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22 November 2024

To the Independent Board Committee and the Independent Shareholders

Clifford Modern Living Holdings Limited
7th Floor
Chai Wan Industrial City, Phase II
70 Wing Tai Road
Chai Wan
Hong Kong

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS:
(1) 2024 MASTER TENANCY AGREEMENTS; AND
(2) 2024 MASTER COMPOSITE SERVICES AGREEMENTS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2024 MTA No.1, the 2024 MCSAs and the transactions contemplated thereunder (including the respective annual caps thereof). Details of which are set out in the "Letter from the Board" contained in the circular of the Company dated 22 November 2024 (the "**Circular**"). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

香港中環永和街21號

The 2024 MTAs

On 16 October 2024, for the purpose of replacing the 2021 Master Tenancy Agreements, the Company (for itself and on behalf of its subsidiaries) (as tenant) entered into the 2024 Master Tenancy Agreements, comprising:

(i) 2024 MTA No.1 made with Clifford Estates Panyu (for itself and on behalf of other 30%-controlled companies of Ms. Wendy Man's Spouse) (as landlord); and

(ii) 2024 MTA No.2 made with Clifford Medical (for itself and on behalf of its subsidiaries) (as landlord),

pursuant to which the respective landlords agreed to lease certain premises to the Group, on and subject to the respective terms and conditions contained therein. Each of 2024 Master Tenancy Agreements has a term of three years commencing from 1 January 2025 to 31 December 2027.

The 2024 MCSAs

On 16 October 2024, for the purpose of replacing the 2021 MCSAs, the Company (for itself and on behalf of its subsidiaries) (as service providers) entered into the 2024 MCSAs, comprising:

(i) 2024 MCSA No.1 made with Clifford Estates Panyu (for itself and on behalf of other 30%-controlled companies of Ms. Wendy Man's Spouse) and Clifford Xianhu Hotel (for itself and on behalf of other members of the WM Non-HC Group) (as receiving parties); and

(ii) 2024 MCSA No.2 made with Clifford Medical (for itself and on behalf of its subsidiaries) (as receiving parties),

pursuant to which the Group agreed to provide to the following services to the respective receiving parties for a term of three years from 1 January 2025 and ending on 31 December 2027: (a) procurement, property management, laundry, resident support, employment placement services and property agency services (collectively "**living services**"); (b) engineering and maintenance services; and (c) telecommunication services, on and subject to the respective terms and conditions contained therein.

LISTING RULES IMPLICATIONS

The 2024 MTA No.1

Ms. Wendy Man is an executive Director, the chief executive officer of the Company, the chairman of the Board and one of the controlling shareholders of the Company, and hence Ms. Wendy Man's associates are connected persons of the Company under Rule 14A.07 of the Listing Rules. As at the Latest Practicable Date, the ultimate controlling shareholder of the Private Group (including Clifford Estates Panyu) is Ms. Wendy Man's Spouse, while that of the WM Healthcare Group (including Clifford Medical) is Ms. Wendy Man. As such, both the Private Group (including Clifford Estates Panyu) and the WM Healthcare Group (including Clifford Medical) are associates of Ms. Wendy Man, and hence connected persons of the Company under the Listing Rules.

The transactions contemplated under 2024 MTA No.1 and 2024 MTA No.2 are not aggregated under Rule 14A.81 of the Listing Rules, for the reasons that (i) the locations of the premises leased under 2024 MTA No.1 and 2024 MTA No.2 respectively are different; (ii) the nature and uses of the premises leased under the 2024 MTAs are different; and (iii) the premises leased under the 2024 MTAs are used as the Group's operation as business outlets, offices or warehouses and/or other related purposes, which are in the ordinary and usual course of its existing business, and hence will not lead to any involvement by the Group in a new business activity.

For 2024 MTA No.1, as all of the applicable percentage ratios (other than the profits ratio) in respect of the largest annual cap thereunder is more than 5% (but less than 25%) and such largest annual cap is more than HK$10 million, the 2024 MTA No.1 and the transactions contemplated thereunder are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

For 2024 MTA No.2, as all of the applicable percentage ratios (other than the profits ratio) in respect of the annual caps thereunder are less than 5% and all of such annual caps are less than HK$3 million, 2024 MTA No.2 and the transactions contemplated thereunder are therefore fully exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The 2024 MCSAs

As described above, both the Private Group (including Clifford Estates Panyu) and the WM Healthcare Group (including Clifford Medical) are connected persons of the Company under the Listing Rules. As for Clifford Xianhu Hotel and the WM Non-HC Group, the ultimate controlling shareholder of the WM Non-HC Group (including Clifford Xianhu Hotel) is Ms. Wendy Man. As such, the members of the WM Non-HC Group (including Clifford Xianhu Hotel) are also associates of Ms. Wendy Man, and hence connected persons of the Company under the Listing Rules.

Accordingly, the entering into of the 2024 MCSAs constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, the transactions contemplated under 2024 MCSA No.1 and 2024 MCSA No.2 are aggregated as if they were one transaction, on the basis that (i) both of them involve the provision of living services, engineering and maintenance services and telecommunication services by the Group which are of similar nature, and (ii) the respective receiving parties, namely, the Private Group, the WM Non-HC Group and the WM Healthcare Group, are all connected persons (as defined under the Listing Rules). As at least one of the applicable percentage ratios (other than the profits ratio) in respect of the aggregate amount of the proposed annual caps under the 2024 MCSAs is more than 25% (but less than 75%) and the annual consideration is more than HK$10 million, the 2024 MCSAs and the transactions contemplated thereunder (including the proposed annual caps thereof) are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the INEDs, namely Ms. LAW Elizabeth, Mr. HO Cham and Mr. MAK Ping Leung, has been established to consider the 2024 MTA No.1, the 2024 MCSAs and the transactions contemplated thereunder (including the respective proposed annual caps) and to give advice and recommendation to the Independent Shareholders as to (i) whether the continuing connected transactions contemplated under the 2024 MTA No.1 and the 2024 MCSAs have been conducted on normal commercial terms, are fair and reasonable and in the interests of the Company and its shareholders as a whole; (ii) whether the proposed annual caps for the continuing connected transactions contemplated under the 2024 MTA No.1 and the 2024 MCSAs are fair and reasonable; and (iii) how the Independent Shareholders should vote in respect of the resolutions relating to the the 2024 MTA No.1, the 2024 MCSAs and the transactions contemplated thereunder (including the respective proposed annual caps) to be proposed at the EGM, taking into account the recommendations of the Independent Financial Adviser.

THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders on (i) whether the continuing connected transactions contemplated under the 2024 MTA No.1 and the 2024 MCSAs have been conducted on normal commercial terms, are fair and reasonable and in the interests of the Company and its shareholders as a whole; (ii) whether the proposed annual caps for the continuing connected transactions contemplated under the 2024 MTA No.1 and the 2024 MCSAs are fair and reasonable; and (iii) how the Independent Shareholders should vote in respect of the resolutions relating to the the 2024 MTA No.1, the 2024 MCSAs and the transactions contemplated thereunder (including the respective proposed annual caps) to be proposed at the EGM.

