

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Lushang Life Services Co., Ltd., you should at once hand this circular to the purchaser or the 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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Lushang Life Services Co., Ltd.
魯商生活服務股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 2376)

CONTINUING CONNECTED TRANSACTIONS
(1) REVISION OF ANNUAL CAPS;
(2) MATERIAL CHANGE OF TERMS; AND
(3) RENEWAL OF ANNUAL CAPS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

The capitalized terms used in this cover page have the same meanings as those defined in the section headed "Definitions" of this circular.

The Company will convene and hold the EGM at 10:00 a.m. on Thursday, December 28, 2023, at 38th Floor, Block 5, Lushang Guo'ao City, No. 9777 Jingshi Road, Lixia District, Jinan, Shandong, the PRC. A notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use in the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.lushangfuwu.com).

Shareholders who intend to appoint a proxy to attend the EGM are required to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same not later than 24 hours before the time designated for the EGM (being before 10:00 a.m. on Wednesday, December 27, 2023) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

December 11, 2023

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DEFINITIONS

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

“associate(s)”	shall have the same meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Lushang Life Services Co., Ltd. (魯商生活服務股份有限公司) (formerly known as Shandong Lushang Property Services Co., Ltd. (山東魯商物業服務有限公司)), a company established in the PRC with limited liability on March 24, 2006 and converted into a joint stock company with limited liability on March 12, 2021 and the H Shares of which are listed on the Stock Exchange (stock code: 2376)
“connected person(s)”	shall have the same meaning as ascribed to it under the Listing Rules
“controlling shareholder”	shall have the same meaning as ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Disposal”	has the meaning ascribed to it under the section headed “Rectification of breach of the Listing Rules”
“Domestic Share(s)”	ordinary share(s) issued by the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid for in Renminbi
“Domestic Shareholder(s)”	holder(s) of the Domestic Share(s)
“Effective Date”	the date immediately following the EGM
“EGM”	the 2023 third extraordinary general meeting of the Company (or any adjournment thereof) to be convened and held at 38th Floor, Block 5, Lushang Guo’ao City, No. 9777 Jingshi Road, Lixia District, Jinan, Shandong, the PRC on Thursday, December 28, 2023 at 10:00 a.m. for the purpose of considering and, if thought fit, approving, the Supplemental Agreements, the New Agreements and the transactions contemplated thereunder (including the proposed annual caps therefor)

DEFINITIONS

“Existing Master Design Services Agreement”	the master design services agreement entered into by the Company and Shandong Commercial on June 22, 2022
“Existing Master Engineering Services Agreement”	the master engineering services agreement entered into by the Company and Shandong Commercial on June 22, 2022
“Existing Master Parking Lots Entrusted Management Services Agreement”	the master parking lots entrusted management services agreement entered into by the Company and Lushang Freda on June 22, 2022
“Existing Master Property Agency Services Agreement”	the master property agency services agreement entered into by the Company and Lushang Freda on June 22, 2022
“Existing Master Property Management and Related Services Agreement”	the master property management and related services agreement entered into by the Company and Shandong Commercial on June 22, 2022
“GFA”	gross floor area
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	the ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is/are listed on the Main Board of the Stock Exchange and subscribed for and traded in Hong Kong dollars
“H Shareholder(s)”	holder(s) of the H Share(s)
“H Share Registrar”	Tricor Investor Services Limited
“Independent Board Committee”	the independent board committee established by the Board, comprising all the independent non-executive Directors, namely Ms. Leung Bik San, Ms. Chen Xiaojing and Mr. Ma Tao, to advise the Independent Shareholders in respect of the New Agreements and the transactions contemplated thereunder (including the proposed annual caps therefor)

DEFINITIONS

“Independent Financial Adviser” or “Dongxing”	Dongxing Securities (Hong Kong) Company Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreements, the New Agreements and the transactions contemplated thereunder (including the proposed annual caps therefor)
“Independent Shareholders”	the Shareholders who are not required to abstain from voting at the EGM for the relevant resolution with respect to the Supplemental Agreements, the New Agreements and the transactions contemplated thereunder
“Independent Third Party(ies)”	independent third party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and Directors, chief executive, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Latest Practicable Date”	November 30, 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Date”	the date of the listing of the Shares on the Stock Exchange, being July 8, 2022
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Lushang Freda”	Lushang Freda Pharmaceutical Co., Ltd. (魯商福瑞達醫藥股份有限公司) (formerly known as Lushang Health Industry Development Co., Ltd. (魯商健康產業發展股份有限公司)), a joint stock company established in the PRC with limited liability on April 21, 1993, whose shares are listed on the Shanghai Stock Exchange (stock code: 600223) and a controlling shareholder of the Company

DEFINITIONS

“Lushang Freda Associates”	Lushang Freda and its associates
“New Agreements”	the (1) New Master Engineering Services Agreement; (2) New Master Design Services Agreement; (3) New Master Property Agency Services Agreement; (4) New Master Parking Lots Entrusted Management Services Agreement; and (5) New Master Property Management and Related Services Agreement, collectively
“New Master Design Services Agreement”	the master design services agreement entered into by the Company and Shandong Commercial on November 20, 2023
“New Master Engineering Services Agreement”	the master engineering services agreement entered into by the Company and Shandong Commercial on November 20, 2023
“New Master Parking Lots Entrusted Management Services Agreement”	the master parking lots entrusted management services agreement entered into by the Company and Shandong Commercial on November 20, 2023
“New Master Property Agency Services Agreement”	the master property agency services agreement entered into by the Company and Shandong Commercial on November 20, 2023
“New Master Property Management and Related Services Agreement”	the master property management and related services agreement entered into by the Company and Shandong Commercial on November 20, 2023
“PRC”	the People’s Republic of China, excluding, for the purposes of this circular only, Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prospectus”	the prospectus of the Company dated June 27, 2022
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shandong Commercial”	Shandong Commercial Group Co., Ltd. (山東省商業集團有限公司), a company established in the PRC with limited liability on November 26, 1992 and a controlling shareholder of the Company

DEFINITIONS

“Shandong Commercial Associates”	Shandong Commercial and its associates
“Share(s)”	Domestic Share(s) and H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	shall have the same meaning as ascribed to it under the Listing Rules
“Supplemental Agreements”	the (i) Supplemental Master Engineering Services Agreement; (ii) Supplemental Master Design Services Agreement; (iii) Supplemental Master Property Management and Related Services Agreement; (iv) Supplemental Master Parking Lots Entrusted Management Services Agreement; and (v) Supplemental Master Property Agency Services Agreement, collectively
“Supplemental Master Design Services Agreement”	the supplemental agreement to the Existing Master Design Services Agreement entered into by the Company and Shandong Commercial on November 20, 2023
“Supplemental Master Engineering Services Agreement”	the supplemental agreement to the Existing Master Engineering Services Agreement entered into by the Company and Shandong Commercial on November 20, 2023
“Supplemental Master Parking Lots Entrusted Management Services Agreement”	the supplemental agreement to the Existing Master Parking Lots Entrusted Management Services Agreement entered into by the Company, Lushang Freda and Shandong Commercial on November 20, 2023
“Supplemental Master Property Agency Services Agreement”	the supplemental agreement to the Existing Master Property Agency Services Agreement entered into by the Company, Lushang Freda and Shandong Commercial on November 20, 2023
“Supplemental Master Property Management and Related Services Agreement”	the supplemental agreement to the Existing Master Property Management and Related Services Agreement entered into by the Company and Shandong Commercial on November 20, 2023



Lushang Life Services Co., Ltd.

魯商生活服務股份有限公司

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

(Stock Code: 2376)

Executive Directors:

Mr. Wang Zhongwu (*Chairman*)

Mr. Shao Meng

Non-executive Directors:

Ms. Li Lu

Ms. Luo Ye

Ms. Li Han

Independent Non-executive Directors:

Ms. Leung Bik San

Ms. Chen Xiaojing

Mr. Ma Tao

Registered office in the PRC:

Room 202, Block 2

Lushang Guo'ao City

No. 9777 Jingshi Road

Lixia District, Jinan

Shandong, PRC

Principal place of business

in Hong Kong:

40/F, Dah Sing Financial Centre

248 Queen's Road East

Wanchai

Hong Kong

December 11, 2023

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
(1) REVISION OF ANNUAL CAPS;
(2) MATERIAL CHANGE OF TERMS; AND
(3) RENEWAL OF ANNUAL CAPS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated November 20, 2023 in relation to, among other things, the Supplemental Agreements, the New Agreements and the transactions contemplated thereunder.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among others, (i) further information in relation to the Supplemental Agreements, the New Agreements and the transactions contemplated thereunder (including the proposed annual caps); (ii) a letter of recommendation from the Independent Board Committee in relation to the Supplemental Agreements, the New Agreements and the transactions contemplated thereunder (including the proposed annual caps); (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice convening the EGM.

(1) REVISION OF ANNUAL CAPS

On November 20, 2023 (after trading hours), the Company has entered into (i) the Supplemental Master Engineering Services Agreement to revise the existing annual caps for the year ending December 31, 2023 and expand the service scope to include decoration engineering services under the Existing Master Engineering Services Agreement; (ii) the Supplemental Master Design Services Agreement to revise the existing annual caps for the year ending December 31, 2023 under the Existing Master Design Services Agreement; and (iii) the Supplemental Master Property Management and Related Services Agreement to revise the existing annual caps for the year ending December 31, 2023 under the Existing Master Property Management and Related Services Agreement, the principal terms of which are set out below:

(i) Supplemental Master Engineering Services Agreement

Under the Existing Master Engineering Services Agreement, the Group has agreed to provide to Lushang Freda Associates and Shandong Commercial Associates certain engineering services, including but not limited to (i) landscape construction engineering services; (ii) maintenance engineering services; and (iii) landscape technology engineering services. Under the Supplemental Master Engineering Services Agreement, the scope of services will further expand to cover decoration engineering services (together with (i) to (iii) above, the “**Engineering Services**”).

The existing annual caps under the Existing Master Engineering Services Agreement for the year ended December 31, 2022 and for the year ending December 31, 2023 are as follows:

	For the year ended December 31, 2022 <i>(RMB' million)</i>	For the year ending December 31, 2023 <i>(RMB' million)</i>
Lushang Freda Associates	64.4	72.0
Shandong Commercial Associates	7.6	8.0
Total	72.0	80.0

LETTER FROM THE BOARD

The historical aggregate transaction amounts under the Existing Master Engineering Services Agreement for the year ended December 31, 2022 and the ten months ended October 31, 2023 were as follows:

	For the year ended December 31, 2022 (RMB'million)	For the ten months ended October 31, 2023 (RMB'million)
Lushang Freda Associates	60.3	11.2
Shandong Commercial Associates	1.3	59.1
Total	61.6	70.3

Pursuant to the Supplemental Master Engineering Services Agreement, the annual cap of the Engineering Services provided to Shandong Commercial Associates for the year ending December 31, 2023 is revised to RMB87.0 million. The revised annual caps under the Supplemental Master Engineering Services Agreement are set out as follows:

	For the year ending December 31, 2023 (RMB'million)
Lushang Freda Associates	72.0
Shandong Commercial Associates	87.0
Total	159.0

Save for such revision in the annual caps and the scope of services as mentioned above, all other terms of the Existing Master Engineering Services Agreement shall remain valid and in full force and effect.

As at the Latest Practicable Date, for the reason set out in the section headed "Rectification of breach of the Listing Rules", the actual transaction amount with Shandong Commercial Associates had exceeded the original annual caps for the year ending December 31, 2023 under the Existing Master Engineering Services Agreement. The Board confirmed that the actual transaction amount with Lushang Freda Associates from January 1, 2023 and up to the Latest Practicable Date has not exceeded the original annual cap for the year ending December 31, 2023 under the Existing Master Engineering Services Agreement.

LETTER FROM THE BOARD

The revised annual caps under the Supplemental Master Engineering Services Agreement (in particular, the revised annual cap for transactions with Shandong Commercial Associates) were determined after taking into consideration principal factors including, among others, (i) the historical transaction amounts; (ii) the estimated revenue of the Engineering Services to be recognized by the Group pursuant to the existing contracts with Lushang Freda Associates prior to the Disposal and shifted to Shandong Commercial Associates after the Disposal; (iii) the estimated service fee to be charged for the Engineering Services, which is based on the historical service fee charged and the expected increase in operational costs associated with the Engineering Services, including but not limited to labor costs, administration costs and costs of materials used for providing the services; (iv) the estimated number of projects to be developed or owned by Shandong Commercial Associates for which the Group anticipates to provide the Engineering Services based on the development plan of Lushang Freda Associates and Shandong Commercial Associates; and (v) the expected transaction amount for the decoration engineering services to be provided to Shandong Commercial Associates, which is an additional service item under the Supplemental Master Engineering Services Agreement, based on the estimated service fee to be charged and the estimated number of projects for which the Group anticipates to be engaged as elaborated in (iii) and (iv) above.

When determining the revised annual caps under the Supplemental Master Engineering Services Agreement, the parties focused on increasing the annual caps in respect of transactions with Shandong Commercial Associates so that the Group could continue to be in compliance with the Listing Rules after the Disposal and the entering into of the Supplemental Master Engineering Services Agreement, while the existing annual caps with Lushang Freda Associates remained unchanged for ease of administration.

The prima facie substantial increase in proposed annual cap in respect of transactions with Shandong Commercial is in substance a shift of existing contracts under the Existing Master Engineering Services Agreement from Lushang Freda Associates to Shandong Commercial Associates, with an addition of new service item namely, decoration engineering services.

Reasons and benefits of entering into the Supplemental Master Engineering Services Agreement

After the Disposal (details are set out in the section “Rectification of breach of the Listing Rules”), most of the demand for the Engineering Services will be shifted from Lushang Freda Associates to Shandong Commercial Associates. Further, the Group expected to expand the scope of the Engineering Services to be provided to Shandong Commercial Associates to cover decoration engineering services. As such, the original annual cap for the year ending December 31, 2023 in respect of the Engineering Services to be provided to Shandong Commercial Associates is not sufficient. In order for the Group to continuously provide the Engineering Services to Shandong Commercial Associates in compliance with the Listing Rules, the Company has entered into the Supplemental Master Engineering Services

LETTER FROM THE BOARD

Agreement to revise the annual cap for the transaction amount with Shandong Commercial Associates for the year ending December 31, 2023 under the Existing Master Engineering Services Agreement. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial Associates under the Existing Master Engineering Services Agreement and the Supplemental Master Engineering Services Agreement.

(ii) Supplemental Master Design Services Agreement

Under the Existing Master Design Services Agreement, the Group has agreed to provide to Lushang Freda Associates and Shandong Commercial Associates certain design services, including but not limited to (i) architectural design services; (ii) landscape design services; (iii) decorative design services; and (iv) decoration management services (the “**Design Services**”).

The existing annual caps under the Existing Master Design Services Agreement for the year ended December 31, 2022 and the year ending December 31, 2023 are as follows:

	For the year ended December 31, 2022 <i>(RMB'million)</i>	For the year ending December 31, 2023 <i>(RMB'million)</i>
Lushang Freda Associates	53.9	70.0
Shandong Commercial Associates	14.5	19.3
Total	68.4	89.3

The historical transaction amounts under the Existing Master Design Services Agreement for the year ended December 31, 2022 and the ten months ended October 31, 2023 were as follows:

	For the year ended December 31, 2022 <i>(RMB'million)</i>	For the ten months ended October 31, 2023 <i>(RMB'million)</i>
Lushang Freda Associates	43.5	3.4
Shandong Commercial Associates	7.0	11.4
Total	50.5	14.8

LETTER FROM THE BOARD

Pursuant to the Supplemental Master Design Services Agreement, the annual cap of the Design Services provided to Shandong Commercial Associates for the year ending December 31, 2023 is revised to RMB36.0 million. The total annual caps of the Design Services under the Supplemental Master Design Services Agreement are set out as follows:

	For the year ending December 31, 2023 <i>(RMB'million)</i>
Lushang Freda Associates	70.0
Shandong Commercial Associates	<u>36.0</u>
Total	<u>106.0</u>

Save for such revision in the annual caps as mentioned above, all other terms of the Existing Master Design Services Agreement shall remain valid and in full force and effect.

The Board confirms that the transaction amounts of the Design Services since January 1, 2023 and up to the Latest Practicable Date has not exceeded the original annual caps for the year ending December 31, 2023 under the Existing Master Design Services Agreement.

The revised annual caps under the Supplemental Master Design Services Agreement (in particular, the revised annual cap for transactions with Shandong Commercial Associates) were determined after taking into consideration principal factors including, among others, (i) the historical transaction amounts; (ii) the estimated revenue of the Design Services to be recognized by the Group pursuant to the existing contracts with Lushang Freda Associates prior to the Disposal and shifted to Shandong Commercial Associates after the Disposal; and (iii) the estimated service fee to be charged for the Design Services.

When determining the revised annual caps under the Supplemental Master Design Services Agreement, the parties focused on increasing the annual caps in respect of transactions with Shandong Commercial Associates so that the Group could continue to be in compliance with the Listing Rules after the Disposal and the entering into of the Supplemental Master Design Services Agreement, while the existing annual caps with Lushang Freda Associates remained unchanged for ease of administration.

The prima facie substantial increase in proposed annual cap in respect of transactions with Shandong Commercial is in substance a shift of existing contracts under the Existing Master Design Services Agreement from Lushang Freda Associates to Shandong Commercial Associates.

LETTER FROM THE BOARD

Reasons and benefits of entering into the Supplemental Master Design Services Agreement

After the Disposal (details are set out in the section “Rectification of breach of the Listing Rules”), most of the demand for the Design Services are shifted from Lushang Freda Associates to Shandong Commercial Associates. As such, the original annual cap for the year ending December 31, 2023 in respect of the Design Services to be provided to Shandong Commercial Associates is not sufficient. In order for the Group to continuously provide the Design Services to Shandong Commercial Associates in compliance with the Listing Rules, the Company has entered into the Supplemental Master Design Services Agreement to revise the annual cap for the transaction amount with Shandong Commercial Associates for the year ending December 31, 2023 under the Existing Master Design Services Agreement. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial Associates under the Existing Master Design Services Agreement and the Supplemental Master Design Services Agreement.

(iii) Supplemental Master Property Management and Related Services Agreement

Under the Existing Master Property Management and Related Services Agreement, the Group has agreed to provide to Lushang Freda Associates and Shandong Commercial Associates certain property management and related services, including but not limited to (i) property pre-delivery services, including but not limited to (a) management services for the on-site sales offices and display units; (b) house inspection services; (c) pre-delivery cleaning services; and (d) pre-delivery preparation; (ii) property management services for the properties owned or used by Lushang Freda Associates and Shandong Commercial Associates, including but not limited to the unsold residential property units, office buildings, schools and commercial properties; and (iii) other related services (the “**Property Management and Related Services**”).

The existing annual caps under the Existing Master Property Management and Related Services Agreement for the year ended December 31, 2022 and the year ending December 31, 2023 are as follows:

	For the year ended December 31, 2022 <i>(RMB' million)</i>	For the year ending December 31, 2023 <i>(RMB' million)</i>
Lushang Freda Associates	78.0	82.4
Shandong Commercial Associates	14.0	16.0
Total	92.0	98.4

LETTER FROM THE BOARD

The historical transaction amounts under the Existing Master Property Management and Related Services Agreement for the year ended December 31, 2022 and the ten months ended October 31, 2023 were as follows:

	For the year ended December 31, 2022 <i>(RMB'million)</i>	For the ten months ended October 31, 2023 <i>(RMB'million)</i>
Lushang Freda Associates	53.2	16.5
Shandong Commercial Associates	13.2	35.8
Total	66.4	52.3

Pursuant to the Supplemental Master Property Management and Related Services Agreement, the annual cap of the Property Management and Related Services provided to Shandong Commercial Associates for the year ending December 31, 2023 is revised to RMB52.0 million. The total annual caps under the Supplemental Master Property Management and Related Services Agreement are set out as follows:

	For the year ending December 31, 2023 <i>(RMB'million)</i>
Lushang Freda Associates	82.4
Shandong Commercial Associates	52.0
Total	134.4

Save for such revision in the annual caps as mentioned above, all other terms of the Existing Master Property Management and Related Services Agreement shall remain valid and in full force and effect.

As at the Latest Practicable Date, for the reason set out in the section headed “Rectification of breach of the Listing Rules”, the actual transaction amount with Shandong Commercial Associates had exceeded the original annual cap for the year ending December 31, 2023 under the Existing Master Property Management and Related Services Agreement. The Board confirmed that the actual transaction amount with Lushang Freda Associates from January 1, 2023 and up to the Latest Practicable Date has not exceeded the original annual cap for the year ending December 31, 2023 under the Existing Master Property Management and Related Services Agreement.

LETTER FROM THE BOARD

The revised annual caps under the Supplemental Master Property Management and Related Services Agreement (in particular, the revised annual cap for transactions with Shandong Commercial Associates) were determined after taking into consideration principal factors including, among others, (i) the historical transaction amount; (ii) the estimated revenue of the Property Management and Related Services to be recognized by the Group pursuant to the existing contracts with Lushang Freda Associates prior to the Disposal and shifted to Shandong Commercial Associates after the Disposal; and (iii) the estimated service fee to be charged for the Property Management and Related Services.

