Lego Corporate
Finance Limited
力高企業融資有限公司

18 December 2024

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE RENEWED FRAMEWORK AGREEMENTS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Renewed Framework Agreements, 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 18 December 2024 (the "**Circular**"), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

As the term of the Existing Framework Agreements will expire on 31 December 2024, on 6 December 2024 (after trading hours), the Company entered into the Renewed Framework Agreements with each of Zhong An and China New City for a term of three years from 1 January 2025 to 31 December 2027. Most of the terms of the Renewed Framework Agreements are substantially the same as those of the Existing Framework Agreements.

Zhong An is one of the controlling shareholders of the Company, indirectly interested in approximately 73.4% of the total number of issued shares of the Company as at the Latest Practicable Date, and is therefore a connected person of the Company. Accordingly, the transactions contemplated under the Renewed Zhong An Framework Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. China New City is indirectly held as to 66.02% by Zhong An and is therefore an associate of Zhong An as at the Latest Practicable Date. China New City is therefore a connected person of the Company. Accordingly, the transactions contemplated under the Renewed CNC Framework Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios under the Listing Rules in respect of the highest aggregated annual caps during the term of the Renewed Framework Agreements are expected to be more than 5% on an annual basis, the transactions under each of the Renewed Framework Agreements will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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The Company will convene the EGM to seek approval from the Independent Shareholders in respect of the transactions contemplated under the Renewed Framework Agreements.

The Independent Board Committee comprising all the independent non-executive Directors namely, Mr. Chung Chong Sun, Mr. Liang Xinjun and Mr. Chiu Ngam, has been established to advise the Independent Shareholders in respect of the transactions contemplated under the Renewed Framework Agreements, and as to how to vote on the relevant resolution(s) to be proposed at the EGM in relation to the Renewed Framework Agreements. We, Lego Corporate Finance Limited, have been appointed by the Company as the Independent Financial Adviser in accordance with the requirement of the Listing Rules to advise the Independent Board Committee and the Independent Shareholders in relation to the Renewed Framework Agreements and to make recommendations as to, among others, whether the terms of the Renewed Framework Agreements are fair and reasonable, are normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole, and as to voting in respect of the relevant resolution(s) at the EGM.

OUR INDEPENDENCE

During the past two years, we have acted as the independent financial adviser in respect of (i) an off-market share buy-back by China New City as detailed in the circular of China New City dated 18 October 2024; and (ii) a renewal of continuing connected transactions of China New City in respect of provision of financial assistance as detailed in the announcement of China New City dated 11 December 2024. Save for the aforesaid engagements and our engagement in connection with the Renewed Framework Agreements, we did not have any relationship with, or any interest in, the Company or any other parties that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees paid or payable to us in connection with the aforesaid appointments and this appointment as the Independent Financial Adviser, no arrangements existed whereby we had received or would receive any fees or benefits from the Company, Zhong An or China New City. As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with the Company, Zhong An or China New City or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. We are independent under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Renewed Framework Agreements and the transactions contemplated thereunder.

BASIS OF OUR ADVICE

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group (the "**Management**"); and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular were true at the time they were made and have continued to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truthfulness, accuracy and completeness of the information and representations provided to us by the Directors, the Management, and/or the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the Management were true, accurate, complete and not misleading in all material respects at the time they were made and have continued to be so until the date of the Circular.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We consider that we have taken reasonable steps, including but not limited to review of the fairness, reasonableness and completeness of bases and assumptions for the projections relevant to the determination of the proposed Annual Caps for which the Directors are responsible for, in order to form a reasonable basis and an informed view for our opinion. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, Zhong An or China New City or any of their respective associates. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us as at the Latest Practicable Date.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Renewed Framework Agreements. Except for its inclusion in the Circular, this letter shall not be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendations with respect to the Renewed Framework Agreements, we have taken into consideration the following principal factors and reasons:

1. Reasons for the entering into of the Renewed Framework Agreements

The Group is principally engaged in the provision of property management services, value-added services mainly to property developers and community value-added services in the PRC. As disclosed in the Letter form the Board, as the Existing Framework Agreements will expire on 31 December 2024, the entering into of the Renewed Framework Agreements is for the purposes of (i) assurance of continuous provision of services by the Group; (ii) coping with the operation needs and business development of the Group; and (iii) fulfilling the needs in relation to the expansion of the Company's business development in the next three years. With reference to the annual report of the Company for the year ended 31 December 2023, revenue derived from property management services and value-added services mainly to property developers accounted for over 90% of the Group's total revenue for 2023. Based on the historical transaction amount with Zhong An and China New City, the provision of services to Zhong An and China New City by the Group under the Existing Framework Agreements had in aggregate contributed to around 24.7% to the Group's total revenue for 2023. As advised by the Management, the Group has been providing car parking space sales agency services, property management services and value-added services to a number of residential and commercial property projects developed by Zhong An and/ or China New City for at least the past five consecutive years and has developed a stable business relationship with Zhong An and China New City. Through the established long-term business cooperation, the Group has gained a thorough understanding of the nature and condition of property projects of Zhong An and China New City and is familiarised with the strategy and requirements of Zhong An and China New City. On the other hand, according to the respective interim reports of Zhong An and China New City, as at 30 June 2024, Zhong An had a total GFA of land bank of approximately 8.10 million sq.m. which is sufficient for development in more than five years, while China New City had a total GFA of land reserve of approximately 3.8 million sq.m. These future projects of Zhong An and China New City may require services from the Group and therefore bring positive impact to its income and earnings, ultimately benefitting the growth of the Group. The entering into of the Renewed Framework Agreements is in substance a renewal of existing business arrangement in the ordinary and usual course of business of the Group, enabling the Group to maintain the long-standing business relationship and continue to provide the relevant services as required by Zhong An and China New City in respect of their respective existing and potential property development projects for the next three years without any disruption. It is also expected that the continuation of services by the Group under the Renewed Framework Agreements would broaden the revenue base, secure stable source of income to the Group on a regular and recurring manner and therefore is beneficial to the Group's future development.

