# THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

**If you have sold or transferred** all your shares in China South City Holdings Limited, you should at once hand this circular, together with the accompanying form of proxy, to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).



This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of China South City Holdings Limited.

華南城
China South City

**China South City Holdings Limited**
**華南城控股有限公司**
*(incorporated in Hong Kong with limited liability)*
**(Stock Code: 1668)**

# (1) CONNECTED AND DISCLOSEABLE TRANSACTION IN RELATION TO THE PROPOSED DISPOSAL OF 50% EQUITY INTEREST IN THE TARGET COMPANY; (2) CONNECTED AND MAJOR TRANSACTION IN RELATION TO THE PUT OPTION; (3) CONNECTED AND MAJOR TRANSACTION IN RELATION TO THE CALL OPTION; (4) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE PROPOSED PROPERTY MANAGEMENT TRANSACTIONS; AND (5) NOTICE OF EGM

**Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders**

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
英高

A letter from the Board is set out on pages 6 to 31 of this circular.

A notice convening the EGM to be held at Fung Shui Room, 6/F., Marco Polo Hongkong Hotel, Harbour City, Kowloon, Hong Kong, on Friday, 9 September 2022 at 10:00 a.m. is set out on pages 189 to 191 of this circular. Whether or not you intend to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish and in such event, the form of proxy will be deemed to be revoked.

**Precautionary measures for Extraordinary General Meeting**

Considering the outbreak of the coronavirus ("**COVID-19**"), certain measures will be implemented at the EGM with a view to lowering the risk of infection to attendees, including but without limitation:

1. All Attendees must accept compulsory temperature checks;
2. All Attendees must wear the surgical face masks (please bring your own);
3. No provision of refreshments or drinks;
4. No provision of souvenirs or gifts; and
5. Any other additional precautionary measures in accordance with the prevailing requirements or guidelines of the Government and/or regulatory authorities, or as considered appropriate in light of the development of the COVID-19 pandemic.

Attendees who do not comply with the precautionary measures referred to above may be denied entry to the EGM, at the absolute discretion of the Company.

**For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their rights to vote at the EGM by appointing the Chairman of the EGM as their proxy and to return their forms of proxy by the time specified above, instead of attending the EGM in person.**

*In the event of any inconsistency, the English version of this circular shall prevail over the Chinese version.*

25 August 2022

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

| | |
|---|---|
| "associates" | has the same meaning ascribed thereto under the Listing Rules |
| "Announcement" | the announcement of the Company dated 18 July 2022 in relation to, among other things, the Disposal, the Put Option, the Call Option and the Property Management Transactions |
| "Board" | the board of Directors |
| "Business Day" | statutory working days in the PRC, excluding Saturdays or Sundays and public holiday in the PRC |
| "Call Option" | the option granted by the Purchaser to the Company and the Vendor and exercisable by the Company and the Vendor to request the Purchaser to sell to them part or all of the equity interests held by the Purchaser in the Target Company pursuant to the terms and conditions in the Equity Transfer Agreement |
| "Company" | China South City Holdings Limited (華南城控股有限公司), a company incorporated in Hong Kong with limited liability and the Shares are listed on the Stock Exchange |
| "Completion" | completion of the Disposal in accordance with the Equity Transfer Agreement |
| "connected person(s)" | has the same meaning ascribed thereto under the Listing Rules |
| "Consideration" | the consideration payable by the Purchaser to the Vendor for the Disposal, which amounts to RMB1,256,600,000 (equivalent to approximately HK$1,457,656,000) |
| "Director(s)" | the director(s) of the Company |
| "Disposal" | the disposal of 50% equity interest by the Vendor to the Purchaser in accordance with the Equity Transfer Agreement |

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| "EGM" | the extraordinary general meeting of the Company to be convened and held at Fung Shui Room, 6/F., Marco Polo Hongkong Hotel, Harbour City, Kowloon, Hong Kong, on Friday, 9 September 2022 at 10:00 a.m. to consider and, if thought fit, approve, among other matters, the Equity Transfer Agreement (including the grant and the exercise of the Put Option and the grant and the exercise of the Call Option), the Property Management Transactions Framework Agreement and the transactions contemplated thereunder (including the annual caps for the Property Management Transactions) |
| "Equity Transfer Agreement" | the sale and purchase agreement dated 15 July 2022 and entered into among the Vendor, the Purchaser and the Company for the sale and purchase of the Sale Interest |
| "Exercise Price" | the exercise price for the Put Option and the Call Option pursuant to the Equity Transfer Agreement |
| "Group" | the Company and its subsidiaries |
| "HK$" | Hong Kong dollar(s), the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Independent Board Committee" | the independent board committee of the Company whose members comprise all independent non-executive Directors save for Ms. Shen Lifeng, who is also an external independent director of the Purchaser and has abstained from being a member of the independent board committee, to advise the Independent Shareholders on the Disposal, the Put Option, the Call Option and the Property Management Transactions (including the relevant annual caps) |

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| "Independent Financial Adviser" | Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the Independent Financial Adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal, the Put Option, the Call Option and the Property Management Transactions (including the annual caps therefor) |
| "Independent Shareholder(s)" | Shareholders other than the Purchaser |
| "Independent Third Parties" | independent third party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and Directors, chief executive, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates |
| "Latest Practicable Date" | 23 August 2022, being the latest practicable date for ascertaining certain information included herein before the printing of this circular |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Performance Guarantee Period" | the years ending 31 December 2022, 2023 and 2024 |
| "Person" | includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of state (in each case whether or not being a separate legal entity) |
| "PRC" | the People's Republic of China |
| "Property Management Transactions" | the provision of property management services by the Target Company to the Company in accordance with the Property Management Transactions Framework Agreement |

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| "Property Management Transactions Framework Agreement" | the framework agreement dated 15 July 2022 and entered into among the Target Company and the Company in relation to the Property Management Transactions |
| "Purchaser" | Shenzhen SEZ Construction and Development Group Co., Ltd. (深圳市特區建設發展集團有限公司), a company established in the PRC and a wholly-owned subsidiary of Shenzhen State-owned Assets Supervision and Administration Commission |
| "Put Option" | the option granted by the Company and the Vendor to the Purchaser and exercisable by the Purchaser to request the Company and/or Vendor to re-purchase from it part or all of the equity interests held by the Purchaser in the Target Company pursuant to the terms and conditions in the Equity Transfer Agreement |
| "RMB" | Renminbi, the legal currency of the PRC |
| "Sale Interest" | equity interest which represents 50% equity interest in the Target Company |
| "SFO" | the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong |
| "Share(s)" | ordinary share(s) of the Company |
| "Shareholder(s)" | the registered holder(s) of the Share(s) |
| "Specific Agreement(s)" | the specific individual agreement(s) that may be entered into between the relevant member(s) of the Group and the Target Group in relation to the provision of property management services by the Target Group, in accordance with the principles and terms of the Property Management Transactions Framework Agreement |
| "sq. m." | square meter |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |

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| "subsidiary" | with respect to any Person, any corporation, association or other business entity which such Person, its direct or indirect holding companies, its subsidiaries or fellow subsidiaries, which individually or collectively, is or are entitled to more than 50% of its economic interests |
| "substantial shareholder(s)" | has the same meaning ascribed thereto under the Listing Rules |
| "Target Company" | Shenzhen First Asia Pacific Property Management Company Limited (深圳第一亞太物業管理有限公司), a limited liability company established in the PRC |
| "Target Group" | the Target Company, its subsidiary and branches |
| "Vendor" | First Asia Pacific Group Company Limited (第一亞太集團有限公司), a company with limited liability incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company |
| "%" | per cent. |

*For the purpose of this circular, unless otherwise indicated, the exchange rate of RMB1.00 = HK$1.16 has been used, where applicable, for purpose of illustration only and it does not constitute any representation that any amount has been, could have been or may be exchanged at that rate or at any other rate.*

China South City

**China South City Holdings Limited**
**華南城控股有限公司**

*(incorporated in Hong Kong with limited liability)*
**(Stock Code: 1668)**

***Executive Directors:***
Mr. Cheng Chung Hing *(Chairman)*
Ms. Geng Mei *(Chief Operating Officer)*
Mr. Wan Hongtao *(Group's Vice President)*
Mr. Qin Wenzhong *(Group's Financial Controller)*
Ms. Cheng Ka Man Carman

***Non-Executive Director:***
Mr. Cheng Tai Po

***Independent Non-Executive Directors:***
Mr. Leung Kwan Yuen Andrew *GBM, GBS, JP*
Mr. Li Wai Keung
Mr. Hui Chiu Chung *JP*
Ms. Shen Lifeng

***Registered Office:***
Suites 3306-08, 33/F.,
Tower 5, The Gateway
15 Canton Road
Tsim Sha Tsui
Kowloon, Hong Kong

25 August 2022

*To the Shareholders*

Dear Sir or Madam

**(1) CONNECTED AND DISCLOSEABLE TRANSACTION IN RELATION TO THE PROPOSED DISPOSAL OF 50% EQUITY INTEREST IN THE TARGET COMPANY;**
**(2) CONNECTED AND MAJOR TRANSACTION IN RELATION TO THE PUT OPTION;**
**(3) CONNECTED AND MAJOR TRANSACTION IN RELATION TO THE CALL OPTION;**
**(4) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE PROPOSED PROPERTY MANAGEMENT TRANSACTIONS; AND**
**(5) NOTICE OF EGM**

**INTRODUCTION**

Reference is made to the Announcement regarding, among other things, the Disposal, the Put Option, the Call Option and the Property Management Transactions.

The purpose of this circular is to, among other things:

(a) provide further details of the Disposal, the Put Option, the Call Option and the Property Management Transactions;

(b) provide the letter of recommendations from the Independent Board Committee to the Independent Shareholders relating to the Disposal, the Put Option, the Call Option and the Property Management Transactions;

(c) provide the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders relating to the Disposal, the Put Option, the Call Option and the Property Management Transactions; and

(d) give you notice of the EGM to consider and, if thought fit, pass resolutions to approve, among other things, the Equity Transfer Agreement (including the grant and the exercise of the Put Option and the grant and the exercise of the Call Option), the Property Management Transactions Framework Agreement and the transactions contemplated thereunder (including the annual caps for the Property Management Transactions).

**(I) EQUITY TRANSFER AGREEMENT**

On 15 July 2022 (after trading hours), the Vendor, the Purchaser and the Company entered into the Equity Transfer Agreement in relation to the Disposal.

The key terms of the Equity Transfer Agreement, among others, are set out below:

**Date:** 15 July 2022 (after trading hours)

**Parties:** (i) the Vendor;

(ii) the Purchaser; and

(iii) the Company.

**Subject Matter**

The Vendor agreed to sell and the Purchaser agreed to purchase the Sale Interest.

Upon Completion, the Vendor will hold 50% equity interest in the Target Company. The Target Company will be consolidated in the accounts of the Purchaser and the Target Company will cease to be a subsidiary of the Company.

**Consideration**

The Consideration for the Disposal is RMB1,256,600,000 (equivalent to approximately HK$1,457,656,000) and will be payable by the Purchaser to the Vendor in cash in the following manner:

(1) RMB753,960,000 (equivalent to approximately HK$874,593,600), being 60% of the Consideration (the "**First Instalment**"), to be paid within 10 Business Days after the receipt of notification of satisfaction of conditions precedent for the First Instalment from the Vendor to the Purchaser;

(2) RMB376,980,000 (equivalent to approximately HK$437,296,800), being 30% of the Consideration (the "**Second Instalment**"), to be paid within 10 Business Days after the receipt of notification of satisfaction of conditions precedent for the Second Instalment from the Vendor to the Purchaser; and

(3) RMB125,660,000 (equivalent to approximately HK$145,765,600), being 10% of the Consideration (the "**Third Instalment**"), to be paid within 10 Business Days after the receipt of notification of satisfaction of conditions precedent for the Third Instalment from the Vendor to the Purchaser.

If there is any material loss of the Target Group being a loss of more than RMB1,000,000 (equivalent to approximately HK$1,160,000) for each individual item (including litigation, non-compliance or regulatory penalty) which does not arise in the ordinary course of business of the Target Group (being the provision of property management services (including value-added ancillary services)) during the period from 30 September 2021 to Completion, the Company and the Vendor will be responsible for such loss.

**Basis of Consideration**

The Consideration was determined based on arm's length negotiations between the Vendor and the Purchaser and is equal to (i) the appraised value of 100% equity interest of the Target Company as at 30 September 2021, which amounts to approximately RMB2,766,316,500 (equivalent to approximately HK$3,208,927,140) (the "**Business Equity Value**"), based on the valuation (the "**Valuation**") as set out in the valuation report dated 8 June 2022 (the "**Valuation Report**") issued by Shenzhen Zhongqihua Land Real Estate Assets Appraisal Co., Ltd. (the "**Valuer**"), an independent valuer; *minus* (ii) the retained profits of the Target Group of approximately RMB253,113,981 (equivalent to approximately HK$293,612,218) as at 30 September 2021 prepared to be distributed to the Vendor.

To arrive at the Business Equity Value, the Valuer adopted the asset-based approach and income approach. Therefore, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules.

Pursuant to Rule 14.62(1) of the Listing Rules, the principal assumptions and commercial assumptions, upon which the Valuation is based under income approach, are as follows:

**General Assumptions**

1. There will be no material changes to the relevant national laws, regulations and policies and the macroeconomic situation, and there will be no material changes to the political, economic and social environment in the regions where the parties to the transaction are located;

2. the Target Company will continue to operate as a going concern after 30 September 2021 (the "**Valuation Benchmark Date**");

3. there will be no material changes to the interest rates, exchange rates, tax bases, tax rates, policy-imposed levies in relation to the Target Company after the Valuation Benchmark Date;

4. the management of the Target Company will be responsible and stable, and will have the capability to perform their duties after the Valuation Benchmark Date;

5. unless otherwise specified in the Valuation Report, the Target Company will fully comply with all relevant laws and regulations; and

6. there will be no force majeure and unforeseeable factors which may have a material adverse impact on the Target Company after the Valuation Benchmark Date.

**Specific Assumptions**

1. The accounting policies to be adopted by the Target Company after the Valuation Benchmark Date are consistent with the accounting policies adopted in the preparation of the Valuation Report in material respects;

2. based on the existing management style and standard of the Target Company, the scope and way of business operation will remain consistent after the Valuation Benchmark Date;

3. the impacts of future potential pledge, guarantee and additional consideration to be paid under special circumstances which may affect the Valuation have not been taken into account;

4. the cash inflow and cash outflow of the Target Company will be evenly distributed over time after the Valuation Benchmark Date;

5. the property projects under construction will be delivered in time and there will be no material changes to future property management fee collection plans; and

6. the unit price of property management fee for various types of properties will remain stable and there will be no material changes in the future.

For details about the Valuation, please refer to the Valuation Report in Appendix IV to this circular.

Ernst & Young, acting as the Company's reporting accountants (the "**Reporting Accountants**"), has reported on the arithmetical accuracy of the calculations of the discounted cash flow forecast, which does not involve the adoption of accounting policies, as adopted in the preparation of the Valuation Report issued by the Valuer.

The Directors have discussed with the Valuer the different aspects upon which the Valuation was prepared (including the principal assumptions and commercial assumptions) and have reviewed the Valuation for which the Valuer is responsible. The Directors have confirmed that the Valuation has been made after due and careful enquiry by them. Please refer to the Report from the Reporting Accountants relating to the Profit Forecast and the Letter from the Board in relation to the Profit Forecast in Appendix V and Appendix VI to this circular, respectively, for further details.

Based on the above, the Directors, including independent non-executive Directors, save for Mr. Wan Hongtao and Mr. Qin Wenzhong, who are the Directors nominated by the Purchaser and Ms. Shen Lifeng who is also an external independent director of the Purchaser, are of the view that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

**Conditions Precedent**

The following conditions shall be satisfied (or waived by the Purchaser) on or before the payment of each of the First Instalment, the Second Instalment and the Third Instalment:

(1) the execution and the coming into effect of the Equity Transfer Agreement;

(2) the representations and warranties made by the Vendor and the Company set forth in the Equity Transfer Agreement remaining true and accurate, and the Vendor and the Company not having materially breached any of their undertakings or obligations under the Equity Transfer Agreement;

(3) the absence of any applicable laws, regulations, departmental rules, listing rules or prohibition orders prohibiting the Disposal, any non-compliances with any applicable laws, regulations, departmental rules, listing rules or prohibition orders regarding the Disposal, or any laws or orders rendering

the Disposal illegal, restricted or otherwise prohibited which have been formulated, published, promulgated, implemented or passed by any government department; and

(4) the absence of any appeal that has occurred or is reasonably expected to occur against the business of the Target Company, its subsidiary and branches which may restrict or prohibit the Disposal or, based on the reasonable judgement of the Purchaser in good faith, render the Disposal unachievable or illegal.

The condition set out in paragraph (1) above has been satisfied as at the Latest Practicable Date; and the conditions set out in paragraphs (2) to (4) have been and remained satisfied up to and including the Latest Practicable Date.

The following condition shall be satisfied (or waived by the Purchaser) on or before the payment of the First Instalment:

(1) the involvement of the personnel appointed by the Purchaser, within five Business Days after the date of the Equity Transfer Agreement, for the purpose of joint supervision with the Target Company over material cash payments of the Target Company and the use of the Target Company's seal, which in each case shall be confirmed in writing by such personnel.

As at the Latest Practicable Date, the condition has been satisfied.

The following conditions shall be satisfied (or waived by the Purchaser) on or before the payment of the Second Instalment:

(1) the approval by the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder having been obtained;

(2) the approvals by the Anti-Monopoly Bureau of the State Administration for Market Regulation regarding review of concentration of business operators (where applicable) and other regulatory departments in respect of the Disposal (including the approval required under the Listing Rules) having been obtained;

(3) all relevant market supervision, commercial, taxation and foreign exchange control registration in respect of the Disposal having been completed;

(4) all receivables of the Target Group due from the Group as at the date of the Valuation having been collected; and

(5) the Vendor and the Company not having breached any terms of the Equity Transfer Agreement during the period from 30 September 2021 to Completion.

As at the Latest Practicable Date, only the condition set out in paragraph (2) above has been satisfied.

If the conditions for the payment of the Second Instalment are not satisfied within six months after the date of the Equity Transfer Agreement, unless otherwise agreed by the parties, the Vendor shall, within five Business Days from the earlier of (i) the date on which the relevant regulatory department has determined not to approve the Disposal; or (ii) the date falling six months after the date of the Equity Transfer Agreement, return the First Instalment with interest to the Purchaser. The interest shall be calculated based on the following formula:

A x 8% x B/360

A = amount of the First Instalment

B = number of days from date of payment of the First Instalment to the date of return of the First Instalment

The interest rate of 8% under A above was determined based on arm's length negotiations between the Vendor and the Purchaser with reference to (i) the Purchaser's assessment on the expected return of its investments; and (ii) the Group's weighted average financing cost of 9.0% as at 31 March 2022 (as disclosed in the annual report of the Company for the year ended 31 March 2022). The Directors, including independent non-executive Directors, save for Mr. Wan Hongtao and Mr. Qin Wenzhong, who are the Directors nominated by the Purchaser and Ms. Shen Lifeng who is also an external independent director of the Purchaser, are of the view that such interest rate is fair and reasonable.

The following conditions shall be satisfied (or waived by the Purchaser) on or before the payment of the Third Instalment:

(1) six months having passed after Completion and the audit report of the Target Group for the year ending 31 December 2022 having been issued;

(2) all charges, pledges, guarantees and other rights (including but not limited to a guarantee in form of certificate of deposit for a bill of acceptance of China South International Industrial Materials City (Shenzhen) Company Limited, a subsidiary of the Company, in the amount of RMB120 million (equivalent to approximately HK$139.2 million)) provided by the Target Group to the Group having been discharged; and

(3) the Vendor and the Company not having breached any terms of the Equity Transfer Agreement during the period from the date of Completion to (i) the date falling six months after Completion; or (ii) the date of issue of the audit report of the Target Group for the year ending 31 December 2022, whichever is later.

As at the Latest Practicable Date, none of the conditions set out above have been satisfied.

**Completion**

Completion shall mean completion of the registration of the transfer of the Sale Interest from the Vendor to the Purchaser, which is expected to be shortly before the date of payment of the Second Instalment.

**Performance Guarantee**

The Vendor and the Company have undertaken that the audited net profit (before or after excluding non-recurring items, whichever is lower, and after deducting any profits or losses from the provision of property management services by the Target Group to the property projects introduced by the Purchaser and its subsidiaries) of the Target Group for each year during the Performance Guarantee Period will not be less than the following respective minimum performance requirement for that year (the "**Performance Guarantee**"):

| Year of performance | Guaranteed net profit |
|---|---|
| 2022 | RMB228 million (equivalent to approximately HK$264.5 million) |
| 2023 | RMB240 million (equivalent to approximately HK$278.4 million) |
| 2024 | RMB257 million (equivalent to approximately HK$298.1 million) |

The Performance Guarantee was determined based on arm's length negotiations between the Vendor and the Purchaser and with reference to the net profits of the Target Group for the year ended 31 March 2022 of RMB89,842,000 (equivalent to approximately HK$104,216,720), and the projected net profits of the Target Group for each of the years ending 31 March 2023, 2024 and 2025 of RMB227.7 million (equivalent to approximately HK$264.1 million), RMB 233.0 million (equivalent to approximately HK$270.3 million) and RMB249.8 million (equivalent to approximately HK$289.8 million), respectively prepared by the Company and considered by the Independent Valuer.