We have previously acted as the independent finance adviser to the Company with regard to the continuing connected transactions relating to a catering service agreement having a duration longer than three years. Our role as independent financial adviser to the Company is to give an opinion with regards to (i) why a period exceeding three years for the catering service is required and (ii) whether it is normal business practice agreement relating to the catering services to be of such duration. Details of such transaction were set out in an announcement of the Company dated 15 September 2023. Save for the aforesaid transaction, we have not acted as financial adviser or independent financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. Given that (i) the previous continuing connected transactions and the existing continuing connected transactions contemplated under the 2024 MTA No.1 and the 2024 MCSAs are not related (i.e. they are two sets of separate transactions); and (ii) we were and continue to remain independent of and not associated to the Company, its controlling Shareholder(s) or connected person(s) since none of the circumstances as described under Rule 13.84 of the Listing Rules exist, we confirm that by acting as an independent financial adviser to the Company in September 2023 in relation to another continuing connected transactions as mentioned above have no impact on our independence to act as Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders with regards to the continuing connected transactions contemplated under the 2024 MTA No.1 and the 2024 MCSAs. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the the 2024 MTA No.1, the 2024 MCSAs and the transactions contemplated thereunder (including the respective proposed annual caps) is at market level and not conditional upon successful passing of the resolution(s) to be proposed at the EGM, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling shareholder(s) or connected person(s).

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others, (i) the interim report of the Company for the six months ended 30 June 2024 (the "**Interim Report**"); (ii) the annual report of the Company for the year ended 31 December 2023, (the "**Annual Report**"); (iii) the 2024 MTAs; (iv) the 2024 MCSAs; and (v) other information as set out in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Group (the "**Management**"). We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management were reasonably made after due and careful enquiry and were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular. The Directors collectively and individually accept full responsibility for such statements, information, opinions and representations, including particulars given in compliance with the Listing Rules for the purpose of giving information with regards to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any of such statements, information, opinions or representations are untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render them untrue, inaccurate or misleading. We consider that we have been provided with, and have reviewed, sufficient information to reach an informed view and provide a reasonable basis for our opinion. We have not, however, conducted an independent investigation into the business, financial conditions and affairs or future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background Information

1.1 Principal business of the Group

The Group is principally engaged in the provision of five main service segments: property management services, retail services, off-campus training services, information technology services and ancillary living services (which consists of catering services, property agency services, employment placement services and laundry services).

1.2 Principal businesses of the Private Group, the WM Non-HC Group, and the WM Healthcare Group (together, the "Connected Parties")

The Private Group is principally engaged in the businesses of (among others) property development, property investment, hotel investment and management and education in mainland China. Its ultimate controlling shareholder is Ms. Wendy Man's Spouse.

The WM Non-HC Group is principally engaged in the businesses of (among others) hotel operation and information technology in mainland China. Its ultimate controlling shareholder is Ms. Wendy Man.

The WM Healthcare Group is principally engaged in the operation of (among others) hospital and certain ancillary healthcare facilities such as postnatal care centre, elderly care service centre, dental clinic and pharmacy in mainland China. Its ultimate controlling shareholder is Ms. Wendy Man.

2. Reasons for and Benefits of the 2024 MTA No.1 and the 2024 MCSAs

2.1 2024 MTA No.1

The Group has been leasing certain properties from the Private Group, and these properties have been used as the Group's operating or business outlets, offices warehouses, etc. As advised by the Management, as at 31 August 2024, being the latest practicable date for the purpose of this letter, the Group has entered into 45 leases from the Private Group and the WM Healthcare Group with an aggregate gross floor area of approximately 33,395 square meters under the 2021 MTA No.1. Under the 2024 MTA No.1, the Group will continue to lease 44 premises with a total gross floor area of 27,197 sq.m. from the Private Group and will enter into 7 new leases with a total gross floor area of 6,338 sq.m. from the Private Group as described in the "Letter from the Board".

As the Group's businesses have been carried out or situated at the relevant leased properties for at least over 7 years, the Board considered appropriate (in terms of cost, time and operational stability) to continue leasing such properties from the Private Group or the WM Healthcare Group (as the case may be). In addition, relocating any of such leased properties will also incur unnecessary expenses. Accordingly, the Board considered that the renewal of their tenancy is fair and reasonable in order to avoid any material disruptions in the Group's operations.

We have reviewed the full list of properties under the abovementioned 45 leases as at 31 August 2024, including information such as the locations and purposes of such properties. We noted that most of such properties (being used as shops, offices, training centres, catering and warehouse) are located within the premises of Clifford Estates (祈福新邨) which is situated in Panyu District and serve the purpose of providing various services to the estate. After considering the above, as well as the additional time and costs to relocate other offices of the Group to alternative locations, we concur with the Management that the renewal of their tenancy is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered (i) the Group has been from time to time leasing certain premises from various landlords (including but not limited to the Private Group and the WM Healthcare Group) in its usual and ordinary course of business; (ii) the term of the 2024 MTA No.1 being three years commencing from 1 January 2025 and up to 31 December 2027 is consistent with the duration of the 2021 MTAs and a continuation of the 2021 MTAs; (iii) the locations and primary purpose of these leased properties as described above; and (iv) the time and cost of relocation as well as the impact to the Group's operational stability, we are of the view that the entering into of the 2024 MTA No.1 is in the Group's usual and ordinary course of business, and is in the interests of the Company and the Shareholders as a whole.

2.2 2024 MCSAs

We understand from the Management that the Group has been from time to time providing various types of services, including (a) living services; (b) engineering and maintenance services (relating to information technology, security systems and hardware and software integration); and (c) telecommunication services (together, "**Composite Services**") to different customers (including but not limited to the Connected Parties).

Revenue derived from the provision of the composite services amounted to approximately RMB383 million, RMB345 million and RMB182 million for the two years ended 31 December 2022 and 2023, and the six months ended 30 June 2024 respectively, of which approximately RMB59.3 million, RMB45.6 million and RMB20.9 million were derived from transactions with the non-healthcare group and approximately RMB7.6 million, RMB11.2 million and RMB4.1 million were derived from transactions with the healthcare group. Such revenue derived from transactions with the Connected Parties constitute approximately 17.5%, 16.5% and 13.7% of the Group's total revenue for the two years ended 31 December 2022 and 2023, and the six months ended 30 June 2024 respectively.

Having considered (i) the Group has been from time to time providing composite services to various customers (including but not limited to the Connected Parties) in its usual and ordinary course of business; (ii) the abovementioned revenue derived from transactions with the Connected Parties in the past years/period and the Connected Parties represents a solid base of the Group's customers with recurring services demand within the duration of the 2021 MCSAs; (iii) the term of the 2024 MCSAs being three years commencing from 1 January 2025 and up to 31 December 2027 is consistent with the duration of the 2021 MCSAs and a continuation of the 2021 MCSAs, we are of the view that the entering into of the 2024 MCSAs is in the Group's usual and ordinary course of business, and is in the interests of the Company and the Shareholders as a whole.

3. Analysis on the Terms of the 2024 MTA No.1

3.1 Background and principal terms of the 2024 MTA No.1

Pursuant to the 2021 MTA No.1 entered into between Clifford Estates Panyu (for itself and on behalf of other 30%-controlled companies of Ms. Wendy Man's Spouse) (as landlord) and the Company (for itself and on behalf of its subsidiaries) (as tenant), Clifford Estates Panyu agreed to lease certain premises to the Group, on and subject to the respective terms and conditions contained therein.

At the Company's extraordinary general meeting held on 30 December 2021, the then independent shareholders of the Company approved the transactions contemplated under the 2021 MTA No.1 and the annual caps for each of FY2022, FY2023 and FY2024. It is expected that the Company will continue to lease such premises under the 2021 MTA No.1 after 31 December 2024.