Accordingly, we concur with the Director's view that the entering into of the Renewed Framework Agreements is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Renewed Framework Agreements

On 6 December 2024 (after trading hours), the Company entered into the Renewed Framework Agreements with each of Zhong An and China New City for a term of three years from 1 January 2025 to 31 December 2027. Most of the terms of the Renewed Framework Agreements are substantially the same as those of the Existing Framework Agreements. For our due diligence purpose, we have obtained and reviewed the Existing Framework Agreements and Renewed Framework Agreements and compared the terms under the Renewed Framework Agreements with those under the Existing Framework Agreements. Other than the proposed annual caps for the three years ending 31 December 2027, we did not notice any abnormal terms or material difference between the terms of the Existing Framework Agreements and the terms of the Renewed Framework Agreements.

2.1 Renewed Car Parking Space Sales Agency Services Framework Agreements

Pursuant to the Zhong An Car Parking Space Sales Agency Services Framework Agreement and Renewed CNC Car Parking Space Sales Agency Services Framework Agreement, the Group would provide agency services for the sales of unsold car parking space, including marketing and advertising services, on an exclusive basis, for such unsold car parking space owned by the Remaining Zhong An Connected Persons and the CNC Connected Persons and located at property projects of the Remaining Group that are currently managed by the Group or expected to be provided for the Group's management.

The fees payable to the Group under the Renewed Zhong An Car Parking Space Sales Agency Services Framework Agreement and the Renewed CNC Car Parking Space Sales Agency Services Framework Agreement will be determined on arm's length basis with reference to (i) the fees payable to the Group under the existing car parking space sales agency services framework agreement entered into by the Company with each of Zhong An and China New City; (ii) the nature and location of the relevant property projects; (iii) the scope of the car parking space sales agency services; (iv) the expected operational costs (including, among others, labor costs and administrative costs) in relation to the provision of the car parking space sales agency services; and (v) the fees charged by three service providers for similar services in the market as a reference price list, such that the terms offered by the Group to the Remaining Zhong An Connected Persons and the CNC Connected Persons shall not be less favorable to the Group than terms offered by the Group to their independent customers for the same or similar type and scope of car parking space sales agency services. The Remaining Zhong An Connected Persons and the CNC Connected Persons shall settle payments within one month upon receipt of an invoice from the Group, details of which will be set out in separate service agreements. No deposit will be paid by the Group to the Remaining Group Zhong An Connected Persons and the CNC Connected Persons for the unsold car parking space to be assigned to the Group for management under the Renewed Car Parking Spaces Sales Agency Services Framework Agreements.

For further details on the principal terms of the Renewed Car Parking Space Sales Agency Services Framework Agreements, please refer to the Letter from the Board.

In assessing the fairness and reasonableness of the principal terms of the Renewed Car Parking Space Sales Agency Services Framework Agreements, we have obtained and reviewed 6 sets of historical agreements and invoices under the Existing Framework Agreements in relation to provision of car parking space sales agency services ("**Car Parking Space Connected Transactions**") entered into during 2023 and 2024. As the Car Parking Space Connected Transactions are selected based on random sampling basis which (i) covered car parking spaces of different property projects within Hangzhou, Zhejiang Province of the PRC where majority of the property projects under the Group's management is located; and (ii) spread across the period from 2023 to 2024, we consider that the Car Parking Space Connected Transactions are sufficient and representative. We have attempted to compare such terms by obtaining from the Company any historical transaction between the Group as the service provider and independent third party in respect of the provision of similar car parking spaces sales agency services in terms of comparable car parking spaces. However, as advised by the Management, there had been no such historical transaction. As further enquired with the Management, we learnt that the Remaining Group engaged the Group for the provision of car parking space agency service on an exclusive basis and therefore, there was no comparable transactions between Zhong An and/or China New City with independent third parties under the same property projects. Alternatively, for our assessment purpose, we have performed research on the principal terms including basis of determining the agency fees and the payment terms thereof under continuing connected transactions conducted by listed companies in Hong Kong principally engaged in property management as announced during the period from 1 January 2023 and up to the Latest Practicable Date and compared those with the principal terms under the Car Parking Space Connected Transactions, we note that the basis of determination of the service fees and the payment terms under the Car Parking Space Connected Transactions are in line with market practice for provision of car parking space sales agency services. We further note that no deposit shall be paid by the Group to the Remaining Group with respect to the provision of sale agency services to the Remaining Group, which is considered favourable to the Group.

