緯耀資本
REDSOLAR

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No.141 Des Voeux Road Central
Central, Hong Kong

13 January 2025

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Settlement Agreement and the transactions contemplated thereunder, pursuant to which (i) Excellence Property shall conditionally sell, and Excellence Real Estate shall conditionally acquire, the Sale Equity at a consideration of RMB337.79 million; and (ii) Excellence Property shall conditionally acquire, and Excellence Real Estate shall conditionally sell, the Target's Equity and the Offset Assets at a total consideration of RMB251.48 million. (i.e. together with (i) above, the Transactions), details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 13 January 2025 (the "**Circular**"), of which this letter of advice forms a part. Unless the context requires otherwise, capitalised terms used in this letter of advice shall have the same meanings as defined in the Circular.

The Settlement Agreement

On 21 November 2024, the Company (for itself and on behalf of the Group) entered into the Settlement Agreement with Excellence Real Estate. The Settlement Agreement is a legally-binding framework agreement which contains the principles, mechanisms and major terms and conditions upon which the parties thereto are to carry out (or procure to carry out) the transactions contemplated thereunder. Following the signing of the Settlement Agreement, Excellence Real Estate shall procure its relevant subsidiaries to enter into transfer agreements with subsidiaries of Excellence Property to effect the transactions contemplated under the Settlement Agreement. On 13 January 2025, Excellence Property entered into a supplemental agreement to the Settlement Agreement to set out, among others, the followings: (i) the Acquisitions and the Disposal are inter-conditional with each other; and (ii) the consideration of the Disposal shall be wholly offset by the consideration for the Acquisitions and the remaining RMB86.31 million to be settled in cash or other assets after complying with the relevant Listing Rules.

Listing Rules implications

As one or more of the applicable percentage ratios under Rule 14.06 of the Listing Rules in respect of the Disposal are more than 5% but all of which are less than 25%, the Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As one or more of the applicable percentage ratios under Rule 14.06 of the Listing Rules in respect of the Acquisitions are more than 5% but all of which are less than 25%, the Acquisitions constitute a discloseable transactions of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Pursuant to Rule 14.24 of the Listing Rules, since the transactions contemplated under the Settlement Agreement involve both acquisition and disposal, the transactions will be classified by reference to the larger of the two. Accordingly, the transactions contemplated under the Settlement Agreement are subject to the reporting and announcement requirements but are exempt from Shareholders' approval requirement under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Excellence Real Estate is owned as to more than 30% by Mr. Li Wa, a controlling shareholder of the Company. As such, Excellence Real Estate is an associate of Mr. Li Wa and is therefore a connected person of the Company under the Listing Rules. Accordingly, the Settlement Agreement and the transactions contemplated thereunder will constitute connected transactions under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Settlement Agreement exceed 5%, the Settlement Agreement is subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

EGM AND VOTING AT THE EGM

The EGM is scheduled to be held at Greater Bay Area Room, 38A Floor, Tower 4, Excellence Century Center, Fuhua Third Road, Futian District, Shenzhen, Guangdong Province, PRC at 10:00 a.m. on 24 January 2025 for the purpose of considering and, if thought fit, approving the Settlement Agreement and the transactions contemplated thereunder. As Excellence Group forms part of Mr. Li's Companies and that (i) Mr. Li Xiaoping serves as a vice chairman and president of Excellence Real Estate and a director or general manager in certain subsidiaries of Excellence Group; and (ii) Mr. Wang Yinhu serves as a general manager of the financing department of Excellence Real Estate, both Mr. Li Xiaoping and Mr. Wang Yinhu are considered as having material interests in the Settlement Agreement and the transactions contemplated thereunder. Accordingly, Mr. Li Xiaoping and Mr. Wang Yinhu were required to abstain from voting on the relevant resolutions at the Board meeting. Save as disclosed, none of the Directors was required to abstain from voting on the relevant resolutions at the Board meeting. Voting on the resolution at the EGM will be taken by poll.

THE INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors, namely Professor Cui Haitao, Mr. Kam Chi Sing and Ms. Liu Xiaolan, has been established to consider and advise the Independent Shareholders as to whether the terms of the Settlement Agreement are fair and reasonable and the transactions contemplated thereunder are (i) fair and reasonable; (ii) on normal commercial terms or better and in the ordinary and usual course of business of the Company; (iii) in the interests of the Company and the Shareholders as a whole; and (iv) how the Independent Shareholders should vote in favour of the Transactions. None of the members of the Independent Board Committee has any material interest in the Transactions.

We, Red Solar Capital Limited, have been appointed as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Settlement Agreement are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee.

OUR INDEPENDENCE

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

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the information and facts supplied, opinions expressed, statements and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Circular). We have reviewed the documents including but not limited to (i) the Settlement Agreement; (ii) the business valuation report of the Disposal Company as set out in Appendix II to this circular (the "**Business Valuation Report**") and the property valuation report of the Target's Asset and the Offset Assets as set out in Appendix III to this circular (the "**Property Valuation Report**"), collectively (the "**Valuation Reports**"); (iii) the Circular and the Letter from the Board contained therein; (iv) the interim reports for the six months ended 30 June 2024 (the "**2024 Interim Report**") and the annual reports of the Company for the year ended 31 December 2022 and 2023, respectively (the "**2022 Annual Report**" and

"**2023 Annual Report**", respectively); and (v) the relevant supporting documents in respect of the Transactions provided by the Company, including but not limited to historical documents and records, to formulate our opinion and recommendation. We have assumed that the information and facts supplied, opinions expressed, statements and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the EGM. The Shareholders will be informed should there be any material change of information in the Circular up to the date of the EGM. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after due enquiry and careful consideration. Where applicable, we have also conducted independent desktop search and confirmed that there was no material difference between our search result and the information and facts supplied, opinions expressed, statements and representations made to us by the management of the Group. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility of the Circular and have confirmed, having made all reasonable enquiries, 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 matters the omission of which would make any statement herein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We considered that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs or future prospects of the Group, or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

I. Background of the Group

(i) Background information of the Group

The Group is a leading commercial property management service provider in the PRC. Founded in 1999, the Group has been focusing on providing commercial property management services for about 20 years, and has established reputation in the market and a premium brand.

(ii) ***Historical financial performance and position of the Group***

The following table sets out key consolidated financial information of the Group for the six months ended 30 June 2024, year ended 31 December 2022 (the "**FY2022**"), 31 December 2023 (the "**FY2023**") as extracted from the 2022 Annual Report, 2023 Annual Report and 2024 Interim Report:

	For the FY2022 (audited) *RMB'000*	**For the FY2023** (audited) *RMB'000*	**For the six months ended 30 June 2023** *RMB'000*	**For the six months ended 30 June 2024** *RMB'000*
Revenue				
Basic property management services	2,814,793	3,221,360	1,565,873	1,713,976
Value-added services	668,710	679,272	262,845	349,147
Revenue from other sources	43,893	26,176	10,621	19,355
Total Revenue	3,527,396	3,926,808	1,839,339	2,082,478
Net Profit	426,455	323,347	187,291	183,799

Discussion on the Group's financial performance for the six month ended 30 June 2024 as compared with that for the six month ended 30 June 2023

Based on the 2024 Interim Report, the revenue of the Group of approximately RMB2,082.48 million for the six months ended 30 June 2024 ("**1H2024**") increased slightly by approximately RMB243.14 million or 13.22% when compared to that for the six months ended 30 June 2023 ("**1H2023**"), which is mainly attributable to (i) increase in revenue from basic property management services; (ii) increase in revenue from electrical and mechanical equipment installation business services and (iii) the increase in the provision of high-end business services and corporate administration and welfare platform services. Net profit for the period for 1H2024 decreased by approximately RMB3.49 million or 1.86% to approximately RMB183.80 million when compared to 1H2023. Such decrease was mainly due to the decrease in gross profit margin of the Excellence Group commercial services.

Discussion on the Group's financial performance for the FY2023 as compared with that for the FY2022

Based on the 2023 Annual Report, the Group's revenue reached approximately RMB3,926.81 million in 2023, with a year-on-year growth of approximately 11.32%. The basic property service income from third parties accounted for approximately 58.51%, posting a gross profit of approximately RMB746.69 million, down by approximately 11.57% compared with the corresponding period in FY2022. The comprehensive gross profit rate was approximately 19.00%, representing a decrease of approximately 4.90% compared with FY2022. For FY2023, the Group's net profit amounted to approximately RMB323.35 million (FY2022: approximately RMB426.46 million), representing a decrease of approximately 24.18% from last year.

Discussion on the Group's financial position as at 30 June 2024 as compared with that as at 31 December 2023

Set out below is a summary of the consolidated statement of financial position of the Group as at 31 December 2023 and 30 June 2024 as extracted from the 2024 Interim Report.

	As at 30 June 2024	**As at 31 December 2023**
	RMB'000	*RMB'000*
Total Assets	5,437,752	5,198,390
Total Liabilities	1,687,227	1,545,694
Net Assets	3,750,525	3,652,696

The total assets of the Group were approximately RMB5,198.39 million and RMB5,437.75 million as of 31 December 2023 and 30 June 2024, respectively, representing an approximately 4.60% increase, which is mainly attributable to the rise in trade and other receivables. The total liabilities of the Group were approximately RMB1,545.69 million and RMB1,687.23 million at 31 December 2023 and 30 June 2024, respectively. The major liabilities comprised trade and other payables, amounting to approximately RMB1,101.26 million and RMB1,205.50 million at the same dates. The total liabilities remained stable during this period, while the asset-liability ratio was 29.73% and 31.03% at 31 December 2023 and 30 June 2024, respectively. This ratio is calculated as total liabilities divided by total assets. The financial position of the Group remained healthy, with consolidated net assets increasing slightly by approximately 2.68%, from approximately RMB3,652.70 million as of 31 December 2023 to approximately RMB3,750.53 million as of 30 June 2024.

