Euto Capital Partners Limited	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
JLL	Independent industry expert

As at the Latest Practicable Date, each of the Independent Financial Adviser and JLL:

- (a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or opinion and references to its name, in the form and context in which it appears;
- (b) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (c) the letter and recommendations from the Independent Financial Adviser are set out on pages 36 to 82 of this circular and are given for incorporation in this circular; and
- (d) did not have any direct or indirect interest in any assets which had been since 31 December 2021 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group or were proposed to be acquired or disposed of by, or leased to any member of the Group.

The letter and recommendations from the Independent Financial Adviser are set out on pages 36 to 82 of this circular and are given for incorporation in this circular.

**3. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made.

**4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which is not expiring or determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

**5. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by, or leased to, any member of the Group or were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Company were made up.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular and which is significant in relation to the businesses of the Group.

**6. DOCUMENTS ON DISPLAY**

Copies of the following documents will be published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company (<http://www.excep.com>) from the date of this circular up to and including the date of the EGM:

- (a) the 2022 Supplemental Master Property Management Services Agreement;
- (b) the 2022 Supplemental Master Supply and Installation Agreement;
- (c) the 2022 Supplemental Master Construction Material Trading Agreement;
- (d) the letter from the Board, the text of which is set out on pages 6 to 33 of this circular;
- (e) the letter from the Independent Board Committee, the text of which is set out on pages 34 to 35 of this circular;
- (f) the letter from the Independent Financial Adviser, the text of which is set out on pages 36 to 82 of this circular;
- (g) the written consents referred to in the paragraph headed "Expert and Consent" in this Appendix; and
- (h) this circular.

## 7. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short position of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

### (a) Interests of Directors and chief executives

#### *Interests in the Shares*

Name of Director	Capacity/Nature of interests	Number of Shares held	Approximate percentage of interests in the Company <sup>(4)</sup>	Long/short position
Mr. Li Xiaoping ("Mr. Li")	Interest of spouse	118,120,000 <sup>(1)</sup>	9.68%	Long position
	Beneficial owner	11,072,000 <sup>(2)</sup>	0.91%	Long position
Ms. Guo Ying ("Ms. Guo")	Beneficial owner	875,000 <sup>(3)</sup>	0.07%	Long position

#### *Notes:*

- (1) Mr. Li is the spouse of Ms. Xiao Xingping ("Ms. Xiao"). By virtue of the SFO, Mr. Li is deemed to be interested in the same number of Shares in which Ms. Xiao is interested.
- (2) Including 10,800,000 share options of our Company which have been granted but have not yet been exercised as at the Latest Practicable Date.
- (3) Including 800,000 share options of our Company which have been granted but have not yet been exercised as at the Latest Practicable Date.
- (4) The percentage is calculated on the basis of 1,220,348,000 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including

interests and short positions which they were taken or deemed to have under such provisions of the SFO), or required to be recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

**(b) Interests of substantial Shareholders**

As at the Latest Practicable Date, so far as was known to the Directors, the following persons, other than the Directors or chief executive of the Company, had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

*Interests in the Shares*

Name of Shareholder	Capacity/Nature of interests	Number of Shares held	Approximate percentage of interests in the Company <sup>(5)</sup>	Long/short position
Mr. Li Wa <sup>(1)</sup>	Interest in a controlled corporation	722,440,000	59.20%	Long position
Oriental Rich Holdings Group Limited (“ <b>Oriental Rich</b> ”) <sup>(1)</sup>	Interest in a controlled corporation	722,440,000	59.20%	Long position
Urban Hero Investments Limited (“ <b>Urban Hero</b> ”) <sup>(1)</sup>	Beneficial owner	722,440,000 <sup>(1)</sup>	59.20%	Long position
Ms. Xiao Xingping <sup>(2), (3)</sup>	Interest in a controlled corporation	117,900,000 <sup>(2)</sup>	9.66%	Long position
	Beneficial owner	220,000	0.02%	Long position
	Interest of spouse	11,072,000 <sup>(3)</sup>	0.91%	Long position
Ever Rainbow Holdings Limited (“ <b>Ever Rainbow</b> ”) <sup>(2)</sup>	Beneficial owner	117,900,000	9.66%	Long position

Name of Shareholder	Capacity/Nature of interests	Number of Shares held	Approximate percentage of interests in the Company <sup>(5)</sup>	Long/short position
Mr. Li Yuan <sup>(4)</sup>	Interest in a controlled corporation	63,000,000	5.16%	Long position
Autumn Riches Limited (“Autumn Riches”) <sup>(4)</sup>	Beneficial owner	63,000,000	5.16%	Long position

*Notes:*

- (1) Urban Hero is wholly-owned by Oriental Rich, which is in turn wholly-owned by Mr. Li Wa. By virtue of the SFO, each of Oriental Rich and Mr. Li Wa is deemed to be interested in the same number of Shares in which Urban Hero is interested.
- (2) Ever Rainbow is wholly-owned by Ms. Xiao. By virtue of the SFO, Ms. Xiao is deemed to be interested in the same number of Shares in which Ever Rainbow is interested.
- (3) Ms. Xiao is the spouse of Mr. Li Xiaoping. By virtue of the SFO, Ms. Xiao is deemed to be interested in the same number of Shares in which Mr. Li Xiaoping is interested. The interests owned by Mr. Li Xiaoping include the 10,800,000 share options of our Company which have been granted but have not yet been exercised as at the Latest Practicable Date.
- (4) Autumn Riches is wholly owned by Mr. Li Yuan. By virtue of the SFO, Mr. Li Yuan is deemed to be interested in the same number of Shares in which Autumn Riches is interested.
- (5) The percentage is calculated on the basis of 1,220,348,000 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any persons (who were not Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