Such projected net profits have taken into account the fact that (i) the Target Group only started charging the Group for property management services for certain vacant units of the Group from 1 January 2022; and (ii) past concessions offered by the Target Group mainly to the Group (in response to encouragement by the PRC government to provide financial alleviations to the market participants from the impact of the COVID-19 pandemic) ceased at the end of 2021. Further, having taken into account of (i) the revenue expected to be generated by the Target Group from property management services to be provided to both the Group and independent customers; (ii) the Target Group's historical cost of sales, estimated market and economic situations and anticipated use of services based on the projected plans of the Group; and (iii) the potential enhancement of the future performance of the Target Group resulting from the creation of synergy with the Purchaser as a 50% strategic investor (as further described in the section headed "REASONS FOR AND BENEFITS OF THE EQUITY TRANSFER AGREEMENT AND THE PROPERTY MANAGEMENT TRANSACTIONS"), the Directors, including independent non-executive Directors, save for Mr. Wan Hongtao and Mr. Qin Wenzhong, who are the Directors nominated by the Purchaser and Ms. Shen Lifeng who is also an external independent director of the Purchaser, are of the view that (a) the determination of the guaranteed net profit for each of the years ended 31 December 2022, 2023 and 2024 under the Performance Guarantee is fair and reasonable; and (b) the Performance Guarantee, which forms part of the Equity Transfer Agreement, is achievable, and is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

**Compensation for Performance Guarantee**

The audit report of the Target Group shall be issued by an auditor approved by the Vendor and the Purchaser within 90 days after the end of each of the years during the Performance Guarantee Period. If (i) the actual audited net profit (before or after excluding non-recurring items, whichever is lower, and after deducting any profits or losses from the provision of property management services by the Target Group to the properties introduced by the Purchaser and its subsidiaries) of the Target Group for any such year falls below 90% of the guaranteed net profit for that year (whereby such threshold allows the Vendor and the Company a reasonable buffer on the net profit to be achieved by the Target Group and thereby the chances of triggering the Performance Guarantee), or (ii) the aggregate actual audited net profit (before or after excluding non-recurring items, whichever is lower, and after deducting any profits or losses from the provision of property management services by the Target Group to the properties introduced by the Purchaser and its subsidiaries) of the Target Group during the Performance Guarantee Period falls below the aggregate guaranteed net profit during that same period, the Vendor and the Company shall pay to the Purchaser compensation in cash as calculated based on the following formula within 60 days after the issue of the audit report for the relevant year:

(A-B)/C x D – E

A = aggregate guaranteed net profit for the portion of the Performance Guarantee Period ending on the last day of the year

B = aggregate actual audited net profit (before or after excluding non-recurring items, whichever is lower, and after deducting any profits or losses from the provision of property management services by the Target Group to the property projects introduced by the Purchaser and its subsidiaries) for the portion of the Performance Guarantee Period ending on the last day of the year

C = aggregate guaranteed net profit during the Performance Guarantee Period (i.e. RMB725 million (equivalent to approximately HK$841 million))

D = the Consideration received

E = aggregate compensation for Performance Guarantee paid as at the end of the year

For the avoidance of doubt, in the event that the aggregate actual audited net profit is higher than the aggregate guaranteed net profit during the Performance Guarantee Period, the Vendor and the Company may not request for refund from the Purchaser of any compensation paid by the Vendor or the Company to the Purchaser during the Performance Guarantee Period.

**Corporate Governance**

After Completion, the board of directors of the Target Company will comprise of five directors, three of which will be nominated by the Purchaser and two of which will be nominated by the Vendor.

The Target Company shall distribute at least 50% of its distributable net profits in each year as dividend to shareholders, provided that it does not have a negative cash flow.

## (II) PUT OPTION

Pursuant to the Equity Transfer Agreement, the Company and the Vendor granted to the Purchaser the Put Option, pursuant to which the Purchaser is entitled to sell, within three years after Completion, all or part of the equity interests held by it in the Target Company to the Company and/or the Vendor at its discretion, upon the occurrence of the following triggering events (the "**Put Option Triggering Events**"):

(1) there exists any event in relation to the Target Company, including but not limited to fraud, financial fraud, off-the-books expenses which should be disclosed but not disclosed, liabilities, external guarantees, tax liabilities, litigation and arbitration, administrative penalties, major defects in internal control and other matters and circumstances which have material adverse impact on the Target Company or the Vendor is in breach of any laws and regulations which have material adverse impact on the Target Company; or

(2) the Group having breached the representations and warranties as set out in the Equity Transfer Agreement in relation to the non-compete with the business of the Target Company; or

(3) the Group having breached the Equity Transfer Agreement and failed to take remedial actions within 10 Business Days after the Purchaser has requested remedial actions in writing; or

(4) the Target Company failing to meet 70% of the Performance Guarantee for two consecutive years; or

(5) any compensation to be provided by the Vendor to the Purchaser under the Performance Guarantee reaching or exceeding 50% of the Consideration; or

(6) the Purchaser having reasonably assessed the performance of the Target Company, after the end of the Performance Guarantee Period and within 90 days after the issue of the audit report of the Target Company, considered that its purchase of 50% equity interest in the Target Company has not achieved its strategic target. As at the Latest Practicable Date, the Company understood that the Purchaser only indirectly holds a minority interest in other property management companies, and intends to acquire 50% interest in the Target Company (which will be consolidated into the accounts of the Purchaser upon Completion) as part of the overall plan of the Purchaser (as further detailed in the section headed "INFORMATION ON THE PARTIES TO THE EQUITY TRANSFER AGREEMENT AND THE PROPERTY MANAGEMENT TRANSACTIONS FRAMEWORK AGREEMENT — The Purchaser"). In particular, the Purchaser intends to engage the Target Company for property management services for properties developed and/or held by it or its subsidiaries. It is expected that synergy will be created as a result of the new business opportunities and also the new capital which the Purchaser may contribute into the Target Group subsequent to Completion. Since (i) such synergy and the potential growth of the Target Group will also benefit the Group as a result of any potential gain in the value of its 50% equity interest in the Target Company (including any dividends which may be distributed by the Target Company to the Group from time to time); (ii) the Group will be able and has the capability to operate the Target Company as its wholly-owned subsidiary even if the Purchaser exercises the Put Option; (iii) the Target Group's revenue is expected to grow in the financial years ending 31 March 2023 and 2024 which will reasonably be expected to result in the Target Group becoming a more sizable property management services company and benefit the Group as a whole if it becomes part of the Group again; and (iv) the 8% which is used in the formula below to calculate the Exercise Price for the Put Option (being an interest rate of 8% per annum) is lower than the Group's weighted average financing cost of 9.0% per annum as at 31 March 2022 (as disclosed in the annual report of the Company for the year ended 31 March 2022), the Directors, including independent non-executive Directors, save for Mr. Wan Hongtao and Mr. Qin Wenzhong, who are the Directors nominated by the Purchaser and Ms. Shen Lifeng who is also an external independent director of the Purchaser, are of the view that the Put Option Triggering Event set out in this paragraph (6), which forms part of the Equity Transfer Agreement, is fair and reasonable.

The Exercise Price shall be calculated based on the following formula and be settled in cash:

A + B – C

A = proportionate amount of Consideration corresponding to the percentage of equity interest held by the Purchaser in the Target Company which are to be repurchased by the Company and/or the Vendor (the "**Equity Interest to be Repurchased**")

B = (i) A x 8% x the number of days from the date of Consideration paid by the Purchaser to the Vendor to the Exercise Price received by the Purchaser/360; or (ii) the proportionate accumulated audited net profits of the Target Group (for the period from the date First Instalment paid by the Purchaser to the Vendor to the date of the Exercise Price received by the Purchaser) corresponding to the Equity Interest to be Repurchased, whichever is higher

C = accumulated cash dividend received by the Purchaser during the period when the Purchaser is the holder of the Equity Interest to be Repurchased, if any

The interest rate of 8% under B above was determined based on arm's length negotiations between the Vendor and the Purchaser with reference to (i) the Purchaser's assessment on the expected return of its investments; and (ii) the Group's weighted average financing cost of 9.0% as at 31 March 2022 (as disclosed in the annual report of the Company for the year ended 31 March 2022). The Directors, including independent non-executive Directors, save for Mr. Wan Hongtao and Mr. Qin Wenzhong, who are the Directors nominated by the Purchaser and Ms. Shen Lifeng who is also an external independent director of the Purchaser, are of the view that such interest rate is fair and reasonable.

For illustrative purpose, the estimated Exercise Price for the Put Option is approximately RMB1.4 billion (equivalent to approximately HK$1.6 billion), assuming (i) the Equity Interest to be Repurchased will be 50% equity interest held by the Purchaser in the Target Company; (ii) the accumulated net profits of the Target Group will be equal to the accumulated net profits of Performance Guarantee; (iii) 50% of cash dividend will be distributed to the Purchaser during the period when the Purchaser is the holder of the Equity Interest to be Repurchased.

In the event that the Purchaser exercises the Put Option to request the Vendor or the Company to repurchase all or part of the equity interests held by the Purchaser in the Target Company, the amount of compensation paid by the Vendor or the Company to the Purchaser pursuant to the Performance Guarantee shall be deducted from the Exercise Price.

On the exercise of the Put Option by the Purchaser, the Company will make an announcement in accordance with the requirements under the Listing Rules.

## (III) CALL OPTION

Pursuant to the Equity Transfer Agreement, the Purchaser granted to the Company and the Vendor the Call Option, pursuant to which the Company and the Vendor are entitled to purchase, within three years after Completion, all or part of the equity interests held by the Purchaser in the Target Company at their discretion if any compensation to be provided by the Vendor to the Purchaser under the Performance Guarantee reaches or exceeds 50% of the Consideration (the "**Call Option Triggering Event**").

The Exercise Price shall be calculated based on the same formula for the Put Option and be settled in cash.

In the event that the Vendor or the Company exercises the Call Option to repurchase all or part of the equity interests held by the Purchaser in the Target Company, the amount of compensation paid by the Vendor or the Company to the Purchaser pursuant to the Performance Guarantee shall be deducted from the Exercise Price.

For illustrative purpose, the estimated Exercise Price for the Call Option is approximately RMB1.4 billion (equivalent to approximately HK$1.6 billion), assuming (i) the Equity Interest to be Repurchased will be 50% equity interest held by the Purchaser in the Target Company; (ii) the accumulated net profits of the Target Group will be equal to the accumulated net profits of Performance Guarantee; (iii) 50% dividend will be distributed to the Purchaser during the period when the Purchaser is the holder of the Equity Interest to be Repurchased.

On the exercise of the Call Option, the Company will make an announcement in accordance with the Listing Rules. In addition, if the Purchaser remains a connected person of the Group at the time of exercise of the Call Option (which is at the option of the Company), the Company will calculate the applicable percentage ratios under the Listing Rules at such time and, depending on the such applicable percentage ratios, comply with the announcement, reporting and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## (IV) PROPERTY MANAGEMENT TRANSACTIONS

Pursuant to the Equity Transfer Agreement, upon Completion, the Company shall (i) engage the Target Group to manage all present and future property projects owned by the Group and (ii) use its best endeavours to procure the engagement of the Target Group in respect of the property management of present and future property projects developed by the Group. As at the date of the Announcement, the total contracted area under management and chargeable area under management of the property projects (i) owned or developed by the Group and (ii) managed by the Target Group are 20.81 million sq. m. and 15.32 million sq. m., respectively. Accordingly, the Company and the Target Company have entered into the Property Management Transactions Framework Agreement on 15 July 2022 (after trading hours) for the provision of property management services by the Target Group for the period from the date of Completion to 31 March 2025.

Pursuant to the Property Management Transactions Framework Agreement, the Group may from time to time enter into Specific Agreements with the Target Group for the provision of property management services, which shall set out the detailed terms for the relevant transactions contemplated under the Property Management Transactions Framework Agreement and are, in the ordinary and usual course of business, after arm's length negotiation, on normal commercial terms and no less favourable than those agreed with Independent Third Parties. The Specific Agreements shall conform with the principles and provisions set out in the Property Management Transactions Framework Agreement and shall be in compliance with the Listing Rules. If there is any conflict between any provision of the Specific Agreement and the relevant provision(s) of the Property Management Transactions Framework Agreement, such provision(s) of the Specific Agreement shall be amended.

Key terms of the Property Management Transactions Framework Agreement, among others, are set out below:

**Date:** 15 July 2022 (after trading hours)

**Parties:**

(1) The Company

(2) The Target Company

**Term:** Effective from the date of Completion to 31 March 2025 (both days inclusive), subject to termination as agreed by both parties

**Subject matter:** Property management services from the Target Group to the Group, including security, cleaning service, customer service, maintenance of order, parking management, equipment and facility maintenance, pre-delivery consultancy services, sales office coordination, gardening and road maintenance and polishing services.

**Pricing basis:** The parties to the Property Management Transactions Framework Agreement have agreed that each transaction contemplated under the Property Management Transactions Framework Agreement will be negotiated on an arm's length basis to ensure the relevant pricing terms are on normal commercial terms and no less favourable than those being agreed with the Independent Third Parties for comparable transactions.

In particular:

(a) the property management fee for each property used or leased by the Group will be the multiple of the area of the relevant property (in sq. m.) and the property management fee of the relevant property project per sq. m.;

(b) the property management fee per sq. m. for each property project shall be determined based on (a) reasonable costs of the Target Group, which mainly comprise of (x) labour costs with reference to the size of the relevant property projects and (y) other costs such as utility expenses, subcontracting costs, maintenance expenses, administrative cost, daily operational cost, fee for professional services and (b) standard unit rates per sq. m. ranging from RMB1/month to RMB20/month (which vary primarily based on the types of property, size of the relevant property, the geographical location of the relevant property, the expectation of service quality and expected operational costs in the area), and also determined by reference to (x) the market price of similar services for similar property types within the same location and (y) the impact of inflation and fluctuation in costs (there being a positive correlation between, on the one hand, the exact standard unit rate for each property and, on the other hand, the prevailing inflation rate or fluctuation in costs), in accordance with usual commercial terms;

(c) for ancillary services such as advertising, public venue and various management services, park lighting, park road, professional fire crew, a gross profit margin of around 10% above cost will be charged, which is with reference to the prevailing market prices for similar ancillary services (such as maintenance and management of common areas, security services, pre-delivery consultancy services and sales office co-ordination) in the PRC based on at least three recent comparable transactions considered by the Company.

(d) the property management fee for vacant units will be calculated based on the below formulas:

   (i) Commercial property projects: the area of vacant units (in sq. m.) x the property management fee of the relevant property per sq. m. x 30%; and

   (ii) Residential property projects: the area of vacant units (in sq. m.) x the property management fee of relevant property per sq. m. x 100%.

The above pricing ratios of 30% and 100% were determined with reference to the prevailing market practices for commercial and residential properties, respectively, in cities in which the Group's major properties are located. The pricing ratio in respect of residential properties is higher than that in respect of commercial properties because the property management fee per sq. m. for residential properties is generally much lower than that for commercial properties in the PRC.

During the term of the Property Management Transactions Framework Agreement, the Company will as an internal control measure, make reference to the fees and terms in relation to the provision of management services of similar nature and of similar terms by Independent Third Parties (if any) on a regular basis and compare them with the fees and terms for the provision of services by the Target Group to the Group to ensure that the fees payable by the Group to the Target Group will be no less favourable than the fees payable to Independent Third Parties for the provision of services of similar nature and of similar terms, and are based on normal commercial terms and fair and reasonable.

**Payment:** The time and means of payment shall be agreed by the relevant parties with reference to customary business terms to be arrived through arm's length negotiations, being normal commercial terms comparable to those for similar or comparable services.

The following table sets out the amounts of historical transactions for property management services provided by the Target Group to the Group:

| **For the year ended 31 March 2020** | **For the year ended 31 March 2021** | **For the year ended 31 March 2022** |
|---:|---:|---:|
| *HK$'000* | *HK$'000* | *HK$'000* |
| 146,440 | 88,436 | 110,922 |

*Note:* The exchange rates of RMB1.00 = HK$1.1221, RMB1.00 = HK$1.1464 and RMB1.00 = HK$1.2152 have been used for illustration of the amounts of historical transaction for each of the three years ended 31 March 2020, 2021 and 2022, respectively.

The following table sets out the annual caps for the continuing connected transactions contemplated under the Property Management Transactions Framework Agreement:

| For the year ending 31 March 2023 *HK$'000* | For the year ending 31 March 2024 *HK$'000* | For the year ending 31 March 2025 *HK$'000* |
|---|---|---|
| 309,100 | 399,400 | 393,300 |

The annual caps for Property Management Transactions have been determined with reference to a number of factors, including, among other things:

(i) the scope of services required;

(ii) the total contracted area under management and chargeable area under management of the property projects (i) owned or developed by the Group and (ii) managed by the Target Group as at the date of the Announcement, which are 20.81 million sq. m. and 15.32 million sq. m., respectively;

(iii) the expected increase in relevant staff costs and the administrative and daily operational costs;

(iv) the possible increase in the services required, depending on the actual circumstances;

(v) the expected delivery of property projects owned and developed by the Group;

(vi) the estimated vacancy rate of the areas under management;

(vii) the historical transaction amounts paid to the Target Group for provision of property management services to the Group;

(viii) the management fees charged by Independent Third Parties for services in similar scope and quality provided to the Group;

(ix) potential inflation and currency exchange fluctuation; and

(x) a reasonable buffer for unexpected increase in management fee.

The annual caps for Property Management Transactions are higher than the historical transaction amounts paid to the Target Group because the Target Group only started charging the Group for property management services for certain vacant units of the Group from 1 January 2022. Also, the management fee under the Property Management Transactions Framework Agreement to be paid to the Target Group will be higher than the historical management fee paid because (i) past concessions offered by the Target Group mainly to the Group (in response to encouragement by the PRC government to provide financial alleviations to the market participants from the impact of the COVID-19 pandemic) ceased at the end of 2021; and (ii) the Target Company will cease to be a subsidiary of the Company upon Completion and the management fee under the Property Management Transactions Framework Agreement shall reflect the level of management fees charged by Independent Third Parties for services with similar scope and quality provided to the Group.

The annual cap for each of the years ending 31 March 2023, 2024 and 2025 also takes into account the number, size and type of properties which are expected to be delivered by the Group within each of those years. In particular, in respect of new commercial property projects, as the Group is responsible for the property management fees for the vacant units before they are sold or leased to independent third parties, the annual cap for the year ending 31 March 2024 is expected to be higher because a number of commercial property projects are expected to be delivered in that year and the occupancy rate is expected to improve during the year ending 31 March 2025.

**Internal control procedures for the Group's continuing connected transactions**

In order to ensure that the transactions contemplated under the Property Management Transactions Framework Agreement and Specific Agreements are (i) conducted on normal commercial terms, fair and reasonable and no less favourable than those agreed with Independent Third Parties for the provision of services of similar nature and of similar terms; and (ii) and comply with the annual caps and pricing policies under the Property Management Transactions Framework Agreement, the internal control procedures shall be implemented by the Company as follows:

(a) the Company has adopted and implemented a management system on connected transactions. The Board and various other internal departments of the Company are jointly responsible for evaluating the terms of the transactions contemplated under Property Management Transactions Framework Agreement and Specific Agreements in particular, the fairness of the pricing policies under each Specific Agreement, the management of the Company also reviews the pricing policies of the Property Management Transactions Framework Agreement annually. In addition, various other internal departments of the Company monitor the implementation of the Property Management Transactions Framework Agreement from time to time, and the finance department is responsible for monitoring the transaction amounts of the continuing connected transactions contemplated under the Property Management Transactions Framework Agreement to ensure that the annual caps under the Property Management Transactions Framework Agreement are complied with, and that any Specific Agreement shall be entered into by the Company with the prior approval of the finance department;

(b) when considering the fees for property management services and ancillary services to be provided to the Group by the Target Group, the Group will constantly research into prevailing market conditions and practices and make reference to the pricing and terms of, subject to availability, at least three comparable transactions (for similar services for similar property types within the similar geographical area) between the Group and Independent Third Parties, to make sure that the pricing and terms offered by Target Group after arm's length negotiations, are no less favourable than those offered by Independent Third Parties;

(c) the independent non-executive Directors and auditors of the Company will conduct annual review of the continuing connected transactions under the Property Management Transactions Framework Agreement and provide annual confirmation to ensure that the Property Management Transactions are conducted in accordance with the terms of the Property Management Transactions Framework Agreement (including the relevant pricing policies), on normal commercial terms and in the ordinary and usual course of business of the Group in accordance with Rules 14A.55 and 14A.56 the Listing Rules; the audit committee of the Company will review the Company's financial controls, risk management and internal control systems; and when considering any renewal or revisions to the Property Management Transactions Framework Agreement, the Company will then comply with the Listing Rules as applicable; and

(d) the Company has a system in place to monitor the Group's connected transactions and the renewal of continuing connected transactions, which includes maintaining and regularly updating the list of connected persons of the Company, maintaining a list of connected transactions including details in relation to their expiration dates, checking the contracting party in each transaction to confirm whether it is a connected person, monitoring the value of transactions that are identified as connected transactions (on an aggregated basis where applicable) against the thresholds for triggering disclosure and shareholders' approval requirements under the Listing Rules and ensuring that relevant business departments are regularly updated in relation to the renewal of continuing connected transactions.

