

13 May 2022

To: *The Independent Board Committee and the Independent Shareholders of
Xinji Shaxi Group Co., Ltd*

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO ACQUISITION OF THE ENTIRE
EQUITY INTERESTS IN THE TARGET COMPANIES**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisitions, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 13 May 2022 (the “**Circular**”), of which this letter of advice forms part. Unless the context requires otherwise, capitalised terms used in this letter of advice shall have the same meanings as defined in the Circular.

References are made to (i) the announcement of the Company dated 15 March 2022 in relation to, among other things, the Acquisitions (the “**Announcement**”); and (ii) the Circular.

Share Transfer Agreement I

On 15 March 2022 (after trading hours of the Stock Exchange), the Purchaser, an indirect wholly-owned subsidiary of the Company, Vendor I, Target Company I and Guarantors I entered into the Share Transfer Agreement I pursuant to which the Purchaser conditionally agreed to acquire and Vendor I conditionally agreed to dispose of Sale Shares I, representing the entire equity interests in Target Company I, at the total consideration of RMB75.00 million. Guarantors I have irrevocably and unconditionally guaranteed on a joint and several basis to the Purchaser the due performance of the obligations and undertakings of Vendor I under the Share Transfer Agreement I during the Guaranteed Period. Upon completion of Share Transfer I, Target Company I will become an indirect wholly-owned subsidiary of the Company.

Share Transfer Agreement II

On 15 March 2022 (after trading hours of the Stock Exchange), the Purchaser, Vendor II, Target Company II and Guarantors II entered into the Share Transfer Agreement II pursuant to which the Purchaser conditionally agreed to acquire and Vendor II conditionally agreed to dispose of Sale Shares II, representing the entire equity interests in Target Company II, at the total consideration of RMB24.00 million. Guarantors II have irrevocably and unconditionally guaranteed on a joint and several basis to the Purchaser the due performance of the obligations and undertakings of Vendor II under the Share Transfer Agreement II during the Guaranteed Period. Upon completion of Share Transfer II, Target Company II will become an indirect wholly-owned subsidiary of the Company.

Listing Rules implications

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of each of the Acquisitions, on a standalone basis, and the applicable percentage ratios of Share Transfer II when aggregated with Share Transfer I in accordance with Rule 14.22 of the Listing Rules, are more than 5% but less than 25%, the Acquisitions constitute discloseable transactions on the part of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Vendor I is ultimately beneficially owned as to 95.00% in aggregate by (i) Mr. Cheung, being an executive Director, the chairman of the Board and a controlling shareholder of the Company; (ii) Mr. Mei, being an executive Director and a controlling shareholder of the Company; and (iii) Mr. Zhang, being an executive Director and a controlling shareholder of the Company. Accordingly, Vendor I is an associate of Mr. Cheung, Mr. Mei and Mr. Zhang and a connected person of the Company. Share Transfer I constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular, independent financial advice and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, Vendor II is ultimately beneficially owned as to 52.50% in aggregate by Mr. Cheung, Mr. Mei and Mr. Zhang. Accordingly, Vendor II is an associate of Mr. Cheung, Mr. Mei and Mr. Zhang and a connected person of the Company. Share Transfer II constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular, independent financial advice and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on the terms of the Share Transfer Agreements and the transactions contemplated thereunder. We, Red Solar Capital Limited, have been appointed with the approval of the Independent Board Committee as the Independent Financial Adviser to provide advice and recommendation to the Independent Board Committee and the Independent Shareholders in the same regard and on how to vote at the EGM.

OUR INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, save for this engagement of us as the Independent Financial Adviser, no other relationship has been formed and no direct engagement has been performed between the Group, the other party(ies) to the Acquisitions, or a close associate or core connected person of any of them and us. As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Group, the Target Companies, the Vendors, the Guarantors I, the Guarantors II or other parties that could reasonably be regarded as relevant to our independence. Apart from the normal advisory fee payable to us in connection with our engagement as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company and its subsidiaries or their respective substantial shareholders or any party acting in concert, or presumed to be acting in concert, with any of them. Accordingly, we considered that we are independent to act as the Independent Financial Adviser in respect of the Acquisitions pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the information and facts supplied, opinions expressed, statements and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Announcement and the Circular). We have reviewed the documents including but not limited to (i) the Share Transfer Agreements; (ii) the Circular and the Letter from the Board contained therein; (iii) the annual report and the interim report of the Company for the year ended 31 December 2020 and the six months ended 30 June 2021, respectively (the “**2020 Annual Report**” and “**2021 Interim Report**”, respectively) and the annual results announcement of the Company for the year ended 31 December 2021 (the “**2021 Annual Results Announcement**”) dated 25 March 2022; (iv) the Valuation Report prepared by the Valuer; and (v) the relevant supporting documents provided by the Company to formulate our opinion and recommendation. We have assumed that the information and facts supplied, opinions expressed, statements and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the EGM. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Company in the Circular were reasonably made after due enquiry and careful consideration. On top of the aforesaid assumptions, we have (i) obtained all information and documents of the Company which we considered relevant to our assessment of the fairness and reasonableness of the terms of the Acquisitions; (ii) conducted

our own research on the relevant market conditions and trends relevant to the Acquisitions; (iii) reviewed the fairness, reasonableness and completeness of the assumptions and projections relevant to the Acquisitions, including but not limited to, the Valuation; and (iv) assessed the independence, qualifications, expertise and experience of the Valuer and its terms of engagement with the Company in respect of the Valuation. All of the aforesaid work done have been discussed in detail in the relevant part in this letter of advice. In the course of carrying out the aforesaid work, we were not aware of any material difference between the information and facts supplied, opinions expressed, statements and representations made to us by the management of the Group and those found by us during our independent work, nor had we doubted that any material information or facts may have been omitted. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. Based on all the above, we have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us. We considered that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We therefore considered that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with note 1 to Rule 13.80 of the Listing Rules.