On 16 October 2024, for the purpose of replacing the 2021 Master Tenancy Agreements, the Company (for itself and on behalf of its subsidiaries) (as tenant) entered into the 2024 Master Tenancy Agreements, comprising:

(i) 2024 MTA No.1 made with Clifford Estates Panyu (for itself and on behalf of other 30%-controlled companies of Ms. Wendy Man's Spouse) (as landlord); and

(ii) 2024 MTA No.2 made with Clifford Medical (for itself and on behalf of its subsidiaries) (as landlord),

pursuant to which the respective landlords agreed to lease certain premises to the Group, on and subject to the respective terms and conditions contained therein. Each of 2024 MTA No.1 and 2024 MTA No.2 has a term of three years commencing from 1 January 2025 to 31 December 2027.

Principal terms of the 2024 MTA No.1 and the 2024 MTA No.2 are set out in the paragraph headed "Principal terms of the 2024 Master Tenancy Agreements" in the "Letter from the Board" of the Circular.

3.2 Rental of the 2024 MTA No.1

In assessing the fairness and reasonableness of the rental of the 2024 MTA No.1, we noted that the annual rentals payable by the Group under the existing individual tenancy agreements have been determined by the Group with reference to the range of prevailing market rates for each of the premises under the existing individual tenancy agreements as at 31 August 2024 based on the valuation results of an independent property valuer (the "**Independent Valuer**") and the management's assessment of the prevailing market rates for 2024. Valuation results containing the range of prevailing market rent for the properties are contained in the fair rent report (the "**Fair Rent Report**"), which we had reviewed. The Management has considered the Fair Rent Report and made reference to the data on the prevailing rent rates that they have collected during their daily operations, they concur with the views of the Independent Valuer.

The Fair Rent Report provided an independent analysis on the rental levels of the properties, including those under the 45 existing individual leases (representing 45 underlying premises) covered by the 2021 MTA No.1 (the "**Properties**") as of 31 August 2024 showing that the monthly rental payable. Pursuant to our interview with the Independent Valuer and our discussion with the Management, we understand that they were not aware of any material change in the property market in mainland China and Hong Kong from 31 August 2024, being the date of the Fair Rent Report, up to the Latest Practicable Date. As such, we believe the Fair Rent Report provides a fair and reasonable reference for the Company to determine the rental of the Properties.

Regarding the method of valuation, we noted that the Independent Valuer had adopted a direct comparison approach to determine the market rental of the Properties. Such method considered the rental of similar properties near the locations of each of the Properties, and adjusted with factors of the Properties such as rent period, area, exact location and floor, customer flow and rental enquiries. As the direct comparison approach makes reference to the market level rental of similar properties, we are of the view that it is a fair and reasonable approach to determine the rental of the Properties.

We have also made reference to 5 quotations (representing approximately 10% of all the 45 leases) shown on independent property agency websites with regards to properties located in close proximity of the Properties, and have similar features (in terms of size, nature: office, shops, warehouse, year of the properties and duration of the tenancy) and noted the asking rent and related management fees are similar to the current rent of the Properties.

Regarding the increment of the annual rental of the Properties, the annual rental payable by the Group shall be increased by an amount not exceeding the lower of (i) 5%; and (ii) the prevailing GDP growth rate of mainland China in the immediately preceding year. We had cross-checked the proposed increment rate with the GDP growth rate of mainland China in 2023 of 5.2% published by the National Bureau of Statistics of China. We believe the proposed increment is in line with the historical GDP growth of mainland China, and therefore is fair and reasonable.

3.3 Internal controls in relation to the rentals of the 2024 MTA No.1

We noted that the annual rentals in respect of the premises to be leased by the Group under the 2024 MTA No.1 were determined after arm's length negotiations between the relevant parties with reference to the prevailing market rates of local properties in the neighbourhood with a similar scale and quality and subject to the internal control measures of the Group and of the Private Group. The prevailing market rates of local properties are determined with reference to:

(i) (for existing leases) the Fair Rent Report or (for leases regarding newly developed premises or new leases to be entered into by the Group) fair rent report(s) to be issued by independent valuer;

(ii) quotations of one or more similar comparable properties owned by Independent Third Parties in the neighbouring area provided by independent estate agency; and

(iii) at least two quotations of similar comparable properties owned by the Private Group provided by independent estate agency.

After collecting available data and market information (including quotations from Independent Third Parties), the Group compares such information to decide whether the quotation offered by the Private Group is no less favourable than those given by the Independent Third Party estate agency and whether the lease terms are fair and reasonable. Future increments each year will be by a percentage of not exceeding the lower of (i) 5%; and (ii) the prevailing GDP growth rate of the immediately preceding year.

We had reviewed the internal control procedures described above, had discussion with the Management and reviewed the Fair Rent Report and noted the rental levels of the Properties are within the range of rental of similar properties as set out in the Fair Rent Report. Based on our review of the Fair Rent Report, we noted that the transactions under the 2021 MTAs were carried out in accordance with the Group's internal control procedures as described above. As such, we are of the view that there is an established mechanism under the 2024 MTAs to monitor and compare the annual rental and the provisions therein are fair and reasonable.

3.4 Other terms of the 2024 MTA No.1

We had reviewed a set of rental agreement entered between the Private Group and an Independent Third Party in relation to a business premise in the Clifford Estates. According to the Private Group, all the lease agreements are in standardised form. Given the majority of the Properties are located in the Clifford Estates, we believe that by randomly selected one set of standardised rental agreement from the same premises is representative and sufficient for this comparison purpose. We noted that the other terms of the 2024 MTA No.1 are largely similar and comparable to those in the standardised rental agreement with the Independent Third Party. As such, we are of the view that the other terms of the 2024 MTA No.1 are normal commercial terms and are fair and reasonable.

3.5 Conclusion

Having considered (i) rental under the 2024 MTA No.1 were determined with reference to the Fair Rent Report issued by the Independent Valuer; (ii) the internal control procedures in relation to the transactions under the 2024 MTA No.1 will ensure that the Group would lease premises from the Connected Parties with favourable terms; (iii) the other terms of the 2024 MTA No.1 were comparable to those in rental agreement with Independent Third Parties, we are of the view that the terms of the 2024 MTA No.1 are on normal commercial terms and are fair and reasonable.

4. Analysis on the Terms of the 2024 MCSAs

4.1 Background and principal terms of the 2024 MCSAs

On 29 October 2021, the Company (on behalf of its subsidiaries) (as service providers) entered into (i) 2021 MCSA No.1 with Clifford Estates Panyu (for itself and on behalf of the other members of the then Private Group) and Clifford Xianhu Hotel (for itself and on behalf of the other members of the WM Non-HC Group) (both as receiving parties); and (ii) 2021 MCSA No.2 with Clifford Medical (for itself and on behalf of the other members of the WM Healthcare Group), pursuant to which the Company agreed to provide the following services to the respective receiving parties for a term of three years from 1 January 2022 to 31 December 2024:

(a) procurement, property management, laundry, resident support, employment placement agency and property agency services;

(b) engineering and maintenance services; and

(c) telecommunication services.

It is expected that the continuing connected transactions under the 2021 MCSAs will continue beyond their expiry on 31 December 2024.

On 16 October 2024, for the purpose of replacing the 2021 MCSAs, the Company (for itself and on behalf of its subsidiaries) (as service providers) entered into the 2024 MCSAs, comprising:

(i) 2024 MCSA No.1 made with Clifford Estates Panyu (for itself and on behalf of other 30%-controlled companies of Ms. Wendy Man's Spouse) and Clifford Xianhu Hotel (for itself and on behalf of other 30%-controlled companies of Ms. Wendy Man (other than the Group and the WM Healthcare Group)) (as receiving parties); and

(ii) 2024 MCSA No.2 made with Clifford Medical (for itself and on behalf of its subsidiaries) (as receiving parties),

pursuant to which the Group agreed to provide the following services to the respective receiving parties for a term of three years ending 31 December 2027: (a) procurement, property management, laundry, resident support, employment placement services and property agency services (collectively "**living services**"); (b) engineering and maintenance services; and (c) telecommunication services, on and subject to the respective terms and conditions contained therein.