II. The Settlement Agreement

(i) Background information of the Parties

Excellence Property is a company established in the PRC with limited liability. As at the Latest Practicable Date, Excellence Property is a wholly-owned subsidiary of the Company and is principally engaged in property management services and related services.

Excellence Real Estate is a company established in the PRC with limited liability and is principally engaged in real estate development. The ultimate beneficial owner of Excellence Real Estate is Mr. Li Wa (李華).

(ii) ***Background information of the Disposal Company***

The Disposal Company is a company established in the PRC with limited liability. As at the Latest Practicable Date, the Disposal Company is an indirect wholly-owned subsidiary of the Company and is principally engaged in the provision of financial services in the PRC.

As at the Latest Practicable Date, the Disposal Company does not have any subsidiary. Set out below unaudited financial information of the Disposal Company for the financial years ended 31 December 2022 and 2023 and ten months ended 31 October 2024, respectively:

	For the financial year ended 31 December		**For the ten months ended 31 October**
	2022	**2023**	**2024**
	(unaudited)	(unaudited)	(unaudited)
	RMB'000	*RMB'000*	*RMB'000*
Revenue	35,731.40	18,867.73	35,491.66
Net profit before taxation	25,511.57	1,914.68	7,729.29
Net profit after taxation	19,130.51	1,436.01	5,796.97

Based on the unaudited financial information of the Disposal Company, the total assets value and net assets value of the Disposal Company as at 31 October 2024 were approximately RMB652.85 million and RMB337.79 million, respectively.

As at the Latest Practicable Date, the Disposal Company as borrower has entered into a shareholder's loan contract in the principal amount of RMB300 million with an interest rate of 5 per annum with Excellence Property, and which has been renewed for a further period of one year from 1 November 2024 (the "**Shareholder's Loan**"). The Shareholder's Loan is unsecured. As the Shareholder's Loan was advanced to the Disposal Company by Excellence Property for further making loans to its customers, who are all Independent Third Parties, in the ordinary and usual course of business of the Disposal Company and these loans have different maturity dates subsequent to the completion of the Disposal, so the Disposal Company could not repay the Shareholder's Loan prior to the completion of the Disposal. Upon completion of the Disposal, it is intended that Excellence Real Estate will repay on behalf of the Disposal Company through cash in or about 2025, partly using the cash recovered from the loans repaid by the customers of the Disposal Company.

However, Excellence Real Estate may also repay the Shareholder's Loan by other assets, where the relevant further assets will be valued by an independent professional valuer. Should this happen, the Company will select assets with good quality provided by Excellence Real Estate and will comply with the relevant requirements under Chapters 14 and 14A of the Listing Rules in this respect. The Board considers that having an alternative of using other assets with good quality as repayment of the shareholder's loan will present an opportunity for the Company to acquire quality assets, which are in the interest of the Company and Shareholders as a whole.

Under the Settlement Agreement, the Shareholder's Loan advanced by the Group to the Disposal Company shall be repaid in 2025 instead of prior to completion of the Disposal. The repayment of the Shareholder's Loan will be partly financed from the loans repaid by the customers of the Disposal Company in 2025 and the Company is given to understand that Excellence Real Estate and its subsidiaries have good credit standing and owned a substantial level of tangible assets including properties and carparks in the PRC. The Company also noted that one of the subsidiaries of Excellence Real Estate had an "AAA" credit rating issued by a credit rating company in the PRC in July 2024. The Company is given to understand that Excellence Real Estate has a substantial level of good quality assets free from encumbrances, including commercial complex and office located in the heart of first tier cities and new first tier cities in the PRC, hotel assets located in tourist cities in the PRC and car parking spaces located in the centre of cities, as such, the Company may, at a later stage, enter into further agreement with Excellence Real Estate to take these assets instead of cash for the repayment of the Shareholder's Loan, after complying with the requirement of the Listing Rules as appropriate. As such, the Board considered that the Company will recover the Shareholder's Loan from Excellence Real Estate.

The current deal structure negotiated with Excellence Real Estate under the Settlement Agreement was the only opportunity for the Group to dispose of the Disposal Company to exit this business and will help the Group to divest non-main businesses and focus on developing main businesses, which will contribute to the healthy and sustainable development of the Company and safeguarding the interests of Shareholders. In view of the above, the Disposal and the Acquisitions including the agreement to repay the Shareholder's Loan of the Disposal Company in 2025 instead of prior to the completion of the Disposal is fair and reasonable and in the interest of the Company and Shareholders as a whole. Even though the recovery of the Shareholder's Loan may be subject to credit risk, we are of the view that, (i) Excellence Real Estate and its subsidiaries have good credit standing and owned a substantial level of good quality assets free from encumbrances, including commercial complex and office located in the heart of first tier cities and new first tier cities in the PRC, hotel assets located in tourist cities in the PRC and car parking spaces located in the centre of cities; (ii) it is noted that one of the subsidiaries of Excellence Real Estate had a "AAA" credit rating issued by a credit rating company in the PRC in July 2024, and (iii) in the case if Excellence Real Estate could not repay the Shareholders Loan in cash, Excellence Real Estate could then use its assets to settle such shareholders loan after the Company complies with the relevant requirements under the Listing Rules in relation to such assets acquisition in the future, we are of the view that the current arrangement with the Shareholder's Loan is fair and reasonable and in the interest of its Shareholders as a whole.

In addition, under the current arrangement, if Excellence Real Estate fails to repay the Shareholder's Loan in cash, it can use its other assets to settle such loan, therefore we are of the view that the further asset offset for the Shareholder Loan, if any, is in the interests of the Company and its Shareholders as a whole.

(iii) Background information of the Target Company

The Target Company is a company established in the PRC with limited liability. As at the Latest Practicable Date, the Target Company is owned as to 50% Excellence Real Estate and 50% by Shanghai Wanke Real Estate Company Limited (which, based on public information, is a subsidiary of China Vanke Co., Ltd., being a listed company on the Stock Exchange (stock code: 2202)) and is principally engaged in own house rental, domestic trade, parking lot management, entrusted asset management, investment management and business information consulting.

As at the Latest Practicable Date, the Target Company is an investment holding company without business operation and has only one subsidiary, namely Tianzhusheng Technology. Set out below is the unaudited consolidated financial information of the Target Group for the financial years ended 31 December 2022 and 2023 and the ten months ended 31 October 2024, respectively:

	For the financial year ended 31 December		**For the ten months ended 31 October**
	2022	**2023**	**2024**
	(unaudited)	(unaudited)	(unaudited)
	RMB'000	*RMB'000*	*RMB'000*
Revenue	84,846.81	93,897.75	75,882.88
Net profit before taxation	26,303.85	24,885.00	13,829.18
Net profit after taxation	20,321.64	19,263.07	10,330.05

Based on the unaudited financial information of the Target Group, the total assets value and net assets value of the Target Group as at 31 October 2024 were approximately RMB1,895.56 million and RMB302.96 million, respectively.

As at the Latest Practicable Date, Tianzhusheng Technology as borrower has entered into a bank loan contract with two banks in the PRC in the principal amount of RMB1,200,000,000. Such bank loan contract was guaranteed by Shenzhen Zhuoyue Business Management Co., Ltd (深圳市卓越商業管理有限公司), being a wholly-owned subsidiary of Excellence Real Estate and RMB952,000,000 has been drawn down by Tianzhusheng Technology. Upon completion of the Acquisitions, the guarantor will remain unchanged.

As at the Latest Practicable Date, the Target Group owns an office building located in Shanghai, the PRC with a gross floor area of 90,713.34 square metres.

The Target Company was established by Excellence Real Estate and Shanghai Wanke Real Estate Company Limited with a registered and paid up capital of RMB30 million and the original acquisition cost of the entire equity interest of Tianzhusheng Technology to the Target Company was RMB1,063.82 million.

Upon completion of the acquisition of the Target's Equity, the Group will be interested in 50% equity interest in the Target Company and will not control the board of directors of the Target Company. As such, the Target Company will not become a subsidiary of the Group and the financial information of the Target Group will not be consolidated into the financial statements of the Group. The Target Company shall be accounted for as interests in joint venture. Through the Acquisitions, the Company attempts to extend the service chain to the field of commercial operations, opening up a new track for the company's subsequent development. The Company also expected to record profit from sharing the profit to be derived from the operation of the Target Company and sharing of the capital appreciation of the Target Company should there be any capital appreciation gains recorded by the Target Company in respect of the Target's Asset through equity method after completion of the Acquisitions, and to receive dividend income should the Target Company declare dividend in the future. The Target Company has not declared dividend in the past five years. As at the Latest Practicable Date, the Target Company has a total borrowings of approximately RMB1,300 million, out of which approximately RMB952 million were bank loans and RMB348 million were shareholder's loans. On the assumption that the Target Company will not incur further bank loans, it is expected that the Target Company will pay off the bank loans in or around 2037. Thereafter, any distributable profit of the Target Company shall be used to repay the shareholder's loans and/or declare dividends. We are of the view that although it is not likely that the Target Company will declare any dividend in the near future, through the Acquisitions, the Company attempts to extend the service chain to the field of commercial operations, opening up a new track for the company's subsequent development. Upon the expiry of the property management agreements of the Target Company, the Company will negotiate to take over these existing property management agreements so as to generate additional revenue to the Group. Therefore, we consider the acquisition of the Target Company is beneficial to the Company and its Shareholders as a whole.