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

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

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of such information. Nonetheless, we have ensured that references were only made to information from credible sources such as governments, authorities or nation-wide institutions which are generally believed to be free from bias and backed by real data. We have also ensured that the information in this letter of advice that has been extracted from published or otherwise publicly available sources generally aligned with other relevant information from other available source or from our own desktop search in respect of similar subject and there is no material conflict therebetween. In this sense, we considered that where information in this letter of advice has been extracted from published or otherwise publicly available sources, such information has been reasonably substantiated.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Acquisitions, we have considered the following principal factors and reasons:

1. Background of and reasons for the Acquisitions

(a) Background information of the Group

With reference to the Letter from the Board, the Group is principally engaged in the operation of shopping malls for hospitality supplies and home furnishings which generated rental revenue in the PRC, with four main business segments, namely (i) shopping malls including three shopping malls for hospitality supplies and two shopping malls for home furnishings; (ii) managed shopping mall; (iii) online shopping mall for sales of hospitality supplies and home furnishings; and (iv) exhibition management business.

The following is a summary of the key financial information of the Group for each of the three years ended 31 December 2021 (the “FY2019”, “FY2020” and “FY2021”, respectively) as extracted from the 2020 Annual Report and the 2021 Annual Results Announcement, respectively:

	For the FY2021 RMB'000 (audited)	For the FY2020 RMB'000 (audited)	For the FY2019 RMB'000 (audited)
Revenue	267,536	287,938	303,083
Operating (loss)/profit	(221,058)	118,888	207,577
(Loss)/Profit for the year	(214,925)	31,911	101,450

	As at 31 December 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)	As at 31 December 2019 RMB'000 (audited)
Total assets	3,100,656	3,288,482	3,289,969
Total liabilities	1,420,917	1,394,118	1,408,200
Net assets	1,679,739	1,894,364	1,881,769

Comparison between FY2019 and FY2020

According to the 2020 Annual Report, the Group's principal activities could be summarised into managing owned/leased portfolio shopping mall which derives revenue from leasing floor areas to the tenants and providing comprehensive and continuous operation and management support to them, and hence the management of the Company reviews the operating results of the Group's business as one segment.

The Group's revenue decreased by approximately RMB15.15 million, or approximately 5.00%, from approximately RMB303.08 million for FY2019 to approximately RMB287.94 million for FY2020. As set out in the 2020 Annual Report, such decrease was mainly attributable to the unfavourable business and economic environment during the year caused by a variety of negative factors including the outbreak of COVID-19, trade disputes between the United States and PRC. While the Group has been able to maintain a profit-making position for FY2020, its operating profit and profit for the year dropped by approximately 42.73% and 68.55%, respectively, due to the aforesaid reasons and significant fair value losses on investment properties.

Comparison between FY2020 and FY2021

The Group's revenue decreased by approximately RMB20.4 million, or approximately 7.09%, from approximately RMB287.94 million for FY2020 to approximately RMB267.54 million for FY2021. According to the 2021 Annual Results Announcement, such decrease could be attributed to the decline in the Group's revenue generated by its shopping malls which was in turn primarily a result of rental concession policies provided for construction enclosure of centers and malls for the impact of COVID-19 pandemic. The Group's operating profit of approximately RMB118.89 million for FY2020 also deteriorated to operating loss of approximately RMB221.06 million for FY2021, which was primarily a result of an increase in fair value losses on investment properties from approximately RMB79.27 million to RMB401.52 million between the aforesaid years.

Prospects

As reflected in the 2020 Annual Report, 2021 Interim Report and 2021 Annual Results Announcement, the management of the Company determined to maintain the model of rapid development of light asset projects to further expand the market share and brand influence of Xinji Shaxi. In addition, the Company intended to further explore business opportunities that may bring income to the Group in the property management business since the importance of the role of property service companies in creating a safe and secure community environment and providing value-added quality service for owners during the epidemic was realised after the outbreak of COVID-19. The Group also seeks to establish a vertical e-commerce platform for the hospitality supplies industry to adapt to the new business demand and environment under the COVID-19 pandemic.

(b) *Reasons for and benefits of the Acquisitions*

As set out in the Letter from the Board and reflected in the 2020 Annual Report, 2021 Interim Report and 2021 Annual Results Announcement, the Group has been offering property management services to tenants under the property management agreements, focusing on shopping malls, hotel buildings and serviced apartments. The Directors also considered the Group's property management business to be relatively less affected by the COVID-19 outbreak taking into account the growth in the Group's revenue from property management services between FY2020 and FY2021. The Group also intended to further expand its property management business through the Acquisitions as the Directors believed that it could enable the Group to leverage on the established business of the Target Companies to expand the depth and breadth of its property management business encompassing commercial complex in addition to shopping malls for hospitality supplies and home furnishings, which will in turn increase the Group's source of income, reinforce its financial position, increase its brand awareness and further strengthen its overall market position.

In assessment of the Group's intentions and reasons in respect of the Acquisitions, we have considered the following factors:

i. The principal activities of the Target Companies aligned with the Group's business development strategy

Target Company I is the transferee of the Transferred Business I, which comprised of property management business encompassing the management of various commercial complex, pursuant to a business transfer agreement dated 19 October 2021 and entered into between Vendor I and Target Company I. As at the Latest Practicable Date, Target Company I has entered into respective property management services entrustment agreement with various respective property developers regarding a total of five commercial or comprehensive premises, pursuant to which Target Company I will provide management services in respect of the aforesaid premises.

On the other hand, Target Company II is the transferee of the Transferred Business II, which also comprised of property management business encompassing the management of a commercial complex, pursuant to a business transfer agreement dated 23 December 2021 and entered into between Vendor II and Target Company II. As at the Latest Practicable Date, Target Company II has entered into a property management services entrustment agreement with a property developer, pursuant to which Target Company II will provide management services in respect of the commercial complex developed by such property developer which has a total gross floor area of over 58,000 square meters and approximately 90 tenants in total.

Based on the background of Target Company I and Target Company II, and the Group's future plans as set out in the 2020 Annual Report and 2021 Interim Report, we considered that the principal activities of the Target Companies aligned with the development direction of the Group, and hence it is reasonable for the Group to carry out the Acquisitions of the Target Companies.

ii. *The Target Companies could bring stable revenue inflows to the Group after completion of the Acquisitions*

Based on the unaudited management account of Target Company I, from the period since its establishment on 10 August 2021 up to 31 December 2021, Target Company I recorded a net profit before tax of approximately RMB1,506,000 and net profit after tax of approximately RMB1,430,000. Its net asset value as at 31 December 2021 was approximately RMB1,460,000. In addition, as discussed previously, Target Company I has already entered into respective property management services entrustment agreement with various respective property developers regarding a total of five commercial or comprehensive premises, pursuant to which Target Company I will provide management services thereto, as at the Latest Practicable Date. Pursuant to such property management services entrustment agreements, the premises managed by Target Company I have an aggregate gross floor area of over 220,000 square meters and over 3,700 tenants in total.