As the terms offered by the Group to the Remaining Zhong An Connected Persons and the CNC Connected Persons shall not be less favorable to the Group than terms offered by the Group to their independent customers for the same or similar type and scope of car parking space sales agency services, we are of the view that the principal terms of the Zhong An Car Parking Space Sales Agency Services Framework Agreement and Renewed CNC Car Parking Space Sales Agency Services Framework Agreement are normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

2.2 Renewed Property Management Services Framework Agreements

Pursuant to the Renewed Zhong An Property Management Services Framework Agreement and the Renewed CNC Property Management Services Framework Agreement, the Group would provide property management services to the Remaining Zhong An Connected Persons and the CNC Connected Persons in respect of residential and non-residential property units that are unsold or undelivered. The scope of property management services includes (i) security services; (ii) cleaning services; (iii) gardening and landscaping services; (iv) repair and maintenance services and/or (v) car park management services.

The fees payable to the Group under the Renewed Zhong An Property Management Services Framework Agreement and the Renewed CNC Property Management Services Framework Agreement will be determined on arm's length basis with reference to (i) the fees payable to the Group under the existing property management services framework agreement entered into by the Company with each of Zhong An and China New City; (ii) the nature, size and location of the relevant properties; (iii) the scope of the property management services; (iv) the expected operational costs (including, among others, labor costs, material costs and administrative costs) in relation to the provision of the property management services; (v) the pricing guidelines promulgated by different regional governments under the relevant implementation measures for property service fee（物業服務收費實施辦法）, such that the fees payable to the Group shall not exceed the standard fee as designated therein; and (vi) the fees charged by three property management service providers for similar services in respect of similar properties in the market as a reference price list, such that the terms offered by the Group to the Remaining Zhong An Connected Persons and the CNC Connected Persons shall not be less favourable to the Group than terms offered by the Group to independent customers for the same or similar type and scope of property management services. The Remaining Zhong An Connected Persons and the CNC Connected Persons shall settle payments on or before 31 December of the fiscal year, details of which will be set out in separate service agreements.

For further details on the principal terms of the Renewed Property Management Services Framework Agreements, please refer to the Letter from the Board.

In this regard, we have, on a random sampling basis, obtained from the Management and reviewed 10 sets of historical agreements and invoices ("**Property Management Connected Transactions**") covering both residential properties ("**Residential Property Management Connected Transactions**") and commercial properties ("**Commercial Property Management Connected Transactions**") under the Renewed Zhong An Property Management Services Framework Agreement and the Renewed CNC Property Management Services Framework Agreement. We consider the Property Management Connected Transactions which covered property projects in different cities and provinces in the PRC involving transactions from 2023 to 2024 are sufficient and representative.

Upon enquiry with the Management, we learnt that there are different pricing basis for property management services with respect to residential property and commercial property. As advised by the Management, the service fee in respect to residential property was determined based on the applicable guidance prices set by the local governmental bodies including the Development and Reform Bureau and/or Housing and Urban-Rural Development Bureau in the relevant districts where the properties are located. We have therefore compared the pricing terms of the service fee in respect to residential properties against the applicable guidance price issued by the local governmental bodies. Based on our review, we note that the determination of the service fees under the Residential Property Management Transactions are in line with the relevant guidance prices as issued by the local governments. We have also attempted to compare such terms by obtaining from the Company any historical transaction between the Group as the service provider and independent third party in respect of the provision of similar residential property management services in terms of comparable properties. However, as advised by the Management, there had been no such historical comparable transaction.

On the other hand, as advised by the Management, the provision of property management services for commercial properties was determined primarily based on the market price. We have compared the pricing terms of the service fee under the Commercial Property Management Connected Transaction to those under corresponding sample agreements entered into by the Group with the independent third parties during the Review Period for the provision of property management services within the same commercial property building. Based on our review, we note that the service fees and payment terms under the Commercial Property Management Connected Transaction are no less favourable to the Group than those offered to the independent third parties.

As the terms offered by the Group to the Remaining Zhong An Connected Persons and the CNC Connected Persons (a) shall not be lower than the standard fees designated by the relevant regulatory authorities (if applicable) and (b) shall not be less favorable to the Group than terms offered by the Group to its independent customers for the same or similar type and scope of property management services, we are of the view that the principal terms of the Renewed Zhong An Property Management Services Framework Agreement and the Renewed CNC Property Management Services Framework Agreement are normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

2.3 Renewed Value-added Services Framework Agreements

Pursuant to the Renewed Zhong An Value-added Services Framework Agreement and the Renewed CNC Value-added Services Framework Agreement, the Group would provide value-added services to the Remaining Zhong An Connected Persons and the CNC Connected Persons. The scope of value-added services under the Renewed Zhong An Value-added Services Framework Agreement and the Renewed CNC Value-added Services Framework Agreement includes (i) sales office management services mainly including provision of property management services at property sales venues and display units of the Remaining Zhong An Connected Persons and the CNC Connected Persons, (ii) preliminary planning and design consultancy services to the Remaining Zhong An Connected Persons and the CNC Connected Persons and (iii) pre-delivery inspection services.

The fees payable to the Group under the Renewed Zhong An Value-added Services Framework Agreement and the Renewed CNC Value-added Services Framework Agreement will be determined on arm's length basis with reference to (i) the fees payable to the Group under the existing value-added services framework agreement entered into by the Company with each of Zhong An and China New City; (ii) the scope of the value-added services; (iii) the expected operational costs (including, among others, labor costs, material costs and administrative costs) in relation to the provision of the value-added services; and (iv) the fees charged by three pre-delivery service providers for similar services in the market as a reference price list, such that the terms offered by the Group to the Remaining Zhong An Connected Persons and the CNC Connected Persons shall not be less favorable to the Group than terms offered by the Group to its independent customers for the same or similar type and scope of value-added services. The Group shall issue invoices within five days to the Remaining Zhong An Connected Persons and the CNC Connected Persons at the end of each quarter or half-year period, with payment to be settled within 15 days after invoicing.