Principal terms of the 2024 MCSA No.1 and the 2024 MCSA No.2 are set out in the paragraph headed "Principal terms of the 2024 Master Composite Services Agreements" in the "Letter from the Board" of the Circular.

4.2 Pricing policies of the living services

For the summary of the pricing policies applicable to services provided under each of 2024 MCSA No.1 and 2024 MCSA No.2, please refer to the paragraph headed "The 2024 Master Composite Services Agreements – Pricing policy" in the "Letter from the Board" of the Circular.

In assessing the fairness and reasonableness of the pricing policies of the living services, we noted that the general manager of the respective operations will enquire with potential customers as to the nature and volume of services required, the general manager will then prepare a fee quotation of the related service in accordance with the pricing policy which will then be reviewed by an Executive Director (excluding Ms. MAN Lai Hung) of the Company. The quotation and the relevant supporting comparable information will then be passed to the finance department for verification and approval, in order to ensure that (i) (for 2024 MCSA No.1) service fees charged by the Group and the terms set out in 2024 MCSA No.1 shall be no less favourable to the Group than terms available to Independent Third Parties; and (for 2024 MCSA No. 2) service fees charged and the terms set out in 2024 MCSA No. 2 shall be subject to the mutually fair arrangement.

We had reviewed the pricing policies described above and had discussed with the Management. Based on the full list of transactions under living services over the past two years ended 31 December 2023 and the eight months ended 31 August 2024, we have randomly selected and obtained one set of sample walk-through documents for each of the living services (including, where applicable, the service agreements entered into between the Group (as service provider) and Independent Third Parties or quotations for services from Independent Third Parties during each of the year/period, the service agreements entered into between the Group and the Connected Parties). We noted that the number of services provided and the volume of transactions are large, and the nature of the services and circumstances of which they were provided were unique as they are customised to be provided within the Clifford Estates. In light of the above and given the selection of the samples was random, we believe the approach is practical and the selected walk-through documents are sufficient for this purpose. Based on our review, we noted that the transactions under the 2021 MCSAs were carried out in accordance with the Group's pricing policies as described above.

Further, based on the aforesaid full list of transactions under living services over the past two years ended 31 December 2023 and the eight months ended 31 August 2024, we noted that (i) a mark-up ranging from approximately 3% to 40% on the purchase price is added to the prices under the procurement services due to the nature of the consumables and the market demand; and (ii) a mark-up ranging from approximately 27% to 35% on the cost is added to the price under other living services (excluding property management which is based on the prevailing market rate). We had reviewed the historic transaction amount for the procurement service and other living services (excluding property management) for the period covering the two years ended 31 December 2022 and 2023, and the eight months ended 31 August 2024, and noted transactions with Independent Third Parties, the Group had charged a mark-up ranging from 3% to 40% on the purchase price/cost. As such, we believe the proposed mark-up of 3% to 40% on top of the purchase price/cost is fair and reasonable.

Taking into account the above, we are of the view that the pricing policy and mechanism for the living services under the 2024 MCSAs are on normal commercial terms and are fair and reasonable.

4.3 Pricing policies of the engineering and maintenance services

Regarding the pricing policies of the engineering services, we noted that the tendering team (which will include senior management of the Group) will determine the prices by conducting preliminary costing and pricing analysis when the Group is invited to participate in the tendering process to ensure that terms in the tender are normal commercial terms in the ordinary course of business, and for services to be rendered to the Private Group and/or the WM Non-HC Group, such price and other terms are no less favourable than those of similar services rendered to Independent Third Parties; and (in respect of the Group's provision of engineering services to the WM Healthcare Group under 2024 MCSA No.2) such prices and other terms shall also be no less favourable than those of similar services rendered by Independent Third Party services providers to the WM Healthcare Group.

We had reviewed the pricing policies described above and had discussed with the Management. Based on the full list of transactions under engineering services over the past two years ended 31 December 2023 and the eight months ended 31 August 2024, we have randomly selected and obtained a set of sample walk-through documents for the engineering services (including, where applicable, the service agreements entered into between the Group (as service provider) and Independent Third Parties or quotations for services from Independent Third Parties, the service agreements entered into between the Group and the Private Group or the then WM Group) during each of the year/period. We noted that the nature of the services and circumstances of which they were provided were unique as they are customised to be provided within the Clifford Estates. In light of the above and given the selection of samples was random, we believe the approach is practical and the selected walk-through documents are sufficient for this purpose. Based on our review, we noted that the transactions under the 2021 MCSAs were carried out in accordance with the Group's pricing policies as described above.

Further, based on the aforesaid full list of transactions under engineering services over the past two years ended 31 December 2023 and the eight months ended 31 August 2024, we noted that a mark-up ranging from approximately 10% to 45% (having regard to the nature and complexity of the engineering work involved in the project) is added to the prices under the engineering services, which is determined with reference to tendering specifications of each project and service fees that the Group charges against Independent Third Parties. We had obtained and reviewed the sample engineering contracts entered into between the Group (as the service provider) and Independent Third Parties, which had mark-up ranging from 10% to 45%, and supported the range of mark-up under the 2024 MCSAs described above. We noted that the nature of the services and circumstances of which they were provided were unique as they are customised to be provided within the Clifford Estates. In light of the above we believe the selected walk-through documents are sufficient for this purpose.

Regarding the pricing policies of the maintenance services, we also noted a mark-up ranging from approximately 10% to 45% (having regard to the nature and complexity of the maintenance services involved in the project) is added to the prices under the maintenance services. Based on the full list of transactions under maintenance services over the past two years ended 31 December 2023 and the eight months ended 31 August 2024, we had discussed with the Management, and randomly selected and obtained a set of sample walk-through documents for the maintenance services (including, where applicable, the service agreements entered into between the Group (as service provider) and Independent Third Parties or quotations for services from Independent Third Parties) during each of the year/period, which had mark-up ranging from 10% to 45%, and supported the range of mark-up under the 2024 MCSAs described above. We noted that the nature of the services and circumstances of which they were provided were unique as they are customised to be provided within the Clifford Estates. In light of the above and given the selection of samples was random, we believe the approach is practical and the selected walk-through documents are sufficient for this purpose. Based on our review, we noted that the transactions under the 2021 MCSAs were carried out in accordance with the Group's pricing policies as described above.

As such, we are of the view that the pricing policy and mechanism for the engineering and maintenance services under the 2024 MCSAs are on normal commercial terms and are fair and reasonable.

4.4 Pricing policies of the telecommunication services

In assessing the fairness and reasonableness of the pricing policies of the telecommunication services, we noted that the general manager of the respective operations will enquire with potential customers as to the nature and volume of services required, the general manager will then prepare a fee quotation of the related service in accordance with the pricing policy which will then be reviewed by an Executive Director (excluding Ms. MAN Lai Hung) of the Company. The quotation and the relevant supporting comparable information will then be passed to the finance department for verification and approval. The prices (to be received by the Group) shall be no less favourable than prices of similar services rendered by the Group to Independent Third Parties and (in respect of the Group's provision of such services to the WM Healthcare Group under 2024 MCSA No.2) the prices (to be charged and received by the Group) shall also be no less favourable than prices of similar services rendered by Independent Third Party services providers to the WM Healthcare Group.