**REASONS FOR AND BENEFITS OF THE EQUITY TRANSFER AGREEMENT AND THE PROPERTY MANAGEMENT TRANSACTIONS**

The Directors consider that the Equity Transfer Agreement and the transactions contemplated thereunder (including the Put Option and the Call Option) will be able to:

(i) the liquidity of the Group will be improved through the receipt of Consideration by way of cash in accordance with the payment schedule under the Equity Transfer Agreement;

(ii) potentially improve the value of the 50% equity interest in the Target Company which will be retained by the Group. As a state-owned property management business usually has a higher price-to-earnings ratio than that of a non-state-owned property management business and the Target Company will become a subsidiary of the Purchaser upon Completion, it is expected that the value of the Target Company may potentially become higher as part of the Purchaser's group and the value of the 50% equity interest in the Target Company held by the Company may also potentially be higher; and

(iii) create synergy for the Group as the Purchaser intends to engage the Target Company for property management services for properties developed and/or held by it or its subsidiaries, which will lead to an enhanced brand image, new business opportunities and also new capital which the Purchaser may contribute into the Target Group subsequent to Completion. In addition to that, the Group will continue to enjoy property management services from the Target Group pursuant to the Property Management Transactions Framework Agreement at such price which will be no less favourable than fees charged by Independent Third Parties for similar services, such synergy and the potential growth of the Target Group will also benefit the Group as a result of a potential gain in the value of its 50% equity interest in the Target Company (including any dividends which may be distributed by the Target Company to the Group from time to time).

In addition, the Directors consider that the Put Option and the Call Option, which are part and parcel of the Equity Transfer Agreement, will allow the Purchaser to exit from, and the Group to repurchase, the 50% equity interest in the Target Company (which is the subject matter of the Equity Transfer Agreement) on terms which are acceptable to both the Purchaser and the Group.

The Directors believe that the Equity Transfer Agreement and the transactions contemplated thereunder (including the Put Option and the Call Option) is beneficial to the financial position and future business development of the Group.

The Target Group has been providing property management services to the Group since 2004. By entering into the Property Management Transactions Framework Agreement, the Group will continue to have access to quality property management services provided by the Target Group. Moreover, the Target Group has extensive experiences in providing property management services for commercial and logistics parks and trade centres, which is a rare competitive strength in the industry. The Directors believe that it is beneficial to the business of the Group to engage the Target Group for providing property management services to the Group as it is competitive in terms of price, efficiency, quality and reliability in the provision of such services.

The Directors, including independent non-executive Directors, save for Mr. Wan Hongtao and Mr. Qin Wenzhong, who are the Directors nominated by the Purchaser and Ms. Shen Lifeng who is also an external independent director of the Purchaser, are of the view that the terms of the Equity Transfer Agreements (including the Put Option and the Call Option), the Property Management Transactions Framework Agreement and the transactions contemplated thereunder (including the annual caps for the Property Management Transactions) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## FINANCIAL IMPLICATIONS AND USE OF PROCEEDS FROM THE DISPOSAL

The Consideration is in excess of the net asset value of the Target Company (prepared in accordance with the Hong Kong Financial Reporting Standards) as at 31 March 2022, which was approximately RMB373,563,000 (equivalent to approximately HK$460,603,000). Based on the Consideration, assuming a dividend of RMB253,113,981 (equivalent to approximately HK$293,612,218) will be distributed by the Target Company to the Group before Completion, the Group expects to recognise an unaudited estimated pre-tax disposal gain of approximately HK$2.7 billion before costs and expenses from the Disposal under the Hong Kong Financial Reporting Standards. The actual gain on the Disposal to be recorded by the Group is subject to audit and may be different from the estimated amount. Following the completion of the Disposal, the Target Company will cease to be a subsidiary of the Company and the financial results (including the earnings) of the Target Company will no longer be consolidated into the financial statements of the Group. Upon Completion, the Company will receive the Consideration in cash of RMB1,256,600,000 (equivalent to approximately HK$1,457,656,000) for the Disposal. Without considering the dividend distribution before Completion, the unaudited pro forma net assets of the Group is estimated to increase by approximately HK$2,455 million mainly as a result of (i) the receipt of the Consideration of approximately HK$1,458 million, and (ii) the estimated fair value of remaining 50% equity interest in the Target Company as investment in an associate of approximately HK$1,458 million. The Group intends to use the net proceeds from the Disposal to repay existing indebtedness (including principal and/or interests accrued therefrom).

## IMPLICATIONS UNDER THE LISTING RULES

### The Disposal

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

As at the Latest Practicable Date, the Purchaser holds approximately 29.28% of the Shares in issue. Accordingly, the Purchaser is a substantial shareholder and hence a connected person of the Company, and the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Disposal exceed 5%, the Disposal is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### Put Option

As one or more of the applicable percentage ratios in respect of the grant and the exercise of the Put Option exceed 25% but all of them are less than 100%, the grant and the exercise of the Put Option constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As mentioned above, the Purchaser is a substantial shareholder and hence a connected person of the Company, and the grant and the exercise of the Put Option constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the grant and the exercise of the Put Option exceed 5%, the grant and the exercise of the Put Option is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

**Call Option**

As one or more of the applicable percentage ratios in respect of the grant and the exercise of the Call Option exceed 25% but all of them are less than 100%, the grant and the exercise of the Call Option constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As mentioned above, the Purchaser is a substantial shareholder and hence a connected person of the Company, and the grant and the exercise of the Call Option constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the grant and the exercise of the Call Option exceed 5%, the grant and the exercise of the Call Option is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

If the Purchaser remains a connected person of the Group at the time of exercise of the Call Option (which is at the option of the Company), the Company will calculate the applicable percentage ratios under the Listing Rules at such time and, depending on such applicable percentage ratios, comply with the announcement, reporting and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As (i) the Disposal, the Put Option and the Call Option are all transactions contemplated under the Equity Transfer Agreement; (ii) the Disposal, the Put Option and the Call Option are part and parcel to the same transactions which have been negotiated and agreed by the Group and the Purchaser simultaneously; and (iii) the approval of each of Disposal, the grant and the exercise of the Put Option and the grant and the exercise of the Call Option is interdependent on, and cannot proceed without, the approvals of the other two, the Company will seek Independent Shareholders' approval for each of the Disposal, the grant and the exercise of the Put Option and the grant and the exercise of the Call Option under the same single resolution at the EGM. As a result, Independent Shareholders which exercise their rights to vote will be either voting in favour of the one single resolution which includes all of the Disposal, the grant and the exercise of the Put Option and the grant and the exercise of the Call Option, or voting against it.

**The Property Management Transactions**

Upon Completion, the Target Company will become a subsidiary of the Purchaser, which is a substantial shareholder of the Company. Accordingly, the Property Management

Transactions will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the annual caps for the Property Management Transactions exceed 5%, the Property Management Transactions are subject to the reporting, annual review, announcement and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Save for Mr. Wan Hongtao and Mr. Qin Wenzhong (the Directors nominated by the Purchaser) and Ms. Shen Lifeng (an external independent director of the Purchaser) who have abstained from voting in the relevant board resolutions at the relevant meeting of the Board, the Directors confirm that none of the other Directors had a material interest in or were required to be abstained from voting in the board resolutions relating to the Equity Transfer Agreement, the Property Management Transactions Framework Agreement and the transactions contemplated thereunder.

**INFORMATION ON THE PARTIES TO THE EQUITY TRANSFER AGREEMENT AND THE PROPERTY MANAGEMENT TRANSACTIONS FRAMEWORK AGREEMENT**

**The Group**

The Group is engaged in development and operation of large-scale integrated logistics and trade centres in China. It provides professional integrated logistics and trading platforms with comprehensive value-added ancillary services and facilities, including but not limited to logistics and warehousing services, property management, outlet operations, e-commerce services, convention and exhibition services – to assist small-to-medium enterprises in modernising the way they conduct business.

Capitalising on the Group's unique and flexible business model, proven operational capabilities and extensive experience in co-operating with local governments to support urbanization and industrial upgrade throughout China, the Group has developed an extensive network with eight projects in different provincial capitals and municipalities across the nation, including Shenzhen, Nanning, Nanchang, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing.

**The Vendor**

The Vendor is principally engaged in investment holding and is an indirect wholly-owned subsidiary of the Company.

**The Purchaser**

Established by the Shenzhen Municipal Government in September 2011, the Purchaser is a municipal state-owned enterprise set up for the purpose of accelerating the reform of investment and financing system and promoting the integration process of the Special Zone. In February 2016, the municipal government further clarified the Purchaser as the municipal operating entity for infrastructure investment, construction and operation, with its principal activities including infrastructure investment, construction and operation, development, construction and operation of industrial park, strategic emerging industry investment, regional economic cooperation and PPP project implementation. Over the past decade since its establishment, the Purchaser has effectively played its role of major infrastructure construction, industrial upgrading and expanding the room of development, and providing support for the industry cooperation.

During the "14th Five-Year Plan" period, the Purchaser will adhere to the corporate mission of "a new integrated operator of urban development with a demonstration role around the country" and plays its role as "four cores": infrastructure investment, construction and operation, industrial park development and operation, comprehensive for marine industry development and green environmental protection industry development. The Purchaser will carry out the task of regional economic collaboration, and strive to become an integrated operator of new urban development to play an exemplary role across the country, a state-owned strategic carrier to support the building of Shenzhen into a global maritime center city, and a state-owned functional carrier to help Shenzhen build a modern, international and innovative city. The Purchaser is committed to becoming one of Shenzhen "100 billion backbone state-owned groups" with high quality, and helping Shenzhen to become an innovative and creative metropolitan for start-ups with global influence and a city example of a modern and strong socialist country.

**The Target Company**

The Target Company is a limited liability company established in the PRC. It is principally engaged in the provision of property management services (including value-added ancillary services). Such value-added ancillary services include advertising, public venue and various management services, park lighting, park road and professional fire crew.

The net asset value of the Target Group (prepared in accordance with the Hong Kong Financial Reporting Standards) as at 31 March 2022 was approximately RMB373,563,000 (equivalent to approximately HK$460,603,000). The profit before and after taxation of the Target Group (prepared in accordance with the Hong Kong Financial Reporting Standards) for the financial years ended 31 March 2021 and 31 March 2022 are set out below:

| | **For the year ended 31 March 2021** | **For the year ended 31 March 2022** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Profit before taxation | 106,828 | 119,465 |
| Profit after taxation | 81,011 | 89,842 |

*Note:* The exchange rate of RMB1.00 = HK$1.233 has been used for illustration of the net asset value of the Target Group as at 31 March 2022.

**EGM**

Reference is made to the announcement of the Company dated 23 August 2022 in relation to the closure of the register of members of the Company. For the purpose of determining Shareholders who are entitled to attend and vote at the EGM to be held on Friday, 9 September 2022, the registers of members of the Company will be closed from Tuesday, 6 September 2022 to Friday, 9 September 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the EGM, Shareholders are reminded to ensure that all share transfer documents accompanied by the relevant share certificates are lodged for registration with the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by no later than 4:30 p.m. on Monday, 5 September 2022.

A notice convening the EGM to be held at Fung Shui Room, 6/F., Marco Polo Hongkong Hotel, Harbour City, Kowloon, Hong Kong, on Friday, 9 September 2022 at 10:00 a.m. is set out on pages 189 to 191 of this circular. Voting at the EGM will be taken by poll. Whether or not you intend to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish and in such event, the form of proxy will be deemed to be revoked.

As at the Latest Practicable Date, the Purchaser holds approximately 29.28% of the Shares in issue, and hence will abstain from voting on the resolution(s) in respect of the Disposal (including the grant and the exercise of the Put Option and the grant and the exercise of the Call Option) and the Property Management Transactions. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, no other Shareholder will be required to abstain from voting on the resolution(s) in respect of the Disposal (including the grant and the exercise of the Put Option and the grant and the exercise of the Call Option) and the Property Management Transactions at the EGM.

An announcement on the results of the EGM will be made by the Company following the EGM in accordance with the Listing Rules.

**Completion of the Disposal is subject to fulfilment (or, where applicable, waiver) of the conditions as set out in the Equity Transfer Agreement and the approval of Independent Shareholders at the EGM, and the Disposal may or may not proceed. The Property Management Transactions are subject to the Completion of the Disposal and the approval of Independent Shareholders at the EGM, and the Property Management Transactions may or may not proceed. Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the Shares. If in doubt, Shareholders and potential investors are recommended to consult their professional adviser(s).**

**RECOMMENDATIONS**

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on pages 32 to 33 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders; and (ii) the letter from the Independent Financial Adviser as set out on pages 34 to 91 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Independent Board Committee, having taken into account, among other things, the advice of the Independent Financial Adviser, is of the view that the terms of the Equity Transfer Agreement (including the Put Option and the Call Option) and the Property Management Transactions Framework Agreement (including the annual caps for the Property Management Transactions) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors, including the independent non-executive Directors, save for Mr. Wan Hongtao and Mr. Qin Wenzhong, who are the Directors nominated by the Purchaser and Ms. Shen Lifeng who is also an external independent director of the Purchaser, after considering the advice from the Independent Financial Adviser, are of the view that the terms of the Equity Transfer Agreement (including the Put Option and the Call Option) and the Property Management Transactions Framework Agreement (including the annual caps for the Property Management Transactions) are fair and reasonable and in the interests of the Company and the Shareholders as a whole and therefore recommend you to vote in favour of all the ordinary resolutions to be proposed at the EGM.

**FURTHER INFORMATION**

Your attention is drawn to the information set out in the appendices to this circular and the notice of the EGM.

Yours faithfully
By order of the Board
**China South City Holdings Limited**
**Cheng Chung Hing**
*Chairman and Executive Director*

*The following is the text of a letter of advice from the Independent Board Committee setting out its recommendation to the Independent Shareholders.*

China South City

**China South City Holdings Limited**
**華南城控股有限公司**
*(incorporated in Hong Kong with limited liability)*
**(Stock Code: 1668)**

25 August 2022

*To the Independent Shareholders*

Dear Sir or Madam

**(1) CONNECTED AND DISCLOSEABLE TRANSACTION IN RELATION TO THE PROPOSED DISPOSAL OF 50% EQUITY INTEREST IN THE TARGET COMPANY;**
**(2) CONNECTED AND MAJOR TRANSACTION IN RELATION TO THE PUT OPTION;**
**(3) CONNECTED AND MAJOR TRANSACTION IN RELATION TO THE CALL OPTION; AND**
**(4) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE PROPOSED PROPERTY MANAGEMENT TRANSACTIONS**

We refer to the circular dated 25 August 2022 of the Company (the "**Circular**") of which this letter forms part. Terms defined in the Circular bear the same meanings in this letter unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the Equity Transfer Agreement (including the Put Option and the Call Option), the Property Management Transactions Framework Agreement and the transactions contemplated thereunder (including the annual caps for the Property Management Transactions) are fair and reasonable so far as the Independent Shareholders are concerned, and to recommend how the Independent Shareholders should vote regarding the relevant proposed resolutions at the EGM.

Anglo Chinese Corporate Finance, Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement (including the Put Option and the Call Option), the Property Management Transactions Framework Agreement and the transactions contemplated thereunder (including the annual caps for the Property Management

Transactions). Details of the advice, together with principal factors and reasons considered in arriving at such advice are set out in the letter from the Independent Financial Adviser as set out on pages 34 to 91 of the Circular.

We wish to draw your attention to the letter from the Board set out on pages 6 to 31 of the Circular and the additional information as set out in the appendices to the Circular.

Having considered the terms of the Equity Transfer Agreement (including the Put Option and the Call Option) and the Property Management Transactions Framework Agreement, the advice of Anglo Chinese Corporate Finance, Limited as set out in the letter from the Independent Financial Adviser and the principal factors and reasons taken into consideration by it in arriving at its advice, we consider that the terms of the Equity Transfer Agreement (including the Put Option and the Call Option), the Property Management Transactions Framework Agreement and the transactions contemplated thereunder (including the annual caps for the Property Management Transactions) are fair and reasonable so far as the Independent Shareholders are concerned, and are on normal or better commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the all the ordinary resolutions to be proposed at the EGM.

Yours faithfully
For and on behalf of
**INDEPENDENT BOARD COMMITTEE**
**Mr. Leung Kwan Yuen Andrew *GMB, GBS, JP,***
**Mr. Li Wai Keung and Mr. Hui Chiu Chung *JP***
*Independent non-executive Directors*

*The following is the text of a letter of advice from the Independent Financial Adviser, Anglo Chinese Corporate Finance, Limited, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
www.anglochinesegroup.com
40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong
英高財務顧問有限公司

The Independent Board Committee and
the Independent Shareholders of
China South City Holdings Limited

25 August, 2022

Dear Sirs,

**(I) CONNECTED AND DISCLOSEABLE TRANSACTION IN RELATION TO THE PROPOSED DISPOSAL OF 50% EQUITY INTEREST IN THE TARGET COMPANY;
(II) CONNECTED AND MAJOR TRANSACTION IN RELATION TO THE PUT OPTION;
(III) CONNECTED AND MAJOR TRANSACTION IN RELATION TO THE CALL OPTION; AND
(IV) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE PROPOSED PROPERTY MANAGEMENT TRANSACTIONS**

## I. INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the proposed (1) disposal of 50% equity interest in a wholly-owned subsidiary by the Vendor to the Purchaser in accordance with the Equity Transfer Agreement; (2) grant of the Put Option to the Purchaser; (3) grant of the Call Option to the Company and the Vendor; and (4) continuing connected transactions in relation to the Property Management Transactions. The terms defined in the circular of the Company dated 25 August, 2022 (the "**Circular**"), of which this letter forms part, shall have the same meanings in this letter, unless the context otherwise requires.

In formulating our opinion and recommendations, we have reviewed, among other things, (i) the Equity Transfer Agreement; (ii) the Property Management Transactions Framework Agreement; (iii) published information on the Group, including its audited annual financial statements for the latest three financial years, the last of which ended on 31 March, 2022; (iv) the Valuation Report and the underlying financial projections of the Target Group (the "**Forecast**"); (v) the information in the Circular; and (vi) the relevant property management market research report. We consider the information we have reviewed is sufficient to reach the conclusions set out in this letter and have no reason to doubt the truth, accuracy or completeness of the information provided to us by the Company, and have been advised by the Directors that, to the best of their knowledge, no material information has been omitted or withheld from the information supplied to us or the information relating to the Company referred to in the Circular. We have relied on the information so provided to us and referred to in the Announcement, the further announcement of the Company dated 28 July, 2022 and the Circular, and we have not verified it or conducted an independent investigation into the business and affairs of the Group.

Apart from normal professional fees for our services to the Group in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group or any of its associates. As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Company or any other parties that could reasonably be regarded as relevant to our independence. In the two years prior to the Latest Practicable Date, we have not previously acted as the independent financial adviser to the Company's other transactions. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

The Independent Board Committee, comprising the all independent non-executive Directors save for Ms. Shen Lifeng, who is also a director of the Purchaser and has abstained from being a member of the Independent Board Committee, has been established to advise the Independent Shareholders on the Disposal (including the Put Option and the Call Option) and the Property Management Transactions (including the annual caps therefor). We have been appointed with the approval of the Independent Board Committee as the Independent Financial Adviser to provide advice and recommendation to the Independent Board Committee and the Independent Shareholders in the same regard and on how to vote at the EGM.

## II. BASIS OF OPINION AND FACTORS TAKEN INTO CONSIDERATION OF ENTERING INTO THE EQUITY TRANSFER AGREEMENT AND THE PROPERTY MANAGEMENT TRANSACTIONS FRAMEWORK AGREEMENT

The following are the principal factors which we have taken into account in assessing the fairness and reasonableness of the Disposal, including the terms of the Equity Transfer Agreement, the Put Option and the Call Option, and the Property Management Transactions, and in giving our advice to the Independent Board Committee and the Independent Shareholders:

### 1. BACKGROUND OF THE EQUITY TRANSFER AGREEMENT, THE DISPOSAL, THE PUT OPTION AND THE CALL OPTION

***Equity Transfer Agreement and the Disposal***

On 15 July, 2022 (after trading hours),

(i) the Vendor, the Purchaser and the Company entered into the Equity Transfer Agreement, pursuant to which the Vendor agreed to sell and the Purchaser agreed to purchase, 50% equity interest in the Target Company (the "**Sale Interest**") at the Consideration of RMB1,256,600,000 (equivalent to approximately HK$1,457,656,000); and

(ii) upon Completion, the Vendor will hold 50% equity interest in the Target Company. The Target Company will be consolidated in the accounts of the Purchaser and the Target Company will cease to be a subsidiary of the Company.

As of the Latest Practicable Date, the Purchaser holds approximately 29.28% of the Shares in issue. Accordingly, the Purchaser is a substantial shareholder and hence a connected person of the Company, and the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Disposal exceed 5%, the Disposal is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

***Put Option***

Pursuant to the Equity Transfer Agreement, the Company and the Vendor granted to the Purchaser the Put Option, pursuant to which the Purchaser is entitled to sell, within three years after the Completion, all or part of the equity interests held by it in the Target Company to the Company and/ or the Vendor at its discretion upon the occurrence of the Put Option Triggering Events, at the Exercise Price. Please refer to the section headed "*(II) Put Option*" set out in the letter from the Board for the details of the Put Option Triggering Events.