(iv) Background information of the Offset Assets and the Target Assets

The Offset Assets includes (i) 181 commercial apartments with a gross floor area of 11,926.77 square metres. The Offset Assets were not acquired by Shenzhen Excellence Investment Management, but were transferred to Shenzhen Excellence Investment Management in respect of debts amounted to approximately RMB153 million owned by an independent third party to Shenzhen Excellence Investment Management. As a result of a default in repaying Shenzhen Excellence Investment Management of the aforementioned outstanding debts owed by the independent third party, the Offsets Assets which were charged to secure the relevant debts by such individual third party were then transferred to Shenzhen Excellence Investment Management in accordance with a direction made by the PRC court.

The Target's Assets includes three buildings, namely a 100-meter-tall main tower and 50-meter-tall twin towers, along with a sunken garden plaza, located in the central area of Wujiaochang, Shanghai, with a total gross floor area of 90,713.34 sq. m.

(v) ***Reasons for and benefits of the Settlement Agreement***

In relation to the Disposal

Background of the Disposal Company

The Disposal Company was established in May 2018 which was only licensed to provide micro-lending in Shenzhen. It has been providing financial services to customers of the Group's property management services business who have financing demands in Shenzhen, serving a diverse customer base that includes small and medium-sized enterprises, individual business proprietors and individuals, since its establishment. Prior to the listing of the Company on the Stock Exchange, as disclosed in the Prospectus, the Company intended to dispose of the Disposal Company as it wanted to focus on property management business and that the synergy effect between the Group's property management business and the Disposal Company fell short of the Group's expectation.

Legal restrictions

As disclosed in the Prospectus, pursuant to the applicable laws and regulations, equity interests of the primary founding shareholder, meaning the founding shareholder with the largest shareholding percentage of no less than 30% of the registered capital upon the inception, in a micro-lending company cannot be transferred within three years after its incorporation.

Pursuant to the Notices on Shenzhen Micro-lending Companies Provisional Administrative Measures (《深圳市小額貸款公司試點管理暫行辦法的通知》) (the "**Provisional Measures**"), the primary founding shareholder of a micro-lending company shall satisfy the following requirements: (i) its net assets shall not be less than RMB100.0 million, and its debt to asset ratio shall not exceed 70%; (ii) it shall record a net profit for the last consecutive three years, and its accumulative net profit for the most recent three financial years shall not be less than RMB30.0 million; (iii) it shall have a good reputation and credit record, and there shall not be material non-compliance incidents during the past three years; (iv) its business shall be in line with the industry development guidance in Shenzhen, and it shall have a sound corporate governance and internal control system; (v) the capital injected into the micro-lending company shall be from a genuine and legal source. The shareholder shall not use borrowings to inject capital into the micro-lending company, and shall not entrust other parties to inject capital into the micro-lending company; and (vi) it shall satisfy other requirements that the local government may impose for the sake of prudence.

Pursuant to the Circular of Shenzhen Municipal Financial Regulatory Bureau (Shenzhen Municipal Financial Service Office) (深圳市地方監督金融管理局(深圳市人民政府金融工作辦公室)) on printing and distributing the Guidelines on Further Strengthening and Standardizing the Pilot Admission and Review of Micro Loan Companies (Trial) (《深圳市金融辦關於印發〈關於進一步加強和規範小額貸款公司試點准入和審核工作指引(試行)〉的通知》) (the "**Further Guidelines**"), in addition to meeting the Provisional Measures, the primary founding shareholder of a micro-lending company shall also satisfy the following requirements: (i) its net assets shall not be less than RMB200 million, and the asset-liability ratio shall not exceed 65%. In principle, after the investment of this project is implemented, the long-term investment amount shall not exceed 60% of the net assets (on a consolidated basis); and (ii) it shall make profits in the latest three consecutive years, and the cumulative total net profit shall not be less than RMB60 million, and the total cumulative tax payment shall not be less than RMB18 million (on a consolidated basis). A transferee of a micro-lending company should also satisfy the requirements imposed on primary founding shareholders by the Provisional Measures and the Further Guidelines.

First attempt to dispose of the Disposal Company

As disclosed in the Prospectus, before the Group disposes of its equity interest in the Disposal Company, the Group will continue to offer loans and generate revenue from finance service business. However, the Group does not intend to further expand its business operations as part of its strategy by injecting additional capitals or resources.

As disclosed in the announcement of the Company dated 15 May 2020, Excellence Property entered into a framework agreement with Shenzhen Zhuoyue Venture Capital Co., Ltd.* (深圳市卓越創業投資有限責任公司) (as purchaser) ("**Zhuoyue Venture**"), pursuant to which the Group has conditionally agreed to transfer the entire equity interests in the Disposal Company to Zhuoyue Venture after 3 May 2021. On 3 November 2021, Excellence Property and Zhuoyue Venture entered into the share transfer agreement, pursuant to which Excellence Property has conditionally agreed to sell, and Zhuoyue Venture has conditionally agreed to purchase, the entire equity interests in the Disposal Company at the cash consideration of RMB305.1 million.

Given that the necessary approvals from the institution with supervisory functions in the microfinance industry in the PRC in respect of such share transfer agreement and the transactions contemplated thereunder were not obtained, on 29 December 2022, with reference to the agreed term and after arm's length negotiations between Excellence Property and Zhuoyue Venture, both parties entered into a termination agreement to terminate such transaction. For further details, please refer to the announcement of the Company dated 29 December 2022.

Continuous attempt to dispose of the Disposal Company

Since the listing of the Company in 2020, the Company has been looking for potential buyers for the Disposal Company. As potential buyers shall fulfill the requirements under the Provisional Measures and the Further Guidelines, suitable buyers are minimal in the market. Furthermore, due to the uncertainties in renewing the micro-lending licence upon a change of shareholder as mentioned under section headed "THE SETTLEMENT AGREEMENT — Consideration", the Company has encountered immense difficulties in sourcing for interested buyers and disposing the Disposal Company almost becomes an impossible task. Other than disposing the Disposal Company, the Company had also considered the Disposal Company to cease its operation and give up its licence instead of selling to Excellence Real Estate. However, after considered that: (i) the Disposal would allow the Group to recoup its investment in the Disposal Company in the form of cash for this working capital as well as some undervalued assets (i.e. the Target Assets and the Offset Assets); and (ii) the Company does not have to deal with matters such as formulation of restructuring plans to collect outstanding loans made to its customers and to layoff staff and bear additional costs relating to the close down of operation such as staff redundancy cost.

Factors considered in the current deal structure of the Disposal

Notwithstanding the above, Excellence Real Estate was the only party interested in buying the Disposal Company who did not require the existence of the micro-lending licence. Based on the negotiation with the management of Excellence Real Estate, they considered that the surplus between the interest accrued on the existing loans to customers and that on the Shareholder's Loan will be capable of replenishing the cashflow of Excellence Real Estate. Given that Excellence Real Estate does not fulfill the requirements under the Provisional Measures and the Further Guidelines, to facilitate the entering into of the Settlement Agreement, the micro-lending licence of the Disposal Company has been cancelled as at the Latest Practicable Date.

The management of the Company considers that if the Company missed this opportunity to dispose of the Disposal Company, (i) the Group shall continue to operate the Disposal Company and incur operational cost and human resources, and bear potential legal risk; and (ii) the Company is not able to anticipate any future chance of disposing the Disposal Company and the timetable. Thus, the current deal structure negotiated with Excellence Real Estate under the Settlement Agreement, though with flaw in relation to the Shareholder's Loan, was the only opportunity for the Group to dispose of the Disposal Company to exit this business and will help the Group to divest non-main businesses and focus on developing main businesses, which will contribute to the healthy and sustainable development of the Company and safeguarding the interests of Shareholders.

In addition, the Company considered the following factors in the Disposal:

(i) the Disposal Company is in keen competition with traditional banks, peer-to-peer platforms, and large fintech companies in the market. As the size of the operation of the customers of the Disposal Company (who are small and medium-sized enterprises and individual business proprietors) is not substantial as compared with large enterprises, the Disposal Company needs to spend a lot of cost to screen the borrowing customers and strictly implement the credit evaluation mechanism to reduce the credit risk as a majority of the loans advanced to the customers were credit loan without collateral. Notwithstanding these efforts, the Disposal Company still faced a substantial level of credit risk. This poses immediate risk to the company of loan defaults. In recent years, the Group spent lots of effort trying to recover the outstanding debts and incurred additional costs for taking legal action against the defaulted customers. Over the years, the Company recorded bad debt provision of over RMB55 million;

(ii) in the past three years, the number of micro-lending companies has continued to decrease and the industry is shrinking. The National Administration of Financial Regulation has been taking measures to prevent system risks and to tackle issues associated with micro-lending business such as lax management, high credit risk, excessive marketing and improper debt collection etc., it is expected that National Administration of Financial Regulation will further tighten the rules and regulations imposed on the micro-lending business which will put further pressure on the business of the Disposal Company;

(iii) a review of the historical performance of the Disposal Company revealed that there was a decrease in the interest yield from providing loans to the customers of the Disposal Company. It was noted that since 2023, the interest rate had continued to decrease. The Shanghai Interbank Offered Rate fell from 2.57% per annum for a year term to 1.81% per annum recently. The Board noted the revenue of the Disposal Company for the ten months ended 31 October 2024 has increased to more than RMB35 million as compared with that for the year ended 31 December 2023 of less than RMB19 million. However, such increase was solely due to the increase in loans made to customers. The Board noted that the loans advanced to customers by the Disposal Company was RMB349 million as at 31 December 2023 as compared with that of RMB606 million as at 31 October 2024 and the return of the Disposal Company has continued to decrease. The return on assets of the Group relating to the financial services business was 0.55% and 6.79% in 2023 and 2022, respectively, which was far below the overall return on assets of the Group of 8.11% and 11.92%. The Board noted that the average loan interest rate of the Disposal Company ((being interest income ÷ (sum of the opening loans balance and the closing loans balance)*0.5*100%) had decreased from 18.62% in 2022 to October 2024 of 7.69%, and the lending profitability continues to decline; and

(iv) the Board noted that the loan supply in the market has continued to increase in the PRC while the interest rates are on the decline trend, the competition in the loan financing market is keen. Borrowers in the market could always borrow from traditional banks, peer-to-peer platforms, and large fintech companies at lower interest rates. As such, it is expected that the profit from the micro-lending business will continue to decline. The Board noted that the risk of lending business is also accumulating from a macro perspective, which is demonstrated by the fact that the Ministry of Finance will issue special treasury bonds to support the state-owned large commercial banks to supplement their core tier one capital.