For further details on the principal terms of the Renewed Value-added Services Framework Agreements, please refer to the Letter from the Board.

In assessing the fairness and reasonableness of the principal terms of the Renewed Value-added Services Framework Agreements, we have, on a random sampling basis, obtained from the Management and reviewed 5 sets of historical agreements and invoices ("**Value-added Transactions**") with respect to provision of value-added services concerning sales office management by the Group under the Existing Framework Agreements, being the major service which accounts for more than 70% of the Proposed Annual Caps under the Renewed Value-added Services Framework Agreements for each of the three years ending 31 December 2027. We consider the Value-added Transactions which covered property projects in different cities and provinces in the PRC involving transactions from 2023 to 2024 are sufficient and representative. Based on our review, the service fees charged under the Value-added Transactions were primarily determined by the aggregate labour costs required for each type of service. We have attempted to compare such terms by obtaining from the Company any historical transaction between the Group as the service provider and independent third party in respect of the provision of similar value-added services in terms of comparable properties and/or service scope. However, as advised by the Management, there had been no such historical transaction. On the other hand, we understand from the Management that in pricing the service fees, the Company will take into consideration the expected gross profit margins based on the estimated operational costs including labor costs, material costs and administrative costs in relation to the provision of the value-added services. In this regard, we have alternatively assessed the pricing terms under each of the Value-added Transactions by comparing the underlying gross profit margins as obtained from the Management under each of the Value-added Transactions and note that such gross profit margins are above the average market rate for provision of similar value-added services in the PRC based on our research from the public domain. As regards the payment terms for the provision of the value-added services, we have alternatively obtained from the Management one set of agreement ("**I3P Value-added Agreement**") entered into between the Remaining Group and an independent third party in 2024, which represents the only available historical agreement that can be obtained by the

Management in respect of provision of sales office management services. Based on our review, we note that the payment terms under the Value-added Transactions are no less favourable to the Group than that under the I3P Value-added Agreement.

In light of the foregoing and that the terms offered by the Group to the Remaining Zhong An Connected Persons and the CNC Connected Persons shall not be less favorable to the Group than terms offered by the Group to its independent customers for the same or similar type and scope of value-added services, we are of the view that the principal terms of the Renewed Zhong An Value-added Services Framework Agreement and the Renewed CNC Value-added Services Framework Agreement are normal commercial terms, are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

3. Assessment of the determination of the proposed annual caps

Set out below are the historical transaction amounts and utilisation rates of historical annual caps for the two years ended 31 December 2023 and the six months ended 30 June 2024, and the proposed annual caps ("**Proposed Annual Caps**") for the three years ending 31 December 2025, 2026 and 2027, respectively, as extracted from the Letter from the Board.

Table 1: Summary of the historical transaction amounts, utilisation rates of historical annual caps, and the Proposed Annual Caps

Transaction	Historical transaction amounts			Proposed Annual Caps		
	For the year ended 31 December 2022	For the year ended 31 December 2023	For the six months ended 30 June 2024	For the year ending 31 December 2025	2026	2027
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Provision of car parking space sales agency services to:						
– Remaining Zhong An Connected Persons	21,321	10,150	1,672	67,000	72,000	81,000
Historical annual caps	–	46,500	62,000			
Utilisation rate	–	21.8%	5.4%			
– CNC Connected Persons	1,811	1,317	464	15,000	14,000	12,000
Historical annual caps	–	7,500	11,000			
Utilisation rate	–	17.6%	8.4%			
Aggregate transaction amount	**23,132**	**11,467**	**2,136**	**82,000**	**86,000**	**93,000**
Provision of property management services to:						
– Remaining Zhong An Connected Persons	10,152	17,203	4,555	23,000	25,000	40,000
Historical annual caps	–	18,000	25,000			
Utilisation rate	–	95.6%	36.4%			
– CNC Connected Persons	22,715	15,581	5,648	15,000	14,000	13,000
Historical annual caps	–	30,000	38,000			
Utilisation rate	–	51.9%	29.7%			
Aggregate transaction amount	**32,867**	**32,784**	**10,203**	**38,000**	**39,000**	**53,000**
Provision of value-added services to:						
– Remaining Zhong An Connected Persons	40,718	39,118	9,524	81,000	88,000	91,000
Historical annual caps	–	76,000	79,800			
Utilisation rate	–	51.5%	23.9%			
– CNC Connected Persons	7,144	3,451	3,669	22,000	21,000	22,000
Historical annual caps	–	4,000	4,200			
Utilisation rate	–	86.3%	174.7%			
Aggregate transaction amount	**47,862**	**42,569**	**13,193**	**103,000**	**109,000**	**113,000**

In assessing the fairness and reasonableness of the determination of the Proposed Annual Caps under each of the Renewed Framework Agreements, we have obtained and reviewed the underlying computations of the Proposed Annual Caps as prepared by the Management. As the Proposed Annual Caps are determined based on, among others, the estimated demand for the services required by the property projects of the Remaining Group, we have also obtained and reviewed the project schedule prepared by the Management in relation to the existing and upcoming property projects which may require the relevant services to be provided by the Group.