As one or more of the applicable percentage ratios in respect of the Put Option exceed 25% but all of them are less than 100%, the Put Option constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As mentioned above, the Purchaser is a substantial shareholder and hence a connected person of the Company, and the Put Option constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Put Option exceed 5%, the Put Option is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

On the exercise of the Put Option by the Purchaser, the Company will make an announcement in accordance with the requirements under the Listing Rules.

***Call Option***

Pursuant to the Equity Transfer Agreement, the Purchaser granted to the Company and the Vendor the Call Option, pursuant to which the Company and the Vendor are entitled to purchase, within three years after the Completion, all or part of the equity interests held by the Purchaser in the Target Company at their discretion upon the occurrence of the Call Option Triggering Event, at the Exercise Price. Please refer to the section headed "*(III) Call Option*" set out in the letter from the Board for the details of the Call Option Triggering Event.

As one or more of the applicable percentage ratios in respect of the Call Option exceed 25% but all of them are less than 100%, the Call Option constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As mentioned above, the Purchaser is a substantial shareholder and hence a connected person of the Company, and the Call Option constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Call Option exceed 5%, the Call Option is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Disposal, the Put Option and the Call Option are part and parcel to the same transactions, and any one such component cannot proceed unless all of these components are approved, the Company will seek Independent Shareholders' approval for each of the Disposal, the grant and exercise of the Put Option and the grant and the exercise of the Call Option under the same single resolution at the EGM.

On the exercise of the Call Option, the Company will make an announcement in accordance with the Listing Rules. In addition, if the Purchaser remains a connected person of the Group at the time of exercise of the Call Option (which is at the option of the Company), the Company will calculate the applicable percentage ratios under the Listing Rules at such time and, depending on the such applicable percentage ratios, comply with the announcement, reporting and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## 2. BACKGROUND OF THE PROPERTY MANAGEMENT TRANSACTIONS

The Target Group has been providing property management services to the Group since 2004. Upon Completion, the Target Company will become a subsidiary of the Purchaser, which is a substantial shareholder of the Company. Since it is expected that the Target Group will continue to provide such property management services to the Group upon Completion, the Company and the Target Company have entered into the Property Management Transactions Framework Agreement on 15 July, 2022. Accordingly, the Property Management Transactions Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Please refer to the section headed "*(IV) Continuing Connected Transactions in relation to the Property Management Transactions*" set out in this letter for the details and our opinions regarding the Property Management Transactions.

## 3. INFORMATION ON (A) THE GROUP; AND (B) THE VENDOR, THE PURCHASER AND THE TARGET COMPANY

### (A) The Group

The Group is engaged in development and operation of large-scale integrated logistics and trade centres in China. It provides professional integrated logistics and trading platforms with comprehensive value-added ancillary services and facilities, including but not limited to logistics and warehousing services, property management, outlet operations, e-commerce services, convention and exhibition services – to assist small-to-medium enterprises in modernising the way they conduct business.

Capitalising on the Group's unique and flexible business model, proven operational capabilities and extensive experience in co-operating with local governments to support urbanisation and industrial upgrade throughout China, the Group has developed an extensive network with eight projects in different provincial capitals and municipalities across the nation, including Shenzhen, Nanning, Nanchang, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing.

***Business and financial performance of the Group***

The tabulation below illustrates the breakdown of the Group's principal sources of revenue and profits for each of the three financial years ended 31 March, 2020, 2021 and 2022:

**Table 1 – Financial performance of the Group**

| | For the year ended 31 March, | | |
|---|---|---|---|
| | **2020** | **2021** | **2022** |
| | HK$'000 | HK$'000 | HK$'000 |
| **Revenue** | | | |
| Sales of properties and finance lease income | 7,475,735 | 8,543,938 | 7,353,478 |
| Recurring income | 2,411,919 | 2,765,366 | 2,958,150 |
| **Total revenue** | **9,887,654** | **11,309,304** | **10,311,628** |
| **Gross Profit** | **4,522,647** | **4,944,205** | **3,025,256** |
| *Gross profit margin* | *45.7%* | *43.7%* | *29.3%* |
| Other income and gains/(losses) | *487,217* | *(20,753)* | *1,102,162* |
| Fair value gains on investment properties | *1,677,947* | *1,054,256* | *148,244* |
| Other general expenses *(Note)* | *(2,217,052)* | *(2,575,621)* | *(2,645,802)* |
| **Profit before tax** | **4,470,759** | **3,402,087** | **1,629,860** |
| Income tax expenses | *(1,842,611)* | *(986,958)* | *(870,736)* |
| **Profit for the year** | **2,628,148** | **2,415,129** | **759,124** |
| *Net profit margin* | *26.6%* | *21.4%* | *7.4%* |
| **Profit attributable to the owners of the parent** | **2,633,141** | **2,415,498** | **760,200** |
| **Earnings per share attributable to ordinary equity holders of the parent** | | | |
| Basic and diluted *(HK cents)* | 32.47 | 29.85 | 9.39 |

*Sources:* *Annual reports of the Company for the relevant years*

*Note:* Other general expenses include selling and distribution expenses, administrative expenses, other expenses and finance costs.

– *For the financial year ended 31 March, 2022 compared to 2021*

The revenue decreased by approximately 8.8% from approximately HK$11,309.3 million for the financial year ended 31 March, 2021 to approximately HK$10,311.6 million for the financial year ended 31 March, 2022, mainly due to less sales and delivery of properties during the year.

The gross profit decreased by approximately 38.8% from approximately HK$4,944.2 million for the financial year ended 31 March, 2021 to approximately HK$3,025.3 million for the financial year ended 31 March, 2022, and gross profit margin decreased from 43.7% for the year ended 31 March, 2021 to 29.3% for the year ended 31 March, 2022, mainly due to the decrease in average selling price of properties sold.

The other income and gains/(losses) turned back from losses of approximately HK$20.8 million for the year ended 31 March, 2021 to gains of approximately HK$1,102.2 million for the year ended 31 March, 2022. Other income increased from approximately HK$264.0 million for the year ended 31 March, 2021 to approximately HK$297.9 million for the year ended 31 March, 2022, which was mainly due to increase in interest income. Other gains/(losses) turned back from losses of approximately HK$284.7 million for the year ended 31 March, 2021 to gains of approximately HK$804.2 million for the year ended 31 March, 2022, which was mainly attributable to the gains on land resumption.

The fair value gains on investment properties decreased by approximately 85.9% from approximately HK$1,054.3 million for the year ended 31 March, 2021 to approximately HK$148.2 million for the year ended 31 March, 2022, which was mainly attributable to the decline in commercial properties leasing demand in the midst of the COVID-19 pandemic and depressed macro market environment, resulting in a decrease in fair value gain on investment properties. During the year ended 31 March, 2022, the fair value gain mainly came from logistics and warehousing assets.

The finance costs increased by approximately 23.6% from approximately HK$638.4 million for the year ended 31 March, 2021 to approximately HK$788.9 million for the year ended 31 March, 2022, which was mainly due to the increase of the interest rate of the borrowings during the year ended 31 March, 2022.

– *For the year ended 31 March, 2021 compared to 2020*

The revenue increased by approximately 14.4% from approximately HK$9,887.7 million for the year ended 31 March, 2020 to approximately HK$11,309.3 million for the year ended 31 March, 2021, with income from sales of properties and finance lease increasing by approximately 14.3%. The increase in total revenue was mainly attributable to more sales and delivery of properties and the growth in recurring income during the year.

The gross profit increased by approximately 9.3% from approximately HK$4,522.6 million for the year ended 31 March, 2020 to approximately HK$4,944.2 million for the year ended 31 March, 2021. The gross profit margin decreased from 45.7% for the year ended 31 March, 2020 to 43.7% for the year ended 31 March, 2021, which was mainly due to the increase in cost of properties sold.

The other income and gains/(losses) turned from gains of approximately HK$487.2 million for the year ended 31 March, 2020 to losses of approximately HK$20.8 million for the year ended 31 March, 2021. Other income decreased from approximately HK$414.0 million for the year ended 31 March, 2020 to approximately HK$264.0 million for the year ended 31 March, 2021, which was mainly attributable to the decrease in government grants. Other gains/(losses) turned from gains of approximately HK$73.3 million for the year ended 31 March, 2020, to other losses of approximately HK$284.7 million for the year ended 31 March, 2021, which was mainly attributable to the fair value losses on financial assets at fair value through profit or loss and losses on disposal of subsidiaries.

The fair value gains on investment properties decreased by approximately 37.2% from approximately HK$1,677.9 million for the year ended 31 March, 2020 to approximately HK$1,054.3 million for the year ended 31 March, 2021, which was mainly attributable to the decline in commercial properties leasing demand in the midst of the COVID-19 pandemic and depressed macro market environment, resulting in a decrease in fair value gain on investment properties.

The finance costs increased by approximately 23.3% from approximately HK$517.6 million for the year ended 31 March, 2020 to approximately HK$638.4 million for the year ended 31 March, 2021, which was mainly due to the increase of the interest rate of the borrowings during the year ended 31 March, 2021.

***Financial position of the Group***

A summary of the financial position of the Group as of 31 March, 2020, 2021 and 2022 is shown below.

**Table 2 – Financial positions of the Group**

| | As of 31 March, | | |
|---|---|---|---|
| | **2020** | **2021** | **2022** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-current Assets** | | | |
| Property, plant and equipment and right-of-use assets | 2,875,525 | 1,943,140 | 1,361,317 |
| Investment properties | 50,873,673 | 55,695,354 | 57,767,160 |
| Properties under development | 1,120,379 | 2,499,166 | 1,578,157 |
| Others *(Note 1)* | 4,210,573 | 4,191,199 | 4,248,329 |
| **Sub-total** | **59,080,150** | **64,328,859** | **64,954,963** |
| **Current Assets** | | | |
| Properties held for sale | 40,065,384 | 42,259,146 | 46,693,652 |
| Prepayments, other receivables, and other assets | 2,536,396 | 3,407,024 | 5,519,728 |
| Cash and bank balances | 10,303,541 | 9,442,782 | 4,681,068 |
| Others *(Note 2)* | 1,448,581 | 1,105,119 | 2,538,013 |
| **Sub-total** | **54,353,902** | **56,214,071** | **59,432,461** |
| **Total Assets** | **113,434,052** | **120,542,930** | **124,387,424** |
| **Current Liabilities** | | | |
| Trade and other payables | 15,589,798 | 11,281,121 | 12,049,373 |
| Contract liabilities | 15,578,700 | 16,212,034 | 15,543,565 |
| Borrowings, notes and bonds *(Note 3)* | 14,889,465 | 16,352,766 | 20,750,109 |
| Others *(Note 4)* | 4,241,087 | 3,940,282 | 4,662,803 |
| **Sub-total** | **50,299,050** | **47,786,203** | **53,005,850** |
| **Non-current Liabilities** | | | |
| Borrowings, notes, bonds and other long-term payables *(Note5)* | 18,989,999 | 21,028,719 | 15,240,680 |
| Deferred tax liabilities | 9,265,483 | 10,431,458 | 11,050,922 |
| **Sub-total** | **28,252,482** | **31,460,177** | **26,291,602** |
| **Total Liabilities** | **78,551,532** | **79,246,380** | **79,297,452** |
| **Total Equity** | | | |
| Equity attributable to owners of the parent | 34,832,726 | 41,278,881 | 45,073,744 |
| Non-controlling interests | 49,794 | 17,669 | 16,228 |
| | **34,882,520** | **41,296,550** | **45,089,972** |
| **Current ratio (times)** | **1.08** | **1.18** | **1.12** |
| **Gearing ratio (%)** | **67.2** | **67.6** | **69.4** |

*Sources: Annual reports of the Company for the relevant years*

*Notes:*

1. Others include goodwill, financial assets at fair value through profit or loss, other long-term receivables, deposits paid for purchase of land use rights and deferred tax assets.

2. Others include properties held for finance lease, inventories, trade receivables, contract assets, and financial assets at fair value through profit or loss.

3. Borrowings, notes and bonds include interest-bearing bank and other borrowings, senior notes, medium-term notes and domestic company bonds.

4. Others include financial liabilities at fair value through profit or loss and tax payables.

5. Borrowings, notes, bonds and other long-term payables include interest-bearing bank and other borrowings, senior notes, medium-term notes, domestic company bonds and other long-term payables.

– *Total assets*

As of 31 March, 2022, the Group recorded total assets of approximately HK$124,387.4 million, which primarily consisted of (i) investment properties of approximately HK$57,767.2 million; (ii) properties held for sale of approximately HK$46,693.7 million; (iii) prepayments, other receivables and other assets of approximately HK$5,519.7 million; and (iv) cash and bank balances of approximately HK$4,681.1 million.

Cash and bank balances decreased from approximately HK$9,442.8 million as of 31 March, 2021 to approximately HK$4,681.1 million as of 31 March, 2022, which is primarily denominated in Renminbi, HK dollars and US dollars.

– *Total liabilities*

As of 31 March, 2022, the Group recorded total liabilities of approximately HK$79,297.5 million, which mainly comprised contract liabilities of approximately HK$15,543.6 million, trade and other payables of approximately HK$12,049.4 million, borrowings and bonds of approximately HK$35,990.8 million (including current borrowings, notes and bonds of approximately HK$20,750.1 million and non-current borrowings, notes, bonds and other long-term payables of approximately HK$15,240.7 million) and deferred tax liabilities of approximately HK$11,050.9 million.

– *Gearing Ratio*

The Group's gearing ratio, derived by dividing net debt by total equity, increased from approximately 67.6% as of 31 March, 2021 to approximately 69.4% as of 31 March, 2022, which was mainly due to the decrease of cash and bank balances.

**(B) The Vendor, the Purchaser and the Target Company**

***The Vendor***

The Vendor is principally engaged in investment holding and is an indirect wholly-owned subsidiary of the Company.

***The Purchaser***

Established by the Shenzhen Municipal Government in September 2011, the Purchaser is a municipal state-owned enterprise set up for the purpose of accelerating the reform of investment and financing system and promoting the integration process of the Special Zone. In February 2016, the municipal government further clarified the Purchaser as the municipal operating entity for infrastructure investment, construction and operation, with its principal activities including infrastructure investment, construction and operation, development, construction and operation of industrial park, strategic emerging industry investment, regional economic cooperation and PPP project implementation. As of December 2021, the Purchaser had registered capital of approximately RMB33.5 billion, total assets of approximately RMB99.0 billion and net assets of approximately RMB42.9 billion. Over the past decade since its establishment, the Purchaser has effectively played its role of major infrastructure construction, industrial upgrading and expanding the room of development, and providing support for the industry cooperation.

***The Target Company***

The Target Company is a limited liability company established in the PRC. It is principally engaged in the provision of property management services (including value-added ancillary services). Such value added ancillary services include advertising, public venue and various management services, park lighting, park road and professional fire crew.

Based on the accountants' report of the Target Group as set out in Appendix II to the Circular, the net asset value of the Target Group (prepared in accordance with the Hong Kong Financial Reporting Standards) as of 31 March, 2022 was approximately RMB373,563,000 (equivalent to approximately HK$460,603,000). The profit before and after taxation of the Target Group (prepared in accordance with the Hong Kong Financial Reporting Standards) for the financial years ended 31 March, 2021 and 31 March, 2022 are set out below:

**Table 3 – Financial performance of the Target Group**

| | For the year ended 31 March, | |
|---|---|---|
| | **2021** | **2022** |
| | *RMB'000* | *RMB'000* |
| Profit before taxation | 106,828 | 119,465 |
| Profit after taxation | 81,011 | 89,842 |

*Note:* *According to the Circular, the exchange rate of RMB1.00 = HK$1.233 has been used for illustration of the net assets value of the Target Group as at 31 March, 2022.*

Upon discussions with the management of the Company, we understood that (i) the Target Group started charging the Group for property management services for certain vacant units of the Group from 1 January, 2022 ("**Vacant Properties Management Fees**"); and (ii) past concessions offered by the Target Group mainly to the Group ceased at the end of 2021 ("**Property Management Fee Concessions**"). The concessions were offered by the Target Group in response to encouragement by the PRC government to provide financial alleviations to the market participants from the impact of the COVID-19 Pandemic.

For illustrative purpose, as provided by the Company, set out below is the adjusted profit after tax of the Target Group for the two years ended 31 March, 2022 assuming that, among other things, the Vacant Properties Management Fees were charged and no Property Management Fee Concessions were provided during the said period ("**2021 Adjusted Profit**" and "**2022 Adjusted Profit**" respectively).

**Table 4 – Illustrative Adjusted Financial Performance of the Target Group**

| | For the year ended 31 March, | |
|---|---|---|
| | **2021** | **2022** |
| | *RMB'000* | *RMB'000* |
| **Description** | | |
| Profit after tax | 81,011 | 89,842 |
| **Adjustments for illustrative purpose:** | | |
| ***add:*** | | |
| Vacant Property Management Fees | 111,855 | 92,828 |
| Property Management Fee Concessions | 84,817 | 108,036 |
| **Adjusted profit before tax** | **303,500** | **320,329** |
| **Adjusted profit after tax** | **228,515** | **240,490** |

*Source:* *The Company*

Please refer to the sections headed "II. Basis of opinion and factors taken into consideration of entering into of the Equity Transfer Agreement and the Property Management Transactions Framework Agreement – 6. Further terms of the Equity Transfer Agreement – Performance Guarantee" and "IV. Continuing connected transactions in relation to the Property Management Transactions – 1. Principal terms of Property Management Transactions Framework Agreement – Annual caps – (1) Review of historical transactions" set out in this letter for further analysis regarding the Vacant Properties Management Fees and Property Management Fee Concessions adjustments and the 2021 Adjusted Profit and 2022 Adjusted Profit.

**4. REASONS FOR AND BENEFITS OF THE EQUITY TRANSFER AGREEMENT AND THE PROPERTY MANAGEMENT TRANSACTIONS**

As stated in the section headed "*Reasons for and benefits of the Equity Transfer Agreement and the Property Management Transactions*" set out in the letter from the Board, the overall considerations for the Company and its Shareholders include (i) the improved liquidity of the Group as the Consideration will be settled in cash; (ii) the potential to improve the value of the remaining 50% equity interest the Group will retain in the Target Company; and (iii) the creation of synergy for the Group.

According to the unaudited pro forma consolidated statement of assets and liabilities of the Group as set out in Appendix III to the Circular, the cash and bank balances will increase from approximately HK$4,681.1 million to approximately HK$5,969.8 million, or by approximately 27.5%, assuming Completion has taken place and all the Consideration has been collected by cash on 31 March, 2022. As stated in the letter from the Board, the retained profits of the Target Group of approximately RMB253,113,981 (equivalent to approximately HK$293,612,218) is expected to be distributed by the Target Company to the Group before Completion and the Consideration of the Disposal of RMB1,256,600,000 (equivalent to approximately HK$1,457,656,000), will actually be settled in cash under three instalments. However, 90% of the Consideration, being RMB1,130,940,000 (equivalent to approximately HK$1,311,890,400) would be fully settled within six months from the date of the Equity Transfer Agreement upon the fulfillment of all conditions precedent for the Second Installment, including that of the approval by the Independent Shareholders in respect of the Equity Transfer Agreement being obtained. Accordingly, the liquidity of the Group is expected to improve.

Further, according to the unaudited pro forma consolidated statement of assets and liabilities of the Group as set out in Appendix III to the Circular, upon Completion and the exercise of the Put Option/Call Option, the cash and bank balances will remain unchanged assuming Completion and exercise of the Put Option/Call Option have taken place on 31 March, 2022. While there are uncertainties as to future potential obligation by the Company to pay the Purchaser pursuant to the Performance Guarantee and the Put Option, such obligations are not reasonably expected to incur at least after the first year of the Performance Guarantee Period.

As stated in the letter from the Board, the Purchaser is a municipal state-owned enterprise set up for the purpose of accelerating the reform of investment and financing system and promoting the integration process of the Special Zone. Since its establishment, the Purchaser has played a significant role in major infrastructure construction, industrial upgrade and expansion of room for development, and providing support for the industry cooperation.

Based on the 2022 annual report of the Group and our further discussions with the management of the Group, we understood that the affiliated group of the Purchaser and the Group have already entered into several long-term strategic development agreements even prior to the introduction of the state-owned enterprise as a substantial shareholder of the Group since May, 2022 including, among other things, the intelligent management services related strategic cooperation framework agreement dated 16 February, 2022, the energy management related strategic cooperation framework agreement regarding dated 23 February, 2022 and the urban renewal planning and design contract and strategic cooperation framework agreement dated 3 March, 2022.

Given the existing cooperative relationship already established between the affiliated group of the Purchaser and the Group as detailed above and that, pursuant to the Equity Transfer Agreement, the Purchaser has expressed an intention to engage the Target Company for property management service for properties developed and/or held by it or its subsidiaries, it is reasonable to expect synergy will be created and revenue hence profit growth as a result of enhanced brand image, new business opportunities and new capital which the Purchaser may introduce to the Target Group subsequent to Completion. The size of the Purchaser's contributions and new business opportunities to be offered to the Target Group in this aspect may also be benefited by the Purchaser's growth and as it seeks to increase its presence in Shenzhen and the Guangdong-Hong Kong-Macao Greater Bay Area and strives to become one of Shenzhen's "100 billion backbone state-owned groups" with high quality.