On the other hand, although Target Company II has a relatively shorter business track record, it has also already entered into a property management services entrustment agreement with a property developer to provide management services for a commercial complex having a total gross floor area of over 58,000 square meters and approximately 90 tenants in total as at the Latest Practicable Date.

Taking into account the financial track record of Target Company I, and that both the Target Companies have secured various property management services entrustment agreements with property developers, we considered that the Target Companies will be able to bring stable revenue inflows to the Group after completion of the Acquisitions.

Considering that (i) the principal activities of the Target Companies aligned with the Group's principal business and future development strategy; (ii) Target Company I is already in profit-making position according to its financial track record; and (iii) both Target Companies have already secured various property management services entrustment agreements with property developers which implied that they will be able to bring stable revenue inflows to the Group after completion of the Acquisitions, we considered the Acquisitions to be reasonable and beneficial to, and in the interest of, the Group.

2. Principal terms of the Share Transfer Agreements

(a) The Share Transfer Agreement I

The principal terms of the Share Transfer Agreement I are summarised as follows:

- Date: 15 March 2022 (after trading hours of the Stock Exchange)
- Parties:
- (1) Guangzhou Xinji Jiuxing Service Co., Ltd.* (廣州信基玖星服務有限公司), as purchaser;
 - (2) Guangzhou Xinji Property Management Co., Ltd.* (廣州市信基物業管理有限公司), as vendor;
 - (3) Guangzhou Xinji Youxiang Property Co., Ltd.* (廣州信基優享物業有限公司), as target company;
 - (4) Guangzhou Yishen Commercial Operation Co., Ltd.* (廣州億樂商業營運有限公司), as guarantor;
 - (5) Mr. Cheung Hon Chuen (張漢泉), as guarantor;
 - (6) Mr. Mei Zuoting (梅佐挺), as guarantor; and
 - (7) Mr. Zhang Weixin (張偉新), as guarantor

Assets to be acquired

The Purchaser has conditionally agreed to acquire and Vendor I has conditionally agreed to dispose of Sale Shares I, representing the entire equity interests in Target Company I.

Consideration I and payment terms

The total consideration for the sale and purchase of Sale Shares I is RMB75.00 million, which shall be payable by the Purchaser to Vendor I in the following manner:

- (a) RMB11.25 million, representing 15.0% of the consideration as the first instalment, shall be payable within five business days upon fulfilment or waiver of all the conditions precedent under the Share Transfer Agreement I;
- (b) RMB26.25 million, representing 35.0% of the consideration as the second instalment, shall be payable within thirty days upon transfer of the entire equity interests in Target Company I to the Purchaser;
- (c) RMB18.75 million, representing 25.0% of the consideration as the third instalment, shall be payable before 31 January 2023; and
- (d) RMB18.75 million, representing 25.0% of the consideration as the final instalment, shall be payable before 31 January 2024.

Vendor I and the Purchaser shall bear their respective costs and expenses, including but not limited to the fees and taxes charged by the relevant government authorities, incurred from the execution and performance of the Share Transfer Agreement I.

Basis of determining Consideration I

Consideration I was determined after arm's length negotiations between Vendor I and the Purchaser with reference to the valuation of the entire equity interests in Target Company I of approximately RMB75.06 million as at 31 December 2021 carried out by the Valuer using the comparable transaction method under market approach, which in turn was based on the historical net profit of approximately RMB6.20 million generated from Transferred Business I for the year ended 31 December 2021 (which comprised of the net profit generated from Transfer Business I of approximately RMB5.30 million for the ten-month period from 1 January 2021 to 30 October 2021 based on the financial information provided by Vendor I and the net profit of approximately RMB0.90 million for the two-month period from 1 November 2021 to 31 December 2021 based on the management accounts of Target Company I) and the median price-to-earnings ratio of approximately 12.1 derived from comparable transactions relating to acquisition of companies with majority of revenue generated from real estate property management and related businesses in the PRC.

The Company intends to satisfy Consideration I by utilising part of the IPO Net Proceeds as well as the internal resources of the Group.

Conditions Precedent I

Completion of Share Transfer I is conditional upon fulfilment or waiver (as the case may be) of various conditions precedent. Please refer to the paragraphs headed “Conditions Precedent I” in the Letter from the Board for details.

Profit Guarantee I

Vendor I irrevocably and unconditionally guaranteed to the Purchaser and Target Company I that the accumulated audited net profit after tax of Target Company I solely derived from Transferred Business I for the Guaranteed Period shall be not less than RMB31 million.

The amount of Guaranteed Profit I was determined after arm’s length negotiations between Vendor I and the Purchaser with reference to (i) the historical net profit of approximately RMB6.20 million generated from Transferred Business I for the year ended 31 December 2021; and (ii) the 5-year Guaranteed Period.

In the event that the actual accumulated audited net profit after tax (excluding any extraordinary or exceptional items) solely derived from Transferred Business I for the Guaranteed Period is less than Guaranteed Profit I, Vendor I shall pay such shortfall to Target Company I in cash on dollar-for-dollar basis within five business days upon receipt of notice in writing from the Purchaser.

The Company will publish further announcement(s) to inform the Shareholders whether Guaranteed Profit I have been met and comply with the disclosure requirements under Rules 14.36B and 14A.63 of the Listing Rules if the actual performance fails to meet Guaranteed Profit I. The Company will also disclose whether the actual performance of Target Company I solely derived from Transferred Business I for the Guaranteed Period meet Guaranteed Profit I in its next annual report as required under Rules 14.36B(3) and 14A.63(3) of the Listing Rules.

Other undertakings given by Vendor I

Vendor I irrevocably undertakes to the Purchaser the following:

- (a) in the event that the actual operating expenses on the date of completion of Share Transfer I is more than 5% over the estimated amount of operating expenses set out in the financial statements of Target Company I, Vendor I shall pay such discrepancy to Target Company I; and

- (b) in the event that Target Company I suffers from losses or incurred liabilities during the Guaranteed Period as a result of certain matters which took place prior to the execution of the Share Transfer Agreement I, Vendor I shall compensate all losses of Target Company I arising thereto in accordance with the relevant PRC laws.