3.1 Renewed Zhong An Car Parking Space Sales Agency Services Framework Agreement and the Renewed CNC Car Parking Space Sales Agency Services Framework Agreement

As shown in Table 1, the historical transaction amounts for the year ended 31 December 2023 and the six months ended 30 June 2024 exhibited a notable decline. As disclosed in the Letter from the Board, such decline was primarily due to the recession of the real estate market in the PRC in the past year characterised by a decrease in suitable land acquisition opportunities, such that certain property development projects of the Remaining Group have been postponed which has led to a decline in the demand for car parking sales agency services provided by the Group in the aforesaid period. The Proposed Annual Caps amounted to RMB82 million, RMB86 million and RMB93 million for the three years ending 31 December 2027, while the Proposed Annual Caps for the two years ending 31 December 2026 and 2027 represented increases of approximately 4.9% and 8.1% from the respective previous years. With reference to the Letter from the Board, the proposed Annual Caps under the Renewed Zhong An Car Parking Space Sales Agency Services Framework Agreement and the Renewed CNC Car Parking Space Sales Agency Services Framework Agreement was determined after considering (i) despite the decline in the historical transaction amounts for the year ended 31 December 2023 and the six months ended 30 June 2024 as aforesaid, the Directors take the view that the future introduction of real estate easing policies aimed at "promoting stability and recovery in the real estate market" ("要促進房地產市場止跌回穩") as announced by the Chinese government in September 2024 shall benefit the property development projects of the Remaining Group and thereby increase the demand for the car parking sales agency services provided by the Group; (ii) the expected annual increase in total number of unsold car parking spaces owned by the Remaining Zhong An Connected Persons and the CNC Connected Persons, with such increase estimated to be approximately 125% in 2025 with reference to (a) the number of existing unsold car parking spaces owned by the Remaining Zhong An Connected Persons and the CNC Connected Persons located at existing property projects of the Remaining Group that are currently managed by the Group; (b) the estimated number of unsold car parking spaces owned by the Remaining Zhong An Connected Persons and the CNC Connected persons located at existing property projects of the Remaining Group that are expected to be delivered to the Group for its management; (c) the estimated number of unsold car parking spaces owned by the Remaining Zhong An Connected Persons and the CNC Connected Persons to be located at upcoming property projects of the Remaining

Group that are expected to be delivered to the Group for its management; and (iii) the expected increase in the service fees to be charged by the Group considering the expected inflation and increment in the operational costs as incurred by the Group due to the potential increase in demand.

Based on our review of the computations prepared by the Management, we note that the Proposed Annual Caps under the Renewed Zhong An Car Parking Space Sales Agency Services Framework Agreement and the Renewed CNC Car Parking Space Sales Agency Services Framework Agreement were determined based on (i) the existing inventory of unsold car parking spaces under each of the property projects on hand that are managed by the Group as at 31 October 2024; (ii) the expected number of new car parking spaces under new property projects of the Remaining Group that will be assigned to the Group; and (iii) the expected service fees in respect of sales of car parking spaces.

In respect of the existing inventory of unsold car parking spaces as at 31 October 2024, we note that the Management has based on the assumption that the number of such car parking spaces will be sold on a descending pattern for each of the next three years ending 31 December 2027 and will be substantially sold out in 2027. As further advised by the Management, in view of the recession of the real estate market in the PRC and as most of the unsold car parking spaces are remaining stocks, the pace of selling those car parking spaces is expected to slow down as compared to previous years. The estimated service fees were primarily determined in accordance with the pricing basis under each of the separate car parking space sales agency services agreement entered between the Group and the Remaining Group under the Existing Framework Agreements.

In respect of the expected inventory of new car parking spaces, we note that the expected number of new parking spaces requiring sales agency services by the Remaining Group was estimated after taking into account, among others, the total GFA of the upcoming property projects to be managed by the Group and the average historical portion of car parking spaces as represented by the total GFA of the car parking spaces over those of the recently completed property projects managed by the Group which we consider to be fair and reasonable. The Management then assumed that half of such new car parking spaces when first launched to the market will be assigned to the Group for sale and in accordance with the expected delivery schedule of the new property projects of the Remaining Group. We have enquired with the Management on such expected portion of assignment which has improved from previous years and learnt that having considered the increased difficulties in selling car parking spaces due to poor market sentiments and the relatively higher margins, the Company has planned to recruit more staff for providing the sale agency services due to the potential increasing demand from the Remaining Group in the coming years and the Management expected that it could secure a higher portion of car parking spaces at their respective first-launch stages from the Remaining Group under the Renewed Framework Agreements, which would raise the sale success rate and therefore speed up the sale of car parking spaces by the Group. Regarding the upcoming property projects to be managed by the Group, notwithstanding the recession of the real estate market in the PRC in previous years, where only 5 property projects are completed and delivered from 2023 and up to 30 June 2024, the Management expects that recovery of real estate market would gradually pick up and therefore assumed that 9 new property projects are expected to be completed and delivered before the end of 2025, indicating more car parking spaces will be available for sale in the coming years. On the other hand, we have assessed the increment in the number of car parking spaces available for sale by the Group, which has increased by approximately 47.3% as at 31 October 2024 and is estimated to further increase by approximately 124.5% in 2025. Based on the aforesaid increment in number of completed projects, we consider that increment in the number of car parking spaces available for sale by the Group justifiable. Considering the abovementioned improved assignment portion, the Management then estimated the service fees based on the assumption that such car parking spaces will be substantially sold out within three years. The number of new car parking spaces is then multiplied by the expected unit service fee to give the Proposed Annual Caps with reference to the historical average unit service fee and after considering the nature, location, scale and market positioning of the car parking spaces under certain new property projects which are expected to be sold at a higher premium. Given (i) the decline in the demand for car parking spaces sales agency services due to the recession of the real estate market in the PRC in previous years; (ii) the expected increase in the sale of the number of car parking spaces as a result of the increase in the total number of car parking spaces available for sale due to the increase in the number of property projects to be completed in the coming years and the expected portion of assignment of car parking spaces when first launched to the market by the Remaining Group to the Group and strengthening the relevant sales team of the Group; and (iii) the increase in the average agency service fees from the car parking spaces where certain of which are expected to be sold at a higher premium, we consider the increase in the Proposed Annual Caps justifiable.