Deferral in settling the Shareholder's Loan

As disclosed above, the Shareholder's Loan was advanced to the Disposal Company by Excellence Property for further making loans to its customers in the ordinary and usual course of business of the Disposal Company and these loans have different maturity dates subsequent to the completion of the Disposal, so the Disposal Company could not repay the Shareholder's Loan prior to the Disposal, and in any event did not have sufficient cash to early repay the Shareholder's Loan. Thus, it is impracticable to have the Shareholder's Loan settled by the Disposal Company prior to the completion of the Disposal.

During the negotiation regarding the deal structure of the Disposal with Excellence Real Estate, Excellence Real Estate expressed its view that it is not acceptable for them to include the Shareholder's Loan in the Consideration or requiring them to settle the Shareholder's Loan immediately as they have not requested for re-valuing the Disposal Company after cancelling its micro-lending licence.

Considering that (i) substantial amount of human resources will be involved in recovering the loans to customers upon maturity which has various dates; (ii) various difficulties in disposing the Disposal Company as mentioned above; and (iii) in the event that the Disposal Company could not recover the loans to customers upon maturity to repay the Shareholder's Loan, these monies may become a bad debt, the management of the Company considers that the current deal structure to defer the settlement of the Shareholder's Loan is the best offer that Excellence Real Estate can make and the best chance for the Group to dispose the Disposal Company.

Notwithstanding the above, as Shenzhen Excellence Commercial Operation Co., Ltd. (the "**Issuing Company**") has executed a corporate guarantee in favour of the Group in respect of the Shareholder's Loan, the management of the Company considers that the chance of recovering the Shareholder's Loan is not minimal. First, pursuant to the relevant loan agreement, the maturity of the Shareholder's Loan will be on 31 October 2025. Upon default of the Shareholder's Loan, the Group is at legal position to commence legal proceedings against Excellence Real Estate for repayment of the Shareholder's Loan. Secondly, the repayment of the Shareholder's

Loan will be partly financed from the loans repaid by the existing customers of the Disposal Company. Thirdly, the Issuing Company is the sole debt issuing subsidiary of Excellence Real Estate with an "AAA" credit rating issued by China Lianhe Credit Rating Co., Ltd in the PRC. Based on public information, China Lianhe Credit Rating Co., Ltd is one of the most professional crediting rating agent in the PRC approved by the People's Bank of China and China Securities Regulatory Commission and accredited by National Development and Reform Commission and National Financial Regulatory Administration. The credit rating reports issued by China Lianhe Credit Rating Co., Ltd in respect of the Issuing Company was also available in the public domain. Based on our review of such credit rating reports from 2020 to 2024, the Issuing Company has been given an "AAA" credit rating since 2020. Therefore, the Board considered and we concurred that in the event that Excellence Real Estate fails to repay the Shareholder's Loan upon maturity, the credit rating of the Issuing Company will be adversely affected and thereby adversely affecting the fundraising ability of Excellence Real Estate and its financial capability. The harm caused to Excellence Real Estate in such event will outweigh the value of the Shareholder's Loan. Fourthly, the Company is given to understand that Excellence Real Estate and its subsidiaries owned a substantial level of good quality tangible assets in the PRC which are free from encumbrances, including commercial complex and office located in the heart of first tier cities and new first tier cities in the PRC, hotel assets located in tourist cities in the PRC and car parking spaces located in the centre of cities. We have obtained a list of assets owned by Excellence Real Estate, based on the information provided by Excellence Real Estate, they currently owned approximately 12 completed car parking spaces with an internal valuation of RMB410 million, 7 office buildings and commercial assets with an internal valuation of RMB3,290 million and 2 hotels with an internal valuation of RMB240 million. We have conducted a desktop research on the locations of the list of assets, and found that most of them are located in the prime locations of first tier cities and new first tier cities in the PRC. As such, the Company may, at a later stage or shortly upon maturity of the Shareholder's Loan, enter into further agreement with Excellence Real Estate to take these assets instead of cash for the repayment of the Shareholder's Loan, after complying with the requirement of the Listing Rules as appropriate.

View of the Board in respect of the current deal structure

In view of the above, the current deal structure of the Disposal is fair and reasonable and in the interest of the Company and Shareholders as a whole.

As illustrated in the section headed "Information on the Disposal Company" above, the Disposal Company's revenue for FY2023 decreased by approximately RMB16.86 million or 47.20% as compared to that for FY2022, while its net profit after tax for FY2023 decreased by RMB17.69 million or 92.49% as compared to that for FY2022. The Disposal Company's net profit margin decreased from approximately 53.54% for FY2022 to approximately 7.61% for FY2023, representing a decrease of 45.93 percentage points. Furthermore, according to the management of the Company, the Disposal Company will cancel its micro-lending business qualification as a finance company. In view of all the factors mentioned above, we are of the view that there is uncertainty about the sustainability of the Disposal Company's business going forward.

As also illustrated in the section headed "Information on the Group" above, the revenue from property management services contributed over 79.80% and 82.04% of the Group's revenue whereas the revenue from finance services contributed less than 1.01% and 0.48% of the Group's revenue for each of FY2022 and FY2023 respectively.

With reference to the National Bureau of Statistics of the PRC, the total investment in fixed assets (excluding rural households) in the PRC increased from approximately RMB43,014.52 billion for 2019 to approximately RMB50,503.60 billion for 2023, representing a compound annual growth rate ("**CAGR**") of approximately 3.48%. The increase in investment in fixed assets is likely to drive higher demand for property management services. In light of this, it is strategically prudent for the Group to prioritize and focus on its core business, namely, property management services.

In view of that (i) the Disposal can enable the Group to focus its resources on its principal business; and (ii) assuming the consideration for the Disposal is fully offset by that for the Acquisitions and the discrepancy of which will be settled in cash by Excellence Real Estate, the Group will generate a cash inflow of approximately RMB86.31 million which then can be applied as general working capital of the Group, we concur with the Directors that the Disposal, although is not conducted in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole.

In relation to the Acquisitions

The Target's Asset is located in the central area of Wujiaochang, one of the top ten commercial centers in Shanghai, and is adjacent to the Wujiaochang business district. It is bordered by the bustling Wujiaochang Wanda commercial area to the south and connected to the Xinjiangwan International Community and wetland park to the north. It comprises three buildings with a total gross floor area of 90,713.34 square meters, including a 100-meter-tall main tower and two 50-meter-tall twin towers, an aerial corridor and a sunken garden square. The project integrates business and office functions, attracting many Fortune Global 500 companies and well-known Chinese enterprises to settle with its grade-A office building project, convenient transportation, high-end commercial facilities, green ecological gardens and a business environment with great vision.

We have performed desktop research to analyze the commercial properties market in Shanghai. With reference to the "Shanghai Grade-A Office Market Report" conducted by Knight Frank, the world's leading independent property advisor. With over 50 years of local expertise in Greater China, the Grade-A office rental market continued to weaken in Q3 2024. Average rents declined by 3.2% quarter over quarter to RMB7.27 per sq.m. per day, reaching the lowest level in the past five years (from Q3 2020 to Q3 2024).

We have obtained the audited financial statements of the Target Group for the past three years. The audited financial statements indicate that the company achieved revenues of approximately RMB74.1 million, approximately RMB84.8 million, and approximately RMB94.0 million for the financial years ended 31 December 2021, 2022, and 2023, respectively, which were mainly derived from rental income generated by the Target Company. Considering that the Target Group has consistently recorded revenue exceeding RMB70 million over the past three years, with a steady year-on-year increase, we are of the view that the Target Company is able to generate stable income.

With reference to the "Analysis Report on Shanghai Office Building Rental Market and Development Trend Outlook in the Second Quarter of 2024", conducted by Colliers International Group Inc. on 27 June 2024, a leading global diversified professional services firm specializing in commercial real estate services, engineering consultancy, and investment management, with operations in 70 countries and listed on NASDAQ. It is forecasted that there will be a downward trend in new office building supply from 2025 to 2028, following a peak supply of over 1.57 million square meters in 2024. Additionally, the report anticipates an upward trend in rental rates for Shanghai office buildings, with a year-on-year increase of approximately 2% from 2025 to 2028, which is mainly attributable to the decreasing supply of new office buildings. It is anticipated that a decrease in supply will lead to an increase in rental rates as well as prices of commercial office buildings in Shanghai.