Guarantee

Guarantors I have irrevocably and unconditionally guaranteed on a joint and several basis to the Purchaser the due performance of the obligations and undertakings of Vendor I under the Share Transfer Agreement I during the Guaranteed Period.

(b) The Share Transfer Agreement II

The principal terms of the Share Transfer Agreement II are summarised as follows:

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| Date: | 15 March 2022 (after trading hours of the Stock Exchange) |
| Parties: | (1) Guangzhou Xinji Jiuxing Service Co., Ltd.* (廣州信基玖星服務有限公司), as purchaser; |
| | (2) Foshan Xinji Plaza Management Co., Ltd.* (佛山信基廣場經營管理有限公司), as vendor; |
| | (3) Foshan Xinji Youxiang Commercial Service Co., Ltd.* (佛山信基優享商業服務有限公司), as target company; |
| | (4) Xinji Group Company Limited* (信基集團有限公司), as guarantor; |
| | (5) Mr. Cheung Hon Chuen (張漢泉), as guarantor; |
| | (6) Mr. Mei Zuoting (梅佐挺), as guarantor; and |
| | (7) Mr. Zhang Weixin (張偉新), as guarantor |

Assets to be acquired

The Purchaser has conditionally agreed to acquire and Vendor II has conditionally agreed to dispose of Sale Shares II, representing the entire equity interests in Target Company II.

Consideration II and payment terms

The total consideration for the sale and purchase of Sale Shares II is RMB24.00 million, which shall be payable by the Purchaser to Vendor II in the following manner:

- (a) RMB3.6 million, representing 15% of the consideration as the first instalment, shall be payable within five business days upon fulfilment or waiver of all the conditions precedent under the Share Transfer Agreement II;
- (b) RMB8.4 million, representing 35% of the consideration as the second instalment, shall be payable within thirty days upon transfer of the entire equity interests in Target Company II to the Purchaser;
- (c) RMB6.0 million, representing 25% of the consideration as the third instalment, shall be payable before 31 January 2023; and
- (d) RMB6.0 million, representing 25% of consideration as the final instalment, shall be payable before 31 January 2024.

Vendor II and the Purchaser shall bear their respective costs and expenses, including but not limited to the fees and taxes charged by the relevant government authorities, incurred from the execution and performance of the Share Transfer Agreement II.

Basis of determining Consideration II

Consideration II was determined after arm's length negotiations between Vendor II and the Purchaser with reference to the valuation of the entire equity interests in Target Company II of approximately RMB24.69 million as at 31 December 2021 carried out by the Valuer using the discounted cash flow method of the income approach.

The Company intends to satisfy Consideration II by utilising part of the IPO Net Proceeds as well as the internal resources of the Group.

Conditions Precedent II

Completion of Share Transfer II is conditional upon fulfilment or waiver (as the case may be) of various conditions precedent. Please refer to the paragraphs headed "Conditions Precedent II" in the Letter from the Board for details.

Profit Guarantee II

Vendor II irrevocably and unconditionally guaranteed to the Purchaser and Target Company II that the accumulated audited net profit after tax of Target Company II solely derived from Transferred Business II for the Guaranteed Period shall be not less than RMB17.29 million.

The amount of Guaranteed Profit II was determined after arm's length negotiations between Vendor II and the Purchaser with reference to the forecasted net profit to be generated from Transferred Business II during the Guaranteed Period.

In the event that the actual audited accumulated net profit after tax (excluding any extraordinary or exceptional items) solely derived from Transferred Business II for the Guaranteed Period is less than Guaranteed Profit II, Vendor II shall pay such shortfall to Target Company II in cash on dollar-for-dollar basis within five business days upon receipt of notice in writing from the Purchaser.

The Company will publish further announcement(s) to inform the Shareholders whether Guaranteed Profit II have been met and comply with the disclosure requirements under Rules 14.36B and 14A.63 of the Listing Rules if the actual performance fails to meet Guaranteed Profit II. The Company will also disclose whether the actual performance of Target Company II solely derived from Transferred Business II for the Guaranteed Period meet Guaranteed Profit II in its next annual report as required under Rules 14.36B(3) and 14A.63(3) of the Listing Rules.

Other undertakings given by Vendor II

Vendor II irrevocably undertakes to the Purchaser the following:

- (a) in the event that the actual operating expenses on the date of completion of Share Transfer II is more than 5% over the estimated amount of operating expenses set out in the financial statements of Target Company II, Vendor II shall pay such discrepancy to Target Company II; and
- (b) in the event that Target Company II suffers from losses or incurred liabilities during the Guaranteed Period as a result of certain matters which took place prior to the execution of the Share Transfer Agreement II, Vendor II shall compensate all losses of Target Company II arising thereto in accordance with the relevant PRC laws.

Guarantee

Guarantors II have irrevocably and unconditionally guaranteed on a joint and several basis to the Purchaser the due performance of the obligations and undertakings of Vendor II under the Share Transfer Agreement II during the Guaranteed Period.

3. Our analysis on the principal terms of the Share Transfer Agreements

(a) The basis of determining Consideration I and Consideration II

As set out in the Letter from the Board, both Consideration I and Consideration II were determined with reference to, among other things, the valuation reports prepared by the Valuer in respect of each of the Target Companies. Accordingly, we have conducted the following assessment and analysis into the fairness and reasonableness of the Consideration I and Consideration II, respectively.

(b) Our due diligence work on the Valuer's background, qualifications and experiences

We have interviewed the Valuer and conducted an enquiry into their qualifications and experiences. According to our interview and the information provided by the Valuer, we noted that Mr. Vincent Pang, a managing director of the Valuer and the signor of the Valuation Report, is a member of CFA Institute, a fellow member of Hong Kong Institute of Certified Public Accountants and CPA Australia and a member of Royal Institution of Chartered Surveyors. Mr. Vincent Pang has over 20-year experience in financial valuation and business consulting in Hong Kong and the PRC. We have also obtained information on the Valuer's track records on other business valuations and noted that the Valuer had been the valuer for a wide range of private companies in Hong Kong and the PRC. As such, we are of the view that Mr. Vincent Pang and the Valuer are qualified, experienced and competent in performing business valuations and providing a reliable opinion in respect of the valuation of the Target Companies.