Based on the above, we are of the view that the determination of the Proposed Annual Caps under the Renewed Zhong An Car Parking Space Sales Agency Services Framework Agreement and the Renewed CNC Car Parking Space Sales Agency Services Framework Agreement is fair and reasonable.

3.2 Renewed Zhong An Property Management Services Framework Agreement and the Renewed CNC Property Management Services Framework Agreement

As shown in Table 1, the Proposed Annual Caps amounted to RMB38 million, RMB39 million and RMB53 million for the three years ending 31 December 2027, while the Proposed Annual Caps for the two years ending 31 December 2026 and 2027 represented increases of approximately 2.6% and 35.9% from the respective previous years. With reference to the Letter from the Board, the Proposed Annual Caps under the Renewed Zhong An Property Management Services Framework Agreement and the Renewed CNC Property Management Services Framework Agreement was determined after considering (i) the actual GFA that are currently managed by the Group as at 31 December 2023 and 31 October 2024 has increased by approximately 46% and 75% due to the recession of the PRC real estate market leading to a slowdown in sales and delivery of completed property units, such that it is estimated a continual upward trend in the GFA to be managed by the Group shall remain for the three years ending 31 December 2027; (ii) the estimated GFA of existing property units developed by the Remaining Zhong An Connected Persons and the CNC Connected Persons that are unsold and undelivered and are expected to be delivered to the Group for its management; (iii) the estimated GFA of upcoming property units to be developed by the Remaining Zhong An Connected Persons and the CNC Connected Persons that are unsold and undelivered and are expected to be delivered to the Group for its management; and (iv) the expected increase in the service fees to be charged by the Group considering the expected inflation and increment in the operational costs as incurred by the Group due to the potential increase in demand.

Based on our review of the computations prepared by the Management, we note that the Proposed Annual Caps under the Renewed Zhong An Property Management Services Framework Agreement and the Renewed CNC Property Management Services Framework Agreement were determined primarily based on (i) the expected service fee referencing to the GFA of unsold property units under the completed property projects under management by the Group as at 31 October 2024 and the unit management fee under the existing contracts; and (ii) the expected service fee referencing to the GFA of existing property projects under construction and/or available for sale, the land bank on hand and the expected new investment of property projects of Zhong An and/or China New City and the expected unit management fees. Regarding the completed property projects, the Group has been providing property management services for the unsold property units thereof under the Existing Framework Agreements. In light of the recession and uncertain outlook of property market in the PRC as more particularly described in the below paragraph, the Management has, on a prudent approach, assumed the unit management fees and the GFA of unsold property units under the completed property projects under management by the Group to be constant for each of the three years ending 31 December 2027, in order to allow for any potential unexpected delay in the sales of properties which we consider to be fair and reasonable. As provided by the Management and based on our review, the actual GFA that are subject to the Group's property management service as at 31 December 2023 and 31 October 2024 has increased by approximately 43.6% and further by 74.5% as compared to the respective previous corresponding dates, which was primarily due to the recession of the real estate market since 2023 leading to a significant slowdown in the sales and deliveries of completed property units, therefore resulting in an increase in GFA that are subject to the Group's management. Accordingly, in view of the increased time required for sales of completed property units and the increase in GFA subject to the Group's management and for prudent sake, it is reasonable for the Management to assume the Group to continue receiving similar level of management fees for the completed property projects under its management for the three years ending 31 December 2027. In respect of the expected service fee of the existing properties under construction and/or available for sale and existing land bank of the Remaining Group, the Management has determined the estimated unit service fees taking into account of the average historical unit price under existing property management agreements and the nature, location, scale and market positioning of the relevant properties, and the estimated GFA of such properties. In respect of such existing properties which are expected to complete construction in 2025, we note that the Management has primarily made reference to the GFA of such property units and assumed that the Remaining Group will engage the Group for the provision of property management services for the total GFA at least the first year following completion in arriving at the expected service fees for the two years ending 31 December 2025 and 2026, and expect half of the total GFA will be sold the next following year in arriving at the expected service fees for the year ending 31 December 2027 in view of the recession of the real estate market the PRC property market and the increased time required for selling the completed property units since 2023 as discussed above. Therefore, it is assumed that the potential demand for the property management services for the property units of the existing property projects under construction and/or available for sale will be higher. The Management has also assumed that the property projects that are scheduled to commence construction in 2025 and 2026 will complete by mid-2026 and mid-2027 respectively, which is in general consistent with the construction schedules of previous property projects with similar nature and scale and accordingly receive service fees for six months in arriving at the expected property management service fee for the year ending 31 December 2026 and 2027.