The Offset Assets refer to a complex project which integrates business, office and residential functions, which are not subject to any restriction in resale. It is located at Tangxia Town of Dongguan City which is bordered with Guanlan District of Shenzhen City, the Great Bay Area where the Company strategically develops. It has an excellent geographical location, as well as ancillary facilities such as golf course, hotel and club, which makes the project unique and able to meet the leisure demands of residents in the Greater Bay Area. However, due to the poor management brought about by the bankruptcy of the previous owner of the Offset Assets, they had not been rented out and has remained vacant since its completion in 2017. According to the information available to the Board, the demand for both sales and leasing of the similar properties within the vicinity is steadily increasing. The Company can consider to resale the Offset Assets in the future when the property market rebounces to realise a capital gain. As mentioned above, according to 中指數據(CREIS) residence, from January to October 2024, residential properties price fell by 1.50% in Dongguan, and the growth rate decreased by 1.10 percentage points compared with the same period last year. In October, as a result of the new policy, housing prices stopped falling and turned upward, with prices rising 0.22% compared with the previous month. In October 2024, the number of sales transactions of residential properties increased by 143% as compared with the previous month, and increased by 65% on year-on-year. Our research shows that the property market is recovering from its low point. Therefore, we are of the view that the Company can take advantage of the relatively low property price now to acquire the Offset Assets and resale in the future when the property prices raise, this is beneficial to the Company and its Shareholders as a whole.

According to the "Sales Prices of Commercial Residential Buildings in 70 Medium and Large-sized Cities in October 2024", conducted by the National Bureau of Statistics of China on 15 November 2024, the sales price index of newly constructed commercial residential buildings in Guangzhou decreased to 89.6, representing a decline of 10.4% from the same month last year, when the index was 100.0. Similarly, the sales price index of second-hand residential buildings in Guangzhou also fell to 87.5, which corresponds to a decrease of 12.5% from the previous year's index of 100.0.

With reference to the "Review and outlook of the Greater Bay Area residential and commercial property investment markets in the first half of 2024" conducted by Cushman & Wakefield on 23 July 2024, a leading global real estate services provider, the PRC government's introduction of the "517" real estate policy in mid-May 2024 has positively impacted the market. This policy abolished the national mortgage interest rate floor, reduced the provident fund loan interest rate, and adjusted the minimum down payment ratio. As a result, the first-hand transaction volume in June 2024 experienced a month-on-month increase of 19%, reaching nearly 29,000 units. This figure surpasses the average monthly transaction volume observed in the second half of 2023, indicating a persistent demand in the residential market.

According to 中指數據 (CREIS) residence, from January to October 2024, residential properties price fell by 1.50% in Dongguan, and the growth rate decreased by 1.10 percentage points compared with the same period last year. In October, as a result of the new policy, housing prices stopped falling and turned upward, with prices rising 0.22% compared with the previous month. In October 2024, the number of sales transactions of residential properties increased by 143% as compared with the previous month, and increased by 65% on year-on-year. The Board is of the view that current prices for commercial properties are at a low point, and the transaction presents an opportunity for the Group to acquire high-quality assets at a favorable price. This not only holds the potential for capital appreciation and serves to diversify the Group's revenue streams, but also could yield investment returns through resale. The Offset Assets is located in a key strategic area of the Company, which is in line with the Company's "1+1+X" strategy focusing on "the Greater Bay Area + the Yangtze River Delta Region + other regions". The transaction is conducive to extending the Group's service value chain from property management to commercial operation. Meanwhile, a clause for asset repurchase is set forth in the transaction while the investment risk associated is expected to be controllable.

The Board is of the opinion that the transaction contemplated under the Settlement Agreement will not have any material adverse impact on the Group's liquidity.

In light of the above, the Board (including independent non-executive Directors whose views have been expressed in this circular) considers that the terms of the Settlement Agreement and the transactions contemplated thereunder are fair and reasonable, are not entered in the ordinary and usual course of business of the Group but are on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole.

Taking into account that (i) the Acquisitions represent an opportunity for potential capital appreciation without imposing any substantial cash outflow; (ii) the stable rental income from the Target Company; (iii) the potential upside of the property market in the PRC; (iv) there will be a cash inflow of approximately RMB86.31 million (being the difference between the Disposal consideration and the Acquisitions consideration) upon completion of the transactions to be used as working capital by the Company and (v) the Acquisitions will not have any material adverse impact on the Company's financial status, we concur with the Directors' view that although the Acquisitions are not conducted in the ordinary and usual course of business of the Group, is fair and reasonable and in the interest of the Company and Shareholders as a whole.

(vi) Principal terms of the Settlement Agreement

The principal terms of the Settlement Agreement are set out below:

Date:	21 November 2024 (as supplemented on 13 January 2025)
Parties:	1. Excellence Property; and 2. Excellence Real Estate
Subject matter:	**In relation to the Disposal** Excellence Property shall conditionally sell, and Excellence Real Estate shall conditionally acquire, the Sale Equity at a consideration of RMB337.79 million.

In relation to the Acquisitions

Excellence Property shall conditionally acquire, and Excellence Real Estate shall conditionally sell, the Target's Equity and the Offset Assets at a total consideration of RMB251.48 million.

The Settlement Agreement is a legally-binding framework agreement which contains the principles, mechanisms and major terms and conditions upon which the parties thereto are to carry out (or procure to carry out) the transactions contemplated thereunder. Following the signing of the Settlement Agreement, Excellence Real Estate shall procure its relevant subsidiaries to enter into transfer agreements with subsidiaries of Excellence Property to effect the transactions contemplated under the Settlement Agreement

Consideration: **In relation to the Disposal**

The consideration for the Disposal was RMB337.79 million.

The consideration for the Disposal was determined after arm's length negotiations between the parties to the Settlement Agreement with reference to the valuation of the Sale Equity as at 31 October 2024 in the amount of RMB286,786,000 conducted by an independent valuer in the PRC using cost approach including the distributable profits of the Disposal Company accrued before the valuation base date and agreed to be belonged to Excellence Real Estate in the amount of RMB27,817,748. The aforementioned valuation of the Disposal was conducted by the Valuer in accordance with the International Valuation Standards issued by the International Valuations Standards Council.

In arriving the market value of the entire equity interest in the Disposal Company, the Valuer has considered three generally accepted approaches, namely market approach, cost approach and income approach.

To select the most appropriate approach, the Valuer has considered the purpose of the valuation engagement and the resulting basis of value as well as the availability and reliability of information provided to the Valuer to perform an analysis. The Valuer has also considered the relative advantages and disadvantages of each approach to the nature and circumstances of the Disposal Company.

The Disposal Company is a financial service provider which is subject to the stringent regulations in the PRC and regulated by National Financial Regulatory Administration. For the reasons set out under the section headed "REASONS FOR AND BENEFITS OF THE SETTLEMENT AGREEMENT" of this letter from independent financial adviser, as at the Latest Practicable Date, the micro-lending license of the Disposal Company has been cancelled. As the Disposal Company no longer has its license, it can only continue to enforce the existing agreements for loans already granted to its customers, and cannot provide any new financing to its customers. There is no restriction on the Disposal Company on obtaining or applying for the micro-lending licence after such cancellation. Should the Disposal Company want to obtain a new micro-lending licence after the Disposal, this shall be subject to reapproval by National Financial Regulatory Administration. Since September 2020, the National Financial Regulatory Administration was unwilling to issue/renew micro-lending licence, based on the information available to the Board, only one application was successfully in obtaining the micro-lending licence despite hundreds of applicants had submitted the applications. As such. prior to the completion of the Disposal, the micro-lending licence which is currently held by Disposal Company will need to be re-approved by National Financial Regulatory Administration. Given the aforementioned low approval case in the past years, the Company was given to understand that National Financial Regulatory Administration will not grant approval of the micro-lending licence to the Disposal Company upon completion of the Disposal. Therefore, the Valuer considered that it is not appropriate to use the market approach and the income approach to evaluate the Disposal Company, as the premises of these two approaches are the sustainability of the business. Hence, the Valuer has adopted the cost approach to evaluate the Disposal Company which is consistent with the usual practice under similar circumstances.

Under the cost approach, the summation method is typically adopted for a valuation subject when its value is primarily a factor of the values of the valuation subject's holding assets and liabilities. Under the summation method, each identifiable asset and liability of the Disposal Company is being valued using the appropriate valuation approaches, and the opinion of value of the Disposal Company of the Valuer is derived by adding component assets and deducting component liabilities.

As such, after discussion with the Valuer, the Board considered and we concurred that market approach and income approach are not appropriate for valuing the Disposal Company, and cost approach is the most appropriate under these circumstances.

Based on the analysis stated above and, on the method employed, the Valuer is of the opinion that the valuation result of the equity interest of the Disposal Company as at 31 October 2024 is as follows:

In relation to the Acquisitions

The consideration for the Acquisitions was RMB251.48 million, which comprises RMB151.48 million for the acquisition of the Target's Equity and RMB100 million for the acquisition of the Offset Assets.

The consideration for the Acquisitions was determined after arm's length negotiations between the parties to the Settlement Agreement with reference to:–

(i) 50% of the adjusted value of the Target Group in the amount of approximately RMB151.48 million by deducting (a) the loan owed by the Target Group to its shareholders and other third parties in the amount of RMB1,309 million; (b) deferred tax liabilities of approximately RMB178.32 million; and (c) other net liabilities of approximately RMB24.31 million from the valuation of the Target's Asset as at 31 October 2024 in the amount of RMB1,814.80 million conducted by an independent property valuer in the PRC using income approach; and

(ii) the valuation of the Offset Assets as at 31 October 2024 in the aggregate amount of RMB120.50 million conducted by an independent valuer in the PRC using market approach.

The market value of the property interest in the Target's Asset of RMB1,814,800,000 as at 31 October 2024 and that in the Offset Assets of RMB120,500,000[note] as at 31 October 2024 are determined by the Valuer in compliance with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited; the RICS Valuation – Global Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards published by the International Valuation Standards Council.

In valuing the Target's Asset, the Valuer has valued the Target's Asset by the income approach by taking into account the rental income of a property derived from its existing leases and/or achievable in the existing market with due allowance for reversionary income potential of the leases, which then have been capitalized to determine the market value at an appropriate capitalization rate.