We have also enquired with the Valuer as to its independence from the Group and the various parties to the Share Transfer Agreements and were given to understand that the Valuer is an Independent Third Party of the Group and its connected persons. The Independent Valuer also confirmed to us that it was not aware of any relationship or interest between itself and the Group or any other parties that would reasonably be considered to affect its independence to act as an independent valuer for the Company. The Independent Valuer confirmed to us that apart from normal professional fees payable to it in connection with its engagement for the valuation, no arrangements exist whereby it will receive any fee or benefit from the Group and its associates.

Furthermore, we also noted from the engagement letter entered into between the Company and the Valuer that the scope of work was appropriate for the Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Valuer in the Valuation Report.

In light of the above, we are not aware of any matters that would cause us to question the Valuer's expertise and independence and we consider that the Valuer has sufficient expertise and is independent to perform the valuation of the Target Companies.

(c) *Basis and assumptions adopted in the Valuation Report*

We have reviewed the Valuation Report and understand that the Valuation Report was prepared in compliance with the requirements of International Valuation Standards ("IVS") on business valuation published by The International Valuation Standards Council. We also noted that the conclusion of value therein relied on the use of a number of assumptions. We have reviewed such assumptions and considered them to be general and commonly adopted assumptions in other valuation reports. Since no other unusual matters had come to our attention in this respect, we considered the basis and assumptions adopted in the Valuation Report to be fair and reasonable.

(d) *Valuation methodology*

We have discussed with the Valuer on the methodology adopted in valuing the Target Companies as at the valuation date and noted they had considered the three generally accepted valuation approaches, namely the income approach, the market approach and the cost approach. According to the Valuation Report:

"Income Approach:"

The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset.

The fundamental method for income approach is the discounted cash flow ("DCF") method. Under the DCF method, the value depends on the present value of future economic benefits to be derived from ownership of the enterprise. Thus, an indication of the equity value is calculated as the present value of the future free cash flow of a company less outstanding interest-bearing debt, if any. The future cash flow is discounted at the market-derived rate of return appropriate for the risks and hazards of investing in a similar business."

“Cost Approach:

The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history.”

“Market Approach:

The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the assets that are considered to be comparable to the subject asset.

Under the market approach, the comparable company method computes a price multiple for publicly listed companies that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset. The comparable transaction method computes a price multiple using recent sales and purchase transactions of assets that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset.”

According to the Valuer, In the appraisal regarding the fair value of the equity value of Target Company I, they have adopted the market approach due to the following reasons: (i) the property management business has been generating stable income for numerous years before transferring to Target Company I, and the relevant property management contracts have been completely transferred to Target Company I as of the Valuation Date; (ii) the Transferred Business I has recorded net profit for the year ended 31 December 2021 based on the information provided by the management of the Company; and (iii) there are sufficient transactions relating to companies in a similar nature and business to that of Target Company I, in which the transaction price multiples could be served as good proxies.

In the appraisal regarding the fair value of the equity value of Target Company II, the Valuer have adopted Income Approach due to the following reasons: (i) prior to completion of the transfer of the property management business of the Plaza to Target Company II, both the rental business and property management business were operated by Vendor II on a consolidated basis. As a result, the property management business segment is unable to be segregated and hence financial statements in relation to the property management business on standalone basis are not available. Given that Target Company II has been established for less than a month, no meaningful financial metrics of Target Company II could be obtained. Market Approach is therefore considered to be inappropriate in determining the equity value of Target Company II as of the Valuation Date; (ii) pursuant to a business transfer agreement dated 23 December 2021 and entered into between Vendor II and Target Company II, Vendor II transferred its property management business to Target Company II. Target Company II has entered into the relevant property management services entrustment agreement in respect of the Plaza as of the Valuation Date; and (iii) 5-year financial projections of Target Company II with reasonable and valid bases is available as provided by the Management, Income Approach is hence considered to be appropriate for the valuation of the equity value of Target Company II.

(e) *Our analysis on the valuation methodology used in the Valuation Report*

In respect of the market approach adopted in the valuation of Target Company I, we understand that it is a commonly used approach in the open market generally because, given a developed, fair and open market with sufficient market information and the availability of comparable transaction, it could better reflect the expected market price of the subject assets through comparing comparable companies or transactions. We understand that the Valuer specifically adopted the Guideline Transaction Method instead of the Guideline Public Company Method as (i) the stock price of public companies is usually easily affected by short-term market conditions and short-term market speculative activities, whereas the consideration prices of transactions are relatively more stable; and (ii) public companies are usually of a larger market size, which make them less comparable to Target Company I. We agreed with such view of the Valuer, and noted that there are sufficient comparable transactions for the use of Guideline Transaction Method in valuing. Overall, we considered it fair and reasonable to use market approach over other approaches for the valuation of Target Company I as it represents a more direct reflection of the expected market price of Target Company I, and that sufficient comparable transactions were available.

On the other hand, we noted that the Valuer adopted the income approach for the valuation of Target Company II. In assessing whether it is appropriate to adopt the income approach to appraise Target Company II, we have looked into the following factors.

As Target Company II was recently incorporated in 2021 and has been losing making, we considered the cost approach inappropriate as there may not be a high degree of reliability in the value of the asset base of Target Company II, especially when Target Company II was an asset-light company that generally does not rely on a significant amount of fixed assets and equipment during its operation.

On the other hand, we have also assessed whether the market approach is appropriate for appraising Target Company II. Nonetheless, due to the lack of meaningful financial metrics of Target Company II and the early stage of operation of Target Company II, we were unable to identify publicly listed companies in Hong Kong nor subject companies in comparable transactions which were in similar stage of development nor size. Therefore, we agreed that there were insufficient comparable targets with similar size and stage for a meaningful comparison, which is a prerequisite for conducting the market approach. Accordingly, we agree that the market approach is inappropriate for valuing Target Company II.