Based on the full list of transactions under telecommunication services over the past two years ended 31 December 2023 and the eight months ended 31 August 2024, we had reviewed the pricing policies described above, discussed with the Management, and randomly selected and obtained a set of sample walk-through documents for the telecommunication services (including, where applicable, the service agreements entered into between the Group (as service provider) and Independent Third Parties or quotations for services from Independent Third Parties, the service agreements entered into between the Group and the then Private Group or the then WM Group) during each of the year/period. We noted that the nature of the services and circumstances of which they were provided were unique as they are customised to be provided within the Clifford Estates. In light of the above and given the selection of samples was random, we believe the approach is practical and the selected walk-through documents are sufficient for this purpose. Based on our review, we noted that the transactions under the 2021 MCSAs were carried out in accordance with the Group's pricing policies as described above.

Further, we noted that a mark-up ranging from approximately 10% to 40% is added to the prices under the telecommunication services, which is determined with reference to the Group's policy on the standard service fees that the Group charges or will charge the Independent Third Parties. Based on the full list of transactions under telecommunication services over the past two years ended 31 December 2023 and the eight months ended 31 August 2024, we had randomly selected, obtained and reviewed the sample telecommunication contracts entered into between the Group (as the service provider) and Independent Third Parties during each of the year/period, which had mark-up ranging from 10% to 40%, and supported the range of mark-up under the 2024 MCSAs described above. We noted that the nature of the services and circumstances of which they were provided were unique as they are customised to be provided within the Clifford Estates. In light of the above we believe the sample size is sufficient for this purpose.

As such, we are of the view that the pricing policy and mechanism for the telecommunication services under the 2024 MCSAs are on normal commercial terms and are fair and reasonable.

4.5 Conclusion

In view of the above, we are of the view that the terms of the 2024 MCSAs are on normal commercial terms, and are fair and reasonable.

5. Analysis on the Proposed Annual Caps of the 2024 MTA NO.1

5.1 Historical utilisation

The table below sets forth (i) the existing annual caps and the historical transaction amounts for the transactions contemplated under the 2024 MTA No.1 for each of FY2022, FY2023 and FY2024.

	FY2022 *(RMB million)*	**FY2023** *(RMB million)*	**FY2024** *(RMB million)*
Existing annual caps	57.1	13.6	19.7
Addition of right-of-use assets	10.2	2.0	16.2 *(Note 1)*
Utilisation rate	17.8%	14.7%	82.2% *(Note 2)*

Notes:

1. Such amount represents the value of addition of the right-of-use assets during the eight months ended 31 August 2024.

2. The utilisation rate was calculated by dividing the addition of the right-of-use assets during the eight months ended 31 August 2024 against the annual cap for the year ending 31 December 2024.

As advised by the Management, the existing annual caps for FY2022 and FY2023 under the 2021 MTA No.1 were not fully utilised mainly due to the sluggish property market and actual demand in certain services and as a result, some additional premises expected to be leased was not leased, and hence the amount of rental paid under the 2021 MTA No.1 during FY2022 and FY2023 was lower than expected.

5.2 Proposed annual caps

According to Hong Kong Financial Reporting Standard (HKFRS) 16 "Leases", the Group is required to recognise a right-of-use asset and a lease liability, which are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate in the year of entering into the leases where the Group acts as a lessee. Pursuant to the requirements of the Listing Rules, as the transactions contemplated under each of 2024 MTA No.1 and 2024 MTA No.2 will be recognised as the acquisitions of right-of-use assets, the Group is required to set annual caps on the total value of right-of-use assets relating to the leases to be entered into by the Group as a lessee for each of FY2025, FY2026 and FY2027 under the 2024 MTA No.1.

As the 2024 MTA No.2 only involves two leases (the balance of the right-of-use assets representing such premise to be recognised by the Group in FY2025 amounted to approximately RMB0.2 million), such transaction will be regarded as an acquisition of capital asset for the purpose of the Listing Rules.

The following table sets out the proposed annual caps, which represent the total value of the addition of right-of-use assets relating to the leases to be entered into by the Group under each of 2024 MTA No.1 and 2024 MTA No.2, for FY2025, FY2026, and FY2027 (Note):

	FY2025 *(RMB million)*	**FY2026** *(RMB million)*	**FY2027** *(RMB million)*
Proposed annual caps for 2024 MTA No.1	21.0 *(Note)*	18.2	14.1
Proposed annual caps for 2024 MTA No.2	0.2	0	0

Note: The proposed annual cap for the total value of the addition of the right-of-use assets: (i) for FY2025 represents the addition of the right-of-use assets in relation to 13 (including new leases and renewable of existing leases) to be entered into by the Group under 2024 MTA No.1 during FY2025, (ii) for FY2026, represents the addition of the right-of-use assets in relation to 12 (including new leases and renewable of existing leases) to be entered into by the Group under 2024 MTA No. 1 during FY2026; and (iii) FY2027, represents the addition of the right-of-use assets in relation to 8 (including new leases and renewable of existing leases) to be entered into by the Group under the 2024 MTA No. 1 during FY2027.

Right-of-use asset is calculated as the initial amount of lease liability at the lease commencement date. As the number of new leases to be entered into by the Group under 2024 MTA No. 1 fluctuates over the three years ending 31 December 2027 as shown in the note to the table above, the proposed annual caps for 2024 MTA No.1over the three years ending 31 December 2027 also fluctuates in similar magnitude.

5.3 Basis of determination of the proposed annual caps

As advised by the Management, the proposed annual caps in respect of the transactions contemplated under the 2024 MTA No.1 for the three years ending 31 December 2027 (the "**MTA Annual Caps**") were determined based on (i) the rentals payable by the Group; (ii) the gross floor area of premises (including the existing premises and the newly developed premises) to be leased from the Private Group under the 2024 MTA No.1; (iii) the market rent and the range of monthly rental of the premises (including the existing premises and the newly developed premises) to be leased under the 2024 MTA No.1 based on the prevailing market conditions and the rental level of similar properties in the vicinity; (iv) the value of the Group's rights to use the underlying leased asset for the lease term which is initially measured on present value basis and calculated by discounting the non-cancellable lease payments for each respective lease to be entered into under the 2024 MTA No. 1, using the incremental borrowing rate as the discount rate; and (v) the expected increment of annual rental each year at the lower of (a) 5% (which is determined with reference to the GDP growth rate of mainland China in 2023); and (b) the prevailing GDP growth rate of mainland China in the immediately preceding year.

We noted that the MTA Annual Caps consist of rentals payable by the Group for (i) 44 leases (representing 44 properties) under the 2024 MTA No.1 that are currently occupied by the Group and are used for its operations (the "**Existing Premises**"); and (ii) 7 leases (representing 7 properties) expect to be entered into during FY2025, FY2026 and FY2027 (the "**Additional Premises**") in line with its business development plan.

For the rental payable of Existing Premises in FY2025, the calculation had taken into account the gross floor area of all the Existing Premises, as well as their respective expected rental level for FY2025. The expected rental level for the Existing Premises in FY2025 was calculated with reference to the current rental levels for the Existing Premises in FY2024 (which are within the range of rental levels for similar properties as set out in the Fair Rent Report which we reviewed), plus an increment of 5% or less, in accordance with the 2021 MTA No.1. The rental payable for Existing Premises in FY2026 and FY2027 is calculated based on the rental level in FY2025 plus an increment of 5% or less.