In valuating the Offset Assets, the Valuer has also adopted the comparison approach by making reference to comparable market transactions in the Valuer's assessment of the market value of a property interest. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

Note: As at 31 October 2024, Shenzhen Excellence Investment Management Company Limited had not obtained the real estate title certificates of the Offset Assets. Therefore, the Valuer had attributed no commercial value to the Offset Assets. However, such title certificate were obtained on 5 November 2024. For further information, please refer to notes 3 and 7 of the no. 2 valuation certificate as set out in Appendix III to this circular.

Such valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

The Directors have reviewed the assumptions adopted in the valuation report as set out in Appendix III to this circular and have been advised that the key assumptions adopted therein are commonly used in valuing similar companies. There are no irregularities noted by the Directors in relation to the quantitative inputs in such valuation. The Directors (including the independent non-executive Directors) therefore consider that the key assumptions, quantitative inputs and methodology adopted in such valuation are fair and reasonable. Have considered the professional qualifications and experience of the members of the Valuer who were involved in valuing the Disposal Company, the Target's Assets and the Offset Assets as set out on pages II-10, II-14, III-2 and III-3, the Board is satisfied that the Valuer is qualified to conduct the valuation of the Disposal Company, the Target's Assets and the Offset Assets.

The Board respectfully submits that the Company did not have material transactions with the Valuer. Other than the valuation conducted on certain assets of the Group for the purpose of annual reporting, the Group has no other business conducted with the Valuer before. The amount of the valuation payments have always been immaterial from the perspective of the Group and the Valuer. Based on the available information, the Board is not aware of any relationship between the Valuer and the Company's connected persons.

Taking into account of such valuation and having considered the independence of the Valuer, the Board is of the view that the basis of determination of the consideration of the Acquisitions is fair and reasonable.

The Disposal and the Acquisitions is inter-conditional with each other. The consideration for the Disposal will be offset by the consideration for the Acquisitions on a dollar-to-dollar basis wholly by way of transfer of the Target's Equity and/or the Offset Assets to the Group with the remaining balance to be settled by cash. As such, a cash consideration of RMB86.31 million which shall be payable on or before 31 March 2025, will be received by the Group under the Disposal.

However, Excellence Real Estate may also use other assets in lieu of the cash consideration to settle the remaining consideration for the Disposal after netting off the consideration of the Target's Equity and Offset Assets. If so, the Company will comply with Chapters 14 and 14A of the Listing Rules and further announcement(s) will be made by the Company as and when appropriate.

Conditions precedent

The effectiveness of the Settlement Agreement and the transactions contemplated thereunder are subject to the approval by the Independent Shareholders at the EGM. Upon passing of the relevant resolution at the EGM but prior to completion of the Disposal, the Disposal Company shall pass a shareholder's resolution to approve the distribution of profits accrued since the valuation base date but prior to completion of the Disposal to Excellence Property. The long stop date of the Settlement Agreement shall be eleven months from the effective date of the Settlement Agreement. Completion of the Acquisitions and the Disposal will take place upon settlement of the cash consideration by Excellence Real Estate or any designated party(ies) selected by Excellence Real Estate at its discretion after the netting off the consideration of the Acquisitions.

Put Option

Pursuant to the Settlement Agreement, Excellence Property may exercise its rights to request Excellence Real Estate to repurchase all or part of the Target's Equity and/or Offset Assets at a total consideration equivalent to the respective consideration for the Target's Equity and the Offset Assets contemplated under the Settlement Agreement with an interest rate of 5% per annum, which was the cost of capital of the Group. There is no expiry period and exercisable period of the Put Option. The exercise of the Put Option is subject to the compliance of the Listing Rules by the Company.

Under Rule 14.72(1) of the Listing Rules, the Put Option constitutes an option. As the exercise of the Put Option is at the Excellence Property's discretion, pursuant to Rule 14.75(1) of the Listing Rules, on the grant of the Put Option, only the premium will be taken into consideration for the purpose of classification of notifiable transactions. As nil premium is payable by Excellence Property for the Put Option according to the Settlement Agreement, the grant of the Put Option to Excellence Property will not constitute a notifiable transaction for the Company. The Company will comply with Chapters 14 and 14A of the Listing Rules on the exercise of the Put Option in the future and further announcement(s) will be made by the Company as and when appropriate.

There are no penalties in place when Excellence Real Estate failed to perform its obligation under the put options. Should Excellence Real Estate fail to perform any of its obligations under the put options, the Group will take appropriate actions, including but not limited to legal actions in this respect.

It is expected that the additional terms to be contained in the individual transfer agreement of the Disposal and the Acquisition are minor in nature, which include but not limited to payment details such as the name of payee, name of bank and account number etc.. The Board considered and we concurred that the major terms of the Settlement Agreement (as supplemented) had already been disclosed in the Circular and are sufficient for the Independent Shareholders to make an informed decision about the Disposal and the Acquisitions.

Our Assessment of the consideration under the Settlement Agreement

As disclosed in the Letter from the Board, the consideration for the Disposal and the consideration for the Acquisitions was determined by the parties after arm's length negotiations with reference to the respective value of the Sales Equity, Target's Assets and the Offset Assets as at 31 October 2024 (the "**Valuation Date**").

Independent Shareholders' attention is drawn to the full text of the Valuation Reports conducted by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the "**JLL**" or "**Valuer**"), an independent property valuer, as set out in Appendix II and III to the Circular. In assessing the fairness and reasonableness of the Valuation, we have taken into the following consideration:

The qualification and scope of work of the Valuer

In order to assess the expertise and independence of the Valuer, we have obtained and reviewed (i) the engagement letter of the Valuer; and (ii) the Valuer's relevant qualifications and experience.

We understand that the Valuer is a long-established professional valuation firm since 1990 with possession of relevant professional qualifications and experience required to perform the Valuation Reports. As confirmed by the Valuer, (i) it is registered as a firm regulated by Royal Institution of Chartered Surveyors ("**RICS**"); and (ii) the signatory of the Business Valuation Report, namely, Mr. Simon M.K. Chan, is a chartered valuer and appraiser, and a fellow member of Hong Kong Institute of Certified Public Accountants, CPA Australia as well as the RICS. He has extensive experience in valuation and corporate advisory business, providing a wide range of valuation and advisory services to numerous listed and private companies in different industries in Asia Pacific region for over 20 years; and the signatory of the Property Valuation Report, namely, Mr. Eddie T. W. Yiu, is a chartered surveyor who has 31 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region. For due diligence purpose, we have conducted telephone discussion with the working team of the Valuer to understand its previous experiences on valuation projects, the methodologies, basis and assumptions they have adopted in the Valuation Reports as well as the steps and measures taken by the Valuer in conducting the valuations. We also understand from the Valuer that it has carried out on-site inspections and made relevant enquiries and researches for preparing the Valuation Reports. The Valuer confirmed that it is independent from the Group and their respective associates.

Based on the above, we consider that the Valuer is qualified and possesses relevant experience in conducting the valuations, and the terms and scope of the engagement between the Company and the Valuer are appropriate to the opinion the Valuer is required to give.

In relation to the Disposal Company

Valuation methodologies

We have reviewed the Business Valuation Report and discussed with the Valuer the methodologies, bases and assumptions adopted in arriving at the Business Valuation. We understood that the Valuer has considered three generally accepted approaches, namely, income approach, market approach and cost approach and adopted the cost approach in the Valuation. The Valuer has considered the purpose of the valuation engagement and the resulting basis of value as well as the availability and reliability of information provided to them to perform an analysis. They have also considered the relative advantages and disadvantages of each approach to the nature and circumstances of the Disposal Company.

According to the management of the Company, the Disposal Company will lose its micro-lending business qualification after the transaction, which means it can only maintain its existing business without developing incremental business. Therefore, it is not appropriate to use the market approach and the income approach to evaluate the Disposal Company. Hence, the Valuer adopted the cost approach to evaluate the Disposal Company.

Under the cost approach, the summation method is typically adopted for a valuation subject when its value is primarily a factor of the values of the valuation subject's holding assets and liabilities. Under the summation method, each identifiable asset and liability of the Disposal Company is being valued using the appropriate valuation approaches, and the Valuer's opinion of value of the Disposal Company is derived by adding component assets and deducting component liabilities.

Our analysis on the model being adopted under the cost approach

Cost approach is a valuation approach which reasonably determines the value of assets and liabilities based on their respective value on the financial statements as at the valuation reference date. The Valuer consider that the appraisal results of the cost approach can reflect the fair value of the Disposal Company. The Disposal Company is principally engaged in provision of loan services for small and micro companies and individuals in Shenzhen. Based on the information provided by the Company, upon completion of the transaction, the micro-lending business qualification held by the Disposal Company will be cancelled. Since there is uncertainty about the sustainability of the Disposal Company's business, it is not appropriate to use market or income approach to evaluate the Disposal Company. A finance company without a valid micro-lending business qualification cannot be directly compared with any other finance companies of the same type, therefore, market approach is not appropriate. Also, since there is uncertainty about the future development of the Disposal Company's business, it is not feasible to obtain reliable financial forecast on future income to be generated by the Disposal Company, therefore, the income approach is unable to reasonably reflect the value of the Disposal Company.