Finally, we have looked into the IVS where it is set out that the income approach should be used as the primary basis for a valuation under the circumstances when among others, *“reasonable projections of the amount and timing of future income are available for the subject asset, but there are few, if any, relevant market comparables.”*[#] We noted that a 5-year projection, being from 1 January 2022 to 31 December 2026, has been prepared by the management of the Company and adopted in the valuation of Target Company II. As set out in the paragraphs headed “VALUATION” in the Letter of the Board, such valuation constituted a profit forecast (“**Profit Forecast**”) under Rule 14.61 of the Listing Rules and therefore the requirements under Rules 14.60A and 14.62 of the Listing Rules are applicable. Accordingly, the Company:

- (i) obtained a letter from Linksfeld CPA, the reporting accountant of the Company, in which Linksfeld CPA confirmed that in their opinion, so far as the calculations are concerned, the discounted future estimated cash flows, has been properly compiled in all material respects in accordance with the bases and assumptions made by the directors of the Company as set out on in the Valuation; and
- (ii) obtained a letter from the Board confirming that pursuant to the Valuation Report, the Profit Forecast has been made after due and careful enquiry of the Board.

#: <https://www.rics.org/globalassets/rics-website/media/upholding-professional-standards/sector-standards/valuation/international-valuation-standards-rics2.pdf>

Having Considered (i) that the basis and assumptions adopted in the Valuation Report are viewed as fair and reasonable after our review as discussed above; (ii) the aforesaid reasons for not adopting market approach and cost approach in appraising Target Company II; (iii) the availability of a 5-year projection to be adopted in the valuation of Target Company II; (iv) the opinion of Linksfield CPA that, so far as the calculations are concerned, the discounted future estimated cash flows, has been properly compiled in all material respects in accordance with the bases and assumptions made by the directors of the Company as set out on in the Valuation; (v) the confirmation of the Board that pursuant to the Valuation Report, the Profit Forecast has been made after due and careful enquiry of the Board; (vi) that the requirements stipulated under Rule 14.62 of the Listing Rules and the Company's work conducted as a result could safeguard the interest of the Independent Shareholders, we were of the opinion that it is appropriate for the Valuer to adopt income approach in appraising Target Company II.

(f) *Valuation of Target Company I*

We have discussed with the Valuer on their selection criteria of comparable transactions in determining the value of Target Company I and noted that the selection criteria for the comparable transactions are (i) the transaction being announced within two years prior to the Valuation Date; (ii) the transaction having been completed as of the Valuation Date; (iii) the acquiree being principally engaged in the provision of property management and related services (i.e. over 50% of total revenue); (iv) the acquiree being principally operated in the PRC; and (v) the financial information of the transaction being available to the public. We considered the aforesaid selection basis of comparable transactions to be fair and reasonable and in line with market practice.

We have then conducted independent check on the list of selected comparable transactions, which are disclosed on page 83 to 86 of the Circular. During our independent check, we have obtained the source of information of such comparable transactions from the Valuer, and conducted desktop search ourselves to obtain the available information of such comparable transactions for cross-checking. We were not aware of material discrepancy between the data used by the Valuer and the data we obtained during our independent desktop search.

We then understood from the Valuer that they have considered various valuation multiples to be used in the valuation of Target Company I, including price-to-book ("P/B"), price-to-sales ("P/S"), enterprise value/earnings before interests, taxes, depreciation and amortisation ("EV/EBITDA") and price-to-earnings ("P/E") multiples.

The Valuer considered the P/B multiple to be inappropriate for the valuation of Target Company I because book value captures only the tangible assets of a company and, in general, the equity's book value has little bearing with its fair value. Having considered that Target Company I is principally engaged in provision of property management services which is asset-light in general, we agreed with such view of the Valuer for not adopting the P/B multiples.

The Valuer also considered the P/S multiple to be inappropriate as it ignores the cost structure of a company and hence the profitability of a company. We agreed with such point and having also considered that a better alternative, being the P/E multiples, is available, we agreed with such view of the Valuer for not adopting the P/S multiples.

In respect of the EV/EBITDA multiple, according to the Valuer, it uses the market capitalisation of a company as the starting point, considering of the value of debt, minority interest, preferred shares and excludes excess cash and cash equivalents to represent enterprise value, which is then divided by EBITDA amount. However, the use of such multiple requires normalised adjustments on debts and/or non-operating assets/liabilities on Target Company I which may be subjective according to the Valuer. Besides, there is no sufficient publicly available information for deriving the EV/EBITDA multiple of most of the comparable transactions. We agreed with the difficulty in using the EV/EBITDA multiple and hence agreed with such view of the Valuer for not adopting it.

Lastly, the Valuer considered the P/E multiple to be the most appropriate indicator as it is the most relevant and the most commonly used valuation multiple for profit-making business and earnings is one of the most direct drivers of equity value. We understood that P/E multiple, or sometimes called P/E ratio, is indeed an indicator commonly adopted in valuing companies and its use could be widely seen among transactions involving publicly listed companies in Hong Kong and the PRC. As such, we agreed with the Valuer to use the P/E multiple in analysing Target Company I with the comparable transactions.

We noted that the P/E multiples of the companies being the subjects of the comparable transaction ranged from 4.7 to 26.1, with an average of 12.6 and a median of 12.1. We also noted that the Valuer has adopted the median of 12.1 as a benchmark for the valuation of Target Company I as median is less affected by outliers and skewed data, and is usually the preferred measure of central tendency when the distribution is not symmetrical. We agreed with such view, and have also considered that (i) the median of 12.1 is also close to the average of 12.6; (ii) and the median of 12.1 is lower than the average of 12.6, which implied a more conservative valuation than adopting the average.

On the other hand, although we are not a specialist in business valuation and have not made any independent evaluation or appraisal of the assets and liabilities of Target Company I, we have, on a best effort basis, searched for publicly listed companies in Hong Kong which could allow us to conduct independent comparison on the P/E multiple adopted by the Valuer in valuing Target Company I. We have set three selection criteria, being (i) the selected company being principally engaged in property management or related services; (ii) the revenue of the selected company should not exceed RMB100 million to stay comparable in size with Target Company I; and (iii) the selected company being profit-making in its latest audited financial year to allow the calculation of P/E multiple. Based on the aforesaid selection criteria, we were only able to identify Desun Real Estate Investment Services Group Co Ltd (stock code: 2270) as a comparable. Based on its market capitalisation as at 15 March 2022, being the date of the Share Transfer Agreements, of approximately HK\$674.66 million (approximately RMB566.39 million) and its net profit of approximately RMB42.91 million for the year ended 31 December 2020, being its latest audited financial year, the P/E multiple of Desun Real Estate Investment Services Group Co Ltd was approximately 13.20 as at the date of the Share Transfer Agreements. Although such P/E multiple should only be taken for the purpose of reference and should in no way be taken as a specialist opinion, having considered that the median P/E multiple of 12.1 adopted in the Valuer's comparable analysis is lower than the P/E multiple of approximately 13.20 of Desun Real Estate Investment Services Group Co Ltd, a publicly listed company in Hong Kong, which is in line with the common market belief that private companies should have discounted valuation multiple when compared with public companies to account for the lack of liquidity, we are of the view that the median P/E multiple of 12.1 adopted in the Valuer's comparable analysis is fair and reasonable.