For the rent payable of Additional Premises, the calculation had taken into account the rental payable for (i) 6 potential new premises in 祈福名望閣 (Clifford Prestige) to be leased by the Group and to be used as retail shops during FY2025 to FY2027 and (ii) the additional floor 祈福會所 (Clifford Resort Center) to be leased by the Group during FY2025 to FY2027 as an expansion to its office in the same location. Rental levels of which are calculated with reference to their respective gross floor area and the rental levels of similar properties as set out in the Fair Rent Report, with an increment of 5% or less per year adjusted depending on the expected starting date for each lease.

In assessing the fairness and reasonableness of the MTA Annual Caps, we had reviewed the full calculation breakdown of the MTA Annual Caps, the Company's internal business development schedule as well as the Fair Rent Report. We have also made reference to 2 quotations shown on independent property agency websites with regards to properties located in close proximity of the Additional Properties, and have similar features (in terms of size, nature, office, shops, warehouse, year of the properties and duration of the tenancy) and noted the asking rent and related management fees are similar to the expected rent of the Additional Properties when determining the relevant MTA Annual Caps. We noted from the Company's internal business development schedule that the Company is expected to lease a total floor area of 2,238 sq. m., 2,000 sq. m. and 2,100 sq. m. in FY2025, FY2026 and FY2027, respectively. We had cross-checked the proposed increment rate with the GDP growth rate of mainland China in 2023 of 5.2% published by the National Bureau of Statistics of China). We believe the proposed increment is in line with the historical GDP growth of mainland China, and therefore is fair and reasonable. As such, we are of the view that the MTA Annual Caps were determined by the Management under reasonable ground and due care, are consistent with its business development schedule, and the MTA Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

6. Analysis on the Proposed Annual Caps of the 2024 MCSAs

6.1 Historical utilisation

The table below sets forth (i) the existing annual caps and the historical transaction amounts for the transactions contemplated under the 2021 MCSAs for each of FY2022, FY2023 and FY2024.

	FY2022 *(RMB million)*	**FY2023** *(RMB million)*	**FY2024** *(RMB million)*
2021 MCSA No.1	132.0	129.0	139.0
2021 MCSA No.2	34.0	41.0	44.0
Existing annual caps under the 2021 MCSAs	166.0	170.0	183.0
Aggregate service fees paid or payable by the Private Group and the WM Non-HC Group under 2021 MCSA No.1			
• procurement, property management, laundry, resident support, employment placement agency and property agency services	30.0	32.4	19.3
• engineering and maintenance services and telecommunication services	29.3	13.2	5.8
Sub-total	59.3	45.6	25.1 *(Note 1)*
Aggregate service fees paid or payable by the WM Healthcare Group under 2021 MCSA No.2			
• procurement, property management, laundry, resident support, employment placement agency and property agency services	5.1	10.0	3.7
• engineering and maintenance services and telecommunication services	2.5	1.2	0.6
Sub-total	7.6	11.2	4.3 *(Note 2)*
Total service fees paid or payable by the Connected Parties under the 2021 MCSAs	66.9	56.8	29.4 *(Note 1)*
Utilisation rate	40.3%	33.4%	16.1% *(Note 2)*

Notes:

1. Such amount represents the total service fees paid or payable by the Connected Parties under the 2021 MCSAs for the eight months ended 31 August 2024.

2. The utilisation rate was calculated by dividing the total service fees paid or payable by the Connected Parties under the 2021 MCSAs for the eight months ended 31 August 2024 against the total annual cap for the year ending 31 December 2024.

As advised by the Management, the existing annual caps for FY2022, FY2023 and FY2024 under the 2021 MCSAs were not fully utilised mainly due to the sluggish economic and a highly competitive environment, which in turn caused less maintenance projects and the service fees received by the Group to be lower than expected.

6.2 *Proposed annual caps*

The following table sets out the proposed annual caps in respect of the transactions contemplated under each of 2024 MCSA No.1 and 2024 MCSA No.2 for each of FY2025, FY2026 and FY2027:

	FY2025 *(RMB million)*	**FY2026** *(RMB million)*	**FY2027** *(RMB million)*
Proposed annual caps for 2024 MCSA No.1	79.3	82.4	86.0
Proposed annual caps for 2024 MCSA No.2	46.7	47.8	49.5
Total	126.0	130.2	135.5

6.3 *Basis of determination of the proposed annual caps*

As advised by the Management, the proposed annual caps in respect of the transactions contemplated under each of 2024 MCSA No.1 and 2024 MCSA No.2 (the "**MCSA Annual Caps**") have been determined based on the historical transaction amounts for the relevant services, the additional volume of services to be provided in the next three years, together with the factors which are specific to the particular types of services as set out below:

(i) For living services (except for property management services):

(a) the historical transaction amounts for living services (excluding property management services) under the 2021 MCSAs, which amounted to approximately RMB9.7 million, RMB18 million, RMB13.6 million, RMB18.9 million and RMB11.6 million for FY2020, FY2021, FY2022, FY2023 and FY2024 (for FY2024, using the historical transaction amount for the eight months ended 31 August 2024 to derive the annualised amount) respectively;

(b) the expected service fees charged by the Group for each of the living services (except for property management services), which are determined based on the pricing policy as set out in the paragraph headed "The 2024 Master Composite Services Agreements – Pricing Policy";

(c) the expected transaction amounts in respect of the ongoing living services (except for property management services) which are expected to carry on throughout FY2025, FY2026 and FY2027; and

(d) the expected annual growth rate of 5%, which is estimated with reference to the GDP growth rate of mainland China in 2023 and the average historical GDP growth rate of mainland China of 5.0% for the past five years.

(ii) For property management services:

(a) the historical property management fees paid under the 2021 MCSAs;

(b) the ongoing property management engagements (covering the total rentable floor area of approximately 3,358,000 sq. m.) and their respective managements fees; and

(c) the expected increase in the demand for the property management services.

(iii) For engineering and maintenance work and telecommunication services:

(a) the historical contractual amount of approximately RMB88.3 million, RMB43.3 million, RMB63.8million, RMB56.5 million and RMB31.8 million for FY2020, FY2021, FY2022, FY2023 and for the eight months ended 31 August 2024 in respect of the tenders awarded to the Group through tender process of the Private Group, the WM Non-HC Group and the WM Healthcare Group, and the outstanding services which are expected to be performed in FY2025, FY2026 and FY2027;

(b) the estimated success rate of the Group tendering for the engineering works, based upon the historical tendering success rate and participation rate of the Group over the past three years, which for FY2022, FY2023 and the eight months ended 31 August 2024 close to 100%;

(c) the total contract sum for the ongoing engineering and maintenance work and telecommunication services and the relevant tenders submitted by the Group to the Private Group, the WM Non-HC Group or the WM Healthcare Group (but results of the tenders have not finalised), which, for FY2025, amounted to approximately RMB2.9 million;

(d) the estimated transaction amount as a result of any variation orders made by the Private Group, the WM Non-HC Group and the WM Healthcare Group in the course of project implementation; and

(e) the maintenance service required for the projects implemented and completed in the past three years; an estimate for possible projects indicated to be subject to tender, but not yet invited and/or awarded.

Details of the basis of determination of the proposed annual caps are set out in the section headed "Basis of determination of the proposed annual caps" in the "Letter from the Board".