For the reasons stated above, we consider it would be reasonable to anticipate a potential increase of price-to-earnings ratio ("**P/E Ratio**") of the Target Group in the future, a ratio which factors in the expectation of a company's future potential growth. Such potential increase may in turn lead to a potentially higher valuation of the Target Group hence a gain in the value of the 50% equity interest that the Group continues to retain.

## 5. PRINCIPAL TERMS OF THE EQUITY TRANSFER AGREEMENT

Please refer to the paragraph headed "*(I) Equity Transfer Agreement*" set out in the letter from the Board for details of the principal terms of the Equity Transfer Agreement, namely, the Consideration, conditions precedent, Completion, Performance Guarantee and compensation for Performance Guarantee, and further refer to the paragraphs headed "*(II) Put Option*" and "*(III) Call Option*" set out in the letter from the Board for details and the terms of the Put Option and the Call Option.

***The basis of determining Consideration and our analysis***

As set out in the letter from the Board, the Consideration was determined based on arm's length negotiations between the Vendor and the Purchaser and is equal to (i) the Business Equity Value, which amounts to approximately RMB2,766,316,500 (equivalent to approximately HK$3,208,927,140), based on the Valuation as set out in Appendix IV to the Circular; minus (ii) the retained profits of the Target Group of approximately RMB253,113,981 (equivalent to approximately HK$293,612,218) as of 30 September, 2021 prepared to be distributed to the Vendor. In assessing the fairness and reasonableness of the Consideration, we have reviewed the Valuation conducted by the Valuer; and conducted comparable company analysis.

***(1) The Valuation***

The Valuation Report is set out in Appendix IV to the Circular. We are satisfied that the terms, including the scope of work, of engagement between the Company and the Valuer are appropriate. We have reviewed the Valuation Report, and have discussed with the Valuer the methodologies and assumptions used in arriving at the Business Equity Value. Details in respect of the assumptions and methodologies adopted by the Valuer are set out in the Valuation Report.

***The Valuer's background, qualifications and experiences***

We have interviewed the Valuer and conducted an enquiry into their qualifications and experiences. According to our interview and the information provided by the Valuer, we noted that the Valuer is an appraisal firm established since 2008 under the Shenzhen Administration for Market Regulation (深圳市市場監督管理局) with relevant experiences in undertaking appraisals for equity transactions in the PRC. Ms. Xiang Xuci and Ms. Peng Juan, the contributing valuers of the Valuation, are certified by China Appraisal Society (中國資產評估協會). Ms. Xiang Xuci and Ms. Peng Juan have approximately 15 years of experience and 4 years of experience, respectively, in financial and business valuation in the PRC. As such, we are of the view that Ms. Xiang Xuci and Ms. Peng Juan are qualified, experienced and competent in performing business valuations and providing a reliable opinion in respect of the Valuation.

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

***Valuation methodologies***

We have reviewed the valuation methodologies adopted in the Valuation Report dated 8 June, 2022, and further discussed with the Valuer on the methodologies adopted, mainly the income approach and the asset-based approach, in valuing the Target Company, as well as the relevant assumptions adopted in arriving at the conclusion of Business Equity Value.

According to the Valuation Report and upon the discussion with the Valuer, we noted that the valuation methodologies were adopted on the following basis, which the Valuer considered as the most appropriate:

(i) "**Income Approach**" — the valuation method that determines the value of a valuation target by capitalising or discounting its expected income; and

(ii) "**Asset-based Approach**" — the valuation method that determines the value of valuation target by appraising the value of various assets and liabilities on the balance sheet and that of identifiable assets and liabilities off-balance sheet based on the balance sheet of the valuation target as at the Valuation Benchmark Date.

In the appraisal regarding the Business Equity Value, the Valuer adopted both the Income Approach and the Asset-based Approach as (i) the Target Group has been operating for more than a decade with proven financial performance to project future earnings for the Income Approach; and (ii) the financial information as of the Valuation Benchmark Date of the Target Group is available for the Asset-based Approach.

Given that the Asset-based Approach is selected as one of the valuation methodologies, we noted that the Valuer conducted site visit to inspect and verify the type and amount of assets and liabilities between 17 January, 2022 and 21 January, 2022.

On the other hand, we noted that the Valuer considered that the market approach, which determines the appraised value by comparing the valuation target with comparable companies or comparable transaction cases, to be inappropriate for the valuation of the Target Company as (i) there are relatively few PRC listed property management companies and the discrepancies in the accounting and financial reporting standards with the Hong Kong listed companies may render unrepresentative comparisons; and (ii) the property right exchange market is not fully developed and thus information including transaction background and methods may not be sufficient and accurate for comparisons. We understood that the public information could be limited if only private comparable companies and transactions among private companies are considered. Despite the Valuer's decision to not consider the market approach, we have conducted our own independent search from the public market perspective to provide further analysis on the Consideration. Please refer to the section headed "*II. Basis of opinion and factors taken into consideration of entering into the Equity Transfer Agreement and the Property Management Transactions Framework Agreement – 5. Principal Terms of the Equity Transfer Agreement – The basis of determining Consideration and our analysis – (2) Our market assessment*" set out below for details of our market analysis.

The appraised values of the equity interest of the Target Group under the Income Approach and the Asset-based Approach are RMB2,766,316,500 and RMB303,290,000, respectively. The main reason for such significant difference is that the Asset-based Approach appraises the Target Group from the asset reacquisition perspective that is difficult to fully reflect the value of intangible assets such as goodwill, while the Income Approach takes into account the future profitability of the Target Group with the consideration of, among other things, the reasonable utilisation of each asset, human resources and management, and also comprehensively reflects the value of intangible assets. Furthermore, as advised by the management of the Company, both parties have the intention to develop the property management business of the Target Group upon the Completion. Based on the above analyses, the valuation conclusions of the Valuation Report adopted the valuation results under the Income Approach, i.e. the valuation result of the Business Equity Value is RMB2,766,316,500. Taking into consideration of (i) the factors and reasons considered by the Valuer as discussed above; and (ii) the continuation of the provision of property management services to the Group by the Target Group upon the Completion, we consider that the methodologies, basis and conclusions adopted by the Valuer to determine the Business Equity Value are appropriate.

***Our analysis on the Forecast and model being adopted under the Income Approach***

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 IV to the Circular. We noted that the discounted cash flow method is mainly derived from the discounted free cash flow to firm ("**FCFF**") to be generated by the Target Group at a discount rate, which is determined through (i) the capital asset pricing model ("**CAPM**") for estimated cost of equity; and (ii) weighted average cost of capital ("**WACC**") after deriving the cost of equity. We consider the FCFF is appropriate for the purpose of the Valuation as (i) the Target Company is appraised on a going concern basis; and (ii) the surplus of cash flow available to the Target Company is assumed to be debt free as the Target Group did not have any outstanding borrowings as of the Valuation Benchmark Date and intended to finance its business expansion with its internal resources. We have also reviewed the methodology used to determine the discount rate through CAPM and WACC, which took into account (i) systematic risk coefficient of equity (beta) with reference to the comparable companies listed in the PRC; (ii) risk free rate of return with reference to the 10-year PRC government bonds; (iii) market return with reference to PRC stock market indices; and (iv) the enterprise specific risks with reference to the specific attributes of the Target Company with reference to the scale, the operation management and the ability to resist risks.

We noted that the Valuation under the Income Approach was made based on the information provided by the Company and the Target Company.

As advised by the management of the Company, as the Group is principally engaged in property development business that sells properties to independent customers, therefore the Target Group provides majority of its property management services to independent customers of the Group which accounted for over 65% of the total revenue generated by the Target Group in the Forecast. The Target Group also manages relatively smaller amounts of properties used or leased by the Group, which contributes much less total saleable/leasable gross floor area ("**GFA**").

Set out below is the summary of projected GFA attributable to Independent Third Parties:

**Table 5 – GFA under the management of the Target Group attributable to Independent Third Parties**

| | For the year ending 31 March, | | | | |
|---|---|---|---|---|---|
| | **2023** | **2024** | **2025** | **2026** | **2027** |
| | *million sq. m.* | *million sq. m.* | *million sq. m.* | *million sq. m.* | *million sq. m.* |
| **Total saleable/leasable GFA** | **14.88** | **16.86** | **17.07** | **18.30** | **19.04** |
| Growth rate of saleable/leasable GFA | 1.29% | 13.31% | 1.25% | 7.21% | 4.04% |

*Source: The Company*

Based on our review of the discounted cash flow model prepared by the Valuer, we noted that the Target Group's revenue was forecasted to grow from RMB739.5 million for the year ending 31 March, 2023 to RMB925.6 million for the year ending 31 March, 2027, representing a compounded annual rate of return of 4.6% approximately. We further noted that the Valuer forecasted the Target Group's annual gross profit margin and net profit margin to range between 43.8% and 45.6%, and between 28.7% and 30.8%, respectively, for the five years ending 31 March, 2027. Accordingly, the net profit of the Target Group was forecasted to be approximately RMB227.7 million, RMB233.0 million, RMB249.8 million, and RMB255.8 million and RMB265.7 million for the five years ending 31 March, 2027.

As advised by the management of the Company, the Forecast and the Valuation did not include any potential revenue to be generated from the provision of property management services by the Target Group to the property projects to be introduced by the Purchaser and its subsidiaries.

To assess the appropriateness of the Forecast and the discounted cash flow model as a whole, we have discussed with the Valuer and reviewed the key components, among other things, (i) the Forecast as the underlying cash flow basis of the Income Approach of the Valuation as set out in Appendix IV to the Circular; (ii) the estimation of the items involved in the Valuation; and (iii) the components adopted in the calculations of the Business Equity Value. We have examined the Forecast and discounted cash flow model, including but not limited to the following key items:

(i) in respect of the projected revenue, it took into consideration, among other things, both revenues generated from the Group and external customers under property management and related services. We understood that the total saleable/leasable GFA is closely-related but does not fully correlate to the revenue level as the property management fee varies with, among other things, location, type, status of the properties. We examined the underlying project breakdowns accordingly and are of the view that the calculations are consistent with the terms stipulated in the Property Management Transactions Framework Agreement;

(ii) in respect of the cost of sales, it took into consideration, among other things, the historical records, estimated market and economic situations and anticipated use of services based on the project plans of the Group. We have examined the breakdown of the costs, among other things, staff costs, maintenance costs, water and electricity costs, and the corresponding estimation. We are of the view that the forecasts are reasonable and in line with the historical trend having taken into account the adjustments as detailed in the section headed "*II. Basis of opinion and factors taken into consideration of entering into of the Equity Transfer Agreement and the Property Management Transactions Framework Agreement – 3. Information on (A) the Group; and (B) the Vendor, the Purchaser and the Target Company – (B) the Vendor, the Purchaser and the Target Company – The Target Company*" as set out in this letter; and

(iii) in respect of the net profit and FCFF, which were arrived at based on among other things, the forecasts of revenue and costs of sales as stated above. We have also examined the relevant components in the calculation of the Business Equity Value, among other things, discount rate arrived at based on CAPM and WACC and the calculation of the present value derived from the discounted cash flow model, which are in line with the forecasts as a whole and consistent with the commonly adopted formulas.

Given that (i) the Forecast took into consideration of current project development of the Group, and market and national economic situations; (ii) the Forecast is in line with the historical trend with appropriate adjustments; and (iii) the discounted cash flow model is consistent with the commonly adopted approach, we are of the view that the Forecast and discounted cash flow model as a whole is reasonable.

*(2) Our market assessment*

To provide further analysis on the fairness and reasonableness of the Consideration, we conducted our independent search on a list of comparable companies based on market information as of 15 July, 2022 (after trading hours), which we considered to be appropriate, being the date of the Equity Transfer Agreement and the last trading day prior to the date of the Announcement.

The selection criteria include companies that (i) are listed on the Main Board of the Stock Exchange as of the date of the Equity Transfer Agreement; (ii) have similar businesses with the Target Group which are principally engaged in property management services and related value-added services with over 80% of their respective annual revenue generated from this segment in their respective latest financial years; (iii) majority of their revenue was generated in the PRC; (iv) incurred profit attributable to owners of the companies in their respective latest financial years; and (v) has a market capitalisation between HK$1 billion and HK$5 billion as at the date of the Equity Transfer Agreement, being of comparable size to the Target Company based on its implied valuation of 100% equity interest from the Consideration of approximately RMB2,513,200,000 (equivalent to approximately HK$2,915,312,000).

Based on the above criteria, we have identified an exhaustive list of 14 comparable companies (the "**Comparable Companies**"), and we consider that the Comparable Companies should serve as a representative set of samples for comparison purposes as the Comparable Companies are all principally engaged in the same sector as the Target Group does, have the majority of the revenue derived from the PRC, and comparable size with the implied valuation of the Target Company.

We have used the P/E Ratios of the Comparable Companies in the market assessment, as it is the one of the most commonly adopted valuation and useful benchmarks in comparing the Business Equity Value. We consider price-to-book ratio is not appropriate in this case as the Target Group, which is principally engaged in property management business, is an asset-light company. Also, we do not consider the price-to-sales ratio as it does not take into account the cost structure, which may not be comprehensive to reflect company-specific features across comparable companies. The table below illustrates the P/E Ratios of the Comparable Companies based on figures extracted from the latest published full year financial statements of the Comparable Companies and the closing share prices of the Comparable Companies on the date of the Equity Transfer Agreement to calculate their respective P/E Ratios.

**Table 6 – P/E Ratios of the Comparable Companies**

| | Company Name | Stock Code | Company Description | Market Capitalisation as of the date of the Equity Transfer Agreement (HK$ million) | P/E Ratio as of the date of the Equity Transfer Agreement (x) |
|---|---|---|---|---|---|
| 1. | Central China New Life Limited | 9983.HK | New Life is principally engaged in the provision of property management service and related value-added services. | 4,157 | 5.8 |
| 2. | KWG Living Group Holdings Limited | 3913.HK | KWG Living is principally engaged in provision of residential property management services and commercial property management and operational services. | 3,429 | 4.4 |
| 3. | Excellence Commercial Property & Facilities Management Group Limited | 6989.HK | Excellence is principally engaged in provision of property management services and related value-added services. | 4,125 | 7.0 |
| 4. | Jinmao Property Services Company Limited | 816.HK | Jinmao Property Services is principally engaged in the provision of property management service, which covers residential and a wide range of non-residential properties. | 3,861 | 18.7 |
| 5. | Sino-Ocean Service Holding Limited | 6677.HK | Sino-Ocean Service is principally engaged in the provision of property management related services, including property management service, non-owner value-added service and community value-added service. | 3,256 | 6.4 |

| | Company Name | Stock Code | Company Description | Market Capitalisation as of the date of the Equity Transfer Agreement (HK$ million) | P/E Ratio as of the date of the Equity Transfer Agreement (x) |
|---|---|---|---|---|---|
| 6. | SCE Intelligent Commercial Management Holdings Limited | 606.HK | SCE Intelligent is principally engaged in the provision of integrated property management services, including commercial property management and operation services and residential property management services. | 3,216 | 9.9 |
| 7. | Dexin Services Group Limited | 2215.HK | Dexin Services is principally engaged in the provision of property management services and value-added services to non-property owners and community. | 2,847 | 25.0 |
| 8. | Kangqiao Service Group Limited | 2205.HK | Kangqiao is principally engaged in the provision of comprehensive property management services, including value-added services non-owner and community. | 2,317 | 23.8 |
| 9. | Ronshine Service Holding Company Limited | 2207.HK | Ronshine is principally engaged in the provision of property management services for residential and non-residential properties, including value-added services to non-property owners and community. | 1,789 | 13.7 |
| 10. | Hevol Services Group Company Limited | 6093.HK | Hevol is principally engaged in the provision of property management services and community and developer related value-added services. | 2,156 | 21.6 |

| | Company Name | Stock Code | Company Description | Market Capitalisation as of the date of the Equity Transfer Agreement (HK$ million) | P/E Ratio as of the date of the Equity Transfer Agreement (x) |
|---|---|---|---|---|---|
| 11. | Times Neighborhood Holdings Limited | 9928.HK | Times Neighborhood is principally engaged in the provision of property management and related services, including value-added services non-owner and community. | 1,222 | 3.4 |
| 12. | Redsun Services Group Limited | 1971.HK | Redsun is principally engaged in the provision of property management services and value-added services to non-property owners and community. | 1,307 | 8.8 |
| 13. | Huafa Property Services Group Company Limited | 982.HK | Huafa is principally engaged in the provision of property management services and related value-added services and hotel advisory and exhibition services. | 1,167 | 6.2 |
| 14. | Landsea Green Life Service Company Limited | 1965.HK | Landsea is principally engaged in the provision of property management services, value-added services to non-owners and community. | 1,236 | 18.3 |
| | | | Maximum | 25.0 | |
| | | | Minimum | 3.4 | |
| | | | Average | 12.3 | |
| | | | Median | 9.3 | |
| | | | **Target Company (Based on consolidated profit for the year ended 31 March 2022) ("Unadjusted P/E Ratio")** | **28.0** *(Note)* | |
| | | | **Target Company (Based on 2022 Adjusted Profit) ("Adjusted P/E Ratio")** | **10.5** *(Note)* | |

*Sources:* *Latest annual report of each Comparable Company and website of the Stock Exchange*

*Note:* *The Unadjusted P/E Ratio and Adjusted P/E Ratio are calculated based on RMB2,513,200,000 (equivalent to approximately HK$2,915,312,000), being the implied valuation of 100% equity interest in the Target Company from the Consideration, divided by the Target Group's profit after tax for the year ended 31 March, 2022 of approximately RMB89,842,000 (equivalent to approximately HK$104,216,720) and 2022 Adjusted Profit of RMB240,490,000 (equivalent to approximately HK$278,968,400), respectively.*

*Please refer to "Table 4 – Illustrative Adjusted Financial Performance of the Target Group" set out in this letter for the details of the Target Group's profit after tax for the year ended 31 March, 2022 and 2022 Adjusted Profit.*

Based on the results above, the P/E Ratios of the Comparable Companies ranged from 3.4 times to 25.0 times with average and median of 12.3 times and 9.3 times as of the date of the Equity Transfer Agreement. The Unadjusted P/E Ratio of the Target Group is higher than the maximum P/E Ratio of the Comparable Companies.

It is also noted that the Adjusted P/E Ratio of the Target Group which is based on the 2022 Adjusted Profit (as further detailed in the sub-section headed "*II. Basis of opinion and factors taken into consideration of entering into of the Equity Transfer Agreement and the Property Management Transactions Framework Agreement – 3. Information on (A) the Group; and (B) the Vendor, the Purchaser and the Target Company – (B) the Vendor, the Purchaser and the Target Company – The Target Company*" above), (i) fell within the range of P/E Ratios of the Comparable Companies; and (ii) is higher than the median of the P/E Ratios of the Comparable Companies. Accordingly, we are of the view that the Consideration, from the standpoint of the P/E Ratio as implied by the Consideration when compared with the Comparable Companies, is fair and reasonable.

Having considered (i) the assumptions, methodologies and basis of the Valuation is reasonable; (ii) the Consideration is in line with the 50% of the Business Equity Value with the deduction of retained profits of the Target Group, which is prepared to be distributed to the Vendor; and (iii) the P/E Ratio of the Target Company derived from the Consideration is in line with the P/E Ratios of the Comparable Companies, we are of the view that the Consideration is fair and reasonable.

## 6. FURTHER TERMS OF THE EQUITY TRANSFER AGREEMENT

***Performance Guarantee***

Pursuant to the Equity Transfer Agreement, the Company and the Vendor have undertaken that the audited net profit (before or after excluding non-recurring items, whichever is lower, and after deducting any profit or loss from the provision of property management services by the Target Group to the property projects introduced by the Purchaser and its subsidiaries) of the Target Group will not be less than RMB228.0 million (equivalent to approximately HK$264.5 million), RMB240.0 million (equivalent to approximately HK$278.4 million) and RMB257.0 million (equivalent to approximately HK$298.1 million), for each year during the Performance Guarantee Period, respectively.

We also noted that the financial year of the Target Group in the Forecast ends on 31 March while the financial year of the Performance Guarantee Period ends on 31 December. Based on the discussion with the Company, we understood that was requested by the Purchaser due to the matching of its own financial reporting year end. Additionally, given that the Target Company operates in a business environment that is relatively stable and not subject to significant seasonality fluctuations, we are of the view that the three-month discrepancy between the Forecast and Performance Guarantee Period is not material, and the Forecast is appropriate to be used in our assessment of the terms of the Performance Guarantee.

As advised by the Company, the terms of the Performance Guarantee are commercially agreed and arrived at after arm's length negotiations between the Company and the Purchaser. The Company has assessed the terms and the amounts contemplated under the Performance Guarantee to be feasible and achievable having taken into account, among others, (i) the projected revenue generated from both the Group and independent customers under property management and related services; (ii) the Target Group's historical cost of sales, estimated market and economic situations and anticipated use of services based on the project plans of the Group; (iii) the net profit derived from the Forecast; and (iv) potential enhancement of the future performance of the Target Group due to the creation of synergy brought on by the Purchaser as a strategic investor, the profile of which has been discussed in the section headed "*II. Basis of opinion and factors taken into consideration of entering into of the Equity Transfer Agreement and the Property Management Transactions Framework Agreement – 4. Reasons for and benefits of the Equity Transfer Agreement and the Property Management Transactions*" in this letter, and thus the Directors believe that the Performance Guarantee is achievable.