## 8. DIRECTOR’S INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them was a controlling shareholder.

## 9. MISCELLANEOUS

This circular and the accompanying proxy form have been prepared in both English and Chinese. In the event of discrepancies, the English text of this circular shall prevail over the Chinese text.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this notice, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this notice.*



### **EXCELLENCE COMMERCIAL PROPERTY & FACILITIES MANAGEMENT GROUP LIMITED**

**卓越商企服務集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 6989)**

#### **NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of Excellence Commercial Property & Facilities Management Group Limited (the “Company”) will be convened and held at Greater Bay Area Room, 38A Floor, Tower 4, Excellence Century Center, Fuhua Third Road, Futian District, Shenzhen, GuangDong Province, PRC on Tuesday, 22 November 2022 at 10 a.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions of the Company:

#### **ORDINARY RESOLUTIONS**

1. “**THAT**

- (a) the 2022 Supplemental Master Property Management Services Agreement (the “**2022 Supplemental Master Property Management Services Agreement**”) dated 22 July 2022 entered into between the Company and Mr. Li Wa in relation to the New Annual Caps (a copy of which has been produced to the EGM marked “A” and initialed by the chairman of the EGM for identification purpose) be and is hereby confirmed and approved;
- (b) the new annual caps for FY2022 and FY2023 under the 2022 Supplemental Master Property Management Services Agreement be and are hereby confirmed and approved;
- (c) the directors of the Company be and are hereby authorised to execute such other documents, do all other acts and things and take such action as they may consider necessary, desirable or expedient to implement and/or give effect to or otherwise in connection with the 2022 Supplemental Master Property Management Services Agreement and any or all the matters contemplated under the 2022 Supplemental Master Property Management Services Agreement.”

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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2. “**THAT**

- (a) the 2022 Supplemental Master Supply and Installation Agreement (the “**2022 Supplemental Master Supply and Installation Agreement**”) dated 22 July 2022 entered into between the Company and Mr. Li Wa in relation to the New Annual Caps (a copy of which has been produced to the EGM marked “B” and initialled by the chairman of the EGM for identification purpose) be and is hereby confirmed and approved;
- (b) the new annual caps for FY2022 and FY2023 under the 2022 Supplemental Master Supply and Installation Agreement be and are hereby confirmed and approved;
- (c) the directors of the Company be and are hereby authorised to execute such other documents, do all other acts and things and take such action as they may consider necessary, desirable or expedient to implement and/or give effect to or otherwise in connection with the 2022 Supplemental Master Supply and Installation Agreement and any or all the matters contemplated under the 2022 Supplemental Master Supply and Installation Agreement.”

3. “**THAT**

- (a) the 2022 Supplemental Master Construction Material Trading Agreement (the “**2022 Supplemental Master Construction Material Trading Agreement**”) dated 22 July 2022 entered into between the Company and Mr. Li Wa in relation to the New Annual Caps (a copy of which has been produced to the EGM marked “C” and initialled by the chairman of the EGM for identification purpose) be and is hereby confirmed and approved;
- (b) the new annual caps for FY2022 and FY2023 under the 2022 Supplemental Master Construction Material Trading Agreement be and are hereby confirmed and approved;
- (c) the directors of the Company be and are hereby authorised to execute such other documents, do all other acts and things and take such action as they may consider necessary, desirable or expedient to implement and/or give effect to or otherwise in connection with the 2022 Supplemental Master Construction Material Trading Agreement and any or all the matters contemplated under the 2022 Supplemental Master Construction Material Trading Agreement.”

By order of the Board  
**Excellence Commercial Property &  
Facilities Management Group Limited**  
**Li Xiaoping**  
*Chairman*

Hong Kong, 8 November 2022

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

1. For the purpose of determining the identity of the shareholders of the Company entitled to attend and vote at the meeting, the register of members of the Company will be closed from Saturday, 19 November 2022 to Tuesday, 22 November 2022 both dates inclusive, during which period no transfer of Shares will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 18 November 2022.
2. A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or, if he is the holder of two or more shares, more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
3. In the case of joint holders of shares in the Company, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), seniority being determined by the order in which names stand in the register of members.
4. In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney or other person duly authorized, and must be deposited with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof) not less than 48 hours before the time fixed for holding of the Meeting (i.e. not later than 10 a.m. on Sunday, 20 November 2022).
5. Pursuant to Rule 13.39(4) of the Listing Rules, voting for all the resolutions set out in this notice will be taken by poll at the above meeting.
6. If a tropical cyclone warning signal no. 8 or above or a black rainstorm warning is in force at or after 8 a.m. on the date of the meeting, the meeting will be postponed or adjourned to such date, time and place as the Board may decide and announce by issuing further announcement.
7. To safeguard the health and safety of the shareholders of the Company, the Company will implement the following precautionary measures at the EGM to prevent the spreading of the COVID-19:
  - (1) Compulsory body temperature checks will be conducted for every attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the EGM venue and be requested to leave the EGM venue;
  - (2) Every attendee will be required to wear surgical facial mask throughout the EGM and maintain a safe distance between seats. Please note that no masks will be provided at the EGM venue and attendee should wear their own masks; and
  - (3) The Company will not provide refreshments and will not distribute corporate gifts.

Any person who does not comply with the precautionary measures may be denied entry into the EGM venue. In light of the continuing risks posed by the COVID-19, the Company encourages the shareholders of the Company to consider appointing the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

*As at the date of this notice, the executive Directors are Mr. Li Xiaoping and Ms. Guo Ying, the non-executive Directors are Mr. Wang Dou and Mr. Wang Yinhu; and the independent non-executive Directors are Mr. Huang Mingxiang, Mr. Kam Chi Sing and Ms. Liu Xiaolan.*