6.4 The MCSA Annual Cap for FY2025

We had reviewed the breakdown of historical transaction amount for FY2019, FY2020, FY2021, FY2022, FY2023 and the eight months ended 31 August 2024, and noted that the transaction amount for living services (except for property management) for FY2025 had been estimated based on:

(i) the average of the historical transaction amount for the past five years ended 31 December 2023 and the annualised amount for year ending 31 December 2024 (by reference to the actual transaction amount for the eight months ended 31 August 2024), and multiplied by a growth rate of 5%;

(ii) plus the expected income to be generated from the additional services procured by the Connected Parties.

As mentioned above, the existing annual caps for FY2022, FY2023 and FY2024 under the 2021 MCSAs were not fully utilised mainly due to the sluggish economic and a highly competitive environment, which in turn caused less maintenance projects and the service fees received by the Group to be lower than expected. In addition, the economic environment in the Mainland was struck by the pandemic since 2020. Accordingly, we are of the view that by referencing to a longer period of historical transaction amount (in this case, a period of five years from 2020 to 2024 (using the historical transaction amount for the eight months ended 31 August 2024 to derive the annualised amount)) will smooth out the volatility and provide a fair and reasonable ground for the Company to estimate the expected transaction amount for those recurring services for FY2025. We have reviewed the calculations prepared by the Management and noted that they have adhered to this approach.

We also understand from the Management that the Connected Parties expect to engage the Group to provide the following services due to additional demand ("**Additional Services**"). The abovementioned Additional Services are expected extra demand of the existing normal and regular services from the Connected Parties (other than property agency services) on a recurring basis during FY2025 to FY2027:

(i) procurement (in particular, since the pandemic, on-line purchase and delivery have been more and more acceptable to the general public due to its convenience)

Accordingly, the Group intends to source a larger variety of consumables and make it more readily accessible at competitive prices to cater for the demand of the end users of the Connected Parties.

(ii) Employment placement service

With the aging population, the WM Healthcare Group expects their end-users will need more professional or general care-takers. Accordingly, the WM Healthcare Group intends to expand its sourcing network and procure professional or general care-takers via the Group.

(iii) Property agency service

From time to time, the non healthcare group will engage external property agents to identify properties for their operations. Accordingly, the Group intends to secure these services which would have been granted to independent third-party agents.

Set out below are the historical average amount of each service (other than property management and engineering and maintenance work and telecommunication). It is only an estimate of the Management for each service, which forms the basis to determine the proposed annual cap. It is not intended for use as a separate annual cap for each type of services under the 2024 MCSAs:

Type of service	**Historical average transaction amount** *(Note 1)* **plus an annual increment of 5%** *(RMB million)*	**Additional Services during FY2025** *(RMB million)*	**Estimated FY2025 aggregate transaction amount** *(RMB million)*
	A	**B**	**C=A+B**
(i) Procurement	4.5	16.8	21.3
(ii) Property management	(see paragraph headed "Property management" below)		
(iii) Laundry	3.4	0	3.4
(iv) Resident support	0.57	0	0.57
(v) Employment placement agency	6.7	7.3	14.0
(vi) Property agency services	3.4	2.8	6.2
Total	18.6	26.9	45.5

Note 1: This figure refers to the historical average amount over the period from 2020 to 2024 (using the historical average amount for the eight months ended 31 August 2024 to derive the annualised amount of 2024).

Living services (excluding property management)

Based on the above, we believe the historical average transaction amounts is a fair and reasonable ground for the Management to rely on in calculating the annual cap for living services under the 2024 MCSAs for FY2025 of approximately RMB45.5 million. We had cross-checked the proposed increment rate with the GDP growth rate of mainland China in 2023 of 5.2% published by the National Bureau of Statistics of China). We believe the proposed increment is in line with the historical GDP growth of mainland China, and therefore is fair and reasonable.

With regard to the Additional Services, we noted from the Management that the Connected Parties have indicated their intention to engage the Group as opposed to the Independent Third Parties whom they are currently engaging. In particular, a significant portion of Additional Services is expected to derive from the healthcare group of the Connected Parties which is currently using other independent third party suppliers. We also noted that the transaction amount for Additional Services for FY2025 was provided by the Connected Parties with reference to their historical transaction volume and expected demand. Since the Connected Parties has the need for the Additional Services, though the Group is not the Connected Parties' exclusive supplier and there is no commitment from the Connected Parties to utilise the Additional Services, we have no reason not to believe the estimate transaction amount of Additional Services for FY2025 provided by the Connected Parties. Accordingly, we are of the view that the estimate transaction amount of Additional Services for FY2025 is fair and reasonable.

Property management

As for the transaction amount for property management for FY2025, we had reviewed the property development schedule of the Connected Parties for FY2025 to FY2027 provided by the Management. We noted that the property management fees for FY2025 were calculated according to (i) the prevailing property management fee offered by the Group (approximately RMB23 million per annum); (ii) the floor area of existing properties continued to be managed (approximately 3,358,000 sq. m.); and (iii) the floor area of the properties of the Connected Parties (a hospital/healthcare facility) currently managed by independent third parties but will be available and expect to be managed by the Group (approximately 250,000 sq. m.), which has a stringent management standard and a broader scope of services than other normal properties (such as cleaning standard, waste disposal standard and the need for an emergency maintenance team standby 24X7), and, in turn, can charge a higher management fee which can be as high as 3 times more than other normal properties. In light of the above, we believe the basis adopted to determine the annual cap for FY2025 is based on reasonable ground and due care, and the estimate transaction amount of RMB51.9 million for FY2025 is fair and reasonable.

Engineering and maintenance work and telecommunication services

As for the transaction amount for engineering and maintenance work and telecommunication services for FY2025, we are of the view that by referencing to a longer period of historical transaction amount (in this case, a period of five years from 2020 to 2024 (using the eight months ended 31 August 2024 to derive the annualised amount)) will again smooth out the volatility and provide a fair and reasonable ground for the Company to estimate the expected transaction amount for those recurring services for FY2025. In addition, we had reviewed the full list of ongoing engineering and maintenance work and telecommunication services and the relevant tenders submitted by the Group to the Connected Parties. As at the Latest Practicable Date, the total contract sum of approximately RMB5.0 million was undergoing the tender process. According to the Management, the historical tender success rate of the Group tendering for engineering and maintenance works and telecommunication services during FY2022 to FY2024 of close to 100%. In view of the relatively low potential transaction amount in 2024 despite a close to 100% tender success rate, we consider that it is justifiable to use a five years historical average amount to estimate the transaction amount for FY2025. We noted that the transaction amount for engineering and maintenance work and telecommunication services for FY2025 was calculated based on the historical average amount over the period from 2020 to 2024 (using the historical transaction amount for the eight months ended 31 August 2024 to derive the annualised amount of 2024). Since the Group is not the Connected Parties' exclusive supplier and there is no commitment from the Connected Parties to utilise the engineering and maintenance work and telecommunication services, we considered the transaction amount for engineering and maintenance work and telecommunication services of RMB28.6 million for FY2025 was estimated based on reasonable ground and due care and was fair and reasonable.

The abovementioned individual annual caps for (i) Living services (excluding property management), (ii) property management, and (iii) engineering and maintenance work and telecommunication services are not intended for use as a separate annual cap for each of these services under the 2024 MCSAs.

In view of the above, we are of the view that the MCSA Annual Cap of approximately RMB126.0 million for FY2025 is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

6.5 The MCSA Annual Caps for FY2026 and FY2027

We noted that the transaction amount for living services (except for property management) for FY2026 and FY2027 had been calculated based on (i) the estimated annual cap of FY2025 and FY2026 with the growth rate of 5% and (ii) the additional services to be procured by the Connected Parties in FY2026 and FY2027 respectively due to the operational needs of the Connected Parties.