For our due diligence purpose, we have conducted desktop research on the real estate market in the PRC. Based on the latest statistical data published by the National Bureau of Statistics (國家統計局) *(https://www.stats.gov.cn/)* in November 2024 regarding the PRC's real estate market, the overall investment amount in property development was approximately RMB8.6 trillion for the ten months ended 31 October 2024, representing a year-on-year decrease of approximately 10.3%. The newly-constructed properties available for sale amounted to approximately 420.0 million sq.m for the ten months ended 31 October 2024, representing a year-on-year decline of approximately 23.9%. The sales price of newly-built commercial residential homes in first-tier cities fell by approximately 4.6% year-on-year for the ten months ended 31 October 2024. For second-tier cities in the PRC, the sales price of newly-built commercial residential homes fell by approximately 6.0% year-on-year for the ten months ended 31 October 2024. In addition, according to the research report published by the China Real Estate Association* (中國房地產業協會) *(http://www.fangchan.com)*, an industry association organised by enterprises which principally engaged in property development, property management and construction, for the ten months ended 31 October 2024, the sales area of newly built commercial properties has declined by approximately 15.8%, with residential sales area decreased by approximately 17.7%, as compared to the corresponding period in 2023. The total sales of newly built commercial properties amounted to approximately RMB7,685.5 billion, representing a decrease of approximately 20.9% as compared to the corresponding period in 2023, while residential sales have dropped by approximately 22.0% during the period. Overall, the real estate industry in the PRC still faces downward pressure. The declining number of completed construction projects which are available for sales is expected to affect the growth in the demand for the Group's property management services in the foreseeable future.

With reference to the annual report of Zhong An for the year ended 31 December 2023, the Zhong An Group recorded contracted sales of approximately RMB11,669.3 million, representing a decrease of approximately 18.2% as compared with the previous year. With reference to the interim report of Zhong An for the six months ended 30 June 2024, the Zhong An Group recorded contracted sales of approximately RMB2,875.0 million, representing a decrease of approximately 61.4% as compared with the previous corresponding period. With reference to the annual report of China New City for the year ended 31 December 2023, China New City recorded contracted sales revenue of approximately RMB1,589.3 million, representing an increase of approximately 4.7% as compared with the previous year. With reference to the interim report of China New City for the six months ended 30 June 2024, China New City recorded contracted sales revenue of approximately RMB663.4 million, representing a decrease of approximately 18.5% as compared with the previous corresponding period. As such, it is observed that the contracted sales of Zhong An and China New City has been generally declining in recent year/period.

In light of the aforesaid, the new investment in property development is expected to decline. With the aim to stimulate market activity and to promote the steady and healthy development of the property market, the PRC government has actively explored and implemented supportive policies including but not limited to (i) the lowering of the minimum down payment ratio for individual's commercial housing mortgages for purchases of first and second homes in May 2024; (ii) the establishment of a nationwide program regarding the RMB300 billion affordable housing refinancing loan set up by the People's Bank of China in May 2024; and (iii) the lowering of residential mortgage interest rates in September 2024. In light of the foregoing stimulative policies introduced in 2024, we note that the Management has included a buffer in estimating the service fees for the year ending 31 December 2027 to reflect the possibility of new investment in property projects by the Remaining Group following the potential recovery of real estate market in the coming years, thereby resulting in an increase in the Proposed Annual Cap for the year ending 31 December 2027.

Based on the above, we are of the view that the determination of the Proposed Annual Caps under the Renewed Zhong An Property Management Services Framework Agreement and the Renewed CNC Property Management Services Framework Agreement is fair and reasonable.

3.3 Renewed Zhong An Value-added Services Framework Agreement and the Renewed CNC Value-added Services Framework Agreement

As shown in Table 1, the Proposed Annual Caps amounted to RM103 million, RMB109 million and RMB113 million for the three years ending 31 December 2027, while the Proposed Annual Caps for the two years ending 31 December 2026 and 2027 represented increases of approximately 5.8% and 3.7% from the respective previous years. It is notable that the historical transaction amounts have substantially declined for the six months ended 30 June 2024. As advised by the Management, such decline was mainly due to the recession of the real estate market in the PRC leading to postponement of property projects of the Remaining Group and therefore a decrease in demand for the value-added services provided by the Group.

With reference to the Letter from the Board, the Proposed Annual Caps under the Renewed Zhong An Value-added Services Framework Agreement and the Renewed CNC Value-added Services Framework Agreement was determined after considering (i) due to the recession of the PRC real estate market such that the number of project commencement and the underlying GFA has both decreased by approximately 90% in 2023 when compared to 2021 and 2022, it is estimated that the number of project commencement and the underlying GFA will increase substantially for the three years ending 31 December 2027 under the future introduction of real estate easing policies aimed at "promoting stability and recovery in the real estate market"(「要促進房地產市場止跌回穩」) as announced by the Chinese government; (ii) the estimated duration of the service period of the existing projects and expected projects of the Remaining Zhong An Connected Persons and the CNC Connected Persons, which is expected to increase due to the weak market sentiment which shall require a longer service period by the Group; and (iii) the expected increase in the service fees to be charged by the Group with an average buffer of approximately 90% for the three years ending 31 December 2027 considering the expected inflation and increment in the operational costs as incurred by the Group due to the potential increase in demand.