On the other hand, the cost approach is mainly based on the explicit assets and liabilities on the enterprise's financial statements. From the perspective of asset construction, it objectively reflects the market value of all the equity of the enterprise's shareholders. The Valuer are of the opinion that the valuation result under the cost approach can objectively reflect the value of the Disposal Company. Hence, the valuation result under the cost approach was selected by the Valuer as the valuation conclusion. In view of the shortcomings of the market approach as explained by the Valuer and the higher uncertainties of the income approach versus under the cost approach, well-documented financial records and asset management records regarding the Disposal Company are available, we concur with the Valuer that the adoption of the cost approach for the Business Valuation is suitable. Furthermore, based on our review of the Business Valuation model and our enquiry with the Valuer, to prepare the Business Valuation under the cost approach, the Valuer, after assessing the nature of the key assets of the Target Group, have carried out a series of valuation measures, including but not limited to conducting interviews with management, reviewing the financial statements and account details provided by the company, reviewing the company's methodology for calculating loan impairment provisions, and conducting a sample survey of loan contract documents.

After our review of the Business Valuation Report, enquiry and discussion with the Valuer regarding the basis and assumptions of the Business Valuation, we have not found any material facts which may lead us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for or the information used in the Business Valuation. In light of the above, we are of the view that the valuation methodologies adopted, together with the bases and assumptions for appraising the Target Group are reasonable and acceptable. Nevertheless, Shareholders should note that valuation of assets usually involves assumptions and thus the valuation may or may not reflect the value of the net assets of the Target Group accurately.

Having reviewed our independent work on the Business Valuation Report, we note that the Consideration of RMB337.79 million is higher than the valuation of the Sale Equity in the amount of approximately RMB286.79 million as of 31 October 2024, representing a premium of approximately 17.8%, therefore, we are of the view that the consideration for the Disposal is favorable to the Group and the Shareholders as a whole.

We have also performed independent research on recent circulars published by companies listed on the Stock Exchange from 1 January 2024 to the date of the Settlement Agreement (being approximately eleven months before the date of the Settlement Agreement) in relation to the disposal of equity interests in financial companies, for which the consideration was determined with reference to independent valuations. We have, on a best effort basis, identified an exhaustive list of five comparable disposal transactions (the "**Comparable Transactions**"). We believe this research can serve to cross-check the latest market practice in conducting valuation for transactions similar to that of the Disposal as they similarly involve valuation of equity interests. We consider such selection criteria is appropriate and sufficient as (a) it enables us to identify transactions with similar nature (i.e. disposal of equity interests for which the consideration was determined with reference to independent valuations) as the Disposal of the Disposal Company with similar business (i.e. the provision of loan services); (b) it has captured the recent market practice under the prevailing market conditions in Hong Kong; and (c) it provides a sufficient sample for comparison with the Disposal. Taking into account that all of the Comparable Transactions fit the aforesaid selection criteria and the details of the Comparable Transactions are publicly disclosed on the website of the Stock Exchange, we consider the Comparable Transactions to be fair and representative.

The details of the Comparable Transactions are set out below:

Date of circular	**Company name (stock code)**	**Subject of valuation**	**Principal business of Target Group**	**Valuation approach**
16 July 2024	Madison Holdings Group Limited (8057.HK)	Hackett Enterprises Limited	Principally engaged in the provision of loan financing and consultancy services in the PRC and Hong Kong with its majority of revenue generated from the PRC	Market approach (P/E)

Date of circular	Company name (stock code)	Subject of valuation	Principal business of Target Group	Valuation approach
24 April 2024	SY Holdings Group Limited (6069.HK)	Wuxi Guojin Commercial Factoring Co., Ltd.	Principally engaged in the provision of commercial factoring services	Income Approach
20 March 2024	Kong Sun Holdings Ltd (0295.HK)	The Bank of Jinzhou	Principally engaged in taking deposits from the public; granting short-term, medium-term and long-term loans; handling domestic and foreign settlements; issuing financial debentures and engaging in interbank lending etc.	Market approach (P/B)
30 January 2024	HC Group Inc. (2280.HK)	Beijing Huicong Hulian Information Technology Co., Ltd.	A non-operating holding company that holds certain equity interest in Tianjin Leasing, Huixiang Network, Jingu Bank and Chongqing Micro-credit (as defined below)	Asset-based approach
		Tianjin Huicong Leasing Co. Ltd. ("**Tianjin Leasing**")	Principally engaged in finance lease business in the PRC	Asset-based approach
		Beijing Huixiang Network Technology Co., Ltd. ("**Huixiang Network**")	A bank borrowing holder with no substantive business operations	Asset-based approach
		Inner Mongolia Hohhot Jingu Rural Commercial Bank Co., Ltd. ("**Jingu Bank**")	Principally engaged in commercial banking involving the provision of products and services on bank deposits, loans and advances in the PRC	Market approach (P/B)

Date of circular	Company name (stock code)	Subject of valuation	Principal business of Target Group	Valuation approach
		Chongqing Digital China Huicong Micro-credit Co., Ltd. ("**Chongqing Micro-credit**")	Principally engaged in the provision of loans in the PRC	Market approach (P/B)
5 January 2024	Honghua Group Limited (196.HK)	Honghua Financial Leasing (Shanghai) Co., Ltd.	Principally engaged in the provision of financial leasing, operating lease, factoring and consulting services	Asset-based approach

As disclosed in the table above, we noted that asset-based/ cost approach is commonly adopted for valuing companies with similar principal business as the Disposal Company (i.e. the provision of loan services). As advised by the Valuer, asset-based approach is the same as cost approach. In view of the availability of market information of publicly traded comparable companies in the similar industry of the Disposal Company as well as the recent market practice of adopting asset-based/cost approach in valuing equity interest of a money lending related company, we concur with the Valuer that it is fair and reasonable to adopt the cost approach in arriving at the market value of the Target Group.

Our view in relation to the Disposal

Having considered (i) the Valuer is independent from the Company and has relevant experience in conducting the valuation similar to that of the Disposal Company; (ii) the adoption of cost approach for the Target Group is an appropriate valuation methodology; (iii) the reasonableness of the bases and assumptions adopted in the Business Valuation; (iv) the key assumptions adopted in the model are fair and reasonable; (v) cost approach is a commonly adopted valuation methodology in the valuation of finance companies; and (vi) the assumptions adopted in the Business Valuation has been reviewed and agreed by the Directors, we consider that the valuation methodologies adopted by the Valuer behind the Consideration is fair and reasonable. We consider that the Business Valuation Report as set out in the Valuation Report in Appendix II to the Circular is an appropriate reference point to assess the fair and reasonableness of the consideration of the Disposal.

In relation to the Acquisitions of the Target's Equity

Valuation methodologies

We have reviewed the Property Valuation Report prepared by the Valuer, which concluded that the fair value of the property interest held by the Target Company as at 31 October 2024 was approximately RMB1,814.80 million. Given that the principal asset of the Target Group are properties which generate income, the Valuer has adopted the income approach in arriving at the fair value of the Target's Asset. As advised by the Valuer, in valuing the Target's Assets, income approach has been used by taking into account the rental income of a property derived from its existing leases and/or achievable in the existing market with due allowance for reversionary income potential of the leases, which then have been capitalized to determine the market value at an appropriate capitalization rate. We have discussed with the Valuer on the other approaches, being market approach and cost approach, in evaluating the Target's Assets. As advised by the Valuer, since the Target's Assets is a revenue-generating assets and income approach is a commonly acceptable and adopted approach for revenue generating properties when rental comparables transactions are available in the market. Therefore, the Valuer considers that it is more feasible to adopt income approach. The Valuer also advised that no allowance has been made in their valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoing of any onerous nature which could affect their values.

Our analysis on the model being adopted under the income approach

The appraised values of the Target's Assets under the income approach is RMB1,814.8 million. We have reviewed and discussed with the Valuer in respect of the valuation model under the income approach. Details of the valuation model are set out in Appendix III to the Circular with detailed key assumptions and parameters. We noted that the Property Valuation under the income approach was made based on the information provided by the Company and Excellence Real Estate.

To assess the appropriateness of the model as a whole, we have obtained and reviewed the calculation spreadsheet. We discussed with the Valuer and understood that the model was derived with reference to several factors, including the actual rents in the existing tenancy agreements (if any), taking into account (a) the income period based on the residual terms of the existing tenancy agreements, (b) the property type, (c) the gross floor area, and (d) the vacancy rate. We noted that the Valuer has also taken into account (i) the reversionary rental income after the expiry of the existing leases for occupied area, and (ii) the rental income of vacant area in the calculation of market rent. The unit rent of these comparable office units ranges from RMB125 to RMB135 per sq.m. per month and the unit rent of these comparable retail units on the first floor ranges from RMB320 to RMB350 per sq.m. per month. After discussing with the Valuer, we understand that for the market rent analysis, the Valuer considers the rental levels for the Target's Assets and the comparable properties in the vicinity and validates the reasonableness of the assumptions and market rental levels by cross-checking with historical rentals.

We have also conducted desktop research to analyze the unit rent of the comparable office units and retail units on the first-floor located in Wujiaochang, Shanghai. With reference to the website of 58.com (NYSE: WUBA), which is a life service and classified information website in China. It mainly provides local services, including renting, recruitment, dating, utilities, second-hand transactions, etc., the unit rent of the comparable office units are ranged from RMB120 to RMB140 per sq.m. per month and the comparable retail units on the first-floor ranges from RMB320 to RMB344 per sq.m. per month. We noted that the results of our research resemble that of the comparables identified by the Valuer.