Set out below are the historical average amount of each service (other than property management and engineering and maintenance work and telecommunication). It is only an estimate of the Management for each service, which forms the basis to determine the proposed annual caps. It is not intended for use as a separate annual cap for each type of services under the 2024 MCSAs:

Type of service	Estimated FY2025 aggregate transaction amount plus an annual increment of 5% *(RMB million)*	Additional Services during FY2026 *(RMB million)*	Estimated FY2026 aggregate transaction amount *(RMB million)*	Estimated FY2026 aggregate transaction amount plus an annual increment of 5% *(RMB million)*	Additional Services during 2027 *(RMB million)*	Estimated FY2027 aggregate transaction amount *(RMB million)*
	D=A*1.05	**E**	**F=D+E**	**G=D*1.05**	**H**	**I=G+H**
(i) Procurement	4.7	17.7	22.4	5.0	18.1	23.1
(ii) Property management		(see paragraph headed "Property management" below)				
(iii) Laundry	3.6	0	3.6	3.8	0	3.8
(iv) Resident support	0.59	0	0.59	0.62	0	0.62
(v) Employment placement agency	7.0	7.6	14.6	7.4	7.8	15.2
(vi) Property agency services	3.6	1.5	5.1	3.8	1.4	5.2
Total	19.5	26.8	46.3	20.6	27.3	47.9

Living services (excluding property management)

Based on the assumptions used above to derive the estimated transaction amount for FY2026 and FY2027, we believe the transaction amount for living services (except for property management and engineering and maintenance work and telecommunication) under the 2024 MCSAs for FY2026 and FY2027 of approximately RMB46.3 million and RMB47.9 million had been arrived at on reasonable ground and after due care.

It seems that the proposed annual caps relating to Additional Services - property agency services reduce from RMB2.8 million in FY2025 to RMB1.5 million in FY2026 and RMB1.4 million in FY2027. As the Connected Parties have indicated their intention to engage the Group as opposed to the Independent Third Parties whom they would have engaged, the Connected Parties expected a higher demand of Additional Services – property agency services in FY2025 (being the first year under the 2024 MCSAs); thereafter, the Connected Parties expected to stabilise within the range of RMB1.4 million to RMB1.5 million.

As mentioned above, the Connected Parties indicated their intention to engage the Group as opposed to the Independent Third Parties whom they are currently engaging and a significant portion of Additional Services is expected to derive from the healthcare group of the Connected Parties which is currently using other independent third party suppliers. We noted that the transaction amount for Additional Services for FY2026 and FY2027 were similar to the estimated transaction amount for FY2025 provided by the Connected Parties. Since the Connected Parties has the need for the Additional Services, though the Group is not the Connected Parties' exclusive supplier and there is no commitment from the Connected Parties to utilise the Additional Services, we have no reason not to believe the indicative transaction amount of Additional Services for FY2026 and FY2027. Accordingly, we are of the view that the estimate transaction amount of Additional Services for FY2026 and FY2027 is fair and reasonable.

Property management

As for the transaction amount for property management for FY2026 and FY2027, we had reviewed the property development schedule of the Connected Parties for FY2025 to FY2027 provided by the Management. We noted that the property management fees for FY2026 and FY2027 were calculated according to (i) the prevailing property management fee offered by the Group plus a 5% annual increment; and (ii) the floor area of existing properties continued to be managed. Based on the above, the property management fees for FY2026 and FY2027 are expected to amount to approximately RMB53.9 million and RMB56.1 million. In light of the above, the estimated property management fee for FY2025 and the historical property management fees paid under the 2021 MCSAs, we believe the basis adopted is reliable and reasonable and the estimated property management fee for FY2026 and FY2027 are fair and reasonable.

Engineering and maintenance work and telecommunication services

As for the transaction amount for engineering and maintenance work and telecommunication services for FY2026 and FY2027, we had reviewed the schedule prepared by the Management were calculated according to (i) the estimated annual cap of FY2025 with the growth rate of 5% and (ii) the additional services to be procured by the Connected Parties in FY2026 and FY2027 respectively due to the operational needs of the Connected Parties. Based on the above assumption, we consider the transaction amount for engineering and maintenance work and telecommunication services of RMB30.0 million and RMB31.5 million for FY2026 and FY2027 were estimated based on reasonable ground and due care.

The abovementioned individual annual caps for (i) Living services (excluding property management), (ii) property management, and (iii) engineering and maintenance work and telecommunication services are not intended for use as a separate annual cap for each of these services under the 2024 MCSAs.

In view of the above, we are of the view that the MCSA Annual Cap for FY2026 and FY2027 of RMB130.2 million and RMB135.5 million respectively are fair and reasonable.

7. Internal controls regarding the proposed annual caps

We noted from the "Letter from the Board" in the Circular that the executive Directors will closely monitor the rentals payable to the Private Group and new individual leases to be entered into pursuant to the 2024 MTA No.1 on a monthly basis to ensure that the annual caps are not exceeded. Furthermore, under the 2024 MCSAs the finance manager will assess whether the annual caps will be exceeded on a monthly basis, and whether the terms of services are within the scope of and in compliance with the 2024 MCSAs. If the actual transaction amount reaches 70% or more of the relevant annual cap at any time of the year, the finance manager will inform the Board, which will then assess the need to take any appropriate measures in accordance with the requirements of the Listing Rules before annual cap is exceeded. If the transaction amount further reaches 80% or more of the relevant annual cap at any time of the year, the chief financial officer of the Company will closely monitor the actual transaction amount on a weekly basis.

We have obtained and reviewed (i) a randomly selected sample monthly report of each of the year ended 31 December 2022 and 2023 and the eight months ended 31 August 2024 issued by the finance department regarding the actual transaction amounts between the Group and the Connected Parties including the remaining transaction amounts under the approved annual caps; (ii) the Group's internal control policy in relation to the monitoring of the proposed annual caps; (iii) confirmation made by the independent non-executive Directors on the Group's Annual Report; and (iv) independent auditors' report on continuing connected transactions for the years ended 31 December 2022 and 2023 respectively. Considering the above and the fact that the annual caps under 2021 MTA No.1 and the 2021 MCSAs had not been exceeded, we have not noted any internal control deficiency (based on the aforesaid information) and concur with the Management that adequate procedures are in place to ensure the proposed annual caps under the 2024 MTA No.1 and the 2024 MCSAs will not be exceeded.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors are required to review the continuing connected transactions annually and confirm in the Company's annual report that they have been carried out (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholder as a whole.

In compliance with the Listing Rules, the Company had engaged auditors to report in the continuing connected transactions for the two years ended 31 December 2023. The Company will continue to engage auditors to report on the continuing connected transactions for the year ending 31 December 2024 and on the continuing connected transactions for each of the three years ending 31 December 2027. Given the above, we consider that there exist appropriate procedures and arrangements to ensure that the continuing connected transactions contemplated under the 2024 MTA No.1 and the 2024 MCSAs will be conducted on terms in compliance with the Listing Rules.

RECOMMENDATIONS

Having taken into account the above principal factors and reasons, we consider that the entering into of the 2024 MTA No.1 and the 2024 MCSAs are in the ordinary and usual course of business of the Group, and the terms of the 2024 MTA No.1 and the 2024 MCSAs are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) at the EGM to approve the entering into of the 2024 MTA No.1, the 2024 MCSAs, and the transactions contemplated thereunder (including the respective proposed annual caps thereof).

Yours faithfully,
For and on behalf of
Altus Capital Limited

Jeanny Leung
Executive Director

*Ms. Jeanny Leung ("**Ms. Leung**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*