We noted that the amounts of the Performance Guarantee of RMB228.0 million (equivalent to approximately HK$264.5 million), RMB240.0 million (equivalent to approximately HK$278.4 million) and RMB257.0 million (equivalent to approximately HK$298.1 million) for the year ending 31 December, 2022, 2023 and 2024, respectively, are significantly higher than the net profits of the Target Group for the years ended 31 March, 2021 and 2022. However, as further detailed in the section headed "*II. Basis of opinion and factors taken into consideration of entering into of the Equity Transfer Agreement and the Property Management Transactions Framework Agreement – 3. Information on (A) the Group; and (B) the Vendor, the Purchaser and the Target Company – (B) the Vendor, the Purchaser and the Target Company – The Target Company*", upon adjustments relating to the Vacant Properties Management Fees and Property Management Fee Concessions, the 2022 Adjusted Profit of the Target Group is higher than the Performance Guarantee by approximately (i) 5.48% for the year ending 31 December, 2022; and (ii) 0.20% for the year ending 31 December, 2023.

In addition, with reference to the forecasted net profits for the corresponding years as detailed in the section headed "*II. Basis of opinion and factors taken into consideration of entering into the Equity Transfer Agreement and the Property Management Transactions Framework Agreement – 5. Principal terms of the Equity Transfer Agreement – The basis of determining Consideration and our analysis – (1) The Valuation – Our analysis on the Forecast and model being adopted under the Income Approach*" set out in this letter, the forecasted net profit for each of the years ending 31 March, 2023, 2024 and 2025 are approximately RMB227.7 million, RMB233.0 million and RMB249.8 million, which are slightly lower than each of the corresponding guaranteed net profits by approximately 0.13%, 3.00% and 2.88%, respectively. Accordingly, we have discussed with the management of the Company and understood that the Directors considered such differences as insignificant. Furthermore, they are of the view that the future performance of the Target Group may further be enhanced due to the creation of synergy brought on by the Purchaser as a strategic investor, as further detailed in the section headed "*II. Basis of opinion and factors taken into consideration of entering into of the Equity Transfer Agreement and the Property Management Transactions Framework Agreement – 4. Reasons and benefits of the Equity Transfer Agreement and the Property Management Transactions*", which has not been factored in the forecasted net profits in the Valuation, as it was prepared on an *as-is* basis as advised by the management of the Company. As such, we consider the amounts of the Performance Guarantee as reasonably prudent in such extent.

***Performance Guarantee shortfall compensation***

Pursuant to the Equity Transfer Agreement, if (i) the audited net profit (before or after excluding non-recurring items, whichever is lower, and after deducting any profit or loss from the provision of property management services by the Target Group to the property projects introduced by the Purchaser and its subsidiaries) of the Target Group for any year in the Performance Guarantee Period falls below 90% of the Performance Guarantee for that year (whereby such threshold allows the Vendor and the Company a reasonable buffer on the net profit to be achieved by the Target Group and thereby the chances of triggering the Performance Guarantee); or (ii) the aggregate audited net profit of the Target Group defined in above during the Performance Guarantee Period falls below the aggregate guaranteed net profit during that same period, the Company and the Vendor shall pay to the Purchaser compensation in cash (the "**Performance Guarantee Shortfall Compensation**") as calculated based on the following formula:

(A – B) / C x D – E

Where:

A = aggregate guaranteed net profit for the portion of the Performance Guarantee Period ending on the last day of the year;

B = aggregate actual audited net profit (before or after excluding non-recurring items, whichever is lower, and after deducting any profits or losses from the provision of property management services by the Target Group to the property projects introduced by the Purchaser and its subsidiaries) for the portion of the Performance Guarantee Period ending on the last day of the year;

C = aggregate guaranteed net profit during the Performance Guarantee Period (i.e., RMB725.0 million (equivalent to approximately HK$841.0 million));

D = the Consideration received; and

E = aggregate compensation for Performance Guarantee paid as at the end of the year.

In the event that the aggregate actual audited net profit is higher than the aggregate guaranteed net profit during the Performance Guarantee Period, the Vendor and the Company may not request for refund from the Purchaser of any compensation paid by the Vendor or the Company to the Purchaser during the Performance Guarantee Period.

We have discussed with the Company and understood that the above formula (including the 90% threshold to allow for the buffer for trigger), was determined after arm's length negotiations between the Company and the Purchaser.

To assess the terms of the Performance Guarantee Shortfall Compensation, we have performed searches on comparable transactions in respect of the performance guarantee aspect of the Disposal based on market information as of 15 July, 2022 (after trading hours), which we consider to be appropriate as this was the date of the Equity Transfer Agreement and the last trading day prior to the date of the Announcement. The selection criteria include transactions conducted by (i) the Comparable Companies as identified under "*II. Basis of opinion and factors taken into consideration of entering into the Equity Transfer Agreement and the Property Management Transactions Framework Agreement – 5. Principal Terms of the Equity Transfer Agreement – The basis of determining Consideration and our analysis – (2) Our market assessment*" are listed on the Main Board of the Stock Exchange as of the date of Equity Transfer Agreement; (ii) which has publicly announced transactions of equity interests of property management services companies with a profit guarantee feature; and (iii) in the past two years. 9 transactions have been identified on an exhaustive basis for illustrative purpose only ("**Illustrative PG Transactions**").

We noted that a profit guarantee feature is not uncommon and the formula used to determine the compensation of any shortfall to the profit guarantee amount often entail certain components, not dissimilar to the formula used in the Performance Guarantee, such as (i) the shortfall amount for the relevant year or the aggregate shortfall amount incurred throughout the performance guarantee period; (ii) the length of the performance guarantee period; (iii) the consideration of the transaction, and/or (iv) the P/E ratio implied by the valuation/consideration at the time of the transaction and the historical profit, or, relevant guaranteed profit.

However, due to differences in the overall structure and terms of the Illustrative PG Transactions, such as (i) the guaranteed amount; (ii) the type(s) of guarantee undertaken by the seller(s), (iii) the duration of the guarantee, and (iv) any triggering threshold or the settlement timing of any compensation, etc., we noted that there is no standardised formula or calculation basis to determine the compensation of any shortfall to a performance guarantee by the seller(s), as such formula is a distinct product of commercial terms arrived at after arms' length negotiations between both parties on a case-by-case basis.

Shareholders should also note that the businesses, operations and prospects of the Target Company are not identical to those transacted in the Illustrative PG Transactions above and we have not conducted any in-depth investigation into their respective businesses and operations. As such, we are of the view the Illustrative PG Transactions should only be considered for illustrative purpose to provide a general reference of the acceptable market practice in performance guarantee arrangements involved in property management company transactions.

Set out in Table 7 below are key terms related to performance guarantee in the Illustrative PG Transactions based on publicly available information disclosed in the relevant announcement:

**Table 7 – Performance Guarantee related-terms in comparable equity interest transactions**

| Company Name (Stock Code) | Date | Description of Transaction | Type of Guarantee(s) | Guaranteed Period | Summary of the calculation for the profit guarantee compensation | Buffer Allowed – Triggering Threshold |
|---|---|---|---|---|---|---|
| KWG Living Group Holdings Limited (3913.HK) | 10 January, 2022 | Acquisition of 50% equity interests in a target company engaged in urban and rural environmental sanitation service. | Revenue guarantee, profit guarantee and revenue collection rate guarantee | 3 years | Average shortfall to the guaranteed net profit amount adjusted by (i) P/E ratio at the time of the transaction and (ii) the purchaser's equity interest in the target company after completion of the transaction. | Yes – Any shortfall to the guaranteed profit of a particular year would not have to be settled at the end of that relevant year, as the triggering threshold is based on the shortfall to the aggregate guaranteed net profit amount upon expiry of the guaranteed period. |

| Company Name (Stock Code) | Date | Description of Transaction | Type of Guarantee(s) | Guaranteed Period | Summary of the calculation for the profit guarantee compensation | Buffer Allowed – Triggering Threshold |
|---|---|---|---|---|---|---|
| Landsea Green Life Service Company Limited (1965.HK) | 30 December, 2021 | Acquisition of 100% equity interests in a target company principally engaged in the provision of property management services to residential and non-residential properties, community value-added services to property owners and residents of its managed residential properties and value-added services to non-property owners. | Revenue guarantee and profit guarantee | 3 years | Aggregate shortfall to the guaranteed net profit amount adjusted by (i) ratio of the consideration to the aggregate guaranteed net profit and (ii) 4% premium. | Yes – Any shortfall to the guaranteed profit of a particular year would not have to be settled at the end of that relevant year, as the triggering threshold is based on the shortfall to the aggregate guaranteed net profit amount upon expiry of the guaranteed period. |
| KWG Living Group Holdings Limited (3913.HK) | 29 June, 2021 | Acquisition of 80% equity interests in a target company established in the PRC and principally engaged in property management. | Revenue guarantee, profit guarantee and annual collection rate guarantee | 3 years | Average shortfall to the guaranteed net profit amount adjusted by (i) P/E ratio at the time of the transaction and (ii) the purchaser's equity interest in the target company after completion of the transaction. | Yes – Any shortfall to the guaranteed profit of a particular year would not have to be settled at the end of that relevant year, as the triggering threshold is based on the shortfall to the aggregate guaranteed net profit amount upon expiry of the guaranteed period. |

| Company Name (Stock Code) | Date | Description of Transaction | Type of Guarantee(s) | Guaranteed Period | Summary of the calculation for the profit guarantee compensation | Buffer Allowed – Triggering Threshold |
|---|---|---|---|---|---|---|
| Times Neighbourhood Holdings Limited (9928.HK) | 16 April, 2021 | Acquisition of 31% equity interests in a company principally engaged in property management services. | Profit guarantee | 3 years | Shortfall to the guaranteed net profit amount of each of the relevant year adjusted by the purchaser's equity interest in the target company after completion of the transaction. | No – Any shortfall to the guaranteed net profit amount for each year during the guaranteed period would have to be settled at the end of that relevant year. |
| Redsun Services Group Limited (1971.HK) | 20 April, 2021 | Acquisition of 80% equity interests in two target companies provide services covering, among others, the full entrustment of property management services and property project planning services. | Revenue guarantee and profit guarantee | 3 years | Shortfall to the guaranteed net profit amount of each relevant year adjusted by (i) 15% premium of the transaction P/E and (ii) the purchaser's equity interest in the target company after completion of the transaction. | No – Any shortfall to the guaranteed net profit amount for each year during the guaranteed period would have to be settled at the end of that relevant year. |
| KWG Living Group Holdings Limited (3913.HK) | 17 January, 2021 | Acquisition of 80% equity interests in a target company principally engaged in property management. | Revenue guarantee and profit guarantee | 2 years | Average shortfall to the guaranteed net profit amount adjusted by (i) P/E ratio at the time of the transaction and (ii) the purchaser's equity interest in the target company after completion of the transaction. | Yes – Any shortfall to the guaranteed profit of a particular year would not have to be settled at the end of that relevant year, as the triggering threshold is based on the shortfall to the aggregate guaranteed net profit amount upon expiry of the guaranteed period. |

| Company Name (Stock Code) | Date | Description of Transaction | Type of Guarantee(s) | Guaranteed Period | Summary of the calculation for the profit guarantee compensation | Buffer Allowed – Triggering Threshold |
|---|---|---|---|---|---|---|
| Redsun Services Group Limited (1971.HK) | 31 December, 2020 | Acquisition of 80% equity interests in a target company principally engaged in the provision of property management services in Hubei Province in the PRC. | Revenue guarantee and profit guarantee | 3 years | Shortfall to the guaranteed net profit amount of each relevant year adjusted by (i) the implied P/E ratio based on valuation of the target company at the time of the transaction and guaranteed profit for the relevant year, and (ii) the purchaser's equity interest in the target company after completion of the transaction. | No – Any shortfall to the guaranteed net profit amount for each year during the guaranteed period would have to be settled at the end of that relevant year. |
| Times Neighbourhood Holdings Limited (9928.HK) | 11 December, 2020 | Acquisition of 49% equity interests in a target company principally engaged in property management. | Profit guarantee | 3 years | Shortfall to the guaranteed net profit amount of each relevant year adjusted by the purchaser's equity interest in the target company after completion of the transaction. | No – Any shortfall to the guaranteed net profit amount for each year during the guaranteed period would have to be settled at the end of that relevant year. |

| Company Name (Stock Code) | Date | Description of Transaction | Type of Guarantee(s) | Guaranteed Period | Summary of the calculation for the profit guarantee compensation | Buffer Allowed – Triggering Threshold |
|---|---|---|---|---|---|---|
| KWG Living Group Holdings Limited (3913.HK) | 7 December, 2020 | Acquisition of 80% equity interests in a target company with focuses on properties of government agency, and radiates to public properties, school properties and other types through deep cultivation of channels and management model replication. | Revenue guarantee and profit guarantee | 3 years | (A) For the first year, the shortfall to the guaranteed net profit amount, and; (B) For the third year, average shortfall to the guaranteed net profit amount of year two and year three adjusted by:<br><br>(i) the P/E ratio at the time of the transaction and (ii) the purchaser's equity interest in the target company after completion of the transaction. | No – (i) Any shortfall to the guaranteed profit amount of the first year of the guaranteed period would have to be settled at the end of that year; and (ii) any shortfall to the average guaranteed net profit amount of the second year will not have to be settled at the end of that year, as the triggering threshold is based on the shortfall to the aggregate guaranteed net profit amount upon expiry of the third year. |
| The Company | | The Disposal | Profit guarantee | 3 years | Aggregate shortfall to the guaranteed net profit amount (i) adjusted by ratio of consideration paid to aggregate guaranteed net profit amount; minus (ii) aggregate compensation already paid. | Yes – Triggering threshold is (i) 90% of the guaranteed net profit amount for the relevant year, in which case that shortfall will have to be settled at the end of that year or (ii) any shortfall to the aggregate guaranteed net profit amount through the guaranteed period (i.e., upon the expiry of the Performance Guarantee Period). |

*Source: the relevant announcements of the Illustrative PG Transactions and the website of the Stock Exchange*

From the table above, we noted that all of the transactions involved a compensation by the party providing the performance guarantee proportional to the shortfall of such performance guarantee as in our case. The respective performance guarantees identified in the above transactions entail undertaking by the seller(s) to guarantee certain level of profit as well as revenue and/or collection rate, whereas the Performance Guarantee requires only the guarantee of profits. The Performance Guarantee Period of 3 years is also within range of the period of performance guarantees of 2 to 3 years in the Illustrative PG Transactions. 5 out of the 9 Illustrative PG Transactions did not offer the target company a buffer for any shortfall to the guaranteed net profit amount for each year during the performance guarantee period, whereas a 90% threshold is allowed under the Performance Guarantee to assess whether the Company will be required to settle any Performance Guarantee Shortfall Compensation at the end of that year, which the Company considers as reasonable and is beneficial to the Company. As seen from the summary of the calculation for the profit guarantee compensation in the Illustrative PG Transactions above, it is not uncommon for the vendor to compensate the purchaser at a multiple of the shortfall to the profit guarantee. However, such multiple ought not be compared directly as the formula for any compensation should be considered in conjunction with the overall structure and terms of the respective Illustrative PG Transactions including but not limited to: (i) the implied valuation of the consideration of the transaction; (ii) the magnitude of the profit guarantee; (iii) the duration of the guarantee period; (iv) whether any shortfall amounts are to be settled by the end of each relevant year or upon expiry of the entire performance guarantee period; and (v) any premium applied to the transaction P/E ratio or the ratio of the consideration to the performance guarantee amounts, all of which represent terms negotiated on a case-by-case basis. Based on the above analyses, we are of the view that the terms of Performance Guarantee are acceptable.

***Call Option***

Pursuant to the Equity Transfer Agreement, the Purchaser granted to the Company and the Vendor the Call Option, which entitles the Company and the Vendor to purchase, within three years after Completion, all or part of the equity interests held by the Purchaser in the Target Company at their discretion if Call Option Triggering Event occurs, that is any compensation to be provided by the Vendor to the Purchaser under the Performance Guarantee reaches or exceeds 50% of the Consideration, at the Exercise Price that shall be calculated based on the following formula (the "**Option Exercise Price Formula**") and be settled in cash:

A + B – C

Where:

A = Equity Interest to be Repurchased, which is the proportionate amount of Consideration corresponding to the percentage of equity interest held by the Purchaser in the Target Company which are to be repurchased by the Company and/or the Vendor;

B = (i) A x 8% x the number of days from the date of Consideration paid by the Purchaser to the Vendor to the Exercise Price received by the Purchaser/360; or (ii) the proportionate accumulated audited net profits of the Target Group (for the period from the date of the First Instalment paid by the Purchaser to the Vendor to the date of the Exercise Price received by the Purchaser) corresponding to the Equity Interest to be Repurchased, whichever is higher; and

C = accumulated cash dividend received by the Purchaser during the period when the Purchaser is the holder of the Equity Interest to be Repurchased, if any.

In the event that the Vendor or the Company exercises the Call Option to repurchase all or part of the equity interests held by the Purchaser in the Target Company, the amount of compensation paid by the Vendor or the Company to the Purchaser pursuant to the Performance Guarantee shall be deducted from the Exercise Price.

Based on our review of the Option Exercise Price Formula, the Forecast, and the Valuation Report, and upon discussion with the management of the Company, we understood that the Option Exercise Price Formula is a reflection of both the Group and the Purchaser's expectation of the Target Company's ability to grow and generate a minimum return of 8% per annum, which is in line with the return generated by the Performance Guarantee should they be met as illustrated in the table below.

Table 8 below illustrates the annual return to the Purchaser for each of the 3 years ending 31 December, 2022, 2023 and 2024 (the "**Annual Return to the Purchaser**") assuming that the actual net profit of the Target Group is equal to the Performance Guarantee and which would be distributed in full to its shareholders. On this basis, we have calculated the annual return to the Purchaser (the "**Illustrative Return**"):

**Table 8 – Illustrative Return Based on Performance Guarantee to Consideration**

| *RMB* | **Annual Return to the Purchaser** | **Consideration** | **Illustrative Return** |
|---|---|---|---|
| *For the year ending 31 December,* | | | |
| 2022 | 114,000,000 | | 9.07% |
| 2023 | 120,000,000 | 1,256,600,000 | 9.55% |
| 2024 | 128,500,000 | | 10.23% |
| | | **Average** | **9.62%** |

As illustrated in the table above, the Purchaser would receive an Illustrative Return of an average of 9.62% per year over the three years, which is slightly higher than the minimum return of 8% under the Option Exercise Price Formula. In addition, according to the Group's 2022 annual report, the weighted average financing costs for the year ended 31 March, 2022 was approximately 9.0%, which was the return that debt investors required taking into account the risk level of the Group. We noted that this is also closely in line with the 8% minimum return with what the Purchaser would receive for investing in the Target Group.

Despite the Company being subject to the Performance Guarantee Shortfall Compensation, the Call Option serves to act as a cap on the maximum amount the Company will compensate the Purchaser to be 50% of the proceeds of the Disposal as a result of any shortfall to the Performance Guarantee. In such an event, the amount of any compensation and dividends already paid to the Purchaser pursuant to the Performance Guarantee shall be deducted from the Exercise Price and the Company will be allowed to reverse the Disposal by acquiring the equity interest of the Target from the Purchaser at a maximum amount of the sum of the Consideration plus additional 8% per annum, which is lower than its current weighted average cost of financing.

To illustrate the effect of the Call Option on the Company, we have set out below the compensation amount, dividend payable and Exercise Price of the Call Option based on the following assumptions for illustrative purpose only:

(i) the net profit of each year in the Performance Guarantee Period is equal to 50% of the corresponding Performance Guarantee;

(ii) the Equity Interest to be Repurchased by the Company will be 50% of the Target Company;

(iii) the accumulated shortfall compensation paid to the Purchaser by the end of the Performance Guarantee Period is 50% of the Consideration; and

(iv) distributable dividend of each year in the Performance Guarantee Period is equal to 50% of the corresponding net profit and 50% of which will be distributed to the Purchaser.

**Table 9 – Illustrative Exercise Price of Call Option**

| *RMB million* | **Assumed achieved profits** | **Accumulated compensation for the shortfall on the Performance Guarantee** *(Note)* | **(A) Value of the Equity Interest to be Repurchased** | **(B) Guaranteed minimum Return (8%)** *(Note)* | **(C) Accumulated cash dividend received by the Purchaser** |
|---|---|---|---|---|---|
| *For the year ending 31 December,* | | | | | |
| 2022 | 114.0 | 197.6 | | 25.1 | 28.5 |
| 2023 | 120.0 | 227.8 | 1,256.6 | 100.5 | 30.0 |
| 2024 | 128.5 | 222.7 | | 100.5 | 32.1 |
| **Total** | | **648.1** | | **226.1** | **90.6** |

*Note:* *For simplicity in this illustrative example, calculations of the accumulated compensation for shortfall to the Performance Guarantee and guaranteed minimum return are based on the assumptions that (i) the Completion will take place on 30 September, 2022; and (ii) 100% of the Consideration will be settled on the date of Completion.*

Based on the above assumptions, the Exercise Price would be RMB1,392.1 million (equivalent to approximately HK$1,614.8 million), being ((A)+(B)-(C)) in the table above.