We noted that a capitalisation rate of 4.5% was adopted in the Property Valuation based on the market yields of the Target's Assets. This capitalisation rate is estimated with reference to the capitalisation rates generally expected by the market for comparable property of similar use type, which implicitly reflect the type and quality of the property, the expectation of the potential future rental growth, capital appreciation and relevant risk factors. After the discussion with the Valuer, we understand that when determining the capitalization rate, the Valuer referenced to the stabilized market yield of properties situated in the surrounding area of the Target's Assets. The Valuer then made adjustments to account for the location, risk factors and characteristics of the property. We have also conducted desktop research to analyze the market yield of the surrounding area of the property located in Wujiaochang, Shanghai. With reference to the website of 58.com, the market yield of the surrounding area of the property are ranged from 4.5%-5.5%. Therefore, we consider the capitalisation rate adopted is reasonable and in line with the market norm, considering the analyzed capitalisation rates of transactions of the relevant use type. In view of the above, we considered the key assumptions adopted in the model to be fair and reasonable.

Having reviewed our independent work on the Property Valuation Report in relation to the Target's Assets and the financial statements of the Target Company, we note that the Consideration of the Target's Equity is RMB151.48 million by deducting (a) the loan owed by the Target Group to its shareholders and other third parties in the amount of RMB1,309 million; (b) deferred tax liabilities of approximately RMB178.32 million; and (c) other net liabilities of approximately RMB24.31 million from the valuation of the Target's Asset as at 31 October 2024 in the amount of RMB1,814.80 million, we are of the view that the consideration is fair and reasonable.

In relation to the Acquisitions of the Offset Assets

Valuation methodologies

We have reviewed the Property Valuation Report and discussed with the Valuer on the methodologies of, and basis and assumptions adopted therein. We understand that the Valuer has considered three generally accepted valuation approaches, namely the comparison approach, the cost approach and the income approach. The Valuer advises that the selection of comparison approach, instead of cost approach and income approach, to be the most appropriate methodology for the valuation of the Offset Assets. The comparison approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors. Given that the Valuer identified and analyzed various relevant sales evidences in the locality which have similar characteristics as the Offset Assets, the Valuer considers that the comparison approach is a suitable approach for evaluating the Offset Assets. We understand from the Valuer that comparison approach is fully in line with the relevant valuation and market standards for appraising the properties being same type as the Offset Assets in the PRC.

We have discussed with the Valuer and understand that the Offset Assets is vacant at the moment. We have reviewed the list of comparable properties identified by the Valuer. We understood from the Valuer that such comparable properties form an exhaustive list of properties most comparable to the Offset Assets in terms of property type, location, building age, floor level, size and other relevant factors. We noted that (i) the comparable properties are of apartment use with the locations in the same district of the Offset Assets in Dongguan City; (ii) the sales information of comparable properties is gathered by the Valuer from online public information platform in November 2024 before the date of the Settlement Agreement; and (iii) the sales information of the comparable properties is consistent with the published information from the online real estate agency platforms. The Valuer has made relevant adjustments, including degree of business prosperity, pedestrian flow, location, residual term of use of the land use rights and site area of the properties to take into account the differences between the comparable properties and the Offset Assets, and then use the average of the adjusted unit value of the three comparable properties as the unit value in calculation of the valuation of the Offset Assets, which is within the range of the sales or asking price of such comparable properties.

We note from the Property Valuation Report that the Offset Assets were without proper title certificate as of 31 October 2024, the Valuer has attributed no commercial value to it and the market value is for reference only. However, the Company confirmed that proper title certificate has been obtained in November 2024 and it can be freely transferred.

Our analysis on the model being adopted under the comparison approach

In order to cross-check the market value of the Offset Assets, we have strived to adopt the three generally adopted approaches, namely the comparison approach, the cost approach and the income approach. Nonetheless, having regard to the fact that the Properties were completed in 2017, there are genuine difficulties for us to adopt the cost approach in evaluating the market value of the Properties as it has been existed for approximately 7 years, making it difficult for us to arrive at the valuation accurately due to the numerous assumptions required, unavailability of up-to-date data on construction costs, conditions of the interior and exterior of the Offset Assets, etc. As to the income approach, since the Offset Assets is vacant at the moment and there are lack of sufficient historical rental data in order for us to project the rental income for evaluating the market value of the Offset Assets and there is no similar rental comparables information can be found given the nature of the Offset Assets which is an apartment situated in a golf and resort area. Therefore, we have resorted to the comparison approach by identifying the sales prices of comparable properties to the Offset Assets. We have obtained and reviewed the list of comparable properties identified by the Valuer for the determination of the unit price. We understand from the Valuer that the selection criteria of the reference properties includes nature, location, floor level, size and building quality and other relevant factors. We noted that the reference properties are all located in Dongguan City. Based on the discussions with the Valuer, it is noted that the information is identified on the life service and classified information websites in the PRC, such as 58.com (58同城) in November 2024, which is close to the date of valuation of the Offset Assets. The Valuer has first identified comparables that are all located in Dongguan City and we understand from the Valuer that it has further eliminated certain comparables which are different in nature, floor size, building quality, etc. The Valuer has made relevant adjustments, where necessary, including (i) market conditions; (ii) building quality; and (iii) nature of the reference properties. We have further conducted a search of properties on an online real estate agency platform in November 2024 based on the selection criteria to independently verify the information adopted by the Valuer for commercial real estates under residential buildings in close proximity to the Offset Assets and located within Dongguan City, being the area where the Properties are situated, with GFA of between 30.06 sq.m. and 58.50 sq.m. and currently available for sale in the real estate sales market. Based on such selection criteria, on a best effort basis, we have identified an exhaustive list of 3 properties (the "**Reference Properties**").

Dongguan

Reference Properties	Address	Property type	GFA *(approximately sq.m.)*	Asking Price *(RMB)*	Unit Price (exclude VAT) *(RMB/sq.m)*
Xiangzhang 1 hao (香樟1號)	Dongguan	Service Apartment	58.50	735,500	9,804.63
Zhuozhu Tiancheng • chenguang (卓著天城 • 辰光)	Dongguan	Service Apartment	30.06	356,220	9,241.61
Yian Xinghe Shiji (怡安星河世紀)	Dongguan	Service Apartment	56.01	883,300	12,297.71
				Average Unit Price	10,447.98
The Offset Assets	Dongguan	Service Apartment	11,926.77	120,500,000	10,103.32

Source: https://www.cih-index.com/, the real estate agency platform of China Index Holdings Ltd. (Note)

Note: China Index Holdings Ltd. is a prominent player in the Chinese real estate market, listed on the Nasdaq Stock Exchange and boasting over 20 years of experience. The company has developed a robust infrastructure that leverages big data and innovative technologies, employing nearly a thousand skilled data developers and professional analysts across approximately 40 major cities in China. The company's credibility is further reinforced by numerous honors and certificates, as well as collaborations with esteemed Chinese institutions.

As shown in the above table, we noted that the unit price of the Reference Properties excluding VAT ranging from approximately RMB9,241.61 per sq.m. to RMB12,297.71 per sq.m., with an average of approximately RMB10,447.98 per sq.m., and noted that the unit price of the Offset Assets fall within the range of the asking price of the Reference Properties and the unit value of the Offset Assets is slightly lower than the average of the asking price of the Reference Properties. We noted that the nature of our comparable analysis share resemblance to that of the Offset Assets and after considering the background of the real estate agency platform as disclosed above, we are of the view that the information collected is accurate and representative. However, Independent Shareholders shall be aware that adjustments were not made to the Reference Properties as we do not possess relevant expertise or perform onsite inspection of the Reference Properties, and hence the asking price of the Reference Properties are for reference only. In light of the above, we are of the view that the valuation methodologies adopted, together with the bases and assumptions for appraising the Properties are reasonable and acceptable.

Our view in relation to the Acquisitions

Having reviewed our independent work on the Property Valuation Report in relation to the Offset Assets, we note that the consideration of the Offset Assets of RMB100 million is lower than the valuation of the Offset Assets as of 31 October 2024, representing a discount of approximately 17%, therefore, we are of the view that the consideration of Offset Assets is favorable to the Group and the Shareholders as a whole.

Having considered (i) the Valuer is independent from the Company and has relevant experience in conducting the valuation similar to that of the Target's Assets and Offset Assets; (ii) the adoption of income approach and comparison approach for the Target's Assets and the Offset Assets respectively, is an appropriate valuation methodology; (iii) the reasonableness of the bases and assumptions adopted in the Property Valuation; (iv) the key assumptions adopted in the model are fair and reasonable and (v) the assumptions adopted in the Property Valuation has been reviewed and agreed by the Directors, we consider that the valuation methodologies adopted by the Valuer behind the consideration of the Acquisitions is fair and reasonable. We consider that the Property Valuation Report in Appendix III to the Circular is an appropriate reference point to assess the fair and reasonableness of the Consideration under the Settlement Agreement.

POSSIBLE FINANCIAL EFFECTS OF THE SETTLEMENT AGREEMENT

Upon Completion, the Disposal Company will cease to be a subsidiary of the Company. As such, the financial information of the Disposal Company will cease to be consolidated into the consolidated financial statements of the Group.

The Group is expected not to record any gain on or loss from the Disposal after taking into account of, among other things, (i) the consideration for the Disposal of RMB337.79 million and (ii) the net assets value of the Disposal Company as at 31 October 2024. The exact amount to be recorded in the consolidated statement of profit or loss of the Group is subject to audit, and therefore may be different from the figure provided above. Shareholders and potential investors of the Company should note that the above estimation is for illustrative purpose only. The actual amount of gain on or loss from (if any) the Disposal to be recorded by the Group will depend on the financial position of the Disposal Company on the completion date.

The Group will receive approximately RMB86.31 million cash proceeds as a result of the Disposal which will be used as general working capital of the Group.

RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the opinion that although the entering into of the Settlement Agreement and the transactions contemplated thereunder are not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole and the terms of the Settlement Agreement are on normal commercial terms and are fair and reasonable. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed for approving the Settlement Agreement and the respective transactions contemplated thereunder.

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

Leo Chan
Managing Director

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