Having considered (i) the Valuer's whole comparable analysis; (ii) that we agreed with the adoption of the median P/E multiple of 12.1 in the Valuer's comparable analysis; and that (iii) that the median P/E multiple of 12.1 adopted in the Valuer's comparable analysis is no higher than the P/E multiple of a publicly listed comparable company, we are of the view that the adaptation of the median of 12.1 to be the P/E multiple of valuation of Target Company I, and the subsequent valuation of Target Company I based on such P/E multiple of 12.1 and its trailing 12-month net profit, are fair and reasonable.

(g) Valuation of Target Company II

The valuation of Target Company II was based on a 5-year (from 1 January 2022 to 31 December 2026 (“FY2022”, “FY2023”, “FY2024”, “FY2025”, “FY2026” for each of the five years ending 31 December 2026, respectively)) financial projection of Target Company II. The projected revenue of Target Company II is mainly attributable to the provision of property management services to the tenants of the Foshan Jiujiang Xinji Plaza* (佛山九江信基廣場) (the “Plaza”). We have reviewed the financial projection of Target Company II and noted that the area under management is expected to increase from 44,064 square meters in FY2022 to 48,064 square meters in FY2024, and remain constant afterwards. The effective unit rate is expected to be RMB 14.44 per month per square meter in FY2022, and is expected to gradually increase to RMB 16.92 per month per square meter in FY2026.

Apart from property management income, Target Company II also generates revenue in relation to advertising board and rental activities in the common area of the Plaza, which accounts for approximately 5.3% to 6.0% of the total revenue. We have reviewed the figures and noted that it remained relatively stable during the period of the Profit Forecast. We also understood that such revenue has been based on the rental income of existing advertising board activities. Having considered the above, we have no doubt on taking into account this part of revenue into the Profit Forecast.

Regarding the projected revenue of Target Company II from the provision of property management services to the tenants of the Plaza, we noted that Target Company II has already entered into the Xinji Plaza Property Management Services Entrustment Agreement (the “**Entrustment Agreement**”) with the property developer of the Plaza pursuant to which the property developer of the Plaza shall entrust Target Company II to provide property management services in relation to the operation of the Plaza for a term covering FY2022, FY2023 and FY2024. It is also stipulated in the Entrustment Agreement that Target Company II shall have the right to renew the Entrustment Agreement on substantially the same terms and conditions for successive terms of three years each commencing from the day next after the expiry of the then current term. Besides, we also understood that the Group has established good relationship with the property developer of the Plaza and the Directors were not aware of any factor which may hinder the renewal of the Entrustment Agreement. Based on all the above, we had no doubt on including the revenue of Target Company II from the provision of property management services to the tenants of the Plaza in the financial projection.

We have also enquired into the reason of the expected increase in area under management from 44,064 square meters in FY2022 to 48,064 square meters in FY2024 which will remain constant afterwards. We were given the understanding that approximately 2,000 square meters of such increase were attributable to a potential service contract with a new potential tenant which is in negotiation and which the management considered likely to secure. The remaining expected increase in area under management was made taking into account that certain existing service contracts only covered rents but not management fees due to commercial negotiations at the material time, but will also cover management fees when such contracts renew in FY2024. Having considered the above, obtained and reviewed the relevant communication record and documents and that the Company did not take into account any other increase in expected area under management other than the aforesaid, we considered the expected increase in area under management fair and reasonable.

On the other hand, we have studied the Property Services Price Index Research Report For 2021* (2021年中國物業服務價格指數研究報告) (the “**Research Report**”) published by the China Index Academy^{#1}, being the latest research report in relation to property services published by the China Index Academy, in order to obtain more insight on the property management industry in the PRC. We noted from the website of the China Index Academy^{#2} that it is a reputable research institution focusing on the areas of property and related services pricing and has certain of its research work awarded by the National Development and Reform Commission of the PRC Government. It is also stated that the National Bureau of Statistics of the PRC Government has jointly issued the China Real Estate Statistics Yearbook with the China Index Academy for 16 consecutive years. Based on the above, we considered that the China Index Academy is a recognised and credible research institution and it is appropriate to make reference to its research data. According to the Research Report, the Property Services Price Comprehensive Index In 20 Major Cities, which was compiled by the China Index Academy (i) based on the prevailing conditions and developments of the property management industry in the PRC; (ii) based on their research experience; and (iii) covered property services in 20 major cities in the PRC including Guangzhou, for December 2021 increased by approximately 0.43% when compared to that for December 2020, and such increase is higher than the increase in the same index between December 2019 and December 2020 of approximately 0.15%. At the same time, Such index also increased by approximately 0.09% when comparing between November 2021 and December 2021. Having considered the above, we agreed that the price of property management services in the PRC have been gradually increasing in both the past year and recent months. Having also considered that the GDP per capita of the PRC has been growing from 2017 to 2020 and was expected to continue growing afterwards by the International Monetary Fund as disclosed in page 76 of the Circular, which we considered to be likely to continue to drive the demand for economic activities in shopping malls which would in turn drive the demand for commercial property renting and management services and the relevant service prices, we have no doubt on the expected increase in the unit rate of property management services in the Profit Forecast.

^{#1}: <https://www.waitang.com/report/41194.html>

^{#2}: <https://academy.cih-index.com/>

As the adoption of the discounted cash flow method requires an appropriate discount rate for Target Company II, we noted that the Valuer had used the Capital Asset Pricing Model (the “CAPM”) to estimate the cost of equity, which is then used to calculate the weighted average cost of capital (“WACC”) for discounting the future cashflow projection into present value. In arriving at the cost of equity, the Valuer took into account various factors including (i) risk-free rate; (ii) systematic risk (“Beta”); and (iii) equity market premium.