In determining the Proposed Annual Caps, the Management has made reference to (i) the respective contract sums under the relevant contracts under the Existing Framework Agreements with respect to the existing property projects of Zhong An and China New City and the scheduled time of pre-sale of the properties; and (ii) the expected service fees for value-added services for the new projects. The expected service fees with respect to value-added services are with reference to the expected number of existing and new projects of the Remaining Group for the next three years and the historical average unit service fees. In respect of existing property projects, in view of the prevailing weak market sentiment and demand in the PRC property market, the Management considered that the remaining unsold property units would continue to require sales office management services and has primarily included the expected service fees for value-added services under the existing property projects for each of the three years ending 31 December 2027. Given the recession of the real estate market in the PRC, we consider that the estimated longer duration of the service period of sales office management services is fair and reasonable.

Regarding the new property projects, as discussed in the above sub-section headed "Renewed Zhong An Property Management Services Framework Agreement and the Renewed CNC Property Management Services Framework Agreement", in view of the recent national stimulative policies directing to the real estate market in the PRC, the Management has included a buffer of 87.6%, 80.6% and 99.6% in estimating the service fees for the three years ending 31 December 2027 after having considered the potential new investment in property projects by the Remaining Group in the next three years. In view of the significant buffer placed by the Management, we have independently obtained and reviewed the list of property projects of the Remaining Group that commenced construction from 2021 to 2023. It is noted that the number of projects and the underlying GFA that commenced construction began to drop tremendously in 2023 when compared to 2021 and 2022, with number of projects decreased by approximately 88.9% and the underlying GFA decreased by approximately 92.6%, respectively. We also note that no project commenced construction in 2024. In view of the substantial shrink in project commencement in 2023 and 2024 which is in line with the poor property market sentiment and balanced with the recent national stimulative policies in the real estate market, the Management has assumed the property market to start picking up in 2025 and gradually restore to previous levels in 2026 and 2027. Accordingly, the Management has estimated the total GFA (including both existing and new potential projects) that will commence construction to increase progressively. It is noted that the total respective GFA that will commence construction in 2025 and 2026 represent approximately 52.8% and 92.2% of the peak GFA that commenced construction in 2021, which are both below the peak level of GFA in 2021. As such, we consider the buffer adopted by the Management in arriving at the Proposed Annual Caps to be justifiable.

We further note that the expected schedule for the Group to provide the value-added services to the Remaining Group following the expected commencement of construction of new property projects is in line with the historical pre-sale schedule. On the other hand, the Management remains cautious on the expected time for launching the pre-sale of the properties and therefore on a prudent approach, the Management has also expected a longer duration of the service period of sales office management services for the new projects, being the major service among the value-added services which represents a significant portion of 76.9%, 80.2% and 78.1% of the Proposed Annual Caps for the three years ending 31 December 2025, 2026 and 2027, and therefore has primarily included the expected service fees for each of the three years ending 31 December 2027 to cater for any potential unexpected delay of the pre-sale of properties, which we consider fair and reasonable. In addition, notwithstanding that the Group would mostly outsource the maintenance management service required by the property projects managed by the Group in the previous years, in order to broaden the income stream, it is the current plan of the Group to provide such service by itself to both existing and new projects of the Remaining Group, leading to the increase in the value-added services for each of the three years ending 31 December 2027. Based on our review, we note that the expected portion of provision of maintenance management services for the years ending 31 December 2025, 2026 and 2027 has on average increased by 95% as compared to that in 2024 based on the aggregate transaction amount as annualised from the six months ended 30 June 2024, while the expected service fees arising from provision of maintenance management services for the years ending 31 December 2025, 2026 and 2027 represents increments of approximately 631.3% 728.1% and 744.5%, respectively, from the historical transaction amount for the same service in 2024.

Based on the above, we are of the view that the determination of the Proposed Annual Caps under the Renewed Zhong An Value-added Services Framework Agreement and the Renewed CNC Value-added Services Framework Agreement is fair and reasonable.

4. Internal control measures and annual review

As disclosed in the Letter from the Board, the Company has adopted and will continue to adopt internal control measures to ensure that each of the continuing connected transactions will be carried out in accordance with the terms of the Renewed Framework Agreements, on normal commercial terms or better and not less favorable to the terms offered to the independent third parties. Such internal control measures employed by the Group include that the finance department of the Company will monitor the continuing connected transactions under the Renewed Framework Agreements to ensure they are conducted in accordance with their respective terms and conditions. Further, in accordance with the requirements of the Listing Rules, the Company's external auditors shall provide a letter to the Board confirming, among others, that the transactions under each of the Renewed Framework Agreements are conducted in accordance with their terms and that the respective proposed annual caps not being exceeded and the independent non-executive Directors shall conduct an annual review on the pricing and the annual caps of the continuing connected transactions, details of which must be included in the Company's subsequent published annual reports. The Company shall publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the terms of such transaction or the annual caps not being exceeded.

Further, since the EGM will be held after the effective date of the Renewed Framework Agreements, the finance department of the Company will monitor the continuing connected transactions thereunder to ensure that the transactions which take place before the EGM date is fully exempt under Rule 14A.76 of the Listing Rules.

In light of the reporting requirements attached to the continuing connected transactions under the Renewed Framework Agreements and the internal control procedures adopted by the Group, we are of the view that there are appropriate and adequate internal control procedures in place to govern the conduct of the Renewed Framework Agreements and to safeguard the interests of the Independent Shareholders as a whole.

RECOMMENDATIONS

Having taken into consideration the factors and reasons as stated in this letter, we are of the view that the Renewed Framework Agreements are conducted in the ordinary and usual course of business of the Group, and the terms of the Renewed Framework Agreements are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the EGM to approve the Renewed Framework Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited

Billy Tang
Managing Director

Mr. Billy Tang is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in the accounting and investment banking industries.