Notwithstanding the above, in this illustrative example, the accumulated compensation paid pursuant to the Performance Guarantee of RMB648.1 million (equivalent to approximately HK$751.8 million), shall be deducted from the Exercise Price. As such, the Company will be subject to a payment of RMB744.0 million (equivalent to approximately HK$863.0 million) upon the exercise of the Call Option.

***Put Option***

Similar to the Call Option above, the Purchaser has the right to sell, within three years after Completion, any equity interests held by it in the Target Company to the Company and/or the Vendor at the Exercise Price calculated based on the same Option Exercise Price Formula detailed above, upon the occurrence of the Put Option Triggering Events, including fraudulent activities and various breaches of representations and warranties as set out in the Equity Transfer Agreement, and most notably, where (i) the Target Company failing to meet 70% of the Performance Guarantee for two consecutive years; (ii) any compensation to be provided by the Vendor to the Purchaser under the Performance Guarantee reaching or exceeding 50% of the Consideration; or (iii) having reasonably assessed the performance of the Target Company, after the end of the Performance Guarantee Period, the Purchaser considers the purchase of 50% equity interest in the Target Company has not achieved its strategic target. Please refer to the section headed "*(II) Put Option*" set out in the letter from the Board for further details of the Put Option Triggering Events.

Notwithstanding the various Put Option Triggering Events, we noted that the Purchaser will have the ability to exercise the Put Option regardless of the performance of Target Company, i.e., where the Purchaser considers the Target Company has not achieved its strategic target at the end of the Performance Guarantee Period. The exercise price of the Put Option is calculated based on the same formula as that the Call Option is subject to as detailed above. In analysing this arrangement, we have considered the following scenarios:

(i) where the Target Company has underperformed and not been able to meet the respective Performance Guarantee in any of the three year periods and the Purchaser exercises the Put Option at an exercise price that is the Consideration plus 8% return per annum minus any dividends paid to the Purchaser. In this scenario, the Put Option serves to act as a protection for the Purchaser for an underperforming company, e.g., as illustrated above, that fails to achieve a yearly return of approximately 9.62% had the Performance Guarantee been satisfied, and the Company shall buy back the Sale Interest for a total of the Consideration plus a rate of return that is, as discussed above, below the Company's latest weighted average financing cost of 9.0% (minus any dividends paid to the Purchaser);

(ii) where the Target Company has been performing precisely in line with the Performance Guarantee but the Purchaser considers the purchase of 50% equity interest in the Target Company has not achieved its strategic target within 90 days of the issue of the audit report at the end of the Performance Guarantee Period and exercises the Put Option, the Company shall buy back the Purchaser's equity interests in the Target Company for a total of the Consideration plus a rate of return that is, as discussed above, below its latest weighted average financing cost (minus any dividends paid to the Purchaser); and

(iii) where the Target Company has been performing better than the Performance Guarantee but the Purchaser considers the purchase of 50% equity interest in the Target Company has not achieved its strategic target within 90 days of the issue of the audit report at the end of the Performance Guarantee Period and exercises the Put Option, the Company shall have the opportunity to buy back equity interests, for a total of the Consideration plus a rate of return proportionate to its ability to generate profits during the Performance Guarantee Period (minus dividends already distributed to the Purchaser). In this scenario, the Put Option allows the Purchaser to realise the remaining of the Target Company's distributable net profit that it is entitled as 50% shareholding of the Target Company. Such repurchase of the Sale Interest may also provide an opportunity for the Company to fully benefit from the potential unexpected upside of the Target Company in the future.

***Our View on the further terms of the Equity Transfer Agreement***

Given that the Performance Guarantee closely reciprocates the projected net profit figures for the 3 years ending 31 March, 2023, 2024 and 2025, respectively, as specified in the Forecast, which was in turn adopted in the Valuation Report as further discussed in the section headed "*II. Basis of opinion and factors taken into consideration of entering into the Equity Transfer Agreement and the Property Management Transactions Framework Agreement – 5. Principal terms of the Equity Transfer Agreement – The basis of determining Consideration and our analysis – (1) The Valuation*" set out in this letter, we concur with the view of the management of the Company that the aggregate Performance Guarantee of RMB725.0 million, being the total of Performance Guarantee of RMB228.0 million, RMB240.0 million and RMB257.0 million, for the years ending 31 December 2022, 2023 and 2024, respectively, is realistic and achievable for the Target Group, and hence we consider the provision of Performance Guarantee is justifiable.

In addition, given (i) the calculation mechanism of Performance Guarantee Shortfall Compensation is based on the ratio of the Consideration to the aggregate guaranteed net profit in the Performance Guarantee Period, which is in line with market practice; (ii) the Call Option will serve as a maximum compensation protection to the Company against the Performance Guarantee Shortfall Compensation; (iii) the Put Option is a commercially agreed term arrived at after arm's length negotiations between the Company and the Purchaser, which provides the Purchaser a minimum return that is below the Illustrative Return calculated based on the Performance Guarantee; and (iv) the Exercise Price of the Call Option and the Exercise Price of the Put Option are calculated based on the same formula, we consider the Performance Guarantee, the agreed calculation mechanism of Performance Guarantee Shortfall Compensation, the Call Option and the Put Option as a whole to be fair and acceptable.

## 7. POSSIBLE FINANCIAL EFFECTS OF THE GROUP UPON COMPLETION

The following analysis is based on the audited financial statements of the Company for the financial year ended 31 March, 2022 as extracted from the Company's corresponding annual report, which were prepared in accordance with Hong Kong Financial Reporting Standards and the unaudited pro forma consolidated statements of assets and liabilities of the Group as set out in Appendix III to the Circular. Such financial statements were prepared in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 issued by the Hong Kong Institute of Certified Public Accountants. Upon Completion, the Target Company will cease to be a subsidiary of the Company.

Shareholders should note that the analyses below are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon Completion.

***Earnings***

The Group recorded net profit attributable to Shareholders of approximately HK$760.2 million for the year ended 31 March, 2022. Based on the Consideration, the Group expects to recognise an unaudited estimated pre-tax disposal gain of approximately HK$2.7 billion before costs and expenses from the Disposal under the Hong Kong Financial Reporting Standards. The actual gain on the Disposal to be recorded by the Group is subject to audit and may be different from the estimated amount.

***Net assets***

The net assets value of the Group was approximately HK$45,090.0 million and the consolidated net asset value per Share was approximately HK$5.57 as of 31 March, 2022.

According to the unaudited pro forma consolidated assets and liabilities of the Group, both of the net assets value of the Group upon Completion and after exercise of the Put Option/Call Option would have been approximately HK$47,544.7 million. Accordingly, the net asset value per Share would have increased to approximately HK$5.88.

***Gearing and working capital***

The gearing ratio of the Group was approximately 69.4%, being net debt of approximately HK$31,294.3 million divided by total equity of approximately HK$45,090.0 million as of 31 March, 2022.

According to the unaudited pro forma consolidated assets and liabilities of the Group, (i) the gearing ratio after Completion would have decreased to approximately 63.11%, being net debt of approximately HK$30,005.6 million divided by total equity of approximately HK$47,544.7 million as of 31 March, 2022; and (ii) gearing ratio after Completion and exercise of the Put Option/Call Option would have decreased to approximately 65.82%, being net debt of approximately HK$31,294.3 million divided by total equity of approximately HK$47,544.7 million.

The Group intends to use the net proceeds from the Disposal to repay existing indebtedness (including principal and/or interests accrued therefrom).

## IV. CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE PROPERTY MANAGEMENT TRANSACTIONS

### 1. PRINCIPAL TERMS OF PROPERTY MANAGEMENT TRANSACTIONS FRAMEWORK AGREEMENT

Pursuant to the Equity Transfer Agreement, upon Completion, the Company shall (i) engage the Target Group to manage all present and future property projects owned by the Group; and (ii) use its best endeavours to procure the engagement of the Target Group in respect of the property management of present and future property projects developed by the Group. Accordingly, the Company and the Target Company have entered into the Property Management Transactions Framework Agreement on 15 July, 2022 for the provision of property management services by the Target Group for the period from the date of Completion to 31 March, 2025. Both parties will enter into Specific Agreements which will set out the specific terms and conditions according to the principles provided in the Property Management Transactions Framework Agreement.

The Company has developed a long and close working relationship with the Target Company as it has been providing property management services to the Group since 2004. We understood that the Property Management Transactions Framework Agreement represents the formalisation of arrangements that have persisted between the Target Company and the Company for at least the last decade and that the track record of the Target Company for the last decade largely reflects the effect of Property Management Transactions Framework Agreement had they been formalised during this period. As advised by the management of the Company, given such long and close relationship with the Target Company, the Target Company is familiar with the requirements and expected deliverables of the Company, which enables the Company to enhance efficiency, build mutual trust and continue to have access to quality property management services provided by the Target Company. Moreover, the Target Company has extensive experiences in providing property management services for commercial and logistics parks and trade centres, which are rare competitive strengths in the property management industry.

The principal terms and conditions of the Property Management Transactions Framework Agreement are summarised below. Please refer to the section headed "*(IV) Property Management Transactions*" set out in the letter from the Board for the further details of the key terms.

***Subject matter***

Pursuant to the Property Management Transactions Framework Agreement, property management services shall be provided by the Target Group to the Group, including security, cleaning service, customer service, maintenance of order, parking management, equipment and facility maintenance, pre-delivery consultancy services, sales centre coordination, gardening and road maintenance and polishing services.

***Duration***

Effective from the date of Completion to 31 March 2025 (both days inclusive), subject to termination as agreed by both parties.

***Pricing basis***

As stated in the section headed "*(IV) PROPERTY MANAGEMENT TRANSACTIONS*" in the letter from the Board, the property management fee payable by the Group to the Target Group under the Property Management Transactions Framework Agreement will be determined principally based on the type of services which are further stated in the following sub-sections, after arm's length negotiation, on normal commercial terms and no less favourable than those agreed with Independent Third Parties for comparable transactions.

***(1) Cost-plus pricing basis***

For ancillary services such as advertising, public venue and various management services, park lighting, park road, professional fire crew, the Target Group will charge based on a gross profit margin of around 10% above cost.

The Company has confirmed that the Target Group has been the sole ancillary services provider to the Group for more than a decade. We have obtained and reviewed 10 historical contracts in respect of ancillary services provided by the Target Group to the Group (the "**Historical Ancillary Services Contracts**") for provision of services in past three years from the date of the Property Management Services Framework Agreement (the "**Review Period**"). We noted that both the Group and the Target Group have not entered any contracts for ancillary services with similar scope under the Property Management Transactions with independent third parties during the Review Period. Given that (i) all 10 Historical Ancillary Services Contracts in the Review Period have been reviewed; (ii) both the Group and the Target Group did not provide/obtain such services to/from independent third parties during the Review Period; and (iii) the Review Period is appropriate and sufficient for our assessment, as the length of the Review Period matches that of the Property Management Transactions Framework Agreement, the review of Historical Ancillary Services Contracts is considered to be appropriate, fair and representative. From the Historical Ancillary Services Contracts, we noted that the service scope, pricing policy and the margin applied to the cost are the same as the relevant terms stipulated in the Property Management Transactions Framework Agreement.

We understood that the management of the Company has made reference to the market report issued by Savills Real Estate Valuation (Guangzhou) Limited ("**Savills**") dated 30 June, 2022 (the "**Market Report**") when determining the relevant pricing policy. Therefore, we have reviewed the Market Report in respect of the fairness of terms under the Property Management Transactions. Given the reputation of Savills as an established consultant and valuer in the real estate industry, the Market Report is considered to be a reliable reference. The Market Report assessed each of the major four types of services covered by the ancillary services, including professional fire crew, park lighting, park road and public venue and various management services, by making reference to the relevant regulations and industry norms. The Market Report concluded that the margin of around 10% above cost is fair to adopt in each of the four types of services.

To further assess the fairness and reasonableness of the pricing basis and the margin set in the relevant pricing policy, we have conducted our own independent search on the pricing basis and profit margin of the ancillary services by comparing the relevant pricing basis and gross profit margin set under the Property Management Transactions Framework Agreement with comparable service providers. The selection of comparable service providers is based on the same set of criteria adopted in our market assessment on the Valuation. Please refer to the section headed "*II. Basis of opinion and factors taken into consideration of entering into the Equity Transfer Agreement and the Property Management Transactions Framework Agreement – 5. Principal Terms of the Equity Transfer Agreement – The basis of determining Consideration and our analysis – (2) Our market assessment*" set out in this letter for the details of the selection of the Comparable Companies.

As stated in the Circular, the ancillary services under the Property Management Transactions include advertising, public venue and various management services, park lighting, park road, professional fire crew. We further discussed with the management of the Company and noted that such ancillary services are mainly provided to the property developers (which are normally referred to as "non-property owners") for their pre-sale properties. In other words, such ancillary services are mainly, among other things, under maintenance and management of common areas, pre-delivery consultancy services and sales office co-ordination. Pursuant to the nature of ancillary services under the Property Management Transactions, we have reviewed the 14 Comparable Companies identified in the section headed "*II. Basis of opinion and factors taken into consideration of entering into the Equity Transfer Agreement and the Property Management Transactions Framework Agreement – 5. Principal Terms of the Equity Transfer Agreement – The basis of determining Consideration and our analysis – (2) Our market assessment*". Among which, there are 10 Comparable Companies that (i) provide similar ancillary services; and (ii) set out respective individual gross profit margins on the segment of ancillary services in their respective latest annual reports. Accordingly, given that (i) these 10 Comparable Companies were selected based on the exhaustive list of the 14 Comparable Companies as stated in the prior section which is considered to be a representative set of samples; and (ii) these 10 Comparable Companies provide similar scope of ancillary services under the Property Management Transactions, with stated gross profit margins of the 10 Comparable Companies' ancillary services to non-property owners as reference, we consider these 10 Comparable Companies serve as a representative set of samples for our assessment of the pricing basis and gross profit margin being adopted in the ancillary services under the Property Management Transactions.

Set out below is the list of the pricing basis and corresponding gross profit margins of the 10 Comparable Companies' ancillary services to non-property owners.

**Table 10 – Pricing basis and gross profit margin for relevant ancillary services of Comparable Companies**

| | Company Name (Stock Code) | Scope of ancillary services to non-property owners | Pricing basis for relevant ancillary services | Gross profit Margin |
|---|---|---|---|---|
| 1. | Central China New Life Limited (9983) | Ancillary services to non-property owners include pre-delivery cleaning, on-site management, property inspection and property agency. | Cost-plus pricing basis | 49.6% |
| 2. | Jinmao Property Services Co., Limited (816) | Ancillary services to non-property owners include sales and marketing activities at property sales venues and display units, pre-delivery and consultancy services. | Cost-plus pricing basis | 47.9% |

| | Company Name (Stock Code) | Scope of ancillary services to non-property owners | Pricing basis for relevant ancillary services | Gross profit Margin |
|---|---|---|---|---|
| 3. | Sino-Ocean Service Holding Limited (6677) | Ancillary services to non-property owners include sales and marketing activities at property sales venues and display units, consultancy and property engineering services. | Pre-determined fee based on estimates of expenses to be incurred in the provision of services | 22.0% |
| 4. | Dexin Services Group Limited (2215) | Ancillary services to non-property owners include sales office management services, property inspection and repair services and preliminary planning and design consultancy services. | Cost-plus pricing basis or a pre-determined fee based on estimates of expenses to be incurred in the provision of services | 42.3% |
| 5. | Kangqiao Service Group Limited (2205) | Ancillary services to non-property owners include sales office management services, pre-delivery services, construction site management services and sales agency services. | Pre-determined fee based on estimates of expenses to be incurred in the provision of services | 35.2% |
| 6. | Ronshine Service Holding Co., Ltd (2207) | Ancillary services to non-property owners include sales assistance services, pre-delivery services, driving, vehicle dispatching and managing services. | Pre-determined fee based on estimates of expenses to be incurred in the provision of services | 32.1% |

| | Company Name (Stock Code) | Scope of ancillary services to non-property owners | Pricing basis for relevant ancillary services | Gross profit Margin |
|---|---|---|---|---|
| 7. | Hevol Services Group Co. Limited (6093) | Ancillary services to non-property owners include sales and marketing activities at property sales venues and display units, consulting services and preliminary planning and design consultancy services. | Cost-plus pricing basis or a predetermined fee based on estimates of expenses to be incurred in the provision of services | 20.4% |
| 8. | Times Neighborhood Holdings Limited (9928) | Ancillary services to non-property owners include sales assistance services, pre-delivery cleaning services, consultancy and security services. | Cost-plus pricing basis | 26.0% |
| 9. | Redsun Services Group Limited (1971) | Ancillary services to non-property owners include cleaning, greening and gardening and repair and maintenance services. | Cost-plus pricing basis | 20.4% |
| 10. | Landsea Green Life Service Company Limited (1965) | Ancillary services to non-property owners include sales assistance services, consultancy services, predelivery services and property agency services. | Cost-plus pricing basis | 39.0% |
| | The Target Group | Ancillary services to non-property owners include advertising, public venue and various management services under sales assistance and pre-delivery services for pre-sale properties, as well as related services such as park lighting, park road, professional fire crew. | Cost-plus pricing basis | 10.0% |

*Sources: Latest annual report and prospectus of each of the 10 Comparable Companies*

As shown above, 7 out of the 10 Comparable Companies adopt cost-plus pricing basis for their relevant ancillary service fees, and the remaining Comparable Companies adopt the pre-determined price based on estimates of expenses to be incurred in the provision of services, which is similar to the cost-plus pricing basis as it relies on the estimated costs. Moreover, the range of gross profit margins of the 10 Comparable Companies is between 20.4% and 49.6%, which is significantly higher than the margin of around 10% adopted in the Property Management Transactions. As such, we are of the view that the pricing policy of cost-plus pricing basis is in line with the market practice and it may be inferred that the adopted margin is no less favourable than those offered by Independent Third Parties.

Having considered that (i) the terms in respect of ancillary services under the Property Management Transactions Framework Agreement are in line with the terms under Historical Ancillary Services Contracts; (ii) the Market Report concludes that the adoption of the pricing policy for the ancillary services is fair; (iii) the cost-plus pricing basis is in line with the pricing policies adopted by the 10 Comparable Companies; and (iv) the margin of around 10% charged by the Target Group falls below the range of gross profit margins of similar services provided by the 10 Comparable Companies, we are of the view that the pricing policy for the ancillary services, including the cost-plus pricing basis and the margin of around 10%, is on normal commercial terms and acceptable.

*(b) Fixed pricing basis*

As stated in the letter from the Board, the formulas for fees regarding property management services for vacant units and property used or leased by the Group are as follows:

(i) Vacant units of commercial property projects:

$$\text{Area of vacant units (in sq. m.)} \times \text{Property management fee of relevant property per sq. m.} \times 30\% = \text{Property management fee}$$

(ii) Vacant units of residential property projects:

$$\text{Area of vacant units (in sq. m.)} \times \text{Property management fee of relevant property per sq. m.} \times 100\% = \text{Property management fee}$$

(iii) Property projects used or leased by the Group:

| Area of relevant property used or leased by the Group (in sq. m.) | x | Property management fee of relevant property per sq. m. | = | Property management fee |
|---|---|---|---|---|

Whereby the property management fee of relevant property per sq. m., which is also known as standard unit rates, shall be determined based on (i) reasonable costs of the Target Group, which mainly comprise of labour costs with reference to the size of the relevant property projects and other costs such as utility expenses, subcontracting costs, maintenance expenses, administrative costs, daily operational costs and fees for professional services; and (ii) standard unit rate ranging from RMB1 per month to RMB20 per month (which varies primarily based on the types of property, size of the relevant property, the geographical location of the relevant property projects, the expectation of service quality and expected operational costs in the area), and also determined by reference to the market price of similar services for similar property types within the same location and the impact of inflation and fluctuation in costs (there being a positive correlation between, on the one hand, the exact standard unit rate for each property and, on the other hand, the prevailing inflation rate or fluctuation in costs), in accordance with usual commercial terms.

The above pricing ratios of 30% and 100% were determined with reference to the prevailing market practices for commercial and residential properties, respectively, in cities in which the Group's major properties are located. The pricing ratio in respect of residential properties is higher than that of commercial properties because the property management fee per sq. m. for residential properties is generally much lower than that for commercial properties in the PRC.

We have randomly selected, obtained and reviewed (i) 15 historical contracts in respect of property management services by the Target Group for properties used or leased by the Group (the "**Group Property Management Contracts**"); and (ii) 15 historical contracts in respect of the property management services by the Target Group for properties used or leased by the independent third parties ("**I3P Property Management Contracts**") in the Review Period. We understood from the Company that the total number of contracts regarding property management services in the Review Period is extensive and such contracts are referenced to the same template. Given that (i) the terms and format of the samples of Group Property Management Contracts and I3P Property Management Contracts are standardised; (ii) the Review Period is sufficient and appropriate for our assessment; and (iii) the Group Property Management Contracts and I3P Property Management

Contracts were selected on a random basis, the review of Group Property Management Contracts and I3P Property Management Contracts is considered to be appropriate, fair and representative. On the other hand, we have been given to understand that the Vacant Property Management Fees for certain vacant unit were first established under a supplemental agreement dated 1 January, 2022 (the "**Supplemental Contract**"). We have reviewed the Group Property Management Contracts, I3P Property Management Contracts and the Supplemental Contract together with certain approval documentation from the local real estate administrative department and noted that (i) the terms of the Group Property Management Contracts were no less favorable than those under the I3P Property Management Contracts; (ii) the service scope, pricing policy and the margin applied to the cost are in accordance with the relevant terms stipulated in the Property Management Transactions Framework Agreement.

The Market Report also addressed the pricing policies for each of the property management services for vacant units and occupied units of both commercial and residential properties by making reference to the corresponding prevailing pricing ratios and market rates. Table 11 and Table 12 below summarise (i) the pricing ratio applied to the property management fee for vacant units of commercial properties and residential properties based on the location of the vacant units by province and city; and (ii) comparisons of standard unit rates in cities the Group's major properties are located.

**Table 11 – Pricing ratio adopted in property management fee for vacant units of commercial properties and residential properties in different geographical locations**

| Province | City | Pricing ratio for commercial properties | Pricing ratio for residential properties |
|---|---|---|---|
| Guangdong | Shenzhen, Guangzhou and Foshan | 50%–80% | 100% |
| Guangxi | Nanning | 30%–80% | 70%–100% |
| Hubei | Wuhan | 50% | 70%–100% |
| Shaanxi | Xi'an | 30%–50% | 70%–100% |
| Jiangsu | Hefei, Suzhou | 50%–80% | 70%–100% |
| Jiangxi | Nanchang | 30%–60% | 70%–100% |
| Henan | Zhengzhou | 30% | 70%–100% |
| Chongqing | Chongqing | 30%–80% | 50%–100% |
| Dongbei | Harbin | 30%–80% | 100% |
| The Target Group | | 30% | 100% |

*Source: The Market Report*

**Table 12 – Comparisons of standard unit rates**

| City *RMB/month/ sq. m.* | Prevailing market rate Wholesale market | Shopping mall | Office | Residential properties | Standard unit rate of the Target Group Wholesale market | Shopping mall | Office | Residential properties |
|---|---|---|---|---|---|---|---|---|
| Shenzhen | 3.5-45 | 15-120 | 8-38 | 2-10 | 3.8-15 | 15 | 8-18 | 2.5 |
| Xi'an | 2.5-25 | 10-60 | 10-20 | 1.5-10 | 4.2-4.9 | 15 | 20 | – |
| Nanning | 3-40 | 5-35 | 5-10 | 1-8 | – | 5-15 | 7-10 | 1.6-3.5 |
| Hefei | 2.5-40 | 8-60 | 6-25 | 1-10 | 3.8 | 3.8-15 | 20 | 1.2-3 |
| Nanchang | 2.5-40 | 10-50 | 5-15 | 1.5-6 | – | 6-15 | 20 | 1.8-3.8 |
| Harbin | 1.5-15 | 5-35 | 5-15 | 1-5 | 3.8 | 7.5-8 | 10 | 1.2-2.1 |
| Zhengzhou | 2.5-40 | 5-50 | 4-15 | 1.5-10 | 3.8 | 4.5-15 | 8.8-20 | 2.5-5 |
| Chongqing | 2.5-40 | 5-50 | 3.5-30 | 1.5-9 | 3.8 | 3.8-15 | 20 | 2.1-2.6 |

*Source: The Company and the Market Report*

As seen above, for commercial property projects, the pricing ratio of 30% applied to vacant units are at the lowest end of the prevailing market range of 30%–80%. We also noted that the standard unit rates for commercial property projects are mostly within the ranges of prevailing market according to the type and geographical location of the properties, except for the two sets of the standard unit rates for office in Nanchang and Zhengzhou which are above the corresponding ranges due to the limited market sample size and lower quality of service providers in Nanchang and Zhengzhou as explained by the Company. In light of the low pricing ratio compared with the prevailing market range and standard unit rates generally in line with the prevailing market taking into account the reasoning for higher rates charged in Nanchang and Zhengzhou, the formula for fees regarding property management services for vacant units of commercial property projects is considered in line with the market practice and is acceptable.

In respect of residential properties, although the pricing ratio for vacant units of 100% is at the maximum of the prevailing market range of 50%–100%, the standard unit rates of residential property projects shown in the Table 12 is generally at the lower end of the range of the prevailing market rates. Taking into consideration the market reference of both pricing ratio and standard unit rates, the fixed pricing formula for the vacant units of residential properties are both in line with the market practice and is acceptable.

Given that (i) the terms in respect of property management services for vacant and occupied units under the Property Management Transactions Framework Agreement are in line with the terms under the Group Property Management Contracts and Supplemental Contract; and (ii) each of the formula of fees regarding vacant units of commercial properties and residential properties, taking both pricing ratio and standard unit rate into consideration, is in line with the prevailing market policies, we are of the view that the fixed pricing policy, is on commercial terms and generally acceptable.

***Payment***

The time and means of payment shall be agreed by the relevant parties with reference to customary business terms to be arrived through arm's length negotiations, being normal commercial terms comparable to those for similar or comparable services.

***Annual caps***

*(1) Review of historical transactions*

As mentioned in the letter from the Board, the proposed annual caps for Property Management Transactions for the three years ending 31 March, 2025 are higher than the historical transaction amounts paid to the Target Group because as illustrated in the sub-section headed "*II. Basis of opinion and factors taken into consideration of entering into of the Equity Transfer Agreement and the Property Management Transactions Framework Agreement – 3. Information on (A) the Group; and (B) the Vendor, the Purchaser and the Target Company – The Target Company*" above, if the Property Management Fee Concessions were not offered by the Target Group in the past and Vacant Property Management Fee for certain vacant units were charged, the profit after taxation of the Target Group would have been adjusted upwards. Since the Property Management Fee Concessions ceased at the end of 2021 and Vacant Property Management Fees for certain vacant units were charged since 1 January, 2022 according to the Supplemental Contract, it is therefore expected that the total property management fee under the Property Management Transactions Framework Agreement to be paid to the Target Group will be higher than the total historical management fees paid to the Target Group.

Accordingly, upon discussion with the management of the Company, the following table sets forth (i) the original amounts of historical transactions for property management services provided by the Target Group to the Group (the "**Original Transaction Amount**"); and (ii) the adjusted amounts of historical transactions for property management services provided by the Target Group to the Group (the "**Adjusted Transaction Amount**") for illustrative purpose only:

**Table 13 – Original Transaction Amount and Adjusted Transaction Amount in the past three years**

| | For the year ended 31 March, | | |
|---|---|---|---|
| | **2020** | **2021** | **2022** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Original Transaction Amount** | **146,440** | **88,436** | **110,922** |
| Adjustments: | | | |
| Property Management Fee Concessions | 116,967 | 97,234 | 131,285 |
| Vacant Property Management Fees | 77,648 | 128,231 | 112,805 |
| **Adjusted Transaction Amount** | **341,055** | **313,901** | **355,012** |

*Source:* *The Company*

Note: The exchange rates used in this table for the years ended 31 March, 2020, 31 March, 2021 and 31 March, 2022 are RMB1.00 = HK$1.1221, RMB1.00 = HK$1.1464 and RMB1.00 = HK$1.2152, respectively.

We have been given to understand by the management of the Company that the scope of services provided to the Group by the Target Group and the corresponding basic pricing basis have been the same to that prior to entering of the Property Management Transactions Framework Agreement. However, the Original Transaction Amount is significantly lower than the Adjusted Transaction Amount primarily due to (i) the Target Group started charging the Vacant Properties Management Fees for certain vacant units from 1 January, 2022; and (ii) the Target Group ceased to offer the Property Management Fee Concessions after 2021 as discussed above. As such, the management of the Company prepared the illustrative figures as set out above to reflects relevant adjustments for the services covered in the Property Management Transactions for our assessment.

*(2) Proposed annual caps and basis of determination under the Property Management Transactions Framework Agreement*

The following table sets forth the proposed annual caps for the Property Management Transactions with breakdowns of two key components:

**Table 14 – Breakdown of proposed annual caps for the Property Management Transactions**

| | **For the year ending 31 March,** | | |
|---|---|---|---|
| | **2023** *(Note 1)* | **2024** | **2025** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Property management fees *(Note 2)* | 237,600 | 306,200 | 301,100 |
| Ancillary services | 20,000 | 26,600 | 26,600 |
| **Total** | **257,600** | **332,800** | **327,700** |
| **Proposed annual cap** *(Note 3)* | **309,100** | **399,400** | **393,300** |

*Source:* *The Company*

Notes:

1. The proposed annual cap for the year ending 31 March, 2023 is based on the forecasted property management fees and ancillary services in the period from 1 July, 2022 to 31 March, 2023.

2. Property management fees include property management services for both vacant and occupied properties.

3. A buffer of 20% is applied in the proposed annual cap for each of the years ending 31 March, 2023, 2024 and 2025.

4. The exchange rate used in this table is RMB1.00 = HK$1.20.

As stated in the letter from the Board, the annual cap for each of the years ending 31 March, 2023, 2024 and 2025 also takes into account the number, size and type of properties which are expected to be delivered by the Group in each of those years. In particular, in respect of new commercial property projects, as the Group is responsible for the property management fees for the vacant units before they are sold or leased to independent third parties, the annual cap for the year ending 31 March, 2024 is expected to be higher because a number of commercial property projects are expected to be delivered in that year and the annual caps for year ending 31 March, 2025 drops slightly as the occupancy rate is expected to improve during the year ending 31 March, 2025.

To assess the estimated annual amount of the Property Management Transactions, we have reviewed the detailed breakdowns of the components and understood that the calculations are based on the cash flow forecasts of the Target Group identical to the cash flow forecasts adopted in the Valuation. We have studied the components of the cash flow forecasts being adopted as stated in the section headed " *II. Basis of opinion and factors taken into consideration of entering into the Equity Transfer Agreement and the Property Management Transactions*

*Framework Agreement – 5. Principal terms of the Equity Transfer Agreement – The basis of determining Consideration and our analysis – (1) The Valuation – Our analysis on the forecasts and model being adopted under Income Approach*" in this letter. Based on the same cash flow forecasts, we particularly discussed the following considerations with the management of the Company:

(i) The property management fees are estimated based on, among other things, (a) the timeline of current property projects under development; (b) the expected vacancy rate of the areas under management, which is derived from the expected progress of sales and delivery of properties developed by the Group; and (c) the properties occupied/owned by the Group, such as shopping malls;

(ii) the usage of ancillary services is anticipated to remain stable compared to the historical amounts; and

(iii) the proposed annual cap is in line with the historical transaction amounts (i.e. the Adjusted Transaction Amount) as a whole.

Please refer to the section headed "*II. Basis of opinion and factors taken into consideration of entering into the Equity Transfer Agreement and the Property Management Transactions Framework Agreement – 5. Principal terms of the Equity Transfer Agreement – The basis of determining Consideration and our analysis – (1) The Valuation – Our analysis on the forecasts and model being adopted under Income Approach*" set out in this letter for the details of the cash flow forecasts and our corresponding analysis of various components.

We have also discussed with the management of the Company in respect of the 20% buffer sets for unexpected increase in management fee and understood that such a buffer takes into account, among other things, (i) unexpected high vacancy rate due to the COVID-19 pandemic; (ii) unexpected increase in usage of services; (iii) unexpected inflation and currency exchange fluctuation; and (iv) unexpected increase in actual costs of services. Given that the aforementioned are generally not uncommon factors in the property management industry, we consider the allowance of a 20% buffer is reasonable.

Having considered the appropriateness of the basis of the cash flow forecasts and the calculation of annual caps for the Property Management Transactions, we are of the view that the proposed annual caps for the Property Management Transactions are fair and reasonable.

**Summary**

Generally speaking, in our opinion, it is in the interests of the Company and the Shareholders as a whole to determine the proposed annual caps under the Property Management Transactions Framework Agreement, which can best accommodate the operation and business plans of the Group. As stated in the sub-section headed "*IV. Continuing Connected Transactions in relation to the Property Management Transactions – 1. Principal terms of the Property Management Transactions Framework Agreement – Pricing basis*" above, the property management fees receivable by the Target Group from the Group under the Property Management Transactions Framework Agreement will be determined based on the type of services, which is either on a cost-plus pricing basis or fixed pricing basis, and further subject to arm's length negotiations between the Group and the Target Group.

We are informed that, in arriving at the pricing basis, the management of the Company places emphasis on numerous factors as a whole, which include, among other things, (i) the historical pricing policies based on the prior long-term inter-group transactions; (ii) the prevailing market pricing practices and standards; and (iii) actual costs related to the services with reference to the size of the relevant property projects.

We also understand that the management of the Company has considered (i) the historical transaction amounts with appropriate adjustments incurred by the Group to the Target Group; (ii) the existing and expected saleable/leaseable areas under management and contracted areas under management property projects; (iii) the expected required scope of services and corresponding amount based on business plans; (iv) the expected costs and trend of costs; and (v) a reasonable buffer for unexpected increase in management fee when setting the proposed annual caps. Therefore, we consider the proposed annual caps under the Property Management Transactions Framework Agreement to be generally acceptable.

## 2. INTERNAL CONTROL PROCEDURES FOR THE GROUP'S CONTINUING CONNECTED TRANSACTIONS

In order to ensure that the transactions contemplated under the Property Management Transactions Framework Agreement and Specific Agreements are (i) conducted on normal commercial terms, fair and reasonable and no less favourable than those agreed with Independent Third Parties for the provision of services of similar nature and of similar terms; and (ii) comply with the annual caps and pricing policies under the Property Management Transactions Framework Agreement, we noted that the Company has adopted the following internal control procedures:

(a) the Company has adopted and implemented a management system on connected transactions. The Board and various other internal departments of the Company are jointly responsible for evaluating the terms of the transactions contemplated under the Property Management Transactions Framework Agreement and Specific Agreements in particular, the fairness of the pricing policies under each Specific Agreement, the management of the Company also reviews the pricing policies of the Property Management Transactions Framework Agreement annually. In addition, various other internal departments of the Company monitor the implementation of the Property Management Transactions Framework Agreement from time to time, and the finance department is responsible for monitoring the transaction amounts of the continuing connected transactions contemplated under the Property Management Transactions Framework Agreement to ensure that the annual caps under the Property Management Transactions Framework Agreement are complied with, and that any Specific Agreement shall be entered into by the Company with the prior approval of the finance department;

(b) when considering the fees for property management services and ancillary services to be provided to the Group by the Target Group, the Group will constantly research into prevailing market conditions and practices and make reference to the pricing and terms of, subject to availability, at least three comparable transactions (for similar services for similar property types within the similar geographical area) between the Group and Independent Third Parties, to make sure that the pricing and terms offered by Target Group after arm's length negotiations, are no less favourable than those offered by Independent Third Parties;

(c) the independent non-executive Directors and auditors of the Company will conduct annual review of the continuing connected transactions under the Property Management Transactions Framework Agreement and provide annual confirmation to ensure that the Property Management Transactions are conducted in accordance with the terms of the Property Management Transactions Framework Agreement (including the relevant pricing policies), on normal commercial terms and in the ordinary and usual course of business of the Group in accordance with Rules 14A.55 and 14A.56 the Listing Rules; the audit committee of the Company will review the Company's financial controls, risk management and internal control systems; and when considering any renewal or revisions to the Property Management Transactions Framework Agreement, the Company will then comply with the Listing Rules as applicable; and

(d) a system is in place to monitor the Company's connected transactions and the renewal of continuing connected transactions, which includes maintaining and regularly updating the list of connected persons of the Company, maintaining a list of connected transactions including details in relation to their expiration dates, checking the contracting party in each transaction to confirm whether it is a connected person, monitoring the value of transactions that are identified as connected transactions (on an aggregated basis where applicable) against the thresholds for triggering disclosure and shareholders' approval requirements under the Listing Rules and ensuring that relevant business departments are regularly updated in relation to the renewal of continuing connected transactions.

Given that the internal control measures of the Group as set out above to ensure (i) the pricing and terms under the Property Management Transactions

Agreement shall no less favourable to the Group than those charged by Independent Third Parties for similar services; and (ii) the stipulated requirements for continuing connected transactions of the Listing Rules are in place, we consider that the Company has adopted adequate internal control measures to be able to comply with the Listing Rules requirements with respect to the supervision and monitoring of the transactions contemplated under the Property Management Transactions Framework Agreement.

## V. CONCLUSIONS AND RECOMMENDATIONS

Having considered the abovementioned principal factors and reasons, and in particular the following:

in respect of the Equity Transfer Agreement,

i. the general terms including, among other things, the Consideration and payment schedule, of the Equity Transfer Agreement are agreed on normal commercial terms and reasonable;

ii. the Performance Guarantee is in line with the forecasted net profits of the Target Group and the calculation mechanism of the Performance Guarantee Shortfall Compensation is reasonable;

iii. the terms of the Call Option and the Put Option under the Equity Transfer Agreement are arrived at after arms' length negotiations and are acceptable and reasonable as a whole; and

iv. the Disposal will benefit the Company from the improvement in the Group's liquidity, the potential improvement in the value of the remaining 50% equity interest in the Target Group and potential creation of synergy that is in the interests of the Company and its Shareholders as a whole.

In respect of the Property Management Transactions Framework Agreement,

i. the terms and pricing basis of the Property Management Transactions Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned;

ii. the Property Management Transactions Framework Agreement enables the Group to continue to obtain the property management services and ancillary services from the Target Group, which has been providing property management services to the Group since 2004;

iii. the proposed annual caps for Property Management Transactions for the three years ending 31 March, 2025 are generally acceptable so far as the Independent Shareholders are concerned; and

iv. the Company has adopted adequate internal control measures to be able to comply with the Listing Rules requirements with respect to the supervision and monitoring of the proposed annual caps for the Property Management Transactions,

we are of the view that the Equity Transfer Agreement (including the Put Option and Call Option) and Property Management Transactions Framework Agreement (including the annual caps thereof) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Equity Transfer Agreement (including the Put Option and Call Option) and Property Management Transactions Framework Agreement (including the annual caps thereof).

Your faithfully,
For and on behalf of
**Anglo Chinese Corporate Finance, Limited**

| | |
|---|---|
| **Raymond Cheung** | **Karl Chan** |
| *Director* | *Assistant Director* |

1. *Mr. Raymond Cheung is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Anglo Chinese Corporate Finance, Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has 10 years of experience in corporate finance.*

2. *Mr. Karl Chan is a licensed person registered with the Securities and Futures Commission and as a licensed representative of Anglo Chinese Corporate Finance, Limited to carry out Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO. He has over 7 years of experience in corporate finance.*

## FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements, together with the accompanying notes to the financial statements, of the Group for each of the years ended 31 March 2020, 2021 and 2022 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinasouthcity.com).

Annual report for the year ended 31 March 2020 (pages 125 to 268):

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0731/2020073100966.pdf

Annual report for the year ended 31 March 2021 (pages 120 to 260):

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0729/2021072900562.pdf

Annual report for the year ended 31 March 2022 (pages 165 to 324):

https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0726/2022072600425.pdf

**Summary of financial information of the Group**

The following is a summary of the consolidated results of the Group for each of the years ended 31 March 2020, 2021 and 2022 as extracted from the relevant annual reports:

| | For the year ended 31 March | | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 10,311,628 | 11,309,304 | 9,887,654 |
| Profit before tax | 1,629,860 | 3,402,087 | 4,470,759 |
| Income tax expenses | (870,736) | (986,958) | (1,842,611) |
| Net profit for the year attributable to owners of the parent | 760,200 | 2,415,498 | 2,633,141 |
| Net loss for the year attributable to non-controlling interests | (1,076) | (369) | (4,993) |
| Total comprehensive income/(loss) attributable to owners of the parent | 4,021,109 | 6,684,377 | (758,049) |
| Total comprehensive (loss)/income attributable to non-controlling interests | (1,441) | 11,729 | (24,664) |
| Earnings per share attributable to ordinary equity holders of the parent Basic and diluted (HK cents) | 9.39 | 29.85 | 32.47 |

## STATEMENT OF INDEBTEDNESS

At the close of business on 30 June 2022, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the indebtedness of the Group was as follows:

### Borrowings

The Group had outstanding borrowings of approximately HK$36,184 million, details of which are set out below:

| | Secured | Unsecured | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Borrowings: | | | |
| – Interest-bearing bank and other borrowings | 19,657,024 | 333,849 | 19,990,873 |
| – Notes payable | 2,143,662 | – | 2,143,662 |
| – Senior notes | 2,165,393 | 10,141,513 | 12,306,906 |
| – Domestic company bonds | – | 1,742,084 | 1,742,084 |
| | 23,966,079 | 12,217,446 | 36,183,525 |

As at the close of business on 30 June 2022, the Group had pledged certain buildings, investment properties, properties under development, properties held for finance lease and properties held for sale and bank deposits to secure certain general banking facilities granted to the Group and part of the senior notes are secured by pledges of shares of certain subsidiaries.

At 30 June 2022, the borrowings amounting to HK$12,640,755,000 are guaranteed individually or in combination by subsidiaries within the Group. The remaining indebtedness amounting to HK$23,542,770,000 are not guaranteed.

### Lease obligations

The