When determining the revised annual caps under the Supplemental Master Property Management and Related Services Agreement, the parties focused on increasing the annual caps in respect of transactions with Shandong Commercial Associates so that the Group could continue to be in compliance with the Listing Rules after the Disposal and the entering into of the Supplemental Master Property Management and Related Services Agreement, while the existing annual caps with Lushang Freda Associates remained unchanged for ease of administration.

The prima facie substantial increase in proposed annual cap in respect of transactions with Shandong Commercial is in substance a shift of existing contracts under the Existing Master Property Management and Related Services Agreement from Lushang Freda Associates to Shandong Commercial Associates.

Reasons and benefits of entering into the Supplemental Master Property Management and Related Services Agreement

After the Disposal (details are set out in the section “Rectification of breach of the Listing Rules”), most of the demand for the Property Management and Related Services are shifted from Lushang Freda Associates to Shandong Commercial Associates. As such, the original annual cap for the year ending December 31, 2023 in respect of the Property Management and Related Services to be provided to Shandong Commercial Associates is not sufficient. In order for the Group to continuously provide the Property Management and Related Services to Shandong Commercial Associates in compliance with the Listing Rules, the Company has entered into the Supplemental Master Property Management and Related Services Agreement to revise the annual cap for the year ending December 31, 2023 under the Existing Master Property Management and Related Services Agreement. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial under the Existing Master Property Management and Related Services Agreement and the Supplemental Master Property Management and Related Services Agreement.

Listing Rules implications

According to Rule 14A.54 of the Listing Rules, if the Company proposes to revise the annual caps for its continuing connected transactions, the Company will be required to re-comply with the announcement and shareholders’ approval requirements.

LETTER FROM THE BOARD

As the highest applicable percentage ratio (other than the profits ratio) as defined under the Listing Rules in respect of the proposed revised annual cap under each of the (i) Supplemental Master Engineering Services Agreement; (ii) Supplemental Master Design Services Agreement; and (iii) Supplemental Master Property Management and Related Services Agreement is expected to be more than 5%, each of the (i) Supplemental Master Engineering Services Agreement; (ii) Supplemental Master Design Services Agreement; and (iii) Supplemental Master Property Management and Related Services Agreement and the transactions contemplated thereunder (including the proposed revised annual caps therefor) will be subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(2) MATERIAL CHANGE OF TERMS

On June 22, 2022, the Company and Lushang Freda entered into the (i) Existing Master Property Agency Services Agreement and (ii) Existing Master Parking Lots Entrusted Management Services Agreement, the principal terms of which are set out below:

(i) Existing Master Property Agency Services Agreement

Date

June 22, 2022

Parties

(a) The Company; and

(b) Lushang Freda.

Term

Subject to compliance with the Listing Rules, from the Listing Date to December 31, 2023 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.

Subject matter

Under the Existing Master Property Agency Services Agreement, the Group has agreed to provide sales assistance services in respect of the sales of the unsold properties and car parks (the "**Property Agency Services**") to Lushang Freda Associates.

Relevant members of both parties will enter into separate agreements setting out the specific terms and conditions based on the principles provided in the Existing Master Property Agency Services Agreement.

LETTER FROM THE BOARD

Pricing policy

The fees to be charged for the Property Agency Services shall amount to a percentage of the sales price of the unsold properties and car parks, and will be determined on arm's length negotiations with reference to (i) the prevailing market price for similar services in the vicinity of the project taking into account the size, type and location of the unsold properties and car parks; and (ii) the terms offered to Independent Third Parties by Lushang Freda Associates for similar services. The terms offered to the Group shall not be less favourable than those offered to Independent Third Parties.

Payment arrangement

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

Existing annual caps

The existing annual caps for the year ended December 31, 2022 and for the year ending December 31, 2023 will not exceed RMB13.0 million and RMB15.0 million, respectively.

The actual transaction amounts for the year ended December 31, 2022 and the six months ended June 30, 2023 under the Existing Master Property Agency Services Agreement were RMB6.2 million and nil, respectively.

(ii) Existing Master Parking Lots Entrusted Management Services Agreement

Date

June 22, 2022

Parties

- (a) The Company; and
- (b) Lushang Freda.

Term

Subject to compliance with the Listing Rules, from the Listing Date to December 31, 2023 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.

LETTER FROM THE BOARD

Subject matter

Under the Existing Master Parking Lots Entrusted Management Services Agreement, the Group has agreed to provide operational management services (the “**Parking Lots Entrusted Management Services**”) to certain parking lots owned by Lushang Freda Associates. Under such arrangement, the Group is entrusted with full authority to operate and manage the parking lots and entitled to receive the income generated from the Parking Lots Entrusted Management Services and will pay to Lushang Freda Associates an amount equal to a pre-agreed percentage of the income generated from the Parking Lots Entrusted Management Services (after deducting the operating costs).

Relevant members of both parties will enter into separate agreements setting out the specific terms and conditions based on the principles provided in the Existing Master Parking Lots Entrusted Management Services Agreement.

Pricing policy

The fees to be paid by the Group shall be determined on arm’s length basis with reference to (i) the prevailing market price for similar services in the vicinity of the projects taking into account the location and type of the parking lots; (ii) the estimated operating costs under the operational management of the Group; and (iii) the estimated total revenue generated from the Parking Lots Entrusted Management Services.

Payment arrangement

The payment mechanism for all fees and payments pursuant to the Existing Master Parking Lots Entrusted Management Services Agreement should be specified in the relevant specific agreement to be entered into by the parties.

Existing annual caps

The existing annual caps for the year ended December 31, 2022 and for the year ending December 31, 2023 will not exceed RMB1.8 million and RMB2.2 million, respectively.

The actual transaction amounts for the year ended December 31, 2022 and the six months ended June 30, 2023 under the Existing Master Parking Lots Entrusted Management Services Agreement were RMB0.8 million and nil, respectively.

LETTER FROM THE BOARD

On November 20, 2023 (after trading hours), Lushang Freda, Shandong Commercial and the Company entered into the (i) Supplemental Master Property Agency Services Agreement and (ii) Supplemental Master Parking Lots Entrusted Management Services Agreement, pursuant to which Lushang Freda (as novator) has agreed to novate its rights and liabilities under the (i) Existing Master Property Agency Services Agreement and (ii) Existing Master Parking Lots Entrusted Management Services Agreement to Shandong Commercial (as novatee), the principal terms of which are set out below:

(i) Supplemental Master Property Agency Services Agreement

Date

November 20, 2023

Parties

- (a) Lushang Freda;
- (b) Shandong Commercial; and
- (c) the Company.

Term

Subject to compliance with the Listing Rules, from the Effective Date to December 31, 2023 (both days inclusive).

Subject matter

Under the Existing Master Property Agency Services Agreement, the Group has agreed to provide the Property Agency Services to Lushang Freda Associates.

Pursuant to the Supplemental Master Property Agency Services Agreement, Lushang Freda has novated all its rights and liabilities under the Existing Master Property Agency Services Agreement to Shandong Commercial, i.e. the Group will provide the Property Agency Services in respect of the sales of the unsold properties and car parks to Shandong Commercial Associates with effect from the Effective Date.

Save for the above change of parties to the Existing Master Property Agency Services Agreement, all other terms of the Existing Master Property Agency Services Agreement remain unchanged.

LETTER FROM THE BOARD

(ii) Supplemental Master Parking Lots Entrusted Management Services Agreement

Date

November 20, 2023

Parties

- (a) Lushang Freda;
- (b) Shandong Commercial; and
- (c) The Company.

Term

Subject to compliance with the Listing Rules, from the Effective Date to December 31, 2023 (both days inclusive).

Subject matter

Under the Existing Master Parking Lots Entrusted Management Services Agreement, the Group has agreed to provide the Parking Lots Entrusted Management Services to certain parking lots owned by Lushang Freda Associates.

Pursuant to the Supplemental Master Parking Lots Entrusted Management Services Agreement, Lushang Freda has novated all its rights and liabilities under the Existing Master Parking Lots Entrusted Management Services Agreement to Shandong Commercial, i.e. the Group will provide the Parking Lots Entrusted Management Services to Shandong Commercial Associates with effect from the Effective Date.

Save for the above change of parties to the Existing Master Parking Lots Entrusted Management Services Agreement, all other terms of the Existing Master Parking Lots Entrusted Management Services Agreement remain unchanged.

LETTER FROM THE BOARD

Reasons and benefits of entering into the Supplemental Master Property Agency Services Agreement and the Supplemental Master Parking Lot Entrusted Management Services Agreement

After the Disposal, the transactions contemplated under the (i) Existing Master Property Agency Services Agreement and (ii) the Existing Master Parking Lots Entrusted Management Services Agreement will be conducted between the Group and Shandong Commercial Associates. Entering into the (i) Supplemental Master Property Agency Services Agreement and (ii) Supplemental Master Parking Lots Entrusted Management Services Agreement will enable the Group to continue to provide the Property Agency Services and the Parking Lots Entrusted Management Services to the relevant pre-disposed entities of Lushang Freda upon completion of the Disposal. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial Associates under the Existing Master Property Agency Services Agreement, the Supplemental Master Property Agency Services Agreement, the Existing Master Parking Lots Entrusted Management Services Agreement and the Supplemental Master Parking Lots Entrusted Management Services Agreement.

Entering into the Supplemental Master Property Agency Services Agreement and the Supplemental Master Parking Lots Entrusted Management Services Agreement is a necessary consequential act as a result of the Disposal and there is no change in terms under each of the Existing Master Property Agency Services Agreement and the Existing Master Parking Lots Entrusted Management Services Agreement (apart from the change of parties).

Listing Rules implications

As the change of party to the Existing Master Property Agency Services Agreement and the Existing Master Parking Lots Entrusted Management Services Agreement constitutes a material change of terms, the Company will need to re-comply with the announcement and shareholders' approval requirements under Rule 14A.54 of the Listing Rules.

(3) RENEWAL OF ANNUAL CAPS

On November 20, 2023 (after trading hours), the Company has also entered into the (i) New Master Engineering Services Agreement; (ii) New Master Design Services Agreement; (iii) New Master Property Agency Services Agreement; (iv) New Master Parking Lots Entrusted Management Services Agreement; and (v) New Master Property Management and Related Services Agreement (i.e. the New Agreements) for a term commencing from January 1, 2024 to December 31, 2025.

LETTER FROM THE BOARD

According to the annual report of the Company for the year ended December 31, 2022, the revenue of the Group amounted to approximately RMB627.7 million for the year ended December 31, 2022. The revenue contribution from the Existing Master Engineering Services Agreement, the Existing Master Design Services Agreement, the Existing Master Property Agency Services Agreement, the Existing Master Parking Lots Entrusted Management Services Agreement and the Existing Master Property Management and Related Services Agreement for the year ended December 31, 2022, six months ended June 30, 2023 and ten months ended October 31, 2023 accounted for approximately 29.6%, 13.0% and 21.9%, respectively, of the revenue of the Group for the year ended December 31, 2022.

Based on the information currently available to the Group, and to the Group's best estimation as at the Latest Practicable Date, the Company expects that the proportion of revenue of the Group contributable to the transactions contemplated under the New Agreements out of the total revenue of the Group for each of the two years ending December 31, 2024 and December 31, 2025 will be kept at a level of around 30% and gradually decrease over time when the Group has further established its Independent Third Parties customer base. Therefore, the Company considers that the entering into of the New Agreements would not give rise to reliance issue of the Company with its controlling shareholders.

In addition, the Group has a long and close strategic relationship with Lushang Freda and Shandong Commercial. The Company considers that the transactions contemplated under the New Agreements will be mutually beneficial to the Group on one hand, and Lushang Freda and/or Shandong Commercial on the other hand, as the Group will be able to build up its reputation among other Independent Third Party property developers while providing services to Lushang Freda and Shandong Commercial, being comprehensive property developers with diversified portfolios of high-quality properties; while Lushang Freda and Shandong Commercial would be able to benefit from the Group's services which are of consistent and high quality. The Company does not see any material flags indicating any material adverse changes to such established relationship which brings mutual benefits.

The principal terms of each of the New Agreements are set out below:

(i) New Master Engineering Services Agreement

Date

November 20, 2023

Parties

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

LETTER FROM THE BOARD

Term

Subject to compliance with the Listing Rules, from January 1, 2024 to December 31, 2025 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.

Subject matter

Under the New Master Engineering Services Agreement, the Group has agreed to provide the Engineering Services primarily to Shandong Commercial Associates. As Lushang Freda Associates still require the Group to provide the Engineering Services for the commercial properties held by them for their own use after the Disposal, the Group will continue to provide the Engineering Services to Lushang Freda Associates in this regard.

Relevant members of both parties will enter into separate agreements setting out the specific terms and conditions based on the principles provided in the New Master Engineering Services Agreement.

Pricing policy

The fees to be charged for the Engineering Services shall be determined on arm's length negotiations with reference to (i) the size, location and positioning of the projects; (ii) the nature, complexity and scope of services; (iii) the anticipated operational costs, including but not limited to labor costs, administration costs and costs of materials used for providing the services; (iv) the fees for similar services and similar types of projects in the market; and (v) the prices charged by the Group for providing comparable services to Independent Third Parties.

Payment arrangement

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

LETTER FROM THE BOARD

Historical transaction amount

The existing annual caps under the Existing Master Engineering Services Agreement (as amended and supplemented by the Supplemental Master Engineering Services Agreement and subject to the approval by the Independent Shareholders at the EGM) for the year ended December 31, 2022 and the year ending December 31, 2023 are as follows:

	For the year ended December 31, 2022 <i>(RMB'million)</i>	For the year ending December 31, 2023 <i>(RMB'million)</i>
Lushang Freda Associates	64.4	72.0
Shandong Commercial Associates	7.6	87.0
Total	72.0	159.0

The historical transaction amounts under the Existing Master Engineering Services Agreement for the year ended December 31, 2022, the six months ended June 30, 2023 and the ten months ended October 31, 2023 were as follows:

	For the year ended December 31, 2022 <i>(RMB'million)</i>	For the six months ended June 30, 2023 <i>(RMB'million)</i>	For the ten months ended October 31, 2023 <i>(RMB'million)</i>
Lushang Freda Associates	60.3	10.7	11.2
Shandong Commercial Associates	1.3	32.1	59.1
Total	61.6	42.8	70.3

LETTER FROM THE BOARD

Proposed annual caps

The proposed annual caps under the New Master Engineering Services Agreement for the two years ending December 31, 2025 are as follows:

	For the year ended December 31, 2024 <i>(RMB'million)</i>	For the year ending December 31, 2025 <i>(RMB'million)</i>
Lushang Freda Associates	10.0	10.0
Shandong Commercial Associates	100.0	110.0
Total	110.0	120.0

The above annual caps were determined with reference to, among other things, (i) the historical transaction amounts and growth trend with an expected annual growth rate of 10-15% (based on the aggregate of the historical transaction amount with Lushang Freda Associates for the ten months ended October 31, 2023, being RMB11.2 million, and the revised annual cap with Shandong Commercial Associates for the year ending December 31, 2023, being RMB87.0 million); (ii) the estimated revenue to be recognized in relation to the Engineering Services provided by the Group pursuant to the existing contracts with Lushang Freda Associates and Shandong Commercial Associates; (iii) the estimated service fee to be charged for the Engineering Services, which is based on the historical service fee charged and the expected increase in operational costs associated with the Engineering Services, including but not limited to labor costs, administration costs and costs of materials used for providing the services; and (iv) the estimated number of projects to be developed or owned by Lushang Freda Associates and Shandong Commercial Associates for which the Group anticipates to provide the Engineering Services for the two years ending December 31, 2025 based on the investment plan of Lushang Freda Associates and the development plan of Shandong Commercial Associates.

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

The Group has been engaged by Lushang Freda Associates and Shandong Commercial Associates to provide the Engineering Services since 2020. It is expected that the Group will continue to do so in its ordinary and usual course of business for earning revenue, thus it is in the interests of the Company and the Shareholders as a whole. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial Associates under the New Master Engineering Services Agreement.

LETTER FROM THE BOARD

(ii) New Master Design Services Agreement

Date

November 20, 2023

Parties

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

Term

Subject to compliance with the Listing Rules, from January 1, 2024 to December 31, 2025 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.

Subject matter

Under the New Master Design Services Agreement, the Group has agreed to provide the Design Services primarily to Shandong Commercial Associates. As Lushang Freda Associates still require the Group to provide the Design Services for the commercial properties held by them for their own use after the Disposal, the Group will continue to provide the Design Services to Lushang Freda Associates in this regard.

Relevant members of both parties will enter into separate agreements setting out the specific terms and conditions based on the principles provided in the New Master Design Services Agreement.

Pricing policy

The fees to be charged for the Design Services shall be determined on arm's length negotiations with reference to (i) the nature, complexity and scope of services; (ii) the anticipated operational costs, including but not limited to labor costs, administration costs and costs of materials used for providing the services; (iii) the fees for similar services and similar types of projects in the market; and (iv) the prices charged by the Group for providing comparable services to Independent Third Parties.

Payment arrangement

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

LETTER FROM THE BOARD

Historical transaction amount

The existing annual caps under the Existing Master Design Services Agreement (as amended by the Supplemental Master Design Services Agreement and subject to the approval by the Independent Shareholders at the EGM) for the year ended December 31, 2022 and for the year ending December 31, 2023 are as follows:

	For the year ended December 31, 2022 <i>(RMB'million)</i>	For the year ending December 31, 2023 <i>(RMB'million)</i>
Lushang Freda Associates	53.9	70.0
Shandong Commercial Associates	14.5	36.0
Total	68.4	106.0

The historical transaction amounts under the Existing Master Design Services Agreement for the year ended December 31, 2022, the six months ended June 30, 2023 and the ten months ended October 31, 2023 were as follows:

	For the year ended December 31, 2022 <i>(RMB'million)</i>	For the six months ended June 30, 2023 <i>(RMB'million)</i>	For the ten months ended October 31, 2023 <i>(RMB'million)</i>
Lushang Freda Associates	43.5	2.7	3.4
Shandong Commercial Associates	7.0	3.3	11.4
Total	50.5	6.0	14.8

LETTER FROM THE BOARD

Proposed annual caps

The proposed annual caps under the New Master Design Services Agreement for the two years ending December 31, 2025 are as follows:

	For the year ending December 31, 2024 (RMB'million)	For the year ending December 31, 2025 (RMB'million)
Lushang Freda Associates	4.0	5.0
Shandong Commercial Associates	42.0	48.0
Total	46.0	53.0

The above annual caps were determined with reference to, among other things, (i) the historical transaction amounts with an expected annual growth rate of 10-15% (based on the aggregate of the historical transaction amount with Lushang Freda Associates for the ten months ended October 31, 2023, being RMB3.4 million, and the revised annual cap with Shandong Commercial Associates for the year ending December 31, 2023, being RMB36.0 million); (ii) the estimated revenue to be recognized in relation to the Design Services provided by the Group pursuant to the existing contracts with Lushang Freda Associates and Shandong Commercial Associates; (iii) the estimated service fee to be charged for the Design Services, which is based on the historical service fee charged and the expected increase in operational costs associated with the Design Services, including but not limited to labor costs, administration costs and costs of materials used for providing the services; and (iv) the estimated number of projects to be developed or owned by Lushang Freda Associates and Shandong Commercial Associates for which the Group anticipates the Group may be engaged to provide the Design Services for the two years ending December 31, 2025.

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

The Group has been engaged by Shandong Commercial Associates and Lushang Freda Associates to provide the Design Services since 2021. It is expected that the Group will continue to do so in its ordinary and usual course of business for earning revenue, thus it is in the interests of the Company and the Shareholders as a whole. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial Associates under the New Master Design Services Agreement.

LETTER FROM THE BOARD

(iii) New Master Property Agency Services Agreement

Date

November 20, 2023

Parties

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

Term

Subject to compliance with the Listing Rules, from January 1, 2024 to December 31, 2025 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.

Subject matter

Under the New Master Property Agency Services Agreement, the Group has agreed to provide the Property Agency Services in respect of the sales of the unsold properties and car parks to Shandong Commercial Associates.

Relevant members of both parties will enter into separate agreements setting out the specific terms and conditions based on the principles provided in the New Master Property Agency Services Agreement.

Pricing policy

The fees to be charged for the Property Agency Services shall amount to a percentage of the sales price of the unsold properties and car parks, and will be determined on arm's length negotiations with reference to (i) the prevailing market price for similar services in the vicinity of the project taking into account the size, type and location of the unsold properties and car parks; and (ii) the terms offered to Independent Third Parties by Shandong Commercial Associates for similar services. The terms offered to the Group shall not be less favourable to the Group than those offered to Independent Third Parties.

Payment arrangement

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

LETTER FROM THE BOARD

Historical transaction amount

The existing annual caps for the year ended December 31, 2022 and for the year ending December 31, 2023 under the Existing Master Property Agency Services Agreement will not exceed RMB13.0 million and RMB15.0 million, respectively.

The actual transaction amounts for the year ended December 31, 2022, the six months ended June 30, 2023 and the ten months ended October 31, 2023 under the Existing Master Property Agency Services Agreement were RMB6.2 million, nil and nil, respectively.

After the expiry of the contracts with Lushang Freda Associates by December 31, 2022, the Group had been negotiating for new contracts with Lushang Freda Associates. However, up to the Latest Practicable Date, no contract has been signed with any Lushang Freda Associates and therefore, the actual transaction amount was nil since January 1, 2023.

The Group subsequently understands from Lushang Freda and Shandong Commercial that, as a result of the business restructuring and operational changes in connection with the Disposal, Lushang Freda Associates and/or Shandong Commercial Associates (as the case may be) had been engaging in direct sales of unsold properties and car parks. However, going forward, the parties expect that the Group will resume the provision of the Property Agency Services to Shandong Commercial Associates pursuant to the Supplemental Master Property Agency Services Agreement and the New Master Property Agency Services Agreement.

Proposed annual caps

The proposed annual caps under the New Master Property Agency Services Agreement for the two years ending December 31, 2025 are RMB6.2 million and RMB6.2 million, respectively.

The above annual caps were determined with reference to, among other things, (i) the historical transaction amounts (in particular, although there was no transaction incurred since January 1, 2023 and up to the Latest Practicable Date, for prudence's sake, the determination of proposed annual caps based on the historical transaction amount for the year ended December 31, 2022 could maintain flexibility for provision of services during the two years ending December 31, 2025); (ii) the estimated number and property value of the properties which will require the Property Agency Services for the two years ending December 31, 2025 based on the existing projects available for sale and projects under development and land bank of Lushang Freda Associates (prior to the Disposal) as of December 31, 2022; (iii) the prevailing market rate for the provision of similar property agency services; and (iv) the capacity of the Group in providing the Property Agency Services for the two years ending December 31, 2025.

LETTER FROM THE BOARD

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

The Group has been engaged by Lushang Freda Associates to provide the Property Agency Services since 2018. It is expected that the Group will continue to provide the Property Agency Services to Shandong Commercial Associates after the Disposal in its ordinary and usual course of business for earning revenue, thus it is in the interests of the Company and the Shareholders as a whole. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial Associates under the New Master Property Agency Services Agreement.

(iv) New Master Parking Lots Entrusted Management Services Agreement

Date

November 20, 2023

Parties

- (a) the Company; and
- (b) Shandong Commercial.

Term

Subject to compliance with the Listing Rules, from January 1, 2024 to December 31, 2025 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.

Subject matter

Under the New Master Parking Lots Entrusted Management Services Agreement, the Group has agreed to provide the Parking Lots Entrusted Management Services to Shandong Commercial Associates. Under such arrangement, the Group is entrusted with full authority to operate and manage the parking lots and entitled to receive the income generated from the Parking Lots Entrusted Management Services and will pay to Shandong Commercial Associates an amount equal to a pre-agreed percentage of the income generated from the Parking Lots Entrusted Management Services (after deducting the operating costs).

Relevant members of both parties will enter into separate agreements setting out the specific terms and conditions based on the principles provided in the New Master Parking Lots Entrusted Management Services Agreement.

LETTER FROM THE BOARD

Pricing policy

The fees to be paid by the Group shall be determined on arm's length basis with reference to (i) the prevailing market price for similar services in the vicinity of the projects taking into account the location and type of the parking lots; (ii) the estimated operating costs under the operational management of the Group; and (iii) the estimated total revenue generated from the Parking Lots Entrusted Management Services.

Payment arrangement

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

Historical transaction amount

The existing annual caps for the year ended December 31, 2022 and for the year ending December 31, 2023 under the Existing Master Parking Lots Entrusted Management Services Agreement will not exceed RMB1.8 million and RMB2.2 million, respectively.

The actual transaction amounts for the year ended December 31, 2022, the six months ended June 30, 2023 and the ten months ended October 31, 2023 under the Existing Master Parking Lots Entrusted Management Services Agreement were RMB0.8 million, nil and nil, respectively.

After the expiry of the contracts with Lushang Freda Associates by December 31, 2022, the Group had been negotiating for new contracts with Lushang Freda Associates. However, up to the Latest Practicable Date, no contract has been signed with any Lushang Freda Associates and therefore, the actual transaction amount was nil since January 1, 2023.

The Group subsequently understands from Lushang Freda and Shandong Commercial that, as a result of the business restructuring and operational changes in connection with the Disposal, Lushang Freda Associates and/or Shandong Commercial Associates (as the case may be) had been operating and managing the parking lots on their own. However, going forward, the parties expect that the Group will resume the provision of the Parking Lots Entrusted Management Services to Shandong Commercial Associates pursuant to the Supplemental Master Parking Lots Entrusted Management Services Agreement and the New Master Parking Lots Entrusted Management Services Agreement.

Proposed annual caps

The proposed annual caps under the New Master Parking Lots Entrusted Management Services Agreement for the two years ending December 31, 2025 are RMB0.8 million and RMB0.8 million, respectively.

LETTER FROM THE BOARD

The above annual caps were determined with reference to, among other things, (i) the historical transaction amounts (in particular, although there was no transaction incurred since January 1, 2023 and up to the Latest Practicable Date, for prudence's sake, the determination of proposed annual caps based on the historical transaction amount for the year ended December 31, 2022 could maintain flexibility for provision of services during the two years ending December 31, 2025); (ii) the prevailing market price for similar services in the vicinity of the parking lots projects, having taken into account the location and type of the parking lots; and (iii) the capacity of the Group in providing the Parking Lots Entrusted Management Services for the two years ending December 31, 2025.

Reasons for and benefits of entering into the New Master Parking Lots Entrusted Management Services Agreement

The Group has been engaged by Lushang Freda Associates to provide the Parking Lots Entrusted Management Services since 2018. It is expected that the Group will continue to provide the Parking Lots Entrusted Management Services to Shandong Commercial Associates after the Disposal in its ordinary and usual course of business for earning revenue, thus it is in the interests of the Company and the Shareholders as a whole. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial Associates under the New Master Parking Lots Entrusted Management Services Agreement.

(v) New Master Property Management And Related Services Agreement

Date

November 20, 2023

Parties

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

Term

Subject to compliance with the Listing Rules, from January 1, 2024 to December 31, 2025 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.

Subject matter

Under the New Master Property Management and Related Services Agreement, the Group has agreed to provide the Property Management and Related Services primarily to Shandong Commercial Associates.

LETTER FROM THE BOARD

As Lushang Freda Associates still require the Group to provide the Property Management and Related Services for the commercial properties held by them for their own use after the Disposal, the Group will continue to provide the Property Management and Related Services to Lushang Freda Associates in this regard.

Relevant members of both parties will enter into separate agreements setting out the specific terms and conditions based on the principles provided in the New Master Property Management and Related Services Agreement.

Pricing policy

The fees to be charged for the Property Management and Related Services shall be determined on arm's length negotiations with reference to (i) the size, location and positioning of the properties; (ii) the scope of services to be provided; (iii) the anticipated operational costs (including but not limited to labor costs, administration costs and costs of materials); (iv) the fees for similar services and similar types of projects in the market; and (v) the prices charged by the Group for providing comparable services to Independent Third Parties.

Payment arrangement

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

Historical transaction amount

The existing annual caps under the Existing Master Property Management and Related Services Agreement (as amended by the Supplemental Master Property Management and Related Services Agreement and subject to the approval by the Independent Shareholders at the EGM) for the year ended December 31, 2022 and for the year ending December 31, 2023 are as follows:

	For the year ended December 31, 2022 <i>(RMB' million)</i>	For the year ending December 31, 2023 <i>(RMB' million)</i>
Lushang Freda Associates	78.0	82.4
Shandong Commercial Associates	14.0	52.0
Total	92.0	134.4

LETTER FROM THE BOARD

The historical transaction amounts under the Existing Master Property Management and Related Services Agreement for the year ended December 31, 2022, the six months ended June 30, 2023 and the ten months ended October 31, 2023 were as follows:

	For the year ended December 31, 2022 <i>(RMB'million)</i>	For the six months ended June 30, 2023 <i>(RMB'million)</i>	For the ten months ended October 31, 2023 <i>(RMB'million)</i>
Lushang Freda Associates	53.2	14.1	16.5
Shandong Commercial Associates	13.2	18.8	35.8
Total	66.4	32.9	52.3

Proposed annual caps

The proposed annual caps under the New Master Property Management and Related Services Agreement for the two years ending December 31, 2025 are as follows:

	For the year ending December 31, 2024 <i>(RMB'million)</i>	For the year ending December 31, 2025 <i>(RMB'million)</i>
Lushang Freda Associates	5.0	6.0
Shandong Commercial Associates	75.0	86.0
Total	80.0	92.0

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

- (i) the historical transaction amount with an expected annual growth rate of 10-15% (based on the aggregate of the historical transaction amount with Lushang Freda Associates for the ten months ended October 31, 2023, being RMB16.5 million, and the revised annual cap with Shandong Commercial Associates for the year ending December 31, 2023, being RMB52.0 million);

LETTER FROM THE BOARD

- (ii) the estimated revenue of the Property Management and Related Services to be recognized by the Group based on the existing contracts with Lushang Freda Associates and Shandong Commercial Associates;
- (iii) the estimated increment of the GFA for properties under development and contracted sales GFA of Shandong Commercial Associates for the two years ending December 31, 2025, which is estimated based on the development plan and delivery schedule of Shandong Commercial Associates;
- (iv) in respect of the property pre-delivery services, (a) the estimated GFA and number of projects to be sold by Shandong Commercial Associates for the two years ending December 31, 2025 and the estimated number of the sales offices and display units to be established in the relevant period based on the development plan and the land bank of Lushang Freda Associates (prior to the Disposal) as of December 31, 2022, as well as their historical sales GFA and the related growth rate; (b) the bidding success rate and the estimated capacity of the Group for the two years ending December 31, 2025; and (c) the estimated service fee based on the historical service fee and the expected increase in operational costs associated with the provision of property pre-delivery services, including but not limited to labor costs, administration costs and costs of materials;
- (v) in respect of the property management services to be provided for the unsold residential properties, (a) the estimated GFA of the unsold residential properties developed or to be developed by Shandong Commercial Associates for the two years ending December 31, 2025, which is estimated based on the land bank of Lushang Freda Associates (prior to the Disposal), the total GFA under development as of December 31, 2022, as well as their development plan and delivery schedule; and (b) the estimated service fee per sq.m. which management services will be charged based on the historical service fee and the expected increase in operational costs associated with the provision of such services; and
- (vi) in respect of the property management services to be provided for the commercial properties, the estimated GFA and number of commercial properties developed or used by Shandong Commercial Associates to be managed by the Group for the two years ending December 31, 2025 as estimated based on the existing contracts with Lushang Freda Associates (prior to the Disposal) and Shandong Commercial Associates and the land bank of Lushang Freda Associates (prior to the Disposal) as of December 31, 2022.

LETTER FROM THE BOARD

Reasons for and benefits of entering into the New Master Property Management and Related Services Agreement

The Group has been engaged by Lushang Freda Associates and/or Shandong Commercial Associates to provide the Property Management and Related Services since 2006. It is expected that the Group will continue to do so in its ordinary and usual course of business for earning revenue, thus it is in the interests of the Company and the Shareholders as a whole. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial Associates under the New Master Property Management and Related Services Agreement.

LISTING RULES IMPLICATIONS

As of the Latest Practicable Date, Shandong Commercial is a controlling shareholder of the Company, and therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the (i) New Master Engineering Services Agreement; (ii) New Master Design Services Agreement; (iii) New Master Property Agency Services Agreement; (iv) New Master Parking Lots Entrusted Management Services Agreement; and (v) New Master Property Management and Related Services Agreement will constitute continuing connected transactions of the Company.

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

As the New Master Property Agency Services Agreement, the New Master Parking Lots Entrusted Management Services Agreement and the New Master Property Management and Related Services Agreement were all entered into by the Company with Shandong Commercial and the transactions are similar in nature, the transactions under the three agreements shall be aggregated and treated as if they were one transaction pursuant to Rules 14A.82(1) and 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of transactions under the New Master Property Agency Services Agreement, the New Master Parking Lots Entrusted Management Services Agreement and the New Master Property Management and Related Services Agreement are aggregated, and such aggregated amounts are used when calculating the relevant percentage ratios under the Listing Rules.

LETTER FROM THE BOARD

As the highest applicable ratio in respect of the highest annual cap under the New Master Property Agency Services Agreement, the New Master Parking Lots Entrusted Management Services Agreement and the New Master Property Management and Related Services Agreement as aggregated exceeds 5%, the New Master Property Agency Services Agreement, the New Master Parking Lots Entrusted Management Services Agreement and the New Master Property Management and Related Services Agreement and the transactions contemplated thereunder will be subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTERNAL CONTROL MEASURES

The pricing policy for all the continuing connected transactions of the Group will be supervised and monitored by the relevant personnel and management of the Group in charge to ensure the relevant continuing connected transaction is conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders as a whole.

The relevant personnel and management of the Group will review and assess the terms before entering into each individual agreement to ensure they are consistent with the principles and provisions set out in each of the Supplemental Agreements and the New Agreements.

In order to ensure the price terms are in accordance with the Supplemental Agreements and the New Agreements and with reference to prevailing market prices of similar services, before entering into any individual agreement, the business development department will refer to the following information:

- (a) at least three other contemporaneous transactions of the Group of similar services (in terms of nature, size and location of the properties, the scope of services and the anticipated operational costs) provided to Independent Third Parties; and
- (b) prices charged by at least three other property management companies in the PRC (if available) of comparable transactions with Independent Third Parties collected through, among others, information exchange within the industry and publicly available tender information.

LETTER FROM THE BOARD

After collecting the relevant information, the business development department of the Group would determine a price to be offered to Lushang Freda Associates and Shandong Commercial Associates (as the case may be) which will not be less than the prices offered by the Group to Independent Third Parties for transactions contemplated under the Supplemental Master Engineering Services Agreement, the New Master Engineering Services Agreement, the Supplemental Master Design Services Agreement, the New Master Design Services Agreement, the Supplemental Master Property Agency Services Agreement, the New Master Property Agency Services Agreement, the Supplemental Master Property Management and Related Services Agreement and the New Master Property Management and Related Services Agreement. Regarding the Parking Lots Entrusted Management Services to be provided under the Supplemental Master Parking Lots Entrusted Management Services Agreement and the New Master Parking Lots Entrusted Management Services Agreement, the price to be offered to Lushang Freda Associates and Shandong Commercial Associates which will not be more than the price paid by the Group to Independent Third Parties.

In respect of all of its continuing connected transactions, the Company has also established monitoring procedures in which various departments of the Group will be responsible for the implementation, monitoring and review of such procedures. Regular checks will be conducted on a quarterly basis to review and assess whether the transactions contemplated under the Supplemental Agreements and the New Agreements are conducted in accordance with the terms of its respective agreement and the price charged for a specific transaction is fair and reasonable and in accordance with the aforesaid pricing policy.

Further, the finance department of the Group will monitor the actual transaction amounts and monthly report will be made by the management team in relation to the aggregate transaction amounts and utilization rates of the annual caps to ensure that the annual caps under each of the Supplemental Agreements and the New Agreements will not be exceeded. In addition, where a threshold of 80% of the utilization rate is met, the finance department will alert the management team to consider revising the annual caps in accordance with the relevant requirements of the Listing Rules.

The independent non-executive Directors will continue to review the transactions contemplated under the Supplemental Agreements and the New Agreements and the auditors of the Company will also conduct an annual review on the pricing terms and proposed annual caps of the relevant continuing connected transactions thereof.

RECTIFICATION OF BREACH OF THE LISTING RULES

The Company has been monitoring the utilization of the annual caps under the Existing Master Engineering Services Agreement, the Existing Master Design Services Agreement and the Existing Master Property Management and Related Services Agreement since the Listing Date by keeping track of the transaction amounts by each entity originally grouped under Lushang Freda Associates and Shandong Commercial Associates. Based on the originally grouping of these entities of Lushang Freda Associates and Shandong Commercial Associates, the original annual caps set for the year ending December 31, 2023 for Lushang Freda Associates and Shandong Commercial Associates were not exceeded.

LETTER FROM THE BOARD

However, during the review of the shareholding structure of Lushang Freda Associates and Shandong Commercial Associates for the purpose of preparing the interim results of the Group for the six months ended June 30, 2023, it has come to the attention of the Group that Lushang Freda was in the process of disposing of its real estate business to Shandong Urban and Rural Development Group Co., Ltd. (山東省城鄉發展集團有限公司), a wholly-owned subsidiary of Shandong Commercial (the “Disposal”) during the six months ended June 30, 2023. The Disposal has partially been completed in or before late April 2023.

The Board has kept close and frequent communication with Lushang Freda and Shandong Commercial regarding the progress of the Disposal since August 2023 and discussed with them the necessity for the Group to revise its annual cap in compliance with the Listing Rules as soon as possible. Unfortunately, prior to the full completion of the Disposal, there were material uncertainties regarding, among others, the entities to be disposed of, the number of underlying contracts involved, the likelihood of successful completion and the timing of completion of the Disposal, for the Board to assess a comparatively accurate revised annual caps under the New Agreements and the Supplemental Agreements. To avoid multiple variations of the relevant annual caps which may lead to market confusion, and having made discussions with Lushang Freda and Shandong Commercial, it will be more feasible for the Board to determine the revised annual caps only after the Disposal has reached its final stage. Thus, as soon as the Board was informed of the final stage of the Disposal, the Board had commenced close communications with Lushang Freda and Shandong Commercial to determine the revised annual caps.

In early November 2023, the Disposal has been fully completed and the Company entered into the Supplemental Agreements and the New Agreements on November 20, 2023.

As a result of the Disposal, some of the entities which were originally grouped as Lushang Freda Associates should be reclassified as Shandong Commercial Associates. As such, the original annual caps set under the Existing Master Engineering Services Agreement and the Existing Master Property Management and Related Services Agreement for Shandong Commercial Associates had been exceeded.

For the avoidance of doubt, no transaction amounts with Shandong Commercial Associates were incurred under the Existing Master Property Agency Services Agreement and the Existing Master Parking Lots Entrusted Management Services Agreement as at the Latest Practicable Date.

LETTER FROM THE BOARD

According to Rule 14A.54 of the Listing Rules, if the Company proposes to revise the annual caps for its continuing connected transactions, the Company will be required to re-comply with the announcement and shareholders' approval requirements. As the Company has not revised the annual caps for Shandong Commercial Associates under the Existing Master Engineering Services Agreement and the Existing Master Property Management and Related Services Agreement in a timely manner to cater for the Disposal, this constituted a breach of Chapter 14A of the Listing Rules. The Board wishes to emphasize that such breach was due to passive action of the Group and was technical, and the Board reiterates its belief that continuing compliance with the Listing Rules and other applicable regulatory requirements is of utmost importance.

To prevent reoccurrence of similar breaches of the Listing Rules in the future, the Company has communicated with Lushang Freda and Shandong Commercial the compliance requirements of the continuing connected transactions under Chapter 14A of the Listing Rules and requested them to timely inform the Company on any event that may affect the terms of the continuing connected transactions conducted among them to enable the Company to make timely assessment and ensure compliance with the Listing Rules. The Company has specifically requested Lushang Freda and Shandong Commercial to confirm a list of entities under Lushang Freda Associates and Shandong Commercial Associates on a monthly basis.

INFORMATION ON THE PARTIES

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

Shandong Commercial is a large-scale holding company with a wider range of investments in retail business, property development, biopharmaceuticals, drug research and development, medical facilities design and education, among other sectors, which is controlled by the State-owned Assets Supervision and Administration Commission of Shandong Provincial Government (山東省人民政府國有資產監督管理委員會).

Lushang Freda is principally engaged in the research and development, production and sales of pharmaceutical products, health food, cosmetics, medical devices and raw materials, and is owned as to approximately 51.62% by Shandong Commercial and 1.69% by Lushang Group Co., Ltd., a company owned as to approximately 68.15% by Shandong Commercial.

BOARD APPROVAL

At the Board meeting held to approve the Supplemental Agreements and the New Agreements, none of the Directors was considered as having a material interest in the Supplemental Agreements, the New Agreements and the transactions contemplated thereunder. Therefore, none of the Directors was required to abstain from voting on the relevant Board resolutions.

LETTER FROM THE BOARD

RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, has been established and considers that (i) the terms of the Supplemental Agreements and the New Agreements (including the proposed annual caps) are on normal commercial terms and are fair and reasonable; and (ii) the transactions contemplated under the Supplemental Agreements and the New Agreements (including the proposed annual caps) are conducted in the ordinary and usual course of business of the Group 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 resolutions in relation to the Supplemental Agreements and the New Agreements (including the proposed annual caps) proposed at the EGM. The text of the letter from the Independent Board Committee is set out on page 44 of this circular.

THE EGM

The Company will convene and hold the EGM at at 10:00 a.m on Thursday, December 28, 2023, at 38th Floor, Block 5, Lushang Guo'ao City, No. 9777 Jingshi Road, Lixia District, Jinan, Shandong, the PRC to consider and, where appropriate, approve the Supplemental Agreements, the New Agreements and the transactions contemplated thereunder (including the proposed annual caps). A notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular. The Company will publish an announcement of the poll results in the manner required under Rule 13.39(5) of the Listing Rules after the conclusion of 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. Accordingly, the resolutions to be proposed at the EGM will be voted on by poll.

As at the Latest Practicable Date, Shandong Commercial and its associates, holding 100,000,000 Domestic Shares, representing approximately 75% of the total issued share capital of the Company, shall abstain from voting at the EGM on the resolution in relation to the Supplemental Agreements, the New Agreements and the transactions contemplated thereunder (including the proposed annual caps). Apart from Shandong Commercial, none of the other Shareholders has a material interest in the Supplemental Agreements, the New Agreements and the transactions contemplated thereunder (including the proposed annual caps) and is required to abstain from voting on the relevant resolution in the EGM.

LETTER FROM THE BOARD

The register of members of the Company will be closed from Thursday, December 21, 2023 to Thursday, December 28, 2023, both days inclusive, during which no transfer of Shares will be effected. Shareholders whose names appear on the register of members of the Company to Thursday, December 28, 2023 shall be entitled to attend and vote at the EGM. To be eligible for attending and voting at the EGM, all share transfer documents accompanied by the relevant share certificates and other appropriate documents must be lodged with the Company's H Share Registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for H Shareholders), or the registered office of the Company at Room 202, Block 2, Lushang Guo'ao City, No. 9777 Jingshi Road, Lixia District, Jinan, Shandong, the PRC (for Domestic Shareholders) not later than 4:30 p.m. on Wednesday, December 20, 2023 for registration.

If you intend to appoint a proxy to attend the EGM, you are required to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the form. If the instrument appointing the proxy is signed by a person authorised by the appointer, the power of attorney authorizing the execution of the instrument or other authorization documents shall be notarized and must be served concurrently with the instrument. The form of proxy, together with the copies of the notarized power of attorney or other authorization documents, shall be deposited at the Company's H Share Registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for H Shareholders), or the registered office of the Company at Room 202, Block 2, Lushang Guo'ao City, No. 9777 Jingshi Road, Lixia District, Jinan, Shandong, the PRC (for Domestic Shareholders) no later than 24 hours before the time designated for the EGM or any adjournment thereof (as the case may be) before the form becomes effective. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting thereof should you so wish.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out in this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Supplemental Agreements, the New Agreements and the transactions contemplated thereunder (including the proposed annual caps); and (ii) the letter from the Independent Financial Adviser set out in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Agreements, the New Agreements and the transactions contemplated thereunder (including the proposed annual caps), as well as the principal factors and reasons taken into account by the Independent Financial Adviser in arriving at its advice. Having taken into account the terms of the Supplemental Agreements and the New Agreements, the information provided in the letter from the Board and the letter from the Independent Financial Adviser, the Independent Board Committee considers that (i) the terms of the Supplemental Agreements and the New Agreements (including the proposed annual caps) are on normal commercial terms and are fair and reasonable; and (ii) the transactions contemplated under the Supplemental Agreements and the New Agreements (including the proposed annual caps) are conducted in the ordinary and usual course of business of the Group 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 favor of the ordinary resolution as set out in the notice of EGM and to be proposed at the EGM for approving the Supplemental Agreements, the New Agreements and the transactions contemplated thereunder and the proposed annual caps.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors, after considering the advice from the Independent Financial Adviser) are of the view that the terms of the Supplemental Agreements, the New Agreements and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable, on normal commercial terms and will be conducted in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole and therefore recommends you to vote in favour of the ordinary resolutions to be proposed at the EGM.

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



Lushang Life Services Co., Ltd.
魯商生活服務股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 2376)

December 11, 2023

To the Independent Shareholders

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS
(1) REVISION OF ANNUAL CAPS;
(2) MATERIAL CHANGE OF TERMS; AND
(3) RENEWAL OF ANNUAL CAPS

We refer to the circular issued by the Company to the Shareholders dated December 11 2023 (the “**Circular**”) which this letter forms a part of. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to consider the Supplemental Agreements and the New Agreements and to advise you in respect of the Agreements and transactions contemplated thereunder and the proposed annual caps, details of which are set out in the “Letter from the Board” on page 6 to 43 of the Circular. Dongxing Securities (Hong Kong) Company Limited has been appointed as the Independent Financial Adviser in this regard.

We wish to draw your attention to the “Letter from the Board” and the “Letter from Independent Financial Adviser” as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in their letter of advice, we are of the view that (i) the terms of each of the Supplemental Agreements and the New Agreements (including the proposed annual caps) are on normal commercial terms and are fair and reasonable; and (ii) the transactions contemplated under each of the Supplemental Agreements and the New Agreements (including the proposed annual caps) are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the ordinary resolutions for approving the Supplemental Agreements, the New Agreements and the transactions contemplated thereunder and the proposed annual caps at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee of
Lushang Life Services Co., Ltd.

Ms. Leung Bik San
Independent
non-executive Director

Ms. Chen Xiaojing
Independent
non-executive Director

Mr. Ma Tao
Independent
non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser in respect of the transactions contemplated under the Supplemental Agreements and the New Agreements and the proposed annual caps, which has been prepared for the purpose of inclusion in this circular.



DONGXING SECURITIES
(HONG KONG) COMPANY LIMITED
Room 7503B-7504
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

December 11, 2023

To: The Independent Board Committee and the Independent Shareholders of Lushang Life Services Co., Ltd.

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS (1) REVISION OF ANNUAL CAPS; (2) MATERIAL CHANGE OF TERMS; AND (3) RENEWAL OF ANNUAL CAPS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the (i) Revision of Annual Caps; (ii) Material Change of Terms; and (iii) Renewal of Annual Caps, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated December 11, 2023 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(1) REVISION OF ANNUAL CAPS

On November 20, 2023 (after trading hours), the Company has entered into (i) the Supplemental Master Engineering Services Agreement to revise the existing annual caps for the year ending December 31, 2023 and expand the service scope to include decoration engineering services under the Existing Master Engineering Services Agreement; (ii) the Supplemental Master Design Services Agreement to revise the existing annual caps for the year ending December 31, 2023 under the Existing Master Design Services Agreement; and (iii) the Supplemental Master Property Management and Related Services Agreement to revise the existing annual caps for the year ending December 31, 2023 under the Existing Master Property Management and Related Services Agreement.

According to Rule 14A.54 of the Listing Rules, if the Company proposes to revise the annual caps for its continuing connected transactions, the Company will be required to re-comply with the announcement and shareholders' approval requirements.

As the highest applicable percentage ratio (other than the profits ratio) as defined under the Listing Rules in respect of the proposed revised annual caps under each of the (i) Supplemental Master Engineering Services Agreement; (ii) Supplemental Master Design Services Agreement; and (iii) Supplemental Master Property Management and Related Services Agreement is expected to be more than 5%, each of the (i) Supplemental Master Engineering Services Agreement; (ii) Supplemental Master Design Services Agreement; and (iii) Supplemental Master Property Management and Related Services Agreement and the transactions contemplated thereunder (including the proposed revised annual caps therefor) will be subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(2) MATERIAL CHANGE OF TERMS

On November 20, 2023 (after trading hours), Lushang Freda, Shandong Commercial and the Company has entered into (i) Supplemental Master Property Agency Services Agreement and (ii) Supplemental Master Parking Lots Entrusted Management Services Agreement, pursuant to which Lushang Freda (as novator) has agreed to novate its rights and liabilities under the (i) Existing Master Property Agency Services Agreement and (ii) Existing Master Parking Lots Entrusted Management Services Agreement to Shandong Commercial (as novatee).

As the change of party to the Existing Master Property Agency Services Agreement and the Existing Master Parking Lots Entrusted Management Services Agreement constitutes a material change of terms, the Company will need to re-comply with the announcement and shareholders' approval requirements under Rule 14A.54 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(3) RENEWAL OF ANNUAL CAPS

On November 20, 2023 (after trading hours), the Company has entered into the (i) New Master Engineering Services Agreement; (ii) New Master Design Services Agreement; (iii) New Master Property Agency Services Agreement; (iv) New Master Parking Lots Entrusted Management Services Agreement; and (v) New Master Property Management and Related Services Agreement (i.e. the New Agreements) for a term commencing from January 1, 2024 to December 31, 2025.

As of the Latest Practicable Date, Shandong Commercial is a controlling shareholder of the Company, and therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the (i) New Master Engineering Services Agreement; (ii) New Master Design Services Agreement; (iii) New Master Property Agency Services Agreement; (iv) New Master Parking Lots Entrusted Management Services Agreement; and (v) New Master Property Management and Related Services Agreement will constitute continuing connected transactions for the Company.

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

As the New Master Property Agency Services Agreement, the New Master Parking Lots Entrusted Management Services Agreement and the New Master Property Management and Related Services Agreement were all entered into by the Company with Shandong Commercial and the transactions are similar in nature, the transactions under the three agreements shall be aggregated and treated as if they were one transaction pursuant to Rules 14A.82(1) and 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of transactions under the New Master Property Agency Services Agreement, the New Master Parking Lots Entrusted Management Services Agreement and the New Master Property Management and Related Services Agreement are aggregated, and such aggregated amounts are used when calculating the relevant percentage ratios under the Listing Rules.

As the highest applicable ratio in respect of the highest annual cap under the New Master Property Agency Services Agreement, the New Master Parking Lots Entrusted Management Services Agreement and the New Master Property Management and Related Services Agreement as aggregated exceeds 5%, the New Master Property Agency Services Agreement, the New Master Parking Lots Entrusted Management Services Agreement and the New Master Property Management and Related Services Agreement and the transactions contemplated thereunder will be subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all independent non-executive Directors, namely Ms. LEUNG Bik San, Ms. CHEN Xiaojing and Mr. MA Tao, has been established to consider and advise the Independent Shareholders in respect of the terms of the Supplemental Agreements and the New Agreements and as to whether the proposed annual caps are fair and reasonable and are in the interests of the Company and its Shareholders as a whole. We, Dongxing Securities (Hong Kong) Company Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As of the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. Save for this appointment as the Independent Financial Adviser in relation to this transaction and the major transaction and renewal of continuing connected transactions (details of which are set out in the circular dated on June 14, 2023), there were no other engagements between us and the Group in the past two years. Apart from normal professional fees paid or payable to us in connection with this transaction, no other arrangement exists whereby we had received or would receive any fees or benefits from the Company or any parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider ourselves independent in accordance with Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied upon the accuracy of the information and representations contained in the Circular and information provided to us by the Directors and the management of the Company (the “**Management**”). We have assumed that all statements, information, and representations made or referred to in the Circular and all information and representations which have been provided by the Directors and the Management, for which they are solely and wholly responsible, were true, accurate and complete at the time they were made and continue to be true as of the Latest Practicable Date.

We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. The Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The 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 as contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any omission of any material facts that would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position, or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and/or the Management.

This letter is issued to the Independent Board Committee and the Independent Shareholders, solely in connection for their consideration of the Revision of the Annual Caps of the Supplemental Agreements and the Renewal of the Annual Caps of the New Agreements, and 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 purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing (i) the Supplemental Agreements; and (ii) the New Agreements and the proposed annual caps and in giving our recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into consideration of the following principal factors and reasons.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1. BACKGROUND INFORMATION OF THE PARTIES

a. Information on the Company and the Group

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

Set out below is a summary of the consolidated financial information on the Group for the six months ended June 30, 2022 and 2023 and the two years ended December 31, 2022 as extracted from the Company's interim report for the six months ended June 30, 2023 (the "2023 Interim Report") and annual report for the year ended December 31, 2022 (the "2022 Annual Report"), respectively:

Financial results

	For the six months ended June 30,		For the year ended December 31,	
	2023	2022	2022	2021
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	314,014	324,361	627,734	582,803
Profit for the year/period	30,796	40,814	78,297	77,017

According to the 2022 Annual Report and 2023 Interim Report, the Group derived its revenue from (i) property management services; (ii) value-added services to non-property owners; and (iii) community value-added services.

Revenue from Property Management Services

The revenue of the property management services increased by 15.1% from RMB255.5 million for the year ended December 31, 2021 to RMB294.1 million for the year ended December 31, 2022, primarily due to the optimization of the project portfolio and strategic expansion of city services during 2022. The revenue of our property management services increased by 9.8% from RMB150.1 million for the six months ended June 30, 2022 to RMB164.9 million for the six months ended June 30, 2023, primarily due to the total GFA under our management increased from approximately 23.5 million sq.m. as at June 30, 2022 to approximately 23.8 million sq.m. as at June 30, 2023, and the continuous expansion of urban sanitation projects (which were not included in the area under management in accordance with industry practice).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Revenue from Value-added Services to Non-property Owners

The revenue from value-added services to non-property owners decreased by 8.3% from RMB204.8 million for the year ended December 31, 2021 to RMB187.9 million for the year ended December 31, 2022, primarily due to the decrease in the number of projects delivered by property developers during 2022 resulting from the downturn of the real estate market, which led to the decrease in the revenue from preliminary property management services and pre-delivery services. The revenue of our value-added services to non-property owners decreased by 24.9% from RMB118.2 million for the six months ended June 30, 2022 to RMB88.8 million for the six months ended June 30, 2023, primarily due to the decrease in the number of projects delivered by property developers as a result of the downturn of the real estate market in the PRC, resulting in a decrease in revenue from preliminary property management services, pre-delivery services, design services and landscaping services.

Revenue from Community Value-added Services

The revenue of the community value-added services increased by 19.0% from RMB122.5 million for the year ended December 31, 2021 to RMB145.7 million for the year ended December 31, 2022, primarily due to the increase in gross floor area under management for residential properties and commercial properties. The revenue of our community value-added services increased by 7.7% from RMB56.0 million for the six months ended June 30, 2022 to RMB60.4 million for the six months ended June 30, 2023, primarily due to the increase in the number of users as a result of the increase in the GFA under management in respect of residential properties, and diversification of service portfolio provided to customers.

As depicted by the above table, the net profit of the Group for the year ended December 31, 2022 remains relatively stable as compared to the year ended December 31, 2021. The net profit of the Group for the six months ended June 30, 2023 has decreased approximately 32.5 % as compared to the six months ended June 30, 2022, primary to the decrease in revenue and gross profits from Value-added Services to Non-property Owners segment.

b. Information on Shandong Commercial

Shandong Commercial is a large-scale holding company with a wider range of investments in retail business, property development, biopharmaceuticals, drug research and development, medical facilities design and education, among other sectors, which is controlled by the State-owned Assets Supervision and Administration Commission of Shandong Provincial Government (山東省人民政府國有資產監督管理委員會).

c. Information on Lushang Freda

Lushang Freda is principally engaged in the research and development, production and sales of pharmaceuticals products, health food, cosmetics, medical devices and raw materials, and is owned as to approximately 51.62% by Shandong Commercial and 1.69% by Lushang Group Co., Ltd., a company owned as to approximately 68.15% by Shandong Commercial.

2. REVISION OF ANNUAL CAPS

(i) Supplemental Master Engineering Services Agreement

Under the Existing Master Engineering Services Agreement, the Group has agreed to provide to Lushang Freda Associates and Shandong Commercial Associates certain engineering services, including but not limited to (i) landscape construction engineering services; (ii) maintenance engineering services; and (iii) landscape technology engineering services. Under the Supplemental Master Engineering Services Agreement, the scope of services will further expand to cover decoration engineering services (together with (i) to (iii) above, the “**Engineering Services**”).

Reasons and benefits of entering into the Supplemental Master Engineering Services Agreement

After the Disposal (details are set out in the section “Rectification of breach of the Listing Rules”), most of the demand for the Engineering Services will be shifted from Lushang Freda Associates to Shandong Commercial Associates. Further, the Group expected to expand the scope of the Engineering Services to be provided to Shandong Commercial Associates to cover decoration engineering services. As such, the original annual cap for the year ending December 31, 2023 in respect of the Engineering Services to be provided to Shandong Commercial Associates is not sufficient. In order for the Group to continuously provide the Engineering Services to Shandong Commercial Associates in compliance with the Listing Rules, the Company has entered into the Supplemental Master Engineering Services Agreement to revise the annual cap for the transaction amount with Shandong Commercial Associates for the year ending December 31, 2023 under the Existing Master Engineering Services Agreement. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial under the Existing Master Engineering Services Agreement and the Supplemental Master Engineering Services Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have considered (i) the expansion of scope of services to cover decoration engineering services is in line with the principal business of the Group; (ii) the shift of demand for the Engineering Services from Lushang Freda Associates to Shandong Commercial Associates due to the Disposal; and (iii) the need of the revision on the annual cap of the Engineering Services, in particular, the transaction amounts with Shandong Commercial Associates for the ten months ended October 31, 2023 have exceeded the original annual cap for the year ending December 31, 2023, we are of the view that the terms of the Supplemental Master Engineering Services Agreement are fair and reasonable, on normal commercial terms and will be conducted in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole.

Assessment on the principal terms

In order to assess the fairness and reasonableness of the terms of the Supplemental Master Engineering Services Agreement, we noted that the terms of the Supplemental Master Engineering Services Agreement shall remain the same as the terms of the Existing Master Engineering Services Agreement. For details of our assessment, please refer to “4. Renewal of Annual Caps – (i) New Master Engineering Services Agreement - Assessment on the principal terms”.

The Revised Annual Caps

The existing annual caps under the Existing Master Engineering Services Agreement for the year ended December 31, 2022 and for the year ending December 31, 2023 are as follows:

	For the year ended December 31, 2022 (RMB'million)	For the year ending December 31, 2023 (RMB'million)
Lushang Freda Associates	64.4	72.0
Shandong Commercial Associates	7.6	8.0
Total	72.0	80.0

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The historical aggregate transaction amounts under the Existing Master Engineering Services Agreement for the year ended December 31, 2022 and the ten months ended October 31, 2023 were as follows:

	For the year ended December 31, 2022 <i>(RMB'million)</i>	For the ten months ended October 31, 2023 <i>(RMB'million)</i>
Lushang Freda Associates	60.3	11.2
Shandong Commercial Associates	1.3	59.1
Total	61.6	70.3

Pursuant to the Supplemental Master Engineering Services Agreement, the annual cap of the Engineering Services provided to Shandong Commercial Associates for the year ending December 31, 2023 is revised to RMB87.0 million. The revised annual caps under the Supplemental Master Engineering Services Agreement are set out as follows:

	For the year ending December 31, 2023 <i>(RMB'million)</i>
Lushang Freda Associates	72.0
Shandong Commercial Associates	87.0
Total	159.0

Save for such revision in the annual caps and the scope of services as mentioned above, all other terms of the Existing Master Engineering Services Agreement shall remain valid and in full force and effect.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our view on the Revised Annual Caps

As disclosed in the Letter from the Board, the revised annual cap (in particular, the revised annual cap for transactions with Shandong Commercial Associates) were determined after taking into consideration principal factors including, among others, (i) the historical transaction amounts; (ii) the estimated revenue of the Engineering Services to be recognized by the Group pursuant to the existing contracts with Lushang Freda Associates prior to the Disposal and shifted to Shandong Commercial Associates after the Disposal; (iii) the estimated service fee to be charged for the Engineering Services, which is based on the historical service fee charged and the expected increase in operational costs associated with the Engineering Services, including but not limited to labor costs, administration costs and costs of materials used for providing the services; (iv) the estimated number of projects to be developed or owned by Shandong Commercial Associates for which the Group anticipates to provide the Engineering Services based on the development plan of Lushang Freda Associates and Shandong Commercial Associates; and (v) the expected transaction amount for the decoration engineering services to be provided to Shandong Commercial Associates, which is an additional service item under the Supplemental Master Engineering Services Agreement, based on the estimated service fee to be charged and the estimated number of projects for which the Group anticipates to be engaged as elaborated in (iii) and (iv) above.

When determining the revised annual caps under the Supplemental Master Engineering Services Agreement, the parties focused on increasing the annual caps in respect of transactions with Shandong Commercial Associates so that the Group could continue to be in compliance with the Listing Rules after the Disposal and the entering into of the Supplemental Master Engineering Services Agreement, while the existing annual caps with Lushang Freda Associates remained unchanged for ease of administration.

The prima facie substantial increase in proposed annual cap in respect of transactions with Shandong Commercial is in substance a shift of existing contracts under the Existing Master Engineering Services Agreement from Lushang Freda Associates to Shandong Commercial Associates, with an addition of new service item namely, decoration engineering services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To assess the fairness and reasonableness of the Engineering Service revised annual cap for the year ending December 31, 2023, we have obtained and reviewed the calculation for the revised annual caps provided by the Management, in particular, the estimated revenue of the Engineering Services to be recognized by the Group due to the shift of existing contracts under the Existing Master Engineering Services Agreement from Lushang Freda Associates to Shandong Commercial Associates. Further, we have discussed with the Management the progress of the projects in the calculation of the revised annual caps and the accounting policy of the revenue recognition of the Engineering Services, and we noted that the outstanding contract value of the projects was generally in line with the progress of the projects. In addition, we have also re-performed the calculation of the revised annual caps provided by the Management and no irregularity was noted.

Taking into account the above, we are of the view that the revised annual caps are fair and reasonable and is in the interests of the Shareholders as a whole.

(ii) Supplemental Master Design Services Agreement

Under the Existing Master Design Services Agreement, the Group has agreed to provide to Lushang Freda Associates and Shandong Commercial Associates certain design services, including but not limited to (i) architectural design services; (ii) landscape design services; (iii) decorative design services; and (iv) decoration management services (the “**Design Services**”).

Reasons and benefits of entering into the Supplemental Master Design Services Agreement

After the Disposal (details are set out in the section “Rectification of breach of the Listing Rules”), most of the demand for the Design Services will be shifted from Lushang Freda Associates to Shandong Commercial Associates. As such, the original annual cap for the year ending December 31, 2023 in respect of the Design Services to be provided to Shandong Commercial Associates is not sufficient. In order for the Group to continuously provide the Design Services to Shandong Commercial Associates in compliance with the Listing Rules, the Company has entered into the Supplemental Master Design Services Agreement to revise the annual cap for the transaction amount with Shandong Commercial Associates for the year ending December 31, 2023 under the Existing Master Design Services Agreement. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial under the Existing Master Design Services Agreement and the Supplemental Master Design Services Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have considered (i) the principal businesses of the Group; (ii) the shift of demand for the Design Services from Lushang Freda Associates to Shandong Commercial Associates due to the Disposal; and (iii) the need of the revision on the annual cap of the Design Services, we are of the view that the terms of the Supplemental Master Design Services Agreement are fair and reasonable, on normal commercial terms and will be conducted in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole.

Assessment on the principal terms

In order to assess the fairness and reasonableness of the terms of the Supplemental Master Design Services Agreement, we noted that the terms of the Supplemental Master Design Services Agreement shall remain the same as the terms of the Existing Master Design Services Agreement. For details of our assessment, please refer to “4. Renewal of Annual Caps – (ii) New Master Design Services Agreement - Assessment on the principal terms”.

The Revised Annual Caps

The existing annual caps under the Existing Master Design Services Agreement for the year ended December 31, 2022 and the year ending December 31, 2023 are as follows:

	For the year ended December 31, 2022 (RMB'million)	For the year ending December 31, 2023 (RMB'million)
Lushang Freda Associates	53.9	70.0
Shandong Commercial Associates	14.5	19.3
Total	68.4	89.3

The historical transaction amounts under the Existing Master Design Services Agreement for the year ended December 31, 2022 and the ten months ended October 31, 2023 were as follows:

	For the year ended December 31, 2022 (RMB'million)	For the ten months ended October 31, 2023 (RMB'million)
Lushang Freda Associates	43.5	3.4
Shandong Commercial Associates	7.0	11.4
Total	50.5	14.8

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pursuant to the Supplemental Master Design Services Agreement, the annual cap of the Design Services provided to Shandong Commercial Associates for the year ending December 31, 2023 is revised to RMB36.0 million. The total annual caps of the Design Services under the Supplemental Master Design Services Agreement are set out as follows:

	For the year ending December 31, 2023 (RMB'million)
Lushang Freda Associates	70.0
Shandong Commercial Associates	<u>36.0</u>
Total	<u>106.0</u>

Save for such revision in the annual caps as mentioned above, all other terms of the Existing Master Design Services Agreement shall remain valid and in full force and effect.

Our view on the Revised Annual Caps

As disclosed in the Letter from the Board, the revised annual cap (in particular, the revised annual cap for transactions with Shandong Commercial Associates) were determined after taking into consideration principal factors including, among others, (i) the historical transaction amounts; (ii) the estimated revenue of the Design Services to be recognized by the Group pursuant to the existing contracts with Lushang Freda Associates prior to the Disposal and shifted to Shandong Commercial Associates after the Disposal; and (iii) the estimated service fee to be charged for the Design Services.

When determining the revised annual caps under the Supplemental Master Design Services Agreement, the parties focused on increasing the annual caps in respect of transactions with Shandong Commercial Associates so that the Group could continue to be in compliance with the Listing Rules after the Disposal and the entering into of the Supplemental Master Design Services Agreement, while the existing annual caps with Lushang Freda Associates remained unchanged for ease of administration.

The prima facie substantial increase in proposed annual cap in respect of transactions with Shandong Commercial is in substance a shift of existing contracts under the Existing Master Design Services Agreement from Lushang Freda Associates to Shandong Commercial Associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To assess the fairness and reasonableness of the Design Services revised annual cap for the year ending December 31, 2023, we have obtained and reviewed the calculation for the revised annual caps provided by the Management, in particular, the estimated revenue of the Design Services to be recognized by the Group due to the shift of existing contracts under the Existing Master Design Services Agreement from Lushang Freda Associates to Shandong Commercial Associates. Further, we have discussed with the Management the progress of the projects in the calculation of the revised annual caps and the accounting policy of the revenue recognition of the Design Services, and we noted that the outstanding contract value of the projects was generally in line with the progress of the projects. In addition, we have also re-performed the calculation of the revised annual caps provided by the Management and no irregularity was noted.

Taking into account the above, we are of the view that the revised annual caps are fair and reasonable and is in the interests of the Shareholders as a whole.

(iii) Supplemental Master Property Management and Related Services Agreement

Under the Existing Master Property Management and Related Services Agreement, the Group has agreed to provide to Lushang Freda Associates and Shandong Commercial Associates certain property management and related services, including but not limited to (i) property pre-delivery services, including but not limited to (a) management services for the on-site sales offices and display units; (b) house inspection services; (c) pre-delivery cleaning services; and (d) pre-delivery preparation; (ii) property management services for the properties owned or used by Lushang Freda Associates and Shandong Commercial Associates, including but not limited to the unsold residential property units, office buildings, schools and commercial properties; and (iii) other related services (the “**Property Management and Related Services**”).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Reasons and benefits of entering into the Supplemental Master Property Management and Related Services Agreement

After the Disposal (details are set out in the section “Rectification of breach of the Listing Rules”), most of the demand for the Property Management and Related Services will be shifted from Lushang Freda Associates to Shandong Commercial Associates. As such, the original annual cap for the year ending December 31, 2023 in respect of the Property Management and Related Services to be provided to Shandong Commercial Associates is not sufficient. In order for the Group to continuously provide the Property Management and Related Services to Shandong Commercial Associates in compliance with the Listing Rules, the Company has entered into the Supplemental Master Property Management and Related Services Agreement to revise the annual cap for the year ending December 31, 2023 under the Existing Master Property Management and Related Services Agreement. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial under the Existing Master Property Management and Related Services Agreement and the Supplemental Master Property Management and Related Services Agreement.

We have considered (i) the principal businesses of the Group; (ii) the shift of demand for the Property Management and Related Services from Lushang Freda Associates to Shandong Commercial Associates due to the Disposal; and (iii) the need of the revision on the annual cap of the Property Management and Related Services, in particular, the transaction amounts with Shandong Commercial Associates for the ten months ended October 31, 2023 have exceeded the original annual cap for the year ending December 31, 2023, we are of the view that the terms of the Supplemental Master Property Management and Related Services Agreement are fair and reasonable, on normal commercial terms and will be conducted in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Assessment on the principal terms

In order to assess the fairness and reasonableness of the terms of the Supplemental Master Property Management and Related Services Agreement, we noted that the terms of the Supplemental Master Property Management and Related Services Agreement shall remain the same as the terms of the Existing Master Property Management and Related Services Agreement. For details of our assessment, please refer to “4. Renewal of Annual Caps – (v) New Master Property Management and Related Services Agreement - Assessment on the principal terms”.

The Revised Annual Caps

The existing annual caps under the Existing Master Property Management and Related Services Agreement for the year ended December 31, 2022 and the year ending December 31, 2023 are as follows:

	For the year ended December 31, 2022 (RMB'million)	For the year ending December 31, 2023 (RMB'million)
Lushang Freda Associates	78.0	82.4
Shandong Commercial Associates	14.0	16.0
Total	92.0	98.4

The historical transaction amounts under the Existing Master Property Management and Related Services Agreement for the year ended December 31, 2022 and the ten months ended October 31, 2023 were as follows:

	For the year ended December 31, 2022 (RMB'million)	For the ten months ended October 31, 2023 (RMB'million)
Lushang Freda Associates	53.2	16.5
Shandong Commercial Associates	13.2	35.8
Total	66.4	52.3

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pursuant to the Supplemental Master Property Management and Related Services Agreement, the annual cap of the Property Management and Related Services provided to Shandong Commercial Associates for the year ending December 31, 2023 is revised to RMB52.0 million. The total annual caps under the Supplemental Master Property Management and Related Services Agreement are set out as follows:

	For the year ending December, 31 2023 <i>(RMB'million)</i>
Lushang Freda Associates	82.4
Shandong Commercial Associates	<hr style="width: 100%;"/> 52.0
Total	<hr style="width: 100%; border-top: 3px double black;"/> 134.4

Save for such revision in the annual caps as mentioned above, all other terms of the Existing Master Property Management and Related Services Agreement shall remain valid and in full force and effect.

Our view on the Revised Annual Caps

As disclosed in the Letter from the Board, the revised annual caps (in particular, the revised annual cap for transactions with Shandong Commercial Associates) were determined after taking into consideration principal factors including, among others, (i) the historical transaction amount; (ii) the estimated revenue of the Property Management and Related Services to be recognized by the Group pursuant to the existing contracts with Lushang Freda Associates prior to the Disposal and shifted to Shandong Commercial Associates after the Disposal; and (iii) the estimated service fee to be charged for the Property Management and Related Services.

When determining the revised annual caps under the Supplemental Master Property Management and Related Services Agreement, the parties focused on increasing the annual caps in respect of transactions with Shandong Commercial Associates so that the Group could continue to be in compliance with the Listing Rules after the Disposal and the entering into of the Supplemental Master Property Management and Related Services Agreement, while the existing annual caps with Lushang Freda Associates remained unchanged for ease of administration.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The prima facie substantial increase in proposed annual cap in respect of transactions with Shandong Commercial is in substance a shift of existing contracts under the Existing Master Property Management and Related Services Agreement from Lushang Freda Associates to Shandong Commercial Associates.

To assess the fairness and reasonableness of the Property Management and Related Services revised annual caps for the year ending December 31, 2023, we have obtained and reviewed the calculation for the revised annual caps provided by the Management, in particular, the estimated revenue of the Property Management and Related Services to be recognized by the Group due to the shift of existing contracts under the Existing Master Property Management and Related Services Agreement from Lushang Freda Associates to Shandong Commercial Associates. Further, we have discussed with the Management the calculation basis of the revised annual caps and the accounting policy of the revenue recognition of the Property Management and Related Services. In addition, we have also reperformed the calculation of the revised annual caps provided by the Management and no irregularity was noted.

Taking into account the above, we are of the view that the revised annual caps are fair and reasonable and is in the interests of the Shareholders as a whole.

3. MATERIAL CHANGE OF TERMS

Reasons and benefits

After the Disposal, the transactions contemplated under the (i) Existing Master Property Agency Services Agreement and (ii) the Existing Master Parking Lots Entrusted Management Services Agreement will be conducted between the Group and Shandong Commercial Associates. Entering into of the (i) Supplemental Master Property Agency Services Agreement and (ii) Supplemental Master Parking Lots Entrusted Management Services Agreement will enable the Group to continue to provide the Property Agency Services and the Parking Lots Entrusted Management Services to the relevant pre-disposed entities of Lushang Freda upon completion of the Disposal. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial under the Existing Master Property Agency Services Agreement, the Supplemental Master Property Agency Services Agreement, the Existing Master Parking Lot Entrusted Management Services Agreement and the Supplemental Master Parking Lot Entrusted Management Services Agreement.

Entering into the Supplemental Master Property Agency Services Agreement and Supplemental Master Parking Lots Entrusted Management Services Agreement is a necessary consequential act as a result of the Disposal and there is no change in terms under each of the Existing Master Property Agency Services Agreement and the Existing Master Parking Lots Entrusted Management Services Agreement (apart from the change of parties).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(i) *Existing Master Property Agency Services Agreement*

Principal terms

Date: June 22, 2022

Parties: (a) The Company; and
(b) Lushang Freda.

Subject matter: Under the Existing Master Property Agency Services Agreement, the Group has agreed to provide sales assistance services in respect of the sales of the unsold properties and car parks (the “**Property Agency Services**”) to Lushang Freda Associates.

Relevant members of both parties will enter into separate agreements setting out the specific terms and conditions based on the principles provided in the Existing Master Property Agency Services Agreement.

Term: Subject to compliance with the Listing Rules, from the Listing Date to December 31, 2023 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.

Pricing policy: The fees to be charged for the Property Agency Services shall amount to a percentage of the sales price of the unsold properties and car parks, and will be determined on arm’s length negotiations with reference to (i) the prevailing market price for similar services in the vicinity of the project taking into account the size, type and location of the unsold properties and car parks; and (ii) the terms offered to Independent Third Parties by Lushang Freda Associates for similar services. The terms offered to the Group shall not be less favourable than those offered to Independent Third Parties.

Payment arrangement: The payment mechanism for all fees and payments pursuant to the Existing Master Property Agency Services Agreement should be specified in the relevant specific agreement to be entered into by the parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Existing annual caps

The existing annual caps for the year ended December 31, 2022 and for the year ending December 31, 2023 will not exceed RMB13.0 million and RMB15.0 million, respectively.

The actual transaction amounts for the year ended December 31, 2022 and the six months ended June 30, 2023 under the Existing Master Property Agency Services Agreement were RMB6.2 million and nil, respectively.

(ii) *Existing Master Parking Lots Entrusted Management Services Agreement*

Principal terms

Date: June 22, 2022

Parties: (a) The Company; and
(b) Lushang Freda.

Subject matter: Under the Existing Master Parking Lots Entrusted Management Services Agreement, the Group has agreed to provide operational management services (the “**Parking Lots Entrusted Management Services**”) to certain parking lots owned by Lushang Freda Associates. Under such arrangement, the Group is entrusted with full authority to operate and manage the parking lots and entitled to receive the income generated from the Parking Lots Entrusted Management Services and will pay to Lushang Freda Associates an amount equal to a pre-agreed percentage of the income generated from the Parking Lots Entrusted Management Services (after deducting the operating costs).

Relevant members of both parties will enter into separate agreements setting out the specific terms and conditions based on the principles provided in the Existing Master Parking Lots Entrusted Management Services Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Term:	Subject to compliance with the Listing Rules, from the Listing Date to December 31, 2023 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.
Pricing policy:	The fees to be paid by the Group shall be determined on arm's length basis with reference to (i) the prevailing market price for similar services in the vicinity of the projects taking into account the location and type of the parking lots; (ii) the estimated operating costs under the operational management of the Group; and (iii) the estimated total revenue generated from the Parking Lots Entrusted Management Services.
Payment arrangement:	The payment mechanism for all fees and payments pursuant to the Existing Master Parking Lots Entrusted Management Services Agreement should be specified in the relevant specific agreement to be entered into by the parties.

Existing annual caps

The existing annual caps for the year ended December 31, 2022 and for the year ending December 31, 2023 will not exceed RMB1.8 million and RMB2.2 million, respectively.

The actual transaction amounts for the year ended December 31, 2022 and the six months ended June 30, 2023 under the Existing Master Parking Lots Entrusted Management Services Agreement were RMB0.8 million and nil, respectively.

On November 20, 2023 (after trading hours), Lushang Freda, Shandong Commercial and the Company entered into the (i) Supplemental Master Property Agency Services Agreement and (ii) Supplemental Master Parking Lots Entrusted Management Services Agreement, pursuant to which Lushang Freda (as novator) has agreed to novate its rights and liabilities under the (i) Existing Master Property Agency Services Agreement and (ii) Existing Master Parking Lots Entrusted Management Services Agreement to Shandong Commercial (as novatee), the principal terms of which are set out below:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(i) *Supplemental Master Property Agency Services Agreement*

Date: November 20, 2023

Parties: (a) Lushang Freda;
(b) Shandong Commercial; and
(c) the Company.

Subject matter: Under the Existing Master Property Agency Services Agreement, the Group has agreed to provide the Property Agency Services to Lushang Freda Associates.

Pursuant to the Supplemental Master Property Agency Services Agreement, Lushang Freda has novated all its rights and liabilities under the Existing Master Property Agency Services Agreement to Shandong Commercial, i.e. the Group will provide the Property Agency Services in respect of the sales of the unsold properties and car parks to Shandong Commercial Associates with effect from the Effective Date.

Term: Subject to compliance with the Listing Rules, from the Effective Date to December 31, 2023 (both days inclusive).

Save for the above change of parties to the Existing Master Property Agency Services Agreement, all other terms of the Existing Master Property Agency Services Agreement remain unchanged.

(ii) *Supplemental Master Parking Lots Entrusted Management Services Agreement*

Date: November 20, 2023

Parties: (a) Lushang Freda;
(b) Shandong Commercial; and
(c) the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subject matter: Under the Existing Master Parking Lots Entrusted Management Services Agreement, the Group has agreed to provide the Parking Lots Entrusted Management Services to certain parking lots owned by Lushang Freda Associates.

Pursuant to the Supplemental Master Parking Lots Entrusted Management Services Agreement, Lushang Freda has novated all its rights and liabilities under the Existing Master Parking Lots Entrusted Management Services Agreement to Shandong Commercial, i.e. the Group will provide the Parking Lots Entrusted Management Services to Shandong Commercial Associates with effect from the Effective Date.

Term: Subject to compliance with the Listing Rules, from the Effective Date to December 31, 2023 (both days inclusive).

Save for the above change of parties to the Existing Master Parking Lots Entrusted Management Services Agreement, all other terms of the Existing Master Parking Lots Entrusted Management Services Agreement remain unchanged.

Our view on the Material Change of Terms

To assess the fairness and reasonableness of the material change of terms in the Supplemental Master Property Agency Services Agreement and Supplemental Master Parking Lots Entrusted Management Services Agreement, we have obtained and reviewed the Existing Master Property Agency Services Agreement and Existing Master Parking Lots Entrusted Management Services Agreement and we have also discussed with the Company's in regards to the Disposal and understand that it is a necessary consequential act to enter into the Supplemental Master Property Agency Services Agreement and Supplemental Master Parking Lots Entrusted Management Services Agreement.

Having considered that the above, we are of the view that the material change of terms in the Supplemental Master Property Agency Services Agreement and Supplemental Master Parking Lots Entrusted Management Services Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. RENEWAL OF ANNUAL CAPS

(i) New Master Engineering Services Agreement

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

The Group has been engaged by Lushang Freda Associates and Shandong Commercial Associates to provide the Engineering Services since 2020. It is expected that the Group will continue to do so in its ordinary and usual course of business earning revenue, thus it is in the interests of the Company and the Shareholders as a whole. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial under the New Master Engineering Services Agreement.

We have considered (i) the principal businesses of the Group; and (ii) the Group had commenced business relationship with Lushang Freda Associates and Shandong Commercial Associates since 2020, and had developed a mutual and in-depth understanding of each other's business operations and shared a similar service philosophy, we concur with the Directors' view that the provision of Engineering Services to Lushang Freda Associates and Shandong Commercial Associates is in the ordinary and usual course of business and will further generate revenue, and are in the interests of the Company and the Shareholders as a whole.

Principal terms

Date: November 20, 2023

Parties: (a) The Company; and
(b) Shandong Commercial.

Subject matter: Under the New Master Engineering Services Agreement, the Group has agreed to provide the Engineering Services primarily to Shandong Commercial Associates. As Lushang Freda Associates still require the Group to provide the Engineering Services for the commercial properties held by them for their own use after the Disposal, the Group will continue to provide the Engineering Services to Lushang Freda Associates in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Relevant members of both parties will enter into separate agreements setting out the specific terms and conditions based on the principles provided in the New Master Engineering Services Agreement.

- Term: Subject to compliance with the Listing Rules, from January 1, 2024 to December 31, 2025 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.
- Pricing policy: The fees to be charged for the Engineering Services shall be determined on arm's length negotiations with reference to (i) the size, location and positioning of the projects; (ii) the nature, complexity and scope of services; (iii) the anticipated operational costs, including but not limited to labor costs, administration costs and costs of materials used for providing the services; (iv) the fees for similar services and similar types of projects in the market; and (v) the prices charged by the Group for providing comparable services to Independent Third Parties.
- Payment arrangement: The payment mechanism for all fees and payments pursuant to the New Master Engineering Services Agreement should be specified in the relevant specific agreement to be entered into by the parties.

Assessment on the principal terms

In order to assess the fairness and reasonableness of the terms of the New Master Engineering Services Agreement, we have obtained and reviewed the Existing Master Engineering Services Agreement, Supplemental Master Engineering Services Agreement and the New Master Engineering Services Agreement. The price and terms of the individual service agreements in respect of the Engineering Services to be entered into pursuant to the New Master Engineering Services Agreement will be determined in the ordinary course of business, on normal commercial terms, negotiated with reference to (i) the size, location and positioning of the projects; (ii) the nature, complexity and scope of services; (iii) the anticipated operational costs, including but not limited to labor costs, administration costs and costs of materials used for providing the services; (iv) the fees for similar services and similar types of projects in the market; and (v) the prices charged by the Group for providing comparable services to Independent Third Parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have discussed with the Management and understood that in order to ensure the price terms are in accordance with the New Master Engineering Services Agreement and with reference to prevailing market prices of similar services, before entering into any individual agreement, the business development department will refer to (i) at least three other contemporaneous transactions of the Group of similar services (in terms of nature, size and location of the properties, the scope of services and the anticipated operational costs) provided to Independent Third Parties and (ii) prices charged by at least three other property management companies in the PRC (if available) of comparable transactions with Independent Third Parties collected through, among others, information exchange within the industry and publicly available tender information. We further understand that after collecting the relevant information, the business development department of the Group would determine a price to be offered to Lushang Freda Associates and Shandong Commercial Associates which will not be less than the prices offered by the Group to Independent Third Parties.

We have obtained and reviewed the complete project list under the Existing Master Engineering Services Agreement for the year ended December 31, 2022 and the six months ended June 30, 2023. We have, on a random basis, selected three samples between the Group and Lushang Freda Associates and Shandong Commercial Associates. We have obtained and reviewed relevant contracts of the selected samples and samples contracts of the other contemporaneous transactions of the Group of similar services (in terms of nature, size and location of the properties, the scope of services and the anticipated operational costs) provided to Independent Third Parties. We noted that the determination of the price terms were executed in accordance to the above procedures.

Having considered that the above, we are of the view that the terms of the New Master Engineering Services Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Proposed Annual Caps

The existing annual caps under the Existing Master Engineering Services Agreement (as amended and supplemented by the Supplemental Master Engineering Services Agreement and subject to the approval by the Independent Shareholders at the EGM) for the year ended December 31, 2022 and the year ending December 31, 2023 are as follows:

	For the year ended December 31, 2022 <i>(RMB'million)</i>	For the year ending December 31, 2023 <i>(RMB'million)</i>
Lushang Freda Associates	64.4	72.0
Shandong Commercial Associates	7.6	87.0
Total	72.0	159.0

The historical transaction amounts under the Existing Master Engineering Services Agreement for the year ended December 31, 2022, the six months ended June 30, 2023 and ten months ended October 31, 2023 were as follows:

	For the year ended December 31, 2022 <i>(RMB'million)</i>	For the six months ended June 30, 2023 <i>(RMB'million)</i>	For the ten months ended October 31, 2023 <i>(RMB'million)</i>
Lushang Freda Associates	60.3	10.7	11.2
Shandong Commercial Associates	1.3	32.1	59.1
Total	61.6	42.8	70.3

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The proposed annual caps under the New Master Engineering Services Agreement for the two years ending December 31, 2025 are as follows:

	For the year ending December 31, 2024 <i>(RMB'million)</i>	For the year ending December 31, 2025 <i>(RMB'million)</i>
Lushang Freda Associates	10.0	10.0
Shandong Commercial Associates	100.0	110.0
Total	110.0	120.0

Our view on the Proposed Annual Caps

As disclosed in the Letter from the Board, the proposed annual caps were determined with reference to, among other things, (i) the historical transaction amounts and growth trend with an expected annual growth rate of 10-15% (based on the aggregate of the historical transaction amount with Lushang Freda Associates for the ten months ended October 31, 2023, being RMB11.2 million, and the revised annual cap with Shandong Commercial Associates for the year ending December 31, 2023, being RMB87.0 million); (ii) the estimated revenue to be recognized in relation to the Engineering Services provided by the Group pursuant to the existing contracts with Lushang Freda Associates and Shandong Commercial Associates; (iii) the estimated service fee to be charged for the Engineering Services, which is based on the historical service fee charged and the expected increase in operational costs associated with the Engineering Services, including but not limited to labor costs, administration costs and costs of materials used for providing the services; and (iv) the estimated number of projects to be developed or owned by Lushang Freda Associates and Shandong Commercial Associates for which the Group anticipates to provide the Engineering Services for the two years ending December 31, 2025 based on the investment plan of Lushang Freda Associates and the development plan of Shandong Commercial Associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To assess the fairness and reasonableness of the Engineering Services proposed annual caps for the years ending December 31, 2024 and 2025, we have obtained and reviewed the calculation for the proposed annual caps provided by the Management. Further, we have discussed with the Management the progress of the existing projects as well as the estimated number of projects to be developed or owned by Lushang Freda Associates and Shandong Commercial Associates for which the Group anticipates to provide the Engineering Services based on the investment plan of Lushang Freda Associates and the development plan of Shandong Commercial Associates in the calculation of the proposed annual caps. We have also discussed the accounting policy of the revenue recognition of the Engineering Services, and we noted that the outstanding contract value of the projects was generally in line with the progress of the projects.

It is also noted that as most of the entities with Lushang Freda Associates had been transferred to Shandong Commercial Associates after the Disposal and therefore the proposed annual caps with Lushang Freda Associates will significantly decrease and are determined with reference to the historical transaction amount for the ten months ended October 31, 2023. We are also given to understand that the Management expects approximately 10-15% annual growth of the proposed annual caps for the years 2024 and 2025 (based on the aggregate of the historical transaction amount with Lushang Freda Associates for the ten months ended October 31, 2023, being RMB11.2 million, and the revised annual cap with Shandong Commercial Associates for the year ending December 31, 2023, being RMB87.0 million) and we noted that it is generally in line with the revenue growth in previous years. In addition, we have also reperformed the calculation of the proposed annual caps provided by the Management and no irregularity was noted.

Taking into account the above, we are of the view that the proposed annual caps are fair and reasonable and is in the interests of the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) New Master Design Services Agreement

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

The Group has been engaged by Shandong Commercial Associates and Lushang Freda Associates to provide the Design Services since 2021. It is expected that the Group will continue to do so in its ordinary and usual course of business earning revenue, thus it is in the interests of the Company and the Shareholders as a whole. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial under the New Master Design Services Agreement.

We have considered (i) the principal businesses of the Group; and (ii) the Group had commenced business relationship with Lushang Freda Associates and Shandong Commercial Associates since 2021, and had developed a mutual and in-depth understanding of each other's business operations and shared a similar service philosophy, we concur with the Directors' view that the provision of Design Services to Lushang Freda Associates and Shandong Commercial Associates is in the ordinary and usual course of business of the Group and will further generate revenue, and are in the interests of the Company and the Shareholders as a whole.

Principal terms

Date: November 20, 2023

Parties: (a) The Company; and
(b) Shandong Commercial.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Subject matter: Under the New Master Design Services Agreement, the Group has agreed to provide the Design Services primarily to Shandong Commercial Associates. As Lushang Freda Associates still require the Group to provide the Design Services for the commercial properties held by them for their own use after the Disposal, the Group will continue to provide the Design Services to Lushang Freda Associates in this regard.
- Relevant members of both parties will enter into separate agreements setting out the specific terms and conditions based on the principles provided in the New Master Design Services Agreement.
- Term: Subject to compliance with the Listing Rules, from January 1, 2024 to December 31, 2025 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.
- Pricing policy: The fees to be charged for the Design Services shall be determined on arm's length negotiations with reference to (i) the nature, complexity and scope of services; (ii) the anticipated operational costs, including but not limited to labor costs, administration costs and costs of materials used for providing the services; (iii) the fees for similar services and similar types of projects in the market; and (iv) the prices charged by the Group for providing comparable services to Independent Third Parties.
- Payment arrangement: The payment mechanism for all fees and payments pursuant to the New Master Design Services Agreement should be specified in the relevant specific agreement to be entered into by the parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Assessment on the principal terms

In order to assess the fairness and reasonableness of the terms of the New Master Design Services Agreement, we have obtained and reviewed the Existing Master Design Services Agreement, the Supplemental Master Design Services Agreement and the New Master Design Services Agreement. The price and terms of the individual service agreements in respect of the Design Services to be entered into pursuant to the New Master Design Services Agreement will be determined in the ordinary course of business, on normal commercial terms, negotiated with reference to (i) the nature, complexity and scope of services; (ii) the anticipated operational costs, including but not limited to labor costs, administration costs and costs of materials used for providing the services; (iii) the fees for similar services and similar types of projects in the market; and (iv) the prices charged by the Group for providing comparable services to Independent Third Parties.

We have discussed with the Management and understood that in order to ensure the price terms are in accordance with the New Master Design Services Agreement and with reference to prevailing market prices of similar services, before entering into any individual agreement, the business development department will refer to (i) at least three other contemporaneous transactions of the Group of similar services (in terms of nature, size and location of the properties, the scope of services and the anticipated operational costs) provided to Independent Third Parties and (ii) prices charged by at least three other property management companies in the PRC (if available) of comparable transactions with Independent Third Parties collected through, among others, information exchange within the industry and publicly available tender information. We further understand that after collecting the relevant information, the business development department of the Group would determine a price to be offered to Lushang Freda Associates and Shandong Commercial Associates which will not be less than the prices offered by the Group to Independent Third Parties.

We have obtained and reviewed the complete project list under the Existing Master Design Services Agreement for the year ended December 31, 2022 and the six months ended June 30, 2023. We have, on a random basis, selected three samples between the Group and Shandong Commercial Associates and Lushang Freda Associates. We have obtained and reviewed relevant contracts of the selected samples and samples contracts of the other contemporaneous transactions of the Group of similar services (in terms of nature, size and location of the properties, the scope of services and the anticipated operational costs) provided to Independent Third Parties. We noted that the determination of the price terms were executed in accordance to the above procedures.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered that the above, we are of the view that the terms of the New Master Design Services Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Proposed Annual Caps

The existing annual caps under the Existing Master Design Services Agreement (as amended by the Supplemental Master Design Services Agreement and subject to the approval by the Independent Shareholders at the EGM) for the year ended December 31, 2022 and for the year ending December 31, 2023 are as follows:

	For the year ended December 31, 2022 (RMB'million)	For the year ending December 31, 2023 (RMB'million)
Lushang Freda Associates	53.9	70.0
Shandong Commercial Associates	14.5	36.0
Total	68.4	106.0

The historical transaction amounts under the Existing Master Design Services Agreement for the year ended December 31, 2022, the six months ended June 30, 2023 and ten months ended October 31, 2023 were as follows:

	For the year ended December 31, 2022 (RMB'million)	For the six months ended June 30, 2023 (RMB'million)	For the ten months ended October 31, 2023 (RMB'million)
Lushang Freda Associates	43.5	2.7	3.4
Shandong Commercial Associates	7.0	3.3	11.4
Total	50.5	6.0	14.8

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The proposed annual caps under the New Master Design Services Agreement for the two years ending December 31, 2025 are as follows:

	For the year ending December 31, 2024 <i>(RMB'million)</i>	For the year ending December 31, 2025 <i>(RMB'million)</i>
Lushang Freda Associates	4.0	5.0
Shandong Commercial Associates	42.0	48.0
Total	46.0	53.0

Our view on the Proposed Annual Caps

As disclosed in the Letter from the Board, the proposed annual caps were determined with reference to, among other things, (i) the historical transaction amounts with an expected annual growth rate of 10-15% (based on the aggregate of the historical transaction amount with Lushang Freda Associates for the ten months ended October 31, 2023, being RMB3.4 million, and the revised annual cap with Shandong Commercial Associates for the year ending December 31, 2023, being RMB36.0 million); (ii) the estimated revenue of the Design Services to be recognized by the Group pursuant to the existing contracts with Lushang Freda Associates and Shandong Commercial Associate; (iii) the estimated service fee to be charged for the Design Services, which is based on the historical service fee charged and the expected increase in operational costs associated with the Design Services, including but not limited to labor costs, administration costs and costs of materials used for providing the services; and (iv) the estimated number of projects to be developed or owned by Lushang Freda Associates and Shandong Commercial Associates for which the Group anticipates the Group may be engaged to provide the Design Services for the two years ending December 31, 2025.

To assess the fairness and reasonableness of the Design Service proposed annual caps for the years ending December 31, 2024 and 2025, we have obtained and reviewed the calculation for the proposed annual caps provided by the Management. Further, we have discussed with the Management the progress of the existing projects as well as the estimated number of projects to be developed or owned by Lushang Freda Associates and Shandong Commercial Associates for which the Group anticipates to provide the Design Services in the calculation of the proposed annual caps. We have also discussed the accounting policy of the revenue recognition of the Design Services, and we noted that the outstanding contract value of the projects was generally in line with the progress of the projects.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

It is also noted that as most of the entities with Lushang Freda Associates had been transferred to Shandong Commercial Associates after of the Disposal and therefore the proposed annual caps with Lushang Freda Associates will significantly decrease and are determined with reference to the historical transaction amount for the ten months ended October 31, 2023. We are also given to understand that the Management expects approximately 10-15% annual growth of the proposed annual caps for the years 2024 and 2025 (based on the aggregate of the historical transaction amount with Lushang Freda Associates for the ten months ended October 31, 2023, being RMB3.4 million, and the revised annual cap with Shandong Commercial Associates for the year ending December 31, 2023, being RMB36.0 million) and we noted that it is generally in line with the revenue growth in previous years. In addition, we have also reformed the calculation of the proposed annual caps provided by the Management and no irregularity was noted.

Taking into account the above, we are of the view that the proposed annual caps are fair and reasonable and is in the interests of the Shareholders as a whole.

(iii) New Master Property Agency Services Agreement

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

The Group has been engaged by Lushang Freda Associates to provide the Property Agency Services since 2018. It is expected that the Group will continue to provide the Property Agency Services to Shandong Commercial Associates after the Disposal in its ordinary and usual course of business earning revenue, thus it is in the interests of the Company and the Shareholders as a whole. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial under the New Master Property Agency Services Agreement.

We have considered (i) the principal businesses of the Group; and (ii) the Group had commenced business relationship with Lushang Freda Associates since 2018, and had developed a mutual and in-depth understanding of each other's business operations and shared a similar service philosophy, we are of the view that the provision of Property Agency Services is in the ordinary and usual course of business of the Group and will further generate revenue, and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Principal terms

- Date: November 20, 2023
- Parties: (a) The Company; and
(b) Shandong Commercial.
- Subject matter: Under the New Master Property Agency Services Agreement, the Group has agreed to provide the Property Agency Services in respect of the sales of the unsold properties and car parks to Shandong Commercial Associates.
- Relevant members of both parties will enter into separate agreements setting out the specific terms and conditions based on the principles provided in the New Master Property Agency Services Agreement.
- Term: Subject to compliance with the Listing Rules, from January 1, 2024 to December 31, 2025 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.
- Pricing policy: The fees to be charged for the Property Agency Services shall amount to a percentage of the sales price of the unsold properties and car parks, and will be determined on arm's length negotiations with reference to (i) the prevailing market price for similar services in the vicinity of the project taking into account the size, type and location of the unsold properties and car parks; and (ii) the terms offered to Independent Third Parties by Shandong Commercial Associates for similar services. The terms offered to the Group shall not be less favourable to the Group than those offered to Independent Third Parties.
- Payment arrangement: The payment mechanism for all fees and payments pursuant to the New Master Property Agency Services Agreement should be specified in the relevant specific agreement to be entered into by the parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Assessment on the principal terms

In order to assess the fairness and reasonableness of the terms of the New Master Property Agency Services Agreement, we have obtained and reviewed the Existing Master Property Agency Services Agreement and the New Master Property Agency Services Agreement. The price and terms of the individual service agreements in respect of the Property Agency Services to be entered into pursuant to the New Master Property Agency Services Agreement will be determined in the ordinary course of business, on normal commercial terms, negotiated with reference to (i) the prevailing market price for similar services in the vicinity of the project taking into account the size, type and location of the unsold properties and car parks; and (ii) the terms offered to Independent Third Parties by Shandong Commercial Associates for similar services. The terms offered to the Group shall not be less favourable to the Group than those offered to Independent Third Parties.

We have discussed with the Management and understood that the Group provides such Property Agency Services solely to Lushang Freda Associates since 2018. In order to ensure the price terms offered to the Group shall not be less favourable to the Group than those offered to Independent Third Parties by Lushang Freda Associates, the Group will check the prevailing market price for similar services in the vicinity of the project taking into account the size, type and location of the unsold properties and car parks and also the terms offered by Lushang Freda Associates to Independent Third Parties property agents in respect of the same property.

We have further obtained and reviewed the complete transaction list under the Existing Master Property Agency Services Agreement for the year 2022. We have, on a random basis, selected four samples between the Group and Lushang Freda Associates. We have obtained and reviewed relevant contracts of the selected samples and noted that the commission rate offered by the Group was generally in line with the prevailing market rate.

Having considered that the above, we are of the view that the terms of the New Master Property Agency Services Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Proposed Annual Caps

The existing annual caps for the year ended December 31, 2022 and for the year ending December 31, 2023 under the Existing Master Property Agency Services Agreement will not exceed RMB13.0 million and RMB15.0 million, respectively.

The actual transaction amounts for the year ended December 31, 2022, the six months ended June 30, 2023 and the ten months ended October 31, 2023 under the Existing Master Property Agency Services Agreement were RMB6.2 million, nil and nil, respectively.

After the expiry of the contracts with Lushang Freda Associates by the end of December 31, 2022, the Group had been negotiating for new contracts with Lushang Freda Associates. However, up to the Latest Practicable Date, no contract has been signed with any Lushang Freda Associates and therefore, the actual transaction amount was nil since January 1, 2023.

The Group subsequently understands from Lushang Freda and Shandong Commercial that, as a result of the business restructuring and operational changes in connection with the Disposal, Lushang Freda Associates and/or Shandong Commercial Associates (as the case may be) had been engaging in direct sales of unsold properties and car parks. However, going forward, the parties expect that the Group will resume the provision of the Property Agency Services to Shandong Commercial Associates pursuant to the Supplemental Master Property Agency Services Agreement and the New Master Property Agency Services Agreement.

The proposed annual caps under the New Master Property Agency Services Agreement for the two years ending December 31, 2025 are RMB6.2 million and RMB6.2 million, respectively.

Our view on the Proposed Annual Caps

As disclosed in the Letter from the Board, the proposed annual caps were determined with reference to, among other things, (i) the historical transaction amounts (in particular, although there was no transaction incurred since January 1, 2023 and up to the Latest Practicable Date, for prudence's sake, the determination of proposed annual caps based on the historical transaction amount for the year ended December 31, 2022 could maintain flexibility for provision of services during the two years ending December 31, 2025); (ii) the estimated number and property value of the properties which will require the Property Agency Services for the two years ending December 31, 2025 based on the existing projects available for sale and projects under development and land bank of Lushang Freda Associates (prior to the Disposal) as of December 31, 2022; (iii) the prevailing market rate for the provision of similar property agency services; and (iv) the capacity of the Group in providing the Property Agency Services for the two years ending December 31, 2025.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To assess the fairness and reasonableness of the Property Agency Services proposed annual caps for the years ending December 31, 2024 and 2025, we have discussed with the Management and understood that Lushang Freda Associates engaged the Group to provide Property Agency Services on an ad-hoc basis. Although there was no transaction incurred for the ten months ended October 31, 2023, for prudence sake, the Management estimates the proposed annual caps with reference to historical transaction amount of RMB6.2 million in 2022 in order to maintain the flexibility to provide such services to Shandong Commercial Associates in the two years ending December 31, 2025. Taking into account the above, we are of the view that the proposed annual caps are fair and reasonable and is in the interests of the Shareholders as a whole.

(iv) **New Master Parking Lots Entrusted Management Services Agreement**

Reasons for and benefits of entering into the New Master Parking Lots Entrusted Management Services Agreement

The Group has been engaged by Lushang Freda Associates to provide the Parking Lots Entrusted Management Services since 2018. It is expected that the Group will continue to provide the Parking Lots Entrusted Management Services to Shandong Commercial Associates after the Disposal in its ordinary and usual course of business earning revenue, thus it is in the interests of the Company and the Shareholders as a whole. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial under the New Master Parking Lots Entrusted Management Services Agreement.

We have further considered (i) the principal businesses of the Group; and (ii) the Group had commenced business relationship with Lushang Freda Associates since 2018, and had developed a mutual and in-depth understanding of each other's business operations and shared a similar service philosophy, we are of the view that the provision of Parking Lots Entrusted Management Services is in the ordinary and usual course of business of the Group and will further generate revenue, and are in the interests of the Company and the Shareholders as a whole.

Principal terms

Date: November 20, 2023

Parties: (a) The Company; and
(b) Shandong Commercial.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Subject matter: Under the New Master Parking Lots Entrusted Management Services Agreement, the Group has agreed to provide the Parking Lots Entrusted Management Services to Shandong Commercial Associates. Under such arrangement, the Group is entrusted with full authority to operate and manage the parking lots and entitled to receive the income generated from the Parking Lots Entrusted Management Services and will pay to Shandong Commercial Associates an amount equal to a pre-agreed percentage of the income generated from the Parking Lots Entrusted Management Services (after deducting the operating costs).
- Relevant members of both parties will enter into separate agreements setting out the specific terms and conditions based on the principles provided in the New Master Parking Lots Entrusted Management Services Agreement.
- Term: Subject to compliance with the Listing Rules, from January 1, 2024 to December 31, 2025 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.
- Pricing policy: The fees to be paid by the Group shall be determined on arm's length basis with reference to (i) the prevailing market price for similar services in the vicinity of the projects taking into account the location and type of the parking lots; (ii) the estimated operating costs under the operational management of the Group; and (iii) the estimated total revenue generated from the Parking Lots Entrusted Management Services.
- Payment arrangement: The payment mechanism for all fees and payments pursuant to the New Master Parking Lots Entrusted Management Services Agreement should be specified in the relevant specific agreement to be entered into by the parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Assessment on the principal terms

In order to assess the fairness and reasonableness of the terms of the New Master Parking Lots Entrusted Management Services Agreement, we have obtained and reviewed the Existing Master Parking Lots Entrusted Management Services Agreement and the New Master Parking Lots Entrusted Management Services Agreement. The price and terms of the individual service agreements in respect of the Parking Lots Entrusted Management Services to be entered into pursuant to the New Master Parking Lots Entrusted Management Services Agreement will be determined in the ordinary course of business, on normal commercial terms, negotiated with reference to (i) the prevailing market price for similar services in the vicinity of the projects taking into account the location and type of the parking lots; (ii) the estimated operating costs under the operational management of the Group; and (iii) the estimated total revenue generated from the Parking Lots Entrusted Management Services.

We have discussed with the Management and understood that the Group provides such Parking Lots Entrusted Management Services solely to Lushang Freda Associates since 2018. In order to ensure the Group generates profits under the Existing Master Parking Lots Entrusted Management Services Agreement, the Group will check the prevailing market price for similar services in the vicinity of the projects taking into account the location and type of the parking lots and estimate the total revenue and related operating costs. Furthermore, it is noted that the fee to be paid by the Group is determined on a pre-agreed percentage of the income generated after deducting the operating costs, in other words, the Group will only pay a percentage out of its operating profit and therefore, the transaction executed under such manner will ensure the Group to further generate revenue as well as profit.

We have further obtained and reviewed the complete transaction list under the Existing Master Parking Lots Entrusted Management Services Agreement for the year 2022. We have, on a random basis, selected two samples between the Group and Lushang Freda Associates. We have obtained and reviewed relevant contract of the selected samples and noted that the terms were executed in accordance to the above procedures.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered that the above, we are of the view that the terms of the New Master Parking Lots Entrusted Management Services Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Proposed Annual Caps

The existing annual caps for the year ended December 31, 2022 and for the year ending December 31, 2023 under the Existing Master Parking Lots Entrusted Management Services Agreement will not exceed RMB1.8 million and RMB2.2 million, respectively.

The actual transaction amounts for the year ended December 31, 2022, the six months ended June 30, 2023 and the ten months ended October 31, 2023 under the Existing Master Parking Lots Entrusted Management Services Agreement were RMB0.8 million, nil and nil, respectively.

After the expiry of the contracts with Lushang Freda Associates by the end of December 31, 2022, the Group had been negotiating for new contracts with Lushang Freda Associates. However, up to the Latest Practicable Date, no contract has been signed with any Lushang Freda Associates and therefore, the actual transaction amount was nil since January 1, 2023.

The Group subsequently understands from Lushang Freda and Shandong Commercial that, as a result of the business restructuring and operational changes in connection with the Disposal, Lushang Freda Associates and/or Shandong Commercial Associates (as the case may be) had been operating and managing the parking lots on their own. However, going forward, the parties expect that the Group will resume the provision of the Parking Lots Entrusted Management Services to Shandong Commercial Associates pursuant to the Supplemental Master Parking Lots Entrusted Management Services Agreement and the New Master Parking Lots Entrusted Management Services Agreement.

The proposed caps under the New Master Parking Lots Entrusted Management Services Agreement for the two years ending December 31, 2025 are RMB0.8 million and RMB0.8 million, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our view on the Proposed Annual Caps

As disclosed in the Letter from the Board, the proposed annual caps were determined with reference to, among other things, (i) the historical transaction amounts (in particular, although there was no transaction incurred since January 1, 2023 and up to the Latest Practicable Date, for prudence's sake, the determination of proposed annual caps based on the historical transaction amount for the year ended December 31, 2022 could maintain flexibility for provision of services during the two years ending December 31, 2025); (ii) the prevailing market price for similar services in the vicinity of the parking lots projects, having taken into account the location and type of the parking lots; and (iii) the capacity of the Group in providing the Parking Lots Entrusted Management Services for the two years ending December 31, 2025.

To assess the fairness and reasonableness of the Parking Lots Entrusted Management Services proposed annual caps for the years ending December 31, 2024 and 2025, we have discussed with the Management and understood that Lushang Freda Associates engaged the Group to provide Parking Lots Entrusted Management Services on an ad-hoc basis. Although there was no transaction incurred for the ten months ended October 31, 2023, for prudence sake, the Management estimates the proposed annual caps with reference to historical transaction amount of RMB0.8 million in 2022 in order to maintain the flexibility to provide such services to Shandong Commercial Associates in the two years ending December 31, 2025. Taking into account the above, we are of the view that the proposed annual caps are fair and reasonable and is in the interests of the Shareholders as a whole.

(v) New Master Property Management and Related Services Agreement

Reasons for and benefits of entering into the New Master Property Management and Related Services Agreement

The Group has been engaged by Lushang Freda Associates and/or Shandong Commercial Associates to provide the Property Management and Related Services since 2006. It is expected that the Group will continue to do so in its ordinary and usual course of business earning revenue, thus it is in the interests of the Company and the Shareholders as a whole. For the avoidance of doubt, there is no deposit arrangement between the Group and Lushang Freda Associates and/or Shandong Commercial under the New Master Property Management and Related Services Agreement.

We have considered (i) the principal businesses of the Group; and (ii) the Group had commenced business relationship with Lushang Freda Associates and Shandong Commercial Associates since 2006, and had developed a mutual and in-depth understanding of each other's business operations and shared a similar service philosophy, we are of the view that the provision of Property Management and Related Services is in the ordinary and usual course of business of the Group and will further generate revenue, and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Principal terms

Date: November 20, 2023

Parties: (a) The Company; and
(b) Shandong Commercial.

Subject matter: Under the New Master Property Management and Related Services Agreement, the Group has agreed to provide the Property Management and Related Services primarily to Shandong Commercial Associates.

As Lushang Freda Associates still require the Group to provide the Property Management and Related Services for the commercial properties held by them for their own use after the Disposal, the Group will continue to provide the Property Management and Related Services to Lushang Freda Associates in this regard.

Relevant members of both parties will enter into separate agreements setting out the specific terms and conditions based on the principles provided in the New Master Property Management and Related Services Agreement.

Term: Subject to compliance with the Listing Rules, from January 1, 2024 to December 31, 2025 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.

Pricing policy: The fees to be charged for the Property Management and Related Services shall be determined on arm's length negotiations with reference to (i) the size, location and positioning of the properties; (ii) the scope of services to be provided; (iii) the anticipated operational costs (including but not limited to labor costs, administration costs and costs of materials); (iv) the fees for similar services and similar types of projects in the market; and (v) the prices charged by the Group for providing comparable services to Independent Third Parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Payment arrangement: The payment mechanism for all fees and payments pursuant to the New Master Property Management and Related Services Agreement should be specified in the relevant specific agreement to be entered into by the parties.

Assessment on the principal terms

In order to assess the fairness and reasonableness of the terms of the New Master Property Management and Related Services Agreement, we have obtained and reviewed the Existing Master Property Management and Related Services Agreement, the Supplemental Master Property Management and Related Services Agreement and the New Master Property Management and Related Services Agreement. The price and terms of the individual service agreements in respect of the Property Management and Related Services to be entered into pursuant to the New Master Property Management and Related Services Agreement will be determined in the ordinary course of business, on normal commercial terms, negotiated with reference to (i) the size, location and positioning of the properties; (ii) the scope of services to be provided; (iii) the anticipated operational costs (including but not limited to labor costs, administration costs and costs of materials); (iv) the fees for similar services and similar types of projects in the market; and (v) the prices charged by the Group for providing comparable services to Independent Third Parties.

We have discussed with the Management and understood that in order to ensure the price terms are in accordance with the New Master Property Management and Related Services Agreement and with reference to prevailing market prices of similar services, before entering into any individual agreement, the business development department will refer to (i) at least three other contemporaneous transactions of the Group of similar services (in terms of nature, size and location of the properties, the scope of services and the anticipated operational costs) provided to Independent Third Parties and (ii) prices charged by at least three other property management companies in the PRC (if available) of comparable transactions with Independent Third Parties collected through, among others, information exchange within the industry and publicly available tender information. We further understand that after collecting the relevant information, the business development department of the Group would determine a price to be offered to Lushang Freda Associates and Shandong Commercial Associates which will not be less than the prices offered by the Group to Independent Third Parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have further obtained and reviewed the complete project list under the Existing Master Property Management and Related Services Agreement for the year ended December 31, 2022 and the six months ended June 30, 2023. We have, on a random basis, selected five samples between the Group and Shandong Commercial Associates and Lushang Freda Associates. We have obtained and reviewed relevant contract of the selected samples and samples contracts of the other contemporaneous transactions of the Group of similar services (in terms of nature, size and location of the properties, the scope of services and the anticipated operational costs) provided to Independent Third Parties. We noted that the determination of the price terms were executed in accordance to the above procedures.

Having considered that the above, we are of the view that the terms of the New Master Property Management and Related Services Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Proposed Annual Caps

The existing annual caps under the Existing Master Property Management and Related Services Agreement (as amended by the Supplemental Master Property Management and Related Services Agreement and subject to the approval by the Independent Shareholders at the EGM) for the year ended December 31, 2022 and for the year ending December 31, 2023 are as follows:

	For the year ended December 31, 2022 (RMB' million)	For the year ending December 31, 2023 (RMB' million)
Lushang Freda Associates	78.0	82.4
Shandong Commercial Associates	14.0	52.0
Total	92.0	134.4

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The historical transaction amounts under the Existing Master Property Management and Related Services Agreement for the year ended December 31, 2022, the six months ended June 30, 2023 and ten months ended October 31, 2023 were as follows:

	For the year ended December 31, 2022 <i>(RMB'million)</i>	For the six months ended June 30, 2023 <i>(RMB'million)</i>	For the ten months ended October 31, 2023 <i>(RMB'million)</i>
Lushang Freda Associates	53.2	14.1	16.5
Shandong Commercial Associates	13.2	18.8	35.8
Total	66.4	32.9	52.3

The proposed annual caps under the New Master Property Management and Related Services Agreement for the two years ending December 31, 2025 are as follows:

	For the year ending December 31, 2024 <i>(RMB'million)</i>	For the year ending December 31, 2025 <i>(RMB'million)</i>
Lushang Freda Associates	5.0	6.0
Shandong Commercial Associates	75.0	86.0
Total	80.0	92.0

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

- (i) the historical transaction amount with an expected annual growth rate of 10-15% (based on the aggregate of the historical transaction amount with Lushang Freda Associates for the ten months ended October 31, 2023, being RMB16.5 million, and the revised annual cap with Shandong Commercial Associates for the year ending December 31, 2023, being RMB52.0 million);

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- (ii) the estimated revenue of the Property Management and Related Services to be recognized by the Group based on the existing contracts with Lushang Freda Associates and Shandong Commercial Associates;
- (iii) the estimated increment of the GFA for properties under development and contracted sales GFA of Shandong Commercial Associates for the two years ending December 31, 2025, which is estimated based on the development plan and delivery schedule of Shandong Commercial Associates;
- (iv) in respect of the property pre-delivery services, (a) the estimated GFA and number of projects to be sold by Shandong Commercial Associates for the two years ending December 31, 2025 and the estimated number of the sales offices and display units to be established in the relevant period based on the development plan and the land bank of Lushang Freda Associates (prior to the Disposal) as of December 31, 2022, as well as their historical sales GFA and the related growth rate; (b) the bidding success rate and the estimated capacity of the Group for the two years ending December 31, 2025; and (c) the estimated service fee based on the historical service fee and the expected increase in operational costs associated with the provision of property pre-delivery services, including but not limited to labor costs, administration costs and costs of materials;
- (v) in respect of the property management services to be provided for the unsold residential properties, (a) the estimated GFA of the unsold residential properties developed or to be developed by Shandong Commercial Associates for the two years ending December 31, 2025, which is estimated based on the land bank of Lushang Freda Associates (prior to the Disposal), the total GFA under development as of December 31, 2022, as well as their development plan and delivery schedule; and (b) the estimated service fee per sq.m. which management services will be charged based on the historical service fee and the expected increase in operational costs associated with the provision of such services; and
- (vi) in respect of the property management services to be provided for the commercial properties, the estimated GFA and number of commercial properties developed or used by Shandong Commercial Associates to be managed by the Group for the two years ending December 31, 2025 as estimated based on the existing contracts with Lushang Freda Associates (prior to the Disposal) and Shandong Commercial Associates and the land bank of Lushang Freda Associates (prior to the Disposal) as of December 31, 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our view on the Proposed Annual Caps

As disclosed above, the proposed annual caps is derived based on the (i) the historical transaction amount; (ii) the estimated revenue of the Property Management and Related Services to be recognized by the Group based on the existing contracts with Lushang Freda Associates and Shandong Commercial Associates; (iii) the estimated increment of the GFA for properties under development and contracted sales GFA of Shandong Commercial Associates; (iv) property pre-delivery services; (v) property management services to be provided for the unsold residential properties; and (vi) property management services to be provided for the commercial properties.

To assess the fairness and reasonableness of the Property Management and Related Services proposed annual caps for the year ending December 31, 2024 and 2025, we have discussed with the Management that the Property Management and Related Services primarily consists of property pre-delivery services, property management services to be provided for the unsold residential properties and property management services to be provided for the commercial properties, all of which are closely correlated with the GFA for properties under development and contracted sales GFA of Shandong Commercial Associates for the two years ending December 31, 2025, which in turn is estimated based on the development plan and delivery schedule of Shandong Commercial Associates. We have further obtained and reviewed the development plan and estimated delivery schedule of Shandong Commercial Associates and we noted the proposed annual caps is generally in line with the estimated increment of the GFA for properties under development and contracted sales GFA.

It is also noted that as most of the entities with Lushang Freda Associates had been transferred to Shandong Commercial Associates after the Disposal and therefore the proposed annual caps with Lushang Freda Associates will significantly decrease and are determined with reference to the historical transaction amount for the ten months ended October 31, 2023. We are also given to understand that the Management, based on the expected increment of the GFA as discussed above and coupled with the expected increase in operational costs, expects approximately 10-15% annual growth of the proposed annual caps for the years 2024 and 2025 (based on the aggregate of the historical transaction amount with Lushang Freda Associates for the ten months ended October 31, 2023, being RMB16.5 million, and the revised annual cap with Shandong Commercial Associates for the year ending December 31, 2023, being RMB52.0 million) and we noted that it is generally in line with the revenue growth in previous years. In addition, we have also reperformed the calculation of the proposed annual caps provided by the Management and no irregularity was noted.

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Taking into account the above, we are of the view that the proposed annual caps are fair and reasonable and is in the interests of the Shareholders as a whole.

Further, according to the 2022 Annual Report, the revenue of the Group amounted to approximately RMB627.7 million for the year ended December 31, 2022. The revenue contribution from the Existing Master Engineering Services Agreement, the Existing Master Design Services Agreement, the Existing Master Property Agency Services Agreement, the Existing Master Parking Lots Entrusted Management Services Agreement and the Existing Master Property Management and Related Services Agreement for the year ended December 31, 2022, six months ended June 30, 2023 and ten months ended October 31, 2023 accounted for approximately 29.6%, 13.0% and 21.9%, respectively, of the revenue of the Group for the year ended December 31, 2022.

Based on the information currently available to the Group, and to the Group's best estimation as at the Latest Practicable Date, the Company expects that the proportion of revenue of the Group contributable to the transactions contemplated under the New Agreements out of the total revenue of the Group for each of the two years ending December 31, 2024 and December 31, 2025 will be kept at a level of around 30% and gradually decrease over time when the Group has further established its Independent Third Parties customer base. Therefore, the Company considers that the entering into of the New Agreements would not give rise to reliance issue of the Company with its controlling shareholders.

In addition, the Group has a long and close strategic relationship with Lushang Freda and Shandong Commercial. The Company considers that the transactions contemplated under the New Agreements will be mutually beneficial to the Group on one hand, and Lushang Freda and/or Shandong Commercial on the other hand, as the Group will be able to build up its reputation among other Independent Third Party property developers while providing services to Lushang Freda and Shandong Commercial, being comprehensive property developers with diversified portfolios of high-quality properties; while Lushang Freda and Shandong Commercial would be able to benefit from the Group's services which are of consistent and high quality. The Company does not see any material red flags indicating any material adverse changes to such established relationship which brings mutual benefits.

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In order to prevent undue reliance on the Group's connected persons, the finance department of the Group will monitor the transaction amounts between the Group and the connected persons monthly and ensure that the transactions contemplated under the New Agreements out of the total revenue of the Group for each of the two years ending December 31, 2024 and December 31, 2025 will be kept at a level of at most around 30%. In case there is an increase or expected increase in the percentage of revenue contributed by the connected persons, the Group will use its best endeavours to further establish its Independent Third Parties customer base and dilute the revenue contribution by the connected persons.

In view of the above, we concur with the Company's view that the Supplemental Agreements and the New Agreements would not give rise to reliance issue of the Company with its connected persons and the Company has sufficient measures in place to prevent undue reliance on its connected persons.

INTERNAL CONTROL MEASURES

The pricing policy for all the continuing connected transactions of the Group will be supervised and monitored by the relevant personnel and management of the Group in charge to ensure the relevant continuing connected transaction is conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders as a whole.

The relevant personnel and management of the Group will review and assess the terms before entering into each individual agreement to ensure they are consistent with the principles and provisions set out in each of the Supplemental Agreements and the New Agreements.

In order to ensure the price terms are in accordance with the Supplemental Agreements and the New Agreements and with reference to prevailing market prices of similar services, before entering into any individual agreement, the business development department will refer to the following information:

- (a) at least three other contemporaneous transactions of the Group of similar services (in terms of nature, size and location of the properties, the scope of services and the anticipated operational costs) provided to Independent Third Parties; and

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- (b) prices charged by at least three other property management companies in the PRC (if available) of comparable transactions with Independent Third Parties collected through, among others, information exchange within the industry and publicly available tender information.

After collecting the relevant information, the business development department of the Group would determine a price to be offered to Lushang Freda Associates and Shandong Commercial Associates (as the case may be) which will not be less than the prices offered by the Group to Independent Third Parties for transactions contemplated under the Supplemental Master Engineering Services Agreement, the New Master Engineering Services Agreement, the Supplemental Master Design Services Agreement, the New Master Design Services Agreement, the Supplemental Master Property Agency Services Agreement, the New Master Property Agency Services Agreement, the Supplemental Master Property Management and Related Services Agreement and the New Master Property Management and Related Services Agreement. Regarding the Parking Lots Entrusted Management Services to be provided under the Supplemental Master Parking Lots Entrusted Management Services Agreement and the New Master Parking Lots Entrusted Management Services Agreement, the price to be offered to Lushang Freda Associates and Shandong Commercial Associates which will not be more than the price paid by the Group to Independent Third Parties.

In respect of all of its continuing connected transactions, the Company has also established monitoring procedures in which various departments of the Group will be responsible for the implementation, monitoring and review of such procedures. Regular checks will be conducted on a quarterly basis to review and assess whether the transactions contemplated under the Supplemental Agreements and the New Agreements are conducted in accordance with the terms of its respective agreement and the price charged for a specific transaction is fair and reasonable and in accordance with the aforesaid pricing policy.

Further, the finance department of the Group will monitor the actual transaction amounts and monthly report will be made by the management team in relation to the aggregate transaction amounts and utilization rates of the annual caps to ensure that the annual caps under each of the Supplemental Agreements and the New Agreements will not be exceeded. In addition, where a threshold of 80% of the utilization rate is met, the finance department will alert the management team to consider revising the annual caps in accordance with the relevant requirements of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have further reviewed the internal control documents regarding the continuing connected transactions between the Company and the connected parties and as advised by the Management, we noted that respective pricing policies for the continuing connected transactions of the Company under the Supplemental Agreements and the New Agreements will be supervised and monitored by the relevant personnel and management of the Company to ensure that all the continuing connected transactions are conducted on normal commercial terms and in accordance with the pricing policies of the Company and will not be prejudicial to the interests of the Company and the Shareholders as a whole. The relevant personnel and management of the Company will conduct regular checks and assess whether individual transactions contemplated under continuing connected transactions are conducted in accordance with the terms of the relevant agreement and will also regularly review whether the price charged/paid for a specific transaction is fair and reasonable and in accordance with the applicable pricing policy. The independent non-executive Directors will continue to review the transactions contemplated under each of the Supplemental Agreements and the New Agreements, and the auditors of the Company will also conduct an annual review on the pricing terms and annual caps thereof.

In view of the above, we consider that the terms of reference, if implemented effectively by the Company, are sufficient to safeguard Shareholders' interest in the provision of the Supplemental Agreements and the New Agreements. Accordingly, we are of the view that the internal control procedures are in place and in compliance with the internal measures as mentioned above.

RECTIFICATION OF BREACH OF THE LISTING RULES

The Company has been monitoring the utilization of the annual caps under the Existing Master Engineering Services Agreement, the Existing Master Design Services Agreement and the Existing Master Property Management and Related Services Agreement since the Listing Date by keeping track of the transaction amounts by each entity originally grouped under Lushang Freda Associates and Shandong Commercial Associates. Based on the originally grouping of these entities of Lushang Freda Associates and Shandong Commercial Associates, the original annual caps set for the year ending December 31, 2023 for Lushang Freda Associates and Shandong Commercial Associates were not exceeded.

However, during the review of the shareholding structure of Lushang Freda Associates and Shandong Commercial Associates for the purpose of preparing the interim results of the Group for the six months ended June 30, 2023, it has come to the attention of the Group that Lushang Freda was in the process of disposing of its real estate business to Shandong Urban and Rural Development Group Co., Ltd. (山東省城鄉發展集團有限公司), a wholly-owned subsidiary of Shandong Commercial (the "Disposal") during the six months ended 30 June 2023. The Disposal has partially been completed in or before late April 2023, and as at the Latest Practicable Date, the Disposal has been fully completed.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Board has kept close and frequent communication with Lushang Freda and Shandong Commercial regarding the progress of the Disposal since August 2023 and discussed with them the necessity for the Group to revise its annual cap in compliance with the Listing Rules as soon as possible. Unfortunately, prior to the full completion of the Disposal, there were material uncertainties regarding, among others, the entities to be disposed of, the number of underlying contracts involved, the likelihood of successful completion and the timing of completion of the Disposal, for the Board to assess a comparatively accurate revised annual caps under the New Agreements and the Supplemental Agreements. To avoid multiple variations of the relevant annual caps which may lead to market confusion, and having made discussions with Lushang Freda and Shandong Commercial, it will be more feasible for the Board to determine the revised annual caps only after the Disposal has reached its final stage. Thus, as soon as the Board was informed of the final stage of the Disposal, the Board had commenced close communications with Lushang Freda and Shandong Commercial to determine the revised annual caps.

In early November 2023, the Disposal has been fully completed and the Company entered into the Supplemental Agreements and the New Agreements on November 20, 2023.

As a result of the Disposal, some of the entities which were originally grouped as Lushang Freda Associates should be reclassified as Shandong Commercial Associates. As such, the original annual caps set under the Existing Master Engineering Services Agreement and the Existing Master Property Management and Related Services Agreement for Shandong Commercial Associates had been exceeded.

For the avoidance of doubt, no transaction amounts with Shandong Commercial Associates were incurred under the Existing Master Property Agency Services Agreement and the Existing Master Parking Lots Entrusted Management Services Agreement as at the date of this Circular.

According to Rule 14A.54 of the Listing Rules, if the Company proposes to revise the annual caps for its continuing connected transactions, the Company will be required to re-comply with the announcement and shareholders' approval requirements. As the Company has not revised the annual caps for Shandong Commercial Associates under the Existing Master Engineering Services Agreement and the Existing Master Property Management and Related Services Agreement in a timely manner to cater for the Disposal, this constituted a breach of Chapter 14A of the Listing Rules. The Board wishes to emphasize that such breach was due to passive action of the Group and was technical, and the Board reiterates its belief that continuing compliance with the Listing Rules and other applicable regulatory requirements is of utmost importance.

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To prevent reoccurrence of similar breaches of the Listing Rules in the future, the Company has communicated with Lushang Freda and Shandong Commercial the compliance requirements of the continuing connected transactions under Chapter 14A of the Listing Rules and requested them to timely inform the Company on any event that may affect the terms of the continuing connected transactions conducted among them to enable the Company to make timely assessment and ensure compliance with the Listing Rules. The Company has specifically requested Lushang Freda and Shandong Commercial to confirm a list of entities under Lushang Freda Associates and Shandong Commercial Associates on a monthly basis.

In view of the above, we consider that the rectifications, if rectify effectively by the Company, are sufficient to safeguard Shareholders' interest in the provision of the Supplemental Agreements.

OPINION AND RECOMMENDATIONS

Having considered the above principal factors and reasons, we are of the view that the Supplemental Agreements and the New Agreements and the proposed annual caps are (i) in the ordinary and usual course of the business of the Group; (ii) on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend Independent Shareholders to vote in favour of the relevant resolution for approving Supplemental Agreements and the New Agreements and the proposed annual caps at the EGM.

Yours faithfully,
For and on behalf of
Dongxing Securities (Hong Kong) Company Limited
TSANG Wing Ngai
Executive Director
Investment Banking Department

Mr. TSANG Wing Ngai is a licensed person registered with the Securities and Future Commission since 2008 and is currently a responsible officer of Dongxing Securities (Hong Kong) Company Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Mr. TSANG has over 15 years of experience in the corporate finance industry, and has participated in the provision of independent financial advisory services for various connected transactions involving companies listed in Hong Kong.

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. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors, Supervisors and the chief executive of the Company in the registered capital of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors, Supervisors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company's associated corporation (within the meaning of Part XV of SFO), which will be required to be (i) 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); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code are as follows:

Name	Name of associated corporation	Nature of interest	Number of Shares interested	Approximate percentage of shareholding
Mr. Wang Zhongwu	Lushang Freda	Beneficial owner	200,000 ⁽¹⁾	0.02%
Ms. Li Lu	Lushang Freda	Beneficial owner	300,000 ⁽²⁾	0.03%
Mr. Shao Meng	Lushang Freda	Beneficial owner	2,681 ⁽³⁾	0.00%
Mr. Wang Hongtao	Lushang Freda	Beneficial owner	130,000 ⁽⁴⁾	0.01%
Mr. Zhang Xiangqian	Lushang Freda	Beneficial owner	73,334 ⁽⁵⁾	0.01%

Notes:

- (1) Mr. Wang Zhongwu was interested in (i) 100,000 shares of Lushang Freda; and (ii) 100,000 underlying shares of Lushang Freda by virtue of the options granted to him under a share option scheme of Lushang Freda.
- (2) Ms. Li Lu was interested in (i) 200,000 shares of Lushang Freda; and (ii) 100,000 underlying shares of Lushang Freda by virtue of the options granted to her under a share option scheme of Lushang Freda.
- (3) Mr. Shao Meng was interested in 2,681 underlying shares of Lushang Freda by virtue of the options granted to him under a share option scheme of Lushang Freda.
- (4) Mr. Wang Hongtai was interested in (i) 83,333 shares of Lushang Freda; and (ii) 46,667 underlying shares of Lushang Freda by virtue of the options granted to him under a share option scheme of Lushang Freda.
- (5) Mr. Zhang Xiangqian was interested in (i) 36,667 shares of Lushang Freda; and (ii) 36,667 underlying shares of Lushang Freda by virtue of the options granted to him under a share option scheme of Lushang Freda.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors and chief executive of the Company had interests or short positions in the shares, underlying shares and debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) which were 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 recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the persons (other than Directors, Supervisors and chief executives of the Company) or corporations who had an interest or short position in the shares and/or underlying shares of the Company which has to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Nature of interest	Class of Shares	Number of Shares interested ⁽¹⁾	Approximate percentage of shareholding in the relevant class of Shares ⁽²⁾	Approximate percentage of shareholding in the total Shares ⁽³⁾
Lushang Freda	Beneficial owner	Domestic Shares	95,100,000 (L)	95.1%	71.3%
Shandong Commercial ⁽⁴⁾	Interest in controlled corporation	Domestic Shares	100,000,000 (L)	100%	75.0%
Beijing Urban Construction Group Co., Ltd.* (北京城建集團有限責任公司)	Interest in controlled corporation	H Shares	6,495,000 (L)	19.48%	4.87%
Beijing Urban Construction Real Estate Development Co., Ltd.* (北京城建房地產開發有限公司)	Beneficial owner	H Shares	6,495,000 (L)	19.48%	4.87%
HWABAO TRUST CO., LTD	Trustee	H Shares	6,495,000 (L)	19.48%	4.87%

* For identification purpose only

Name	Nature of interest	Class of Shares	Number of Shares interested ⁽¹⁾	Approximate percentage of shareholding in the relevant class of Shares ⁽²⁾	Approximate percentage of shareholding in the total Shares ⁽³⁾
CHINA INTERNATIONAL ECONOMIC TRADING LIMITED	N/A ⁽⁵⁾	H Shares	4,680,000 (L)	14.04%	3.51%
LU DUNKE ⁽⁶⁾	Interest in controlled corporation	H Shares	3,650,000 (L)	10.95%	2.74%
Wenshang County Science Advancement and Construction Security and Workforce Co., Ltd.* (汶上縣科進建安勞務有限公司) ⁽⁶⁾	Beneficial owner	H Shares	3,650,000 (L)	10.95%	2.74%
FAN QINYUAN ⁽⁷⁾	Interest in controlled corporation	H Shares	3,025,000 (L)	9.07%	2.27%
Nantong Chen Yun Construction Workforce Co., Ltd.* (南通辰運建築勞務有限公司) ⁽⁷⁾	Beneficial owner	H Shares	3,025,000 (L)	9.07%	2.27%
Shandong Tian Qi Venture Capital Co., Ltd.* (山東天齊創業投資有限公司) ⁽⁷⁾	Beneficial owner	H Shares	2,254,500 (L)	6.76%	1.69%

* For identification purpose only

Notes:

- (1) The letter “L” denotes the person’s long position in the Shares.
- (2) Calculated based on the Company’s 100,000,000 Domestic Shares or 33,340,000 H Shares in issue as at the Latest Practicable Date.
- (3) Calculated based on the total number of 133,340,000 Shares in issue as at the Latest Practicable Date.
- (4) Lushang Freda is owned as to 51.62% by Shandong Commercial and 1.69% by Lushang Group Co., Ltd., a company owned as to 68.15% by Shandong Commercial. By virtue of the SFO, Shandong Commercial is deemed to be interested in the Shares held by Lushang Freda. Shandong Urban and Rural Green Industry Development Investment Co., Ltd.* (山東省城鄉綠色產業發展投資有限公司) (formerly known as Shandong Lushang Innovation Development Co., Ltd.* (山東魯商創新發展有限公司)) (“**Green Development**”) holds 4,900,000 Shares, representing 3.67% of the total Shares in issue. As at the Latest Practicable Date, Green Development is wholly-owned by Shandong Urban and Rural Development Group Co., Ltd.* (山東省城鄉發展集團有限公司)(“**Shandong Urban Development**”), which is in turn wholly-owned by Shandong Commercial. By virtue of the SFO, Shandong Commercial is deemed to be interested in the Shares held by Green Development.
- (5) Based on the disclosure of interests form submitted by CHINA INTERNATIONAL ECONOMIC TRADING LIMITED on July 11, 2022 in respect of the relevant event that occurred on the Listing Date.
- (6) 汶上縣科進建安勞務有限責任公司 is a company beneficially wholly-owned by LU DUNKE.
- (7) 南通辰運建築勞務有限公司 is a company beneficially wholly-owned by FAN QINYUAN.
- (8) Ms. Li Lu, a non-executive Director, is currently the deputy general manager of Shandong Urban Development.
- (9) Ms. Li Han, a non-executive Director, is currently an assistant director of the financial management department of Shandong Commercial.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any persons (other than Directors, Supervisors and chief executives of the Company) who had an interest or short position in the Shares or underlying Shares which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein. Save as disclosed above, none of the Directors is a director or employee of a company which has an interest in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors, Supervisors nor their respective close associates had any direct or indirect interests in any business that constitutes or may constitute a competing business of the Company.

* For identification purpose only

4. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

As at the Latest Practicable Date, no Director or Supervisor had entered into any service contract or letter of appointment with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. DIRECTORS' INTEREST IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date:

- (a) none of the Directors and Supervisors had any direct or indirect interest in any assets which have been, since December 31, 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or are proposed to be acquired, disposed of by, or leased to any member of the Group;
- (b) none of the Directors and Supervisors was materially interested, directly or indirectly, in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group; and
- (c) none of the Directors and Supervisors is also an employee or director of any substantial shareholder of the Company.

6. QUALIFICATION OF EXPERT AND CONSENT

The qualification of the expert who has given an opinion or advice in this circular is as follow:

Name	Qualification
Dongxing Securities (Hong Kong) Company Limited	a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, the expert mentioned above (i) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinion and the references to its names included herein in the form and context in which it is respectively included; (ii) has no direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group; and (iii) has no

direct or indirect interests in any assets which have been, since December 31, 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors have confirmed that there is no material adverse change in the financial or trading position of the Company since December 31, 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. DOCUMENTS ON DISPLAY

A copy of each of the following documents will be available on display online on the Stock Exchange's website and on the Company's website from the date of this circular up to and including the date of the EGM (being a period of not less than 14 days):

- (a) the Supplemental Master Engineering Services Agreement;
- (b) the Supplemental Master Design Services Agreement;
- (c) the Supplemental Master Property Management and Related Services Agreement;
- (d) the Supplemental Master Parking Lots Entrusted Management Services Agreement;
- (e) the Supplemental Master Property Agency Services Agreement;
- (f) the New Master Engineering Services Agreement;
- (g) the New Master Design Services Agreement;
- (h) the New Master Property Agency Services Agreement;
- (i) the New Master Parking Lots Entrusted Management Services Agreement;
and
- (j) the New Master Property Management and Related Services Agreement.



Lushang Life Services Co., Ltd.

鲁商生活服务股份有限公司

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

(Stock Code: 2376)

NOTICE IS HEREBY GIVEN that the 2023 third extraordinary general meeting of Lushang Life Services Co., Ltd. (the **"Company"**) will be convened and held at at 38th Floor, Block 5, Lushang Guo'ao City, No. 9777 Jingshi Road, Lixia District, Jinan, Shandong, the PRC on Thursday, December 28, 2023, at 10:00 a.m. (the **"EGM"**) for the purposes of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

1. **"THAT** the supplemental master engineering services agreement dated November 20, 2023 and entered into between the Company and Shandong Commercial Group Co., Ltd (**"Shandong Commercial"**) (the **"Supplemental Master Engineering Services Agreement"**) and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby confirmed and approved and the directors of the Company (the **"Directors"**) be and are hereby authorised to do all such acts, deeds and things and to sign, execute and deliver all such documents as they may, in their absolute discretion, consider necessary, desirable or expedient to give effect, determine, revise, supplement or complete any matters relating to or in connection with the Supplemental Master Engineering Services Agreement and the transactions contemplated thereunder."
2. **"THAT** the supplemental master design services agreement dated November 20, 2023 and entered into between the Company and Shandong Commercial (the **"Supplemental Master Design Services Agreement"**) and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby confirmed and approved and the Directors be and are hereby authorised to do all such acts, deeds and things and to sign, execute and deliver all such documents as they may, in their absolute discretion, consider necessary, desirable or expedient to give effect, determine, revise, supplement or complete any matters relating to or in connection with the Supplemental Master Design Services Agreement and the transactions contemplated thereunder."

NOTICE OF EXTRAORDINARY GENERAL MEETING

3. “**THAT** the supplemental master property management and related services agreement dated November 20, 2023 and entered into between the Company and Shandong Commercial (the “**Supplemental Master Property Management and Related Services Agreement**”) and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby confirmed and approved and the Directors be and are hereby authorised to do all such acts, deeds and things and to sign, execute and deliver all such documents as they may, in their absolute discretion, consider necessary, desirable or expedient to give effect, determine, revise, supplement or complete any matters relating to or in connection with the Supplemental Master Property Management and Related Services Agreement and the transactions contemplated thereunder.”
4. “**THAT** the supplemental master parking lots entrusted management services agreement dated November 20, 2023 and entered into among the Company, Lushang Health Industry Development Co., Ltd. (“**Lushang Freda**”) and Shandong Commercial (the “**Supplemental Master Parking Lots Entrusted Management Services Agreement**”) and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby confirmed and approved and the Directors be and are hereby authorised to do all such acts, deeds and things and to sign, execute and deliver all such documents as they may, in their absolute discretion, consider necessary, desirable or expedient to give effect, determine, revise, supplement or complete any matters relating to or in connection with the Supplemental Master Parking Lots Entrusted Management Services Agreement and the transactions contemplated thereunder.”
5. “**THAT** the supplemental master property agency services agreement dated November 20, 2023 and entered into among the Company, Lushang Freda and Shandong Commercial (the “**Supplemental Master Property Agency Services Agreement**”) and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby confirmed and approved and the Directors be and are hereby authorised to do all such acts, deeds and things and to sign, execute and deliver all such documents as they may, in their absolute discretion, consider necessary, desirable or expedient to give effect, determine, revise, supplement or complete any matters relating to or in connection with the Supplemental Master Property Agency Services Agreement and the transactions contemplated thereunder.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

6. “**THAT** the master engineering services agreement dated November 20, 2023 and entered into between the Company and Shandong Commercial (the “**New Master Engineering Services Agreement**”) and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby confirmed and approved and the Directors be and are hereby authorised to do all such acts, deeds and things and to sign, execute and deliver all such documents as they may, in their absolute discretion, consider necessary, desirable or expedient to give effect, determine, revise, supplement or complete any matters relating to or in connection with the New Master Engineering Services Agreement and the transactions contemplated thereunder.”
7. “**THAT** the master design services agreement dated November 20, 2023 and entered into between the Company and Shandong Commercial (the “**New Master Design Services Agreement**”) and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby confirmed and approved and the Directors be and are hereby authorised to do all such acts, deeds and things and to sign, execute and deliver all such documents as they may, in their absolute discretion, consider necessary, desirable or expedient to give effect, determine, revise, supplement or complete any matters relating to or in connection with the New Master Design Services Agreement and the transactions contemplated thereunder.”
8. “**THAT** the master property agency services agreement dated November 20, 2023 and entered into between the Company and Shandong Commercial (the “**New Master Property Agency Services Agreement**”) and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby confirmed and approved and the Directors be and are hereby authorised to do all such acts, deeds and things and to sign, execute and deliver all such documents as they may, in their absolute discretion, consider necessary, desirable or expedient to give effect, determine, revise, supplement or complete any matters relating to or in connection with the New Master Property Agency Services Agreement and the transactions contemplated thereunder.”
9. “**THAT** the master parking lots entrusted management services agreement dated November 20, 2023 and entered into between the Company and Shandong Commercial (the “**New Master Parking Lots Entrusted Management Services Agreement**”) and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby confirmed and approved and the Directors be and are hereby authorised to do all such acts, deeds and things and to sign, execute and deliver all such documents as they may, in their absolute discretion, consider necessary, desirable or expedient to give effect, determine, revise, supplement or complete any matters relating to or in connection with the New Master Parking Lots Entrusted Management Services Agreement and the transactions contemplated thereunder.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

10. “**THAT** the master property management and related services agreement dated November 20, 2023 and entered into between the Company and Shandong Commercial (the “**New Master Property Management and Related Services Agreement**”) and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby confirmed and approved and the Directors be and are hereby authorised to do all such acts, deeds and things and to sign, execute and deliver all such documents as they may, in their absolute discretion, consider necessary, desirable or expedient to give effect, determine, revise, supplement or complete any matters relating to or in connection with the New Master Property Management and Related Services Agreement and the transactions contemplated thereunder.”

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

Hong Kong, December 11, 2023

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

Notes:

- (a) Individual shareholders who wish to attend the meeting in person shall produce their identity cards or other effective document or proof of identity and stock account cards. Proxies of individual shareholders shall produce their effective proof of identity and form of proxy. A corporate shareholder should attend the meeting by its legal representative or proxy appointed by the legal representative. A legal representative who wishes to attend the meeting should produce his/her identity card or other valid documents evidencing his/her capacity as a legal representative. If appointed to attend the meeting, the proxy should produce his/her identity card and an authorization instrument duly signed by the legal representative of the corporate shareholder.
- (b) Any shareholder entitled to attend and vote at the EGM is entitled to appoint one or more person(s) (if the shareholder holds two or more issued shares of the Company (the “**Share(s)**”), whether (each of) such person is a shareholder of the Company or not, as his/her/its proxy or proxies to attend and vote on his/her/its behalf at the EGM.

The instrument appointing a proxy must be signed by the shareholder or his/her attorney duly authorized in writing. For a corporate shareholder, the proxy instrument must be affixed with the common seal or signed by its director or attorney duly authorized in writing.

If the power of attorney of the proxy is signed by the authorized person of the appointer under a power of attorney or other authorization document(s) given by the appointer, such power of attorney or other authorization document(s) shall be notarized and served at the same time as the power of attorney. To be valid, the form of proxy, together with a notarially certified copy of the power of attorney or other authorization document(s), must be delivered to the H share registrar of the Company, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for H shareholders), or to the registered office of the Company at Room 202, Block 2, Lushang Guo’ao City, No. 9777 Jingshi Road, Lixia District, Jinan, Shandong, the PRC (for domestic shareholders) not later than 24 hours before the designated time for the holding of the EGM or any adjournment thereof (as the case may be).

NOTICE OF EXTRAORDINARY GENERAL MEETING

In case of registered joint holders of any Shares, any one of the registered joint holders can vote on such Shares at the EGM in person or by proxy as if he/she is the only holder entitled to vote. If more than one registered joint holders attend the EGM in person or by proxy, only the vote of the person whose name appears first in the register of members of the Company relating to such Shares (in person or by proxy) will be accepted as the sole and exclusive vote of the joint holders.

After the completion and return of the form of proxy and the power of attorney, you can attend and vote in person at the EGM or any adjournment thereof should you so wish. In this case, the power of attorney will be deemed to have been revoked.

- (c) According to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the resolutions to be proposed at the EGM will be voted on by poll. Results of the poll voting will be posted on the website of the Company (www.lushangfuwu.com) and the website of the Stock Exchange (www.hkexnews.hk) upon the conclusion of the EGM.
- (d) The Company’s register of members will be closed from December 21, 2023 to December 28, 2023, both days inclusive, during which period no transfer of the Shares will be effected. The shareholders whose names appear on the Company’s register of members on December 28, 2023 shall be entitled to attend and vote at the EGM.

For a shareholder to be eligible for attending and voting at the EGM, all share transfer documents accompanied by the relevant share certificates and other appropriate documents must be lodged with the Company’s H share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for H shareholders) or to the registered office of the Company at Room 202, Block 2, Lushang Guo’ao City, No. 9777 Jingshi Road, Lixia District, Jinan, Shandong, the PRC (for domestic shareholders) no later than 4:30 p.m. on Wednesday, December 20, 2023 for registration.

- (e) Shareholders attending the EGM are responsible for their own transportation and accommodation expenses.