We understood that the CAPM technique is widely accepted for the purpose of estimating required rate of return on equity. Besides, the Valuer adopted 2.78% as risk-free rate, which was determined with the yield-to-maturity of the government bond with the longest maturity (plus term premium) in the PRC, which we considered to be justifiable.

In addition, we noted that the Valuer calculated re-leveled Beta based on comparable companies with certain criteria, including:

- (i) The companies are primarily engaged in the provision of property management services;
- (ii) The business activities of the companies with majority of revenue generated from property management services in the PRC;
- (iii) The companies are listed in the Stock Exchange with more than 3 years’ listing period; and
- (iv) The financial information of the companies is available to the public.

We have obtained and reviewed the list of comparable companies used for the purpose of calculating the re-leveled Beta and noted that the comparable companies selected met the selection criteria as aforementioned. We have no doubt on the representativeness of the comparable companies used for the calculation of re-leveled Beta by the Valuer.

Furthermore, the Valuer has taken into account small size premium and company specific premium when calculating the final cost of equity to be adopted. The former was to account for the risk associated with general small scale companies, while the latter was to account for the uncertainties in achieving the financial projections and future operational risks given that Target Company II has relatively short operating history, as well as the concentration risk with a single mall’s operation. We have no doubt on including such premiums into the final cost of equity to be adopted as the adaptation of such premiums was in line with the conditions of Target Company II.

After considering all the above, the Valuer adopted 15.34% as the cost of equity.

In arriving at the cost of debt, the Valuer has adopted the 5 Years Loan Prime Rate of the People's Bank of China of 4.65%, which we considered to be justifiable. The after-tax cost of debt was 3.49% after considering a tax rate of 25% in the PRC.

Having also considered the equity and debt ratio of Target Company II, the Valuer has adopted a WACC of 15.00% in the valuation of Target Company II.

Based on all the above information and documents supplied to us in respect of the valuation of Target Company II, and having considered (i) the opinion of Linksfield CPA that, so far as the calculations are concerned, the discounted future estimated cash flows, has been properly compiled in all material respects in accordance with the bases and assumptions made by the directors of the Company as set out in the Valuation; and (ii) the confirmation of the Board that pursuant to the Valuation Report, the Profit Forecast has been made after due and careful enquiry of the Board; and (iii) we have not identified any material factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the valuation of Target Company II, we considered the valuation of Target Company II to be fair and reasonable.

(h) Conclusion on Consideration I and Consideration II

Having considered (i) our due diligence work on the Valuation Report as discussed in the sections above; (ii) the Consideration I, being RMB75.00 million, for the entire equity interests in Target Company I is close to and slightly less than the valuation of the entire equity interests of Target Company I of RMB75,061,000; and (iii) the Consideration II, being RMB24.00 million, for the entire equity interests in Target Company II is close to and slightly less than the valuation of the entire equity interests of Target Company II of RMB24,692,000, we are of the opinion that the Consideration I and Consideration II for the Acquisitions are fair and reasonable so far as the Independent Shareholders are concerned.

4. Non-competition undertaking and right of first refusal

On 15 March 2022, Mr. Cheung, Mr. Mei and Mr. Zhang executed the Non-Competition Undertaking in favour of the Company pursuant to which Mr. Cheung, Mr. Mei and Mr. Zhang undertakes to the Company that upon completion of the Acquisitions, save for Mr. Cheung, Mr. Mei and Mr. Zhang's indirect interests in the equity interests of Guangzhou Xinji Property and Hubei Xinji Property (which are principally engaged in the provision of property management services for commercial complex), (i) he will not, without the written consent of the Company, either on his account or in conjunction with or on behalf of any person, firm or company, carry on or be engaged, concerned or interested directly or indirectly whether as shareholder, director, partner, agent or otherwise in carrying on any business that is carried on by the Group (including the Target Companies); and (ii) he will procure and cause that each of his associates will observe the restrictions contained in the foregoing provisions of this undertaking.

Each of Mr. Cheung, Mr. Mei and Mr. Zhang further undertakes to dispose of (i) his indirect interests in the equity interests of Guangzhou Xinji Property and Hubei Xinji Property; or (ii) the property management businesses of Guangzhou Xinji Property and Hubei Xinji Property to third party(ies) within one year after completion of the Acquisitions and grants the Company the right of first refusal for purchasing the said equity interests or property management businesses of Guangzhou Xinji Property and Hubei Xinji Property, subject to compliance with the relevant PRC laws.

Such non-competition undertaking does not apply to any interests in the shares of any member of the Group.

Based on the undertakings of each of Mr. Cheung, Mr. Mei and Mr. Zhang that (i) save for their indirect interests in the equity interests of Guangzhou Xinji Property and Hubei Xinji Property, they and their associates will not, without the written consent of the Company, either on his account or in conjunction with or on behalf of any person, firm or company, carry on or be engaged, concerned or interested directly or indirectly whether as shareholder, director, partner, agent or otherwise in carrying on any business that is carried on by the Group (including the Target Companies); and (ii) they will eventually dispose of their indirect interests in the equity interests of Guangzhou Xinji Property and Hubei Xinji Property or their property management businesses within one year after completion of the Acquisitions and that the Company has the right of first refusal for purchasing the said equity interests or property management businesses, we considered the terms of the Non-Competition Undertaking to be in the interests of the Company and its shareholders as a whole, and that the entering into of the Non-Competition Undertaking is fair and reasonable.

RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the opinion that although the Share Transfer Agreements and the transactions contemplated thereunder, being the Acquisitions, are not in the ordinary and usual course of business of the Group, they are (i) justifiable, fair and reasonable; (ii) in the interests of the Company and the Independent Shareholders as a whole; and (iii) the terms of the Share Transfer Agreements, including the Consideration I and Consideration II, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Besides, the terms of the Non-Competition Undertaking entered into between the Company and Mr. Cheung, Mr. Mei and Mr. Zhang are considered to be in the interest of the Company and the Shareholders as a whole and the entering into of such Non-Competition Undertaking is considered fair and reasonable. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Share Transfer Agreements and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
RED SOLAR CAPITAL LIMITED



Leo Chan
Managing Director

Mr. Leo Chan is a licensed person and responsible officer of Red Solar Capital Limited registered with the SFC to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 16 years of experience in corporate finance industry.