
INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this document were extracted from the industry report prepared by CIA, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged CIA to prepare the CIA Report, an independent industry report, in connection with the [REDACTED]. The information from official government sources has not been independently verified by our Group, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], any of the [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy.

RESEARCH BACKGROUND, METHODOLOGIES AND ASSUMPTIONS OF CIA

We have commissioned CIA to prepare a market research report (“**CIA Report**”) on the property management industry in China at a total sum of RMB0.8 million and supplemented these with data obtained from public sources where applicable. CIA has extensive experience in researching and tracking the PRC property management industry and has researched the Top 100 Property Management Companies since 2008.

CIA collects information from a variety of primary and secondary sources, including (i) published statistics, websites and marketing materials of property management companies; (ii) the satisfaction survey conducted by CIA on property owners; (iii) surveys and data from the China Real Estate Index System and the China Real Estate Statistics Yearbook; (iv) public data from governmental authorities; (v) data gathered for Top 100 Property Management Companies in China from 2008 to 2023; and (vi) data gathered for Property Management Companies by Brand Value from 2013 to 2022.

CIA ranks the overall strength of property management companies by evaluating the five primary indicators of management scale, operational performance, service quality, growth potential and social responsibility, and forms the research results of the Top 100 Property Management Companies in China. In this section, data analysis and research are mainly based on the research of the Top 100 Property Management Companies in China.

In the CIA Report, CIA assumed that: (i) the social, economic and political conditions in China and globally will remain relatively stable over the forecast period; (ii) government policies on the property management industry in China will remain unchanged during the forecast period; (iii) all published data from the relevant statistical departments is accurate; (iv) all information collected from the relevant local housing administrative bureaus authorities in relation to residential sales transactions is accurate; and (v) the Chinese economy as a whole was adversely affected in the short term by COVID-19 Pandemic and is gradually recovering from COVID-19.

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THE PRC PROPERTY MANAGEMENT SERVICES MARKET

Introduction and Overview

The property management industry has gone through more than 40 years of development in China since 1981 when the first domestic management company was founded in Shenzhen. The development of the industry has experienced the early stage of development, the standardization period and a new period of diversified development. Along with the development of the Internet, the property management industry also has a window for growth. More and more property management companies are integrating across borders with new technologies. They are constantly accelerating the pace of building intelligent platforms and promoting the gradual transformation of the property management service model from an intensive labor output to an intensive modern service model.

The property management industry has undergone changes, with economic growth, also urbanization, consumption upgrades and rising income levels of residents, providing demand for the property service market; industry policies have gradually evolved from normative to supportive and encouraging; the application of the Internet has started from scratch, gradually moving from concept to reality, and the technological content of the industry has increased; in the capital market, from being left out to being noticed and then to being valued, the value of companies has been repositioned, and capital has become a booster for accelerating the development of companies. The series of policies, economic and technological environment and other favorable factors together promoted the development of the property management industry. The scale continues to grow, and its social status has improved. It has become a crucial sector for promoting economic and livelihood development, maintaining social harmony and stability, and fostering sustainable urban development.

Major Fee Models in Property Management Industry

Property management companies in China charge fees for property management services and value-added services. Property management services encompass tasks such as cleaning, gardening, security, and maintenance, while value-added services include community services and services provided to non-property owners. Property management fees may be charged either on a lump sum basis or a commission basis. The lump-sum fee model is widely used in residential properties, where owners pay a fixed and all-inclusive property management fees to property management service providers. The commission basis fee model, gaining popularity in non-residential properties, is common to adopt a fixed annual or monthly property management fee, which is determined based on number of staff deployed, multiplied by number of factors, such as service scope and standards, service quality requirements and profit margins. While the lump-sum fee model remains dominant in the property management industry in China, the commission basis fee model is gaining momentum, particularly in non-residential properties. The choice between the two models depends on factors such as convenience, efficiency, owner participation, and the specific characteristics of the property being managed.

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Property management companies in China usually adopt two pricing methods for property management services: the area-based method and the personnel-based method. Under the personnel-based pricing method, property management companies charge customers a total packaged fees on a per project basis, and they typically do not calculate the unit fees and disclose them to the public. Under the area-based pricing method, property management companies set unit property management fees and charge clients based on the GFA under management.

The following table sets forth the unit property management fee ranges⁽¹⁾ of projects charged under the area-based pricing method by type of property in Changsha for the years indicated:

	For the year ended December 31,		
	2021	2022	2023
	<i>(RMB per sq.m. per month)</i>	<i>(RMB per sq.m. per month)</i>	<i>(RMB per sq.m. per month)</i>
Public property management services (urban area)	2.5-6	3-7	2.5-6
Public property management services (suburb)	1.5-4.5	2-5	1.5-4.5
Commercial property management services (urban area)	4-21	4-20	4-22
Commercial property management services (suburb)	2.5-9	3-11	3-11
Residential property management services (urban area)	1.5-3	1.5-3	1.5-3
Residential property management services (suburb)	1-2.5	1-2.5	1-2.5

Note:

- (1) The unit property management fee range refers to the range of unit property management fees for projects meeting certain criteria according to the China Real Estate Information System (CREIS):
- (i) located in Changsha (excluding subordinate counties and county-level cities);
 - (ii) completed and delivered after the year 2000, and the property relating to such project has been occupied for more than one year;
 - (iii) with a three-star rating or above (CIA rates property management services based on factors such as the standards and qualities of public order, entertainment facilities, landscaping, and sanitation. A five-star rating is considered the best, and a three-star rating is slightly better than average); and
 - (iv) with unit property management fees that are neither excessively high nor low (a sufficient number of projects are included, covering a minimum of 80% of all projects within CREIS).

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Property Management Governmental Policy Background

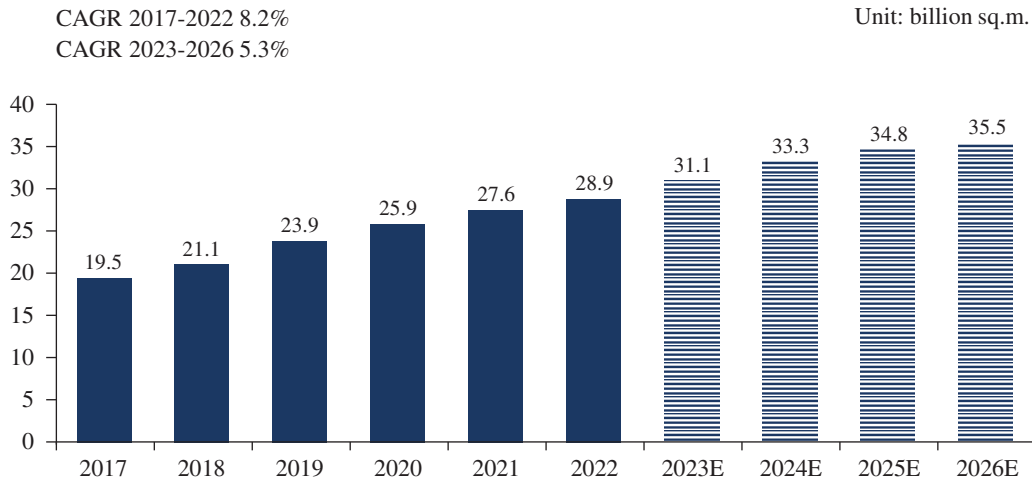
Over the years, with the continuous deepening of China’s housing system reform, property management has shifted from a supplementary role in the real estate industry to an independent industry. The promulgations of the Regulations on Property Management (《物業管理條例》) in 2003, the Property Law of People’s Republic of China (《中華人民共和國物權法》) in 2007 which is replaced by the Civil Code of the People’s Republic of China (《中華人民共和國民法典》) in 2021, and Notice by the Ministry of Housing and Urban-rural Development and Other Departments of Strengthening and Improving the Administration of Residential Property (《關於加強和改進住宅物業管理工作的通知》) in 2021, gradually clarified the rights and obligations of property management companies, improved the property management legal system, standardized the operation of property management companies, and promoted the development of the property management industry.

Market Size

China’s real estate market has seen expansion in recent years, resulting in an upsurge in the size of the existing property management market. This growth has opened up opportunities for the property management industry. From 2017 to 2022, the total area under the industry’s management increased significantly, from 19.5 billion sq.m. to 28.9 billion sq.m., with an annual compound growth rate of 8.2%. Looking into the future, the growth trend is expected to continue. Between 2022 and 2026, the managed area is projected to grow from 28.9 billion sq.m. to 35.5 billion sq.m., showing an annual compound growth rate of 5.3%. In terms of financial performance, the Top 100 Property Management Companies in the sector achieved an average operating income of approximately RMB1.5 billion in 2022, marking a year-on-year increase of 10.6%. The property management market in Hunan Province is developing, accompanied by fierce competition. By the end of 2022, the total area under management amounted to approximately 1.6 billion sq.m., representing 5.4% of the total property management area nationwide. By 2026, the property management area of Hunan Province is projected to grow to 1.9 billion sq.m., with a compound growth rate of 5.0% from 2022 to 2026. From 2017 to 2022, the total property management area within Changsha increased from 440 million sq.m. to 623 million sq.m., with an annual compound growth rate of 7.2%. By 2026, the total property management area within Changsha is projected to grow to 757 million sq.m., with a compound growth rate of 5.0% from 2022 to 2026.

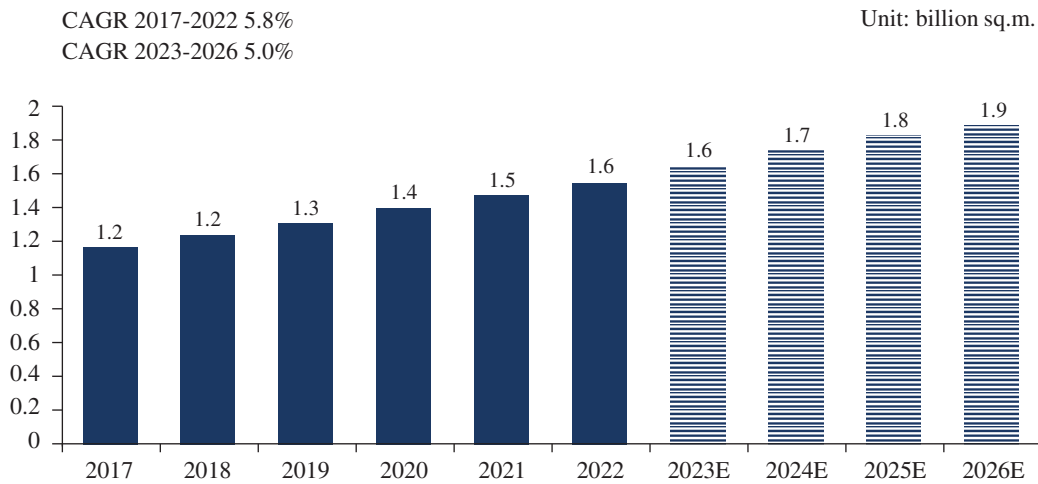
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The following chart sets forth the historical and projected market size of the property management industry in the PRC in terms of GFA under management for the years indicated:



Source: National Bureau of Statistics of China; CIA

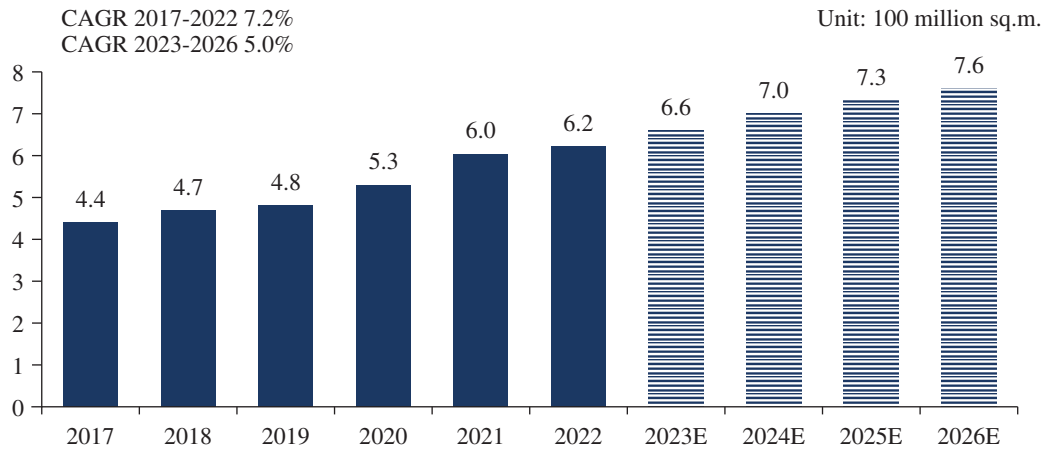
The following chart sets forth the historical and projected market size of the property management industry in Hunan Province for the years indicated:



Source: CIA

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The following chart sets forth the historical and projected market size of the property management industry in Changsha for the years indicated:

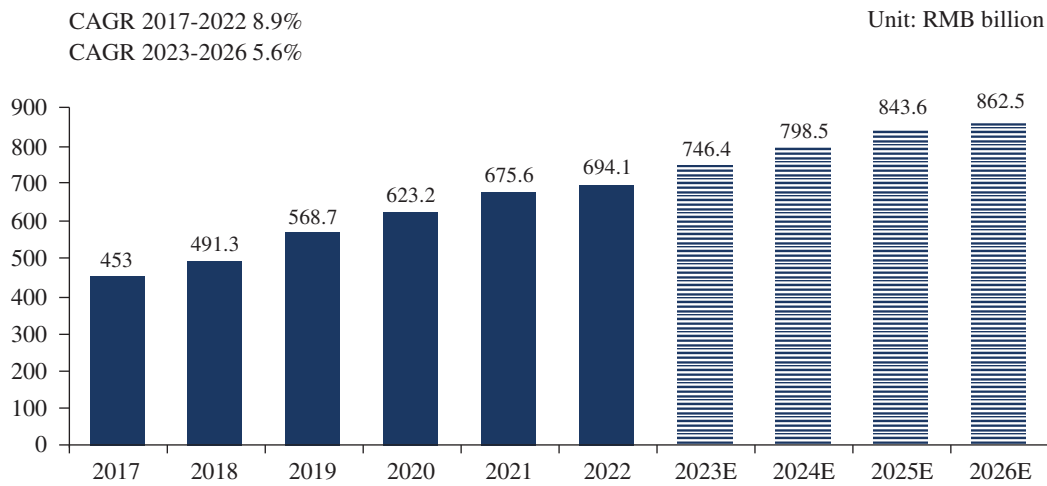


Source: CIA

From 2017 to 2022, the total revenue of property management companies in China increased from RMB453.0 billion to RMB694.1 billion, with an annual compound growth rate of 8.9%. From 2022 to 2026, the total revenue of property management companies in China is expected to increase from RMB694.1 billion to RMB862.5 billion, with an annual compound growth rate of 5.6%. From 2017 to 2022, the total revenue of property management companies in Hunan Province increased from RMB27.2 billion to RMB37.3 billion, with an annual compound growth rate of 6.5%. From 2022 to 2026, the total revenue of property management companies in Hunan Province is expected to increase from RMB37.3 billion to RMB45.8 billion, with an annual compound growth rate of 5.3%. From 2017 to 2022, the total revenue of property management companies in Changsha increased from RMB10.2 billion to RMB15.0 billion, with an annual compound growth rate of 8.0%. From 2022 to 2026, the total revenue of property management companies in Changsha is expected to increase from RMB15.8 billion to RMB18.4 billion, with an annual compound growth rate of 5.3%.

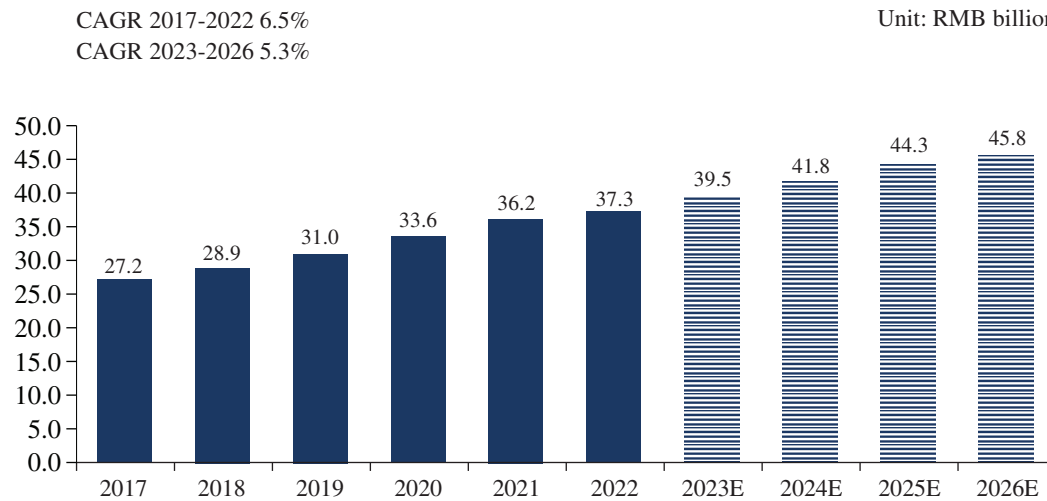
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The following chart sets forth the historical and projected market size of property management companies in China in terms of total revenue for the years indicated:



Source: CIA

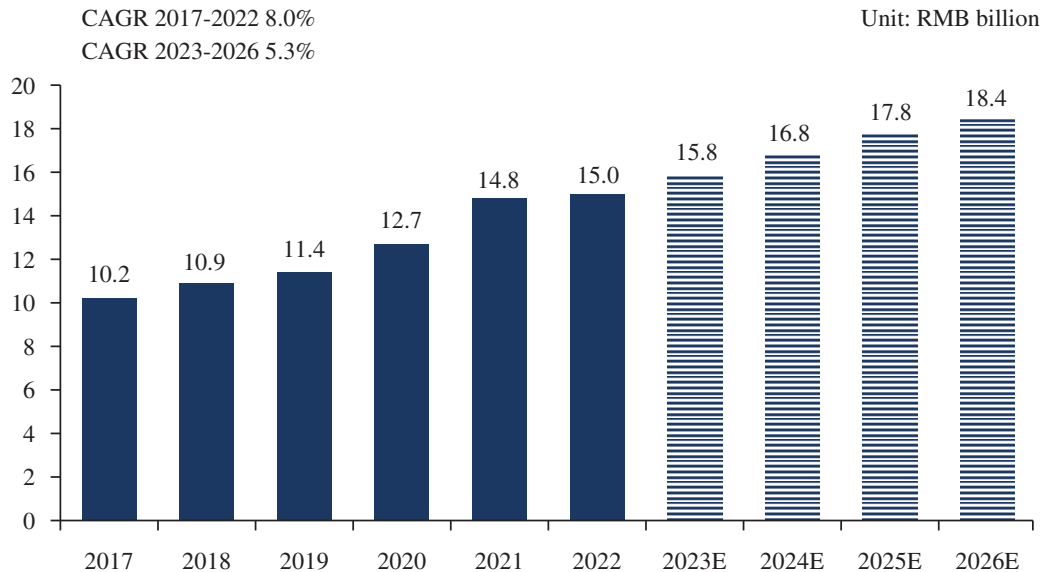
The following chart sets forth the historical and projected market size of property management companies in Hunan Province in terms of total revenue for the years indicated:



Source: CIA

INDUSTRY OVERVIEW

The following chart sets forth the historical and projected market size of property management companies in Changsha in terms of total revenue for the years indicated:



Source: CIA

Market Drivers

Favorable Government Policies: The publication of more and more guiding and favorable documents for the property management industry, like the Regulations on Property Management in Hunan Province (《湖南省物業管理條例》) and its subsequent amendments, shows that the industry is gradually attracting endorsement from the government, which in return promotes the property management industry. Additionally, on March 15, 2021, the Yuhua District Committee and the District Government of Changsha introduced the Ten Measures for Strengthening Community Property Management (Trial) (《關於加強小區物業管理的十條措施(試行)》). These measures aim to improve the quality of property management services, set service standards, conduct project assessments, manage and register people who work in the property management sector, and ensure minimum wage protection. They also encourage property management service companies to expand into areas like elderly care, childcare, housekeeping, culture, health, and parcel delivery to meet residents’ diverse needs. These policies not only promote the integration of property management companies with smart cities, the Internet, community elderly care, and other related fields but also drive industry innovation and advancement. This helps elevate property management services as one of the contributing industries that foster economic growth and improve people’s livelihood.

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Growing Urbanization and Income: As urbanization rate continues to rise and the number of cities increases, with the urbanization rate in China rising from 37.7% in 2001 to 65.2% in 2022, such growth fosters demand for property management services and directly drives the development of the property management industry. Moreover, according to CIA, per capita disposable annual income of the urban population in the PRC has steadily increased to approximately RMB49,283 in 2022, representing a CAGR of 5.9% from 2018 to 2022, driving increasing demand for better living conditions and quality property management services, and creating growth opportunities for property management companies.

Broad Market Landscape of Merchandized Property: Merchandized property refers to property developed by real estate companies which can be sold and leased to the public, including but not limited to residential property and commercial property. According to the National Bureau of Statistics of China, the GFA of merchandized properties sold in China in 2022 reached approximately 1.4 billion sq.m., and the merchandized property sales market has consistently surpassed one billion sq.m. in terms of GFA for numerous years, indicating the expansive market space of the property management industry. Additionally, the evolving demand for merchandized property has provided favorable opportunities for the development of the property management industry. In 2022, the GFA of non-residential properties managed by the Top 100 Property Management Companies accounted for 35.3% of the total, marking an increase of 1.4% from 2021. This increase indicated that a growing number of companies are diversifying their business models and exploring the non-residential property management market. Compared to residential market, non-residential market represents more potential and opportunities, serving as a strategic focus for property management companies as they make external expansion efforts.

Entry Barriers

The property management industry in China has seen an increase in entry barriers as the industry has developed. There are four main entry thresholds for property management service companies.

Brand: With the improvement of consumers’ consumption, the overall industry conditions and the intensification of competition, higher requirements for property management service quality have been put forward, and thus brand reputation has increasingly become a barrier to entry in this industry.

Capital Requirements: With the expansion of scale, property management companies focus more on deepening technological innovation characterized by automation and intelligence, improving management efficiency by purchasing machinery and equipment, building information management systems, etc., thus raising barriers in respect of capital availability.

Specialization of Management: As the competitiveness of the property management industry continues to strengthen, the management team and its management experience are becoming important factors of the core competitiveness of companies.

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Professional Personnel and Technical: Property management depends on manual labor. It is the important factors to have all kinds of professional and technical personnel required in service projects, and establish a long-term and stable personnel training mechanism and human resource advantages.

Market Trends

The trends for the future development of the property management industry are as follows: (i) increasing use of intelligent technology is enhancing corporate technological depth and promoting efficiency and quality; (ii) opportunities remain for [REDACTED], offering state-owned enterprises strategic opportunities; (iii) greater potential for diverse business operations is enriching and broadening the scope of value-added services; (iv) standardization of services is providing a solid foundation for expansion and enabling efficient operational development; (v) it is becoming increasingly necessary for property management service companies to operate independently and align with market trends; (vi) the untapped potential in non-residential property markets is leading to better management strategies within businesses; (vii) continuous professional development of staff is driving ongoing improvement in service quality; and (viii) regular updates of industry policies are driving the transparency and integration of the section.

Potential Threats and Challenges to the Property Management Industry

In addition to the entry barriers discussed in the section above, property management companies in China might encounter various factors that can lead to unexpected losses.

Risk of Market Competition: At present, China’s property management industry is highly competitive, with a large number of domestic property management companies and the concentration ratio increasing year by year. The number of property owners’ choice of property management services will increase and the requirements for property management services will become more specialized and standardized, so there will still be certain competition risks in this industry.

Risk of Cost Control: At present, the property management industry mainly charges property service fees on a lump-sum basis, which means that if the fees collected by property management companies are not sufficient to make up for all the property management service costs incurred, property management companies will suffer losses.

Risk of Rising Labor Costs: The property management industry is a labor-intensive industry. Labor costs generally represent the largest component of cost of sales for property management companies. The daily operation of property management services, such as greening, security, repair and maintenance and customer services relies heavily on the manual labors. According to CIA, in recent years, the percentage of labor costs in total sales costs for the Top 100 Property Management Companies has fluctuated between 50% and 60%, but it has shown an overall upward trend. Over the past years, the increase in the minimum wage in various regions resulted in an increase in labor costs. In addition, the increase in the number of employees also increases other related costs, such as training costs and management costs.

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THE PRC URBAN SERVICES MARKET

Overview of Urban Services Market

Urban services are a collective term for comprehensive services provided to the government, businesses, and residents on top of traditional property management. The sector, which includes areas such as urban space operation, municipal sanitation, infrastructure maintenance, and engineering constructions in urban spaces, operates on a large scale and in an integrated manner, enabled by digital and smart technologies. Essentially, it involves integrating urban spaces and resources in a city and managing them through professional institutions such as property companies and urban operation services companies. Urban service is a broad concept that includes many subdivided areas, encompassed landscaping and engineering, parking lot operation, lighting system operation, municipal sanitation services, and more. With the push from government to improve public services, a new model of “urban services” has emerged. This has opened up opportunities for property management companies to participate in public services and social governance, thereby creating a vast market for urban services. As “refined city management” is promoted, it is natural for property management companies to venture into the urban services market and property management companies have a natural advantage. This diversity implies a vast market space.

The Relationship Between Urban Services and Property Management Services

Urban service fundamentally involves treating public spaces and resources as a unit and managing the entire city in a professional, refined, and intelligent manner through the introduction of market forces.

In terms of service recipients: the business and service recipients of traditional property management align with urban services. In recent years, property management companies have actively expanded into non-residential projects. Their management portfolio now includes many public buildings, such as government offices, public venues, and parks, where the clients are local governments, aligning with the urban services.

In terms of business subdivisions: the subdivisions of traditional property management services and urban services are comparable. Apart from community property management services corresponding to the management of older residential complexes, other business subdivisions overlap, cleaning correspond to urban sanitation operations, security services correspond to urban order co-management, greening correspond to urban landscape maintenance, facility management correspond to urban facility management, and community space operations correspond to urban resource operations. Furthermore, the technology empowerment promoted by property management companies in recent years also correspond to urban intelligent services, enabling city management through mechanization and app-based approaches.

Therefore, in advancing the process of “refined city management”, property management companies possess inherent advantages at the fundamental business level.

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Urban Services Governmental Policy Background

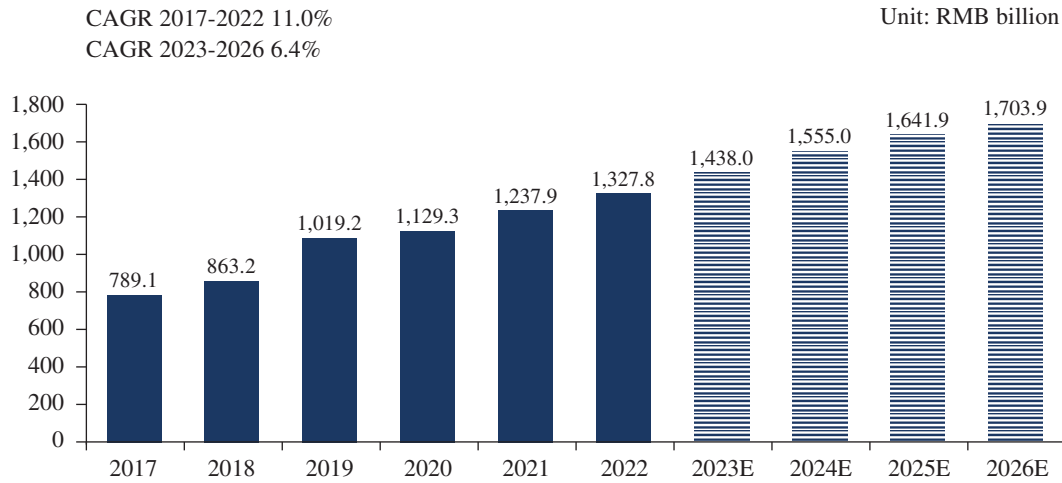
Since the State Council General Office issued the Guiding Opinions on Government Purchase of Services from Social Forces (《關於政府向社會力量購買服務的指導意見》) in September 2013, there has been further promotion of government function transformation and public service improvement. During the National Two Sessions in 2017, General Secretary Xi Jinping proposed the overall requirement that “urban management should be as meticulous as embroidery”. In March 2022, the National Development and Reform Commission (國家發展和改革委員會) issued a notice on the Key Tasks for New Urbanization and Urban-Rural Integration Development in 2022 (《2022年新型城鎮化和城鄉融合發展重點任務的通知》), further proposing to deepen the advancement of a people-centered new urbanization strategy, allowing more people to enjoy a higher-quality urban life. The introduction of this series of policies has opened up vast space for urban services, providing property service enterprises with good opportunities to participate in urban public services and social governance, thereby giving birth to a developing urban service market.

Market Size

Under the new standard of refined city management and the continuous advancement of “streamline administration and delegate power, improve regulation, and upgrade services (放管服)” reforms, the market for urban services is continuously opening and growing. According to data provided by CIA, from 2017 to 2022, the PRC urban service market size grew from RMB0.8 trillion to RMB1.3 trillion, with an annual compound growth rate of 11.0%. It is expected that from 2022 to 2026, the PRC urban service market will grow from RMB1.3 trillion to RMB1.7 trillion with a compound growth rate of 6.4%. Within Hunan Province, from 2017 to 2022, the urban service market size grew from RMB42.1 billion to RMB65.6 billion, with an annual compound growth rate of 9.3%. It is expected that from 2022 to 2026, the Hunan urban service market size will grow from RMB65.6 billion to RMB85.9 billion with a compound growth rate of 7.0%. Within Changsha, from 2017 to 2022, the urban service market size grew from RMB15.8 billion to RMB26.3 billion, with an annual compound growth rate of 8.0%. It is expected that from 2022 to 2026, the Changsha urban service market size will grow from RMB26.3 billion to RMB34.5 billion with a compound growth rate of 5.3%.

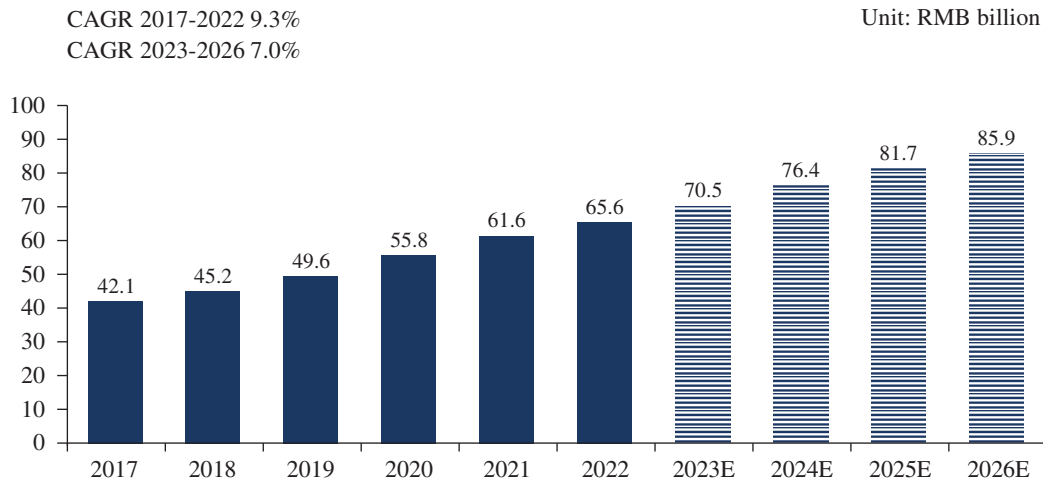
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The following chart sets forth the historical and projected market size of the urban service market in the PRC for the years indicated:



Source: National Bureau of Statistics of China; CIA

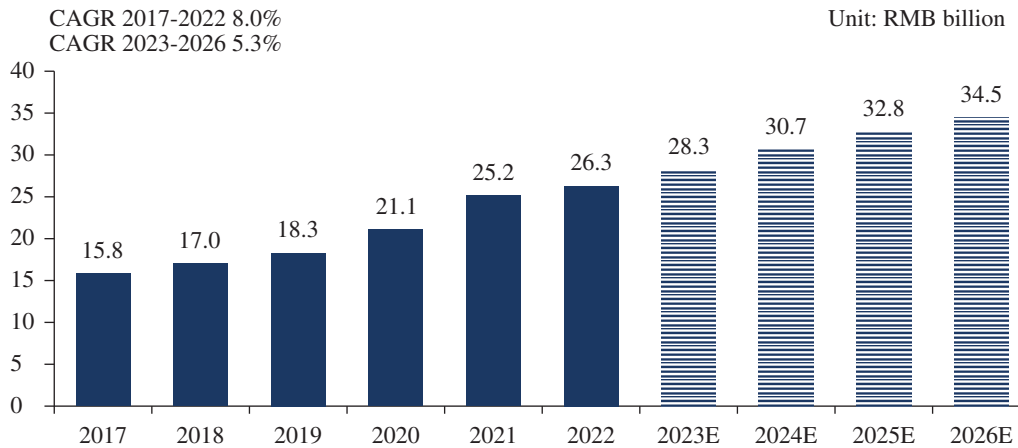
The following chart sets forth the historical and projected market size of the urban service market in Hunan Province for the years indicated:



Source: CIA

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The following chart sets forth the historical and projected market size of the urban service market in Changsha for the years indicated:



Source: CIA

Market Drivers

Favorable Government Policies: The national focus on municipal environmental sanitation and ecological civilization construction is intensifying, consistently emphasizing the strengthening of environmental protection and the restoration of ecosystems, which positively impacts the comprehensive enhancement and development of the municipal ecological environment. Simultaneously, smart parking services are currently receiving substantial attention from national policies. To resolve the escalating urban parking issues, the nation has been continuously introducing related policies in recent years. For instance, in May 2021, the State Council released the Opinions on Promoting the Development of Urban Parking Facilities (《關於推動城市停車場設施發展的意見》). By 2025, cities of all sizes in the country will have established a city parking system primarily consisting of built parking facilities, supplemented by off-street public parking facilities and on-street parking. The system will see broad participation from social capital and a deep integration of information technology with the parking industry. These national policies have brought new development opportunities to the municipal services industry, and the release and implementation of these policies have stimulated market demand in the municipal services sector, accelerating the growth of the municipal services industry.

On December 17, 2020, the Hunan Provincial Department of Finance (湖南省財政廳) issued the Hunan Provincial Government Purchased Services Management Implementation Measures (《湖南省政府購買服務管理實施辦法》). This policy provides clearer guidelines for urban service procurement, outlining specifics on contract adherence, performance assessment, information transparency, and oversight. As a result, the urban services we provide under government contracts can operate in a more standardized and transparent manner.

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Enhancement of Urbanization Level: Urbanization construction is one of the core drivers of China’s modernization. Especially with the current promotion of a new type of urbanization by the state, sectors in cities are annually raising their demands for lighting, landscaping, environment, and sanitation. This trend provides new development opportunities for the expansion and upgrading of the urban services market. Urban lighting, a crucial component of smart cities, has received substantial attention from the Hunan Provincial and Changsha Municipal Governments. With the development of urban construction in recent years, cities are expanding, and the number of urban road lights is increasing. In 2021, the growth rate of urban road lighting in Hunan Province was 6%, indicating a gap between the growth of road lengths and a certain demand shortfall. Moreover, the lighting density per kilometer in Hunan Province is still below the national average, suggesting a vast potential for the urban lighting services market.

Increasing Intelligence Level: In recent years, with the advent of the smart city concept, attention to smart city construction from both government and enterprises has been intensifying. There is increased investment in intelligent construction, with technologies being introduced to build professional smart urban service platforms. This approach empowers industry development through technology, leading to further optimization of municipal governance. In these initiatives, municipal lighting, as an essential component of smart cities, has received substantial attention from Hunan Province and Changsha government.

Entry Barriers

Experience: There could potentially be an experience barrier. Urban services often demand vendors with extensive industry experience, with tender documents requiring bidders to provide proof of past performance and project participation. The industry requires the development of comprehensive solutions for the personalized needs of customers, including front-end design, mid-term project implementation, and subsequent operation and maintenance services. New entrants find it challenging to establish such comprehensive service capabilities quickly. Hence, project experience in the bidding process constitutes an experience barrier for newcomers.

Technology: There is high requirement and standard for technology. Urban services cover many service domains, each with distinct technical standards and requirements. For example, urban services involve maintenance for new facilities and equipment such as pipeline maintenance, river water quality, etc. These demand higher professional service and technical abilities from property management companies. Breaking through the key technologies in the research and development phase is challenging, requiring high innovation and product development capabilities and longer development cycles. New entrants may face the risk of project failure due to deviations in the research and development technology route, excessive research and development costs, and slow progress. Hence, this industry presents significant technological barriers.

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Talent Specialization: There is also a talent barrier. The industry’s various application fields require highly skilled personnel with comprehensive technical capabilities. In addition to professional technical skills, they must deeply understand the industry’s business processes, management standards, related technologies, and application environments. They should also be able to reasonably plan and design according to the characteristics of different levels and regions. Only companies that have long served in the fields have the opportunity to cultivate talent with both industry knowledge and project construction experience and provide professional comprehensive solutions. Therefore, new entrants will struggle to occupy a favorable position in the market without a sufficient number of talents possessing both industry knowledge and project construction experience.

Market Trends

The market for urban services has great potential for development and has been growing steadily in recent years. The property management industry holds material importance for people’s livelihood, and its public service attributes are increasingly prominent. Expanding urban services can help enhance the public’s perception of the property management industry and align with policy guidance and market trends. Besides, urban services are still in the early stages of development, and the gross profit margin of this sector may improve as the business model matures gradually, and economies of scale come into play.

THE PRC COMMERCIAL OPERATION SERVICES MARKET

Major Fee Models of Commercial Operation Services Market

Commercial operation services involve businesses offering an array of consulting and operational services covering the entire lifecycle of commercial properties, including, but not limited to, positioning planning, design consulting, engineering consulting, investment consulting, planning promotion, and commercial operation services. The core value of commercial operation services lies in enhancing the value of commercial projects through continuous operational management, thereby attracting more customers, and achieving higher rental rates and rents. Currently, there are three main business models for commercial operation services providers:

- In the entrusted management service model, services providers offer comprehensive services for all essential stages of commercial projects. They typically provide entrusted management services to associated real estate development companies. This model is a common operational model in the market, widely accepted and adopted by market participants.
- In the brand and management output service model, services providers supervise commercial operation services through professional managers, providing management output services for commercial properties. Under this output service model, the scope of services is similar to that under the entrusted management service model. Well-known commercial operation services providers often cooperate with third-party development companies, using the output service model to tap into new markets.

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- In the sublease service model, services providers can lease commercial properties from owners for operational management, sublease commercial spaces to tenants, and directly collect rental income. Under the sublease service model, commercial operation services providers manage commercial properties as the primary entity. They typically offer sublease services to commercial properties with material profit potential.

Commercial Operations Governmental Policy Background

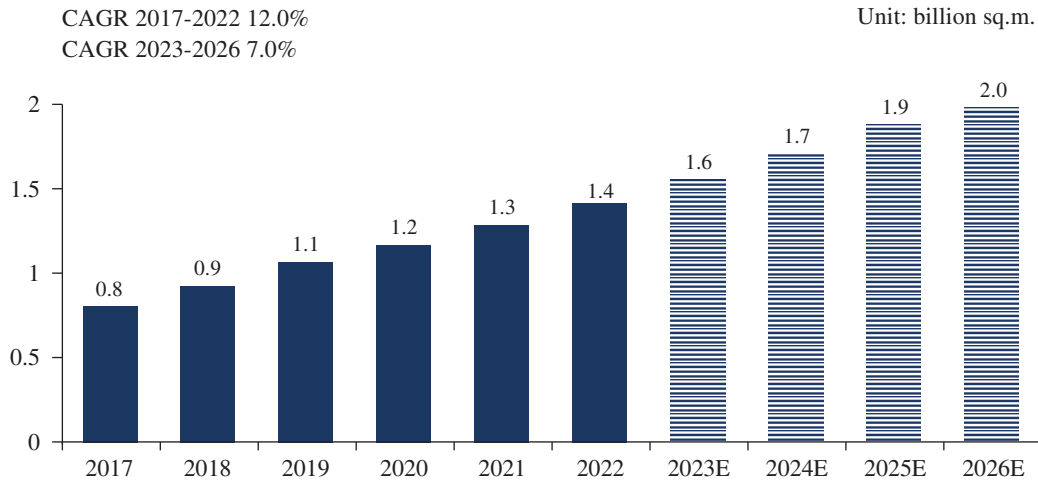
Since 2020, the PRC has been committed to optimizing the consumer environment and promoting commercial prosperity and sustainable healthy development of the national economy at the policy level. Focused on expanding domestic demand and stimulating consumption, a variety of policies have been implemented across multiple fields, continually enhancing the consumption upgrade. This proposed to align with the trend of resident consumption upgrade, accelerate the improvement of consumer promotion mechanisms, further improve the consumption environment, bring into play the basic role of consumption, and help form a strong domestic market. In July 2020, a report from the PRC Central Politburo meeting proposed to accelerate the formation of a new development pattern with the domestic major cycle as the main body and domestic and international dual cycles mutually promoting each other; it continued to expand domestic demand and create conditions for the upgrade of resident consumption. Since 2023, the local governments have introduced a series of policies to promote consumption, pushing for the revival of the commercial market.

Market Size

Although the size of the commercial operation services market is currently smaller than that of property management, it is growing at a much faster rate. On the one hand the commercial operation services market is not only growing naturally along with the growth of commercial properties as a whole, but on the other hand more and more commercial property holders are seeking professional commercial operation services. The area of commercial property operational services in China increased from 0.8 billion sq.m. in 2017 to 1.4 billion sq.m. in 2022, at a CAGR of 12.0%, and is expected to continue to increase to 2.0 billion sq.m. in 2026. The area of commercial property operational services in Hunan Province increased from 44.9 million sq.m. in 2017 to 80.3 million sq.m. in 2022, at a CAGR of 12.3%, and is expected to continue to increase to 110.1 million sq.m. in 2026. The area of commercial property operational services in Changsha increased from 13.5 million sq.m. in 2017 to 24.0 million sq.m. in 2022, at a CAGR of 12.2%, and is expected to continue to increase to 32.9 million sq.m. in 2026.

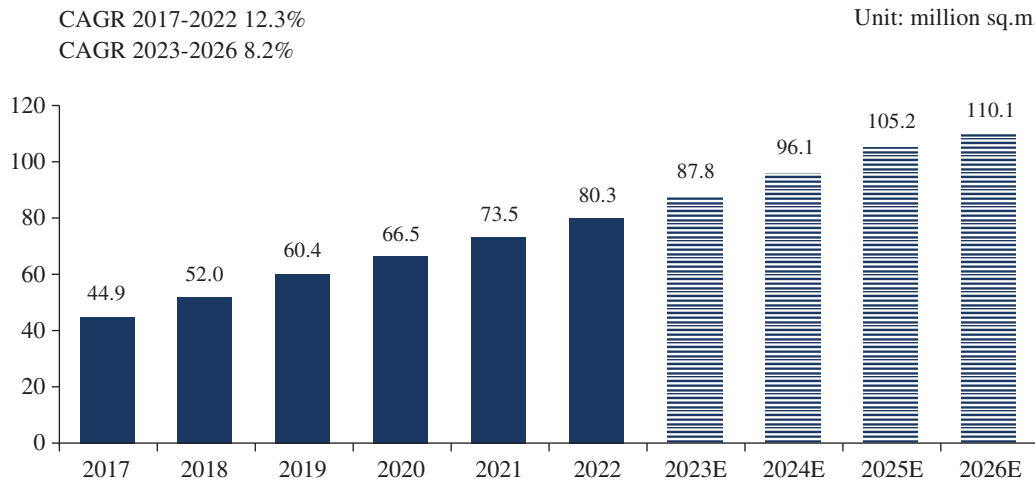
INDUSTRY OVERVIEW

The following chart sets forth the historical and projected market size of the commercial operation services market in the PRC for the years indicated:



Source: CIA

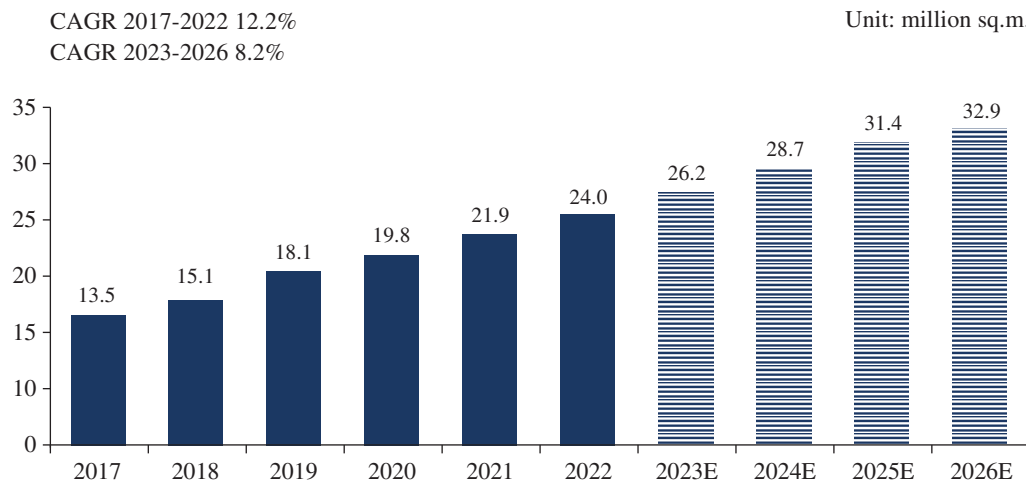
The following chart sets forth the historical and projected market size of the commercial operation services market in Hunan Province for the years indicated:



Source: CIA

INDUSTRY OVERVIEW

The following chart sets forth the historical and projected market size of the commercial operation services market in Changsha for the years indicated:



Source: CIA

Market Drivers

Favorable Government Policies: The nation is committed to optimizing the consumption environment at the policy level, promoting commercial prosperity, and ensuring the sustained and healthy development of the national economy. As stated in the Implementation Opinions on Promoting the Expansion and Quality Improvement of Consumption to Accelerate the Formation of a Strong Domestic Market (《關於促進消費擴容提質加快形成強大國內市場的實施意見》) jointly promulgated by the NDRC and other governmental authorities on February 28, 2020, there’s an emphasis on aligning with the trend of consumer consumption upgrades, accelerating the improvement of consumption promotion mechanisms and systems, further enhancing the consumption environment, and leveraging the foundational role of consumption. The overall consumption rate has been promoted due to the above-mentioned policies, leading to an increased visiting rate to the shopping malls, increased willingness for the merchants to open shops, and subsequently increased demand for commercial operation services.

On August 31, 2023, the General Office of the People’s Government of Hunan Province issued the Several Policy Measures to Stimulate and Expand Consumption in Hunan Province (《湖南省恢復和擴大消費的若干政策措施》). Such measures are anticipated to further elevate the market demand for commercial operation services in Hunan Province, providing a boost for our commercial operation projects.

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Increasing Consumption Rate: Consumption continues to be a major driver of economic stability. China’s retail industry has generally maintained steady growth, with quarterly growth rates steadily rising. The total retail sales of consumer goods in China increased from RMB5.8 trillion in 2004 to RMB44.0 trillion in 2022, with a compound annual growth rate of 3.9% from 2018 to 2022. With the deepening of reforms and the continuous advancement of supply-side structural reform, new business formats and models are booming, and the vitality of the domestic commercial market continues to be released. In this context, the commercial consumption market will grow, boosting the commercial real estate market. In addition, the continuous growth of income promotes consumers’ pursuit of higher-quality commercial operation services, providing opportunities for the development of the commercial operation services market.

Robust Urban Commerce in Changsha: Changsha is not only a pivotal city in central China but also a popular city known for its rich culture, commerce, and cuisine. It holds a strategic advantage for commercial operations. The Wuyi Shopping District (五一商圈) remains one of the biggest municipal commercial centers in Changsha, gathering numerous popular shopping centers and department stores. It attracts both local and out-of-town visitors, possessing a substantial commercial attraction level.

THE MAIN COST TREND IN THE PROPERTY MANAGEMENT INDUSTRY, URBAN SERVICES, AND COMMERCIAL OPERATION SERVICES

Labor cost is one of the main costs in property management services, urban services, and commercial operation services. According to statistics from the Changsha Bureau of Statistics, the average annual salary of urban non-private sector employees in Changsha has been steadily increasing at an average annual rate of about 7%, reaching RMB121,200 in 2022 and is expected to reach RMB148,400 in 2025. In recent years, there has been an increase in overall wages, allowance, social insurance, and other related labor costs. This has added additional pressure on companies that are committed to expanding their business, as they need to increase their labor force, especially those with specialized and diverse skills. For standardized workforces such as cleaning and order maintenance, subcontracting of labor is also a common practice in the property management industry so as to leverage the expertise of subcontractors to enhance operational efficiency and lower the overall labor costs.

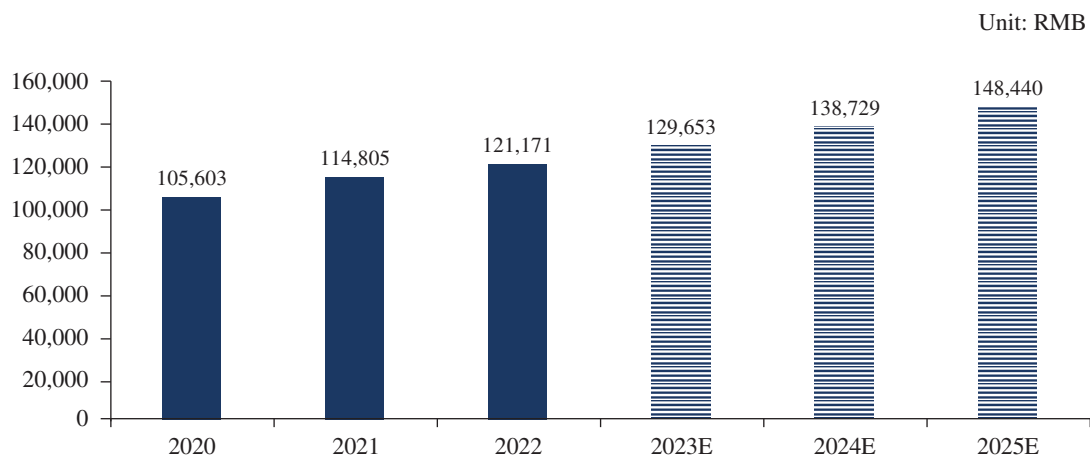
However, companies can reduce cost of sales by adopting advanced technology and increasing subcontracting arrangements. In recent years, companies have been replacing some of their workforce with technology to lower costs. Additionally, they have been improving operational efficiency and service quality through automation. Subcontracting can lower the overall labor costs for companies and leverage the expertise of subcontracting partners in their respective fields to enhance operational efficiency.

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In addition, as urban services expand to include landscaping and engineering, material costs also constitute a significant portion of the overall costs. The main materials include concrete and seedlings. According to the National Nursery and Flower Price Index Platform 國家苗木花卉價格指數平台, the price of seedlings has remained relatively stable from 2021 to 2023. Based on the price monitoring data from the Hunan Provincial Price Monitoring and Analysis Center (湖南省價格監測分析中心), the price of concrete, the main material for landscaping projects, has remained relatively stable from 2019 to 2021.

Therefore, as advised by CIA, the property management industry, being a weak cyclical industry, experiences relatively stable changes in labor and material costs, and it is expected that these costs will continue to rise in the future as a whole.

The following chart sets forth the historical and projected average annual wages of urban non-private employees in Changsha for the years indicated:



Source: Changsha Bureau of Statistics, sorted out by CIA

COMPETITION

Overview

The property management services, urban services and commercial operation services markets in the PRC is fragmented and highly competitive. There are more than 200,000 participants in the property management industry, as of December 31, 2022. In 2022, the Top 100 Property Management Companies in PRC accounted for approximately 49.1% of the market share in terms of GFA under management in the PRC property management market. We ranked the 49th among the Top 100 Property Management Companies in China in 2023.

The property management market, urban services market and commercial operation services market in Hunan Province are all highly fragmented, with a total of about 8,000 property management companies. There are about 3,600 major suppliers of urban services in Hunan Province which include property management companies and other types of companies.

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The following tables set forth the ranking among the 2022 Top 100 Property Management Companies in China headquartered in Hunan Province in terms of total revenue from all business segments:

Ranking	Company	Revenue <i>(Million RMB)</i>	Market Share <i>(%)</i>
1	Company B	Over 640	More than 1.07
2	Company A	Over 530	More than 0.95
3	Our Group	529	0.94
4	Company D	Below 510	Less than 0.89
5	Company E	Below 330	Less than 0.54
6	Company C	Below 210	Less than 0.37
7	Company F	Below 200	Less than 0.36

The following tables set forth the ranking among the 2022 Top 100 Property Management Companies in China headquartered in Hunan Province in terms of GFA under management of property management services:

Ranking	Company	GFA under Management <i>(Million sq.m.)</i>	Market share <i>(%)</i>
1	Company A	Over 16.4	More than 1.05
2	Company B	Over 15.2	More than 0.98
3	Our Group	10.3	0.66
4	Company C	Below 10.2	Less than 0.65
5	Company D	Below 10.1	Less than 0.64
6	Company E	Below 6.2	Less than 0.40
7	Company F	Below 6.0	Less than 0.39

Many participants in the property management market typically focus on providing property management services, while only a few service providers successfully integrated property management services with urban services, and achieved a balanced service quality in each segment. We were honored as 2023 Leading Smart City Service Companies in China (2023中國智慧城市服務領先企業) and 2023 Leading Specialized Property Management Companies in China (2023中國特色物業服務領先企業) for our city lighting business and we were also honored as 2023 China Excellent Brand in City Service of Property Service Companies (2023中國城市服務優秀物業品牌企業), 2023 Property Brand Worthy of Attention in Capital Market (2023值得資本市場關注的物業品牌) and 2023 Brand of Property Service Companies in Central China (2023華中區域物業服務品牌企業). As a professional provider of urban services and operation, we have actively laid out three segments: property management services, urban services and commercial operation services. The increasingly diversified business portfolio will substantially strengthen our group’s comprehensive advantages.

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The following tables set forth the ranking among the Top 100 Property Management Companies in China headquartered in Hunan Province in terms of revenue generated from urban services in 2022:

Ranking	Company	Revenue from Urban Service (Million RMB)	Market share (%)
1	Our Group	274	0.42
2	Company B	Below 272	Less than 0.41
3	Company D	Below 220	Less than 0.34
4	Company E	Below 42	Less than 0.06
5	Company C	Below 40	Less than 0.06
6	Company F	Below 31	Less than 0.05
7	Company A	Below 29	Less than 0.05

Notes:

- (1) Urban service projects are not measured by GFA (a measurement designated exclusively for property management services and commercial operation services).
- (2) Company A is an SOE, established in 2006, registered in Changsha, Hunan Province, mainly located in Changsha, Jinan, Chongqing, Tianjin, Beijing and other cities, principally engaged in providing services for high rise residential buildings, office buildings, hotels, commercial complexes, public constructions, etc.
- (3) Company B is an SOE, established in 1997, registered in Changsha, Hunan Province, principally engaged in providing services for administrative organs, enterprises and public institutions, industrial parks, residential property and municipal sanitation operations, urban order management, landscaping maintenance, conference and exhibition services, and other urban services, with business in more than 30 cities including Hunan Province, Jiangxi Province, and other places.
- (4) Company C is a private company, established in 2018 without real estate background, registered in Changsha, Hunan Province, mainly located in Changsha, principally engaged in providing services for a wide range of industries such as residential properties, office properties, public constructions, commercial properties, industrial parks, etc.
- (5) Company D is an SOE, established in 2016, registered in Changsha, Hunan Province, laid out cities in Hunan, Guangxi, Anhui, Hebei, Beijing and Xinjiang, providing urban operation services, city living services and city renewal services.
- (6) Company E is a private company established in 2002, registered in Changsha, Hunan Province, principally engaged in providing services for a wide range of industries such as commercial complexes, premium residential buildings, premium office buildings, international airports, government agencies, financial and medical units, etc.
- (7) Company F is a private company established in 1999, registered in Xiangtan, Hunan Province, principally engaged in property management, housing rental, housekeeping services, landscaping and other related industries, and providing services for ordinary residences, villas, premium commercial and residential buildings, office buildings and school districts.
- (8) As of Latest Practicable Date, there are no property management and urban service listed companies headquartered in Hunan Province.

Source: Official website of the company; WeChat official account of the company; CIA

INDUSTRY OVERVIEW

In the commercial operation market, our market share in terms of GFA under management in Hunan Province in 2022 was approximately 0.96% of the commercial operation services market in Hunan Province, and our market share in terms of GFA under management in Changsha in 2022 was approximately 3.21% of the commercial operation services market in Changsha.

The following table sets forth the ranking among commercial operation companies in terms of GFA under management in Hunan Province in 2022:

Ranking	Company	GFA under Management in Hunan Province (Million sq.m.)	Market share (%)
1	China Resources Mixc Lifestyle Limited (華潤萬象生活有限公司)	Over 1.19	More than 1.48
2	Company G	Over 1.18	More than 1.47
3	Company H	Over 1.08	More than 1.34
4	The Wharf (Holdings) Limited (九龍倉集團有限公司)	Over 1.00	More than 1.25
5	Company I	Over 0.90	More than 1.12
6	Our Group	0.77	Less than 0.96
7	Company J	Below 0.52	Less than 0.65

Notes:

- (1) China Resources Mixc Lifestyle Limited (華潤萬象生活有限公司) is an SOE established in 2017 and listed on the Stock Exchange. It primarily provides residential property management, community value added services, commercial operational services, commercial subleasing services, and other services, with business layout of 68 cities.
- (2) Company G is a private company established in 2007. Its businesses mainly include commercial operation services, property management services, and value-added services.
- (3) Company H is a private company established in 1995 and headquartered in Changsha, Hunan Province. It primarily provides commercial operation services, business consulting services, and marketing planning services.
- (4) The Wharf (Holdings) Limited (九龍倉集團有限公司) was established in 1886 and listed on the Stock Exchange. Its businesses currently comprise investment properties, hotels and development properties in Hong Kong and China, and its other businesses include logistics infrastructure through modern terminals and Hong Kong air cargo terminal.
- (5) Company I is a private company established in 2016 and headquartered in Changsha, Hunan Province. Its businesses primarily include commercial operation services, industrial park investment, real estate development, and property management.
- (6) Company J is a private company established in 2018, with its business focuses mainly on commercial property development, commercial operation services, commercial asset acquisition, and commercial investment management.

Source: Official website of the company; WeChat official account of the company; CIA

INDUSTRY OVERVIEW

Our Competitive Strengths

For details, please refer to the section headed “Business – Our Strengths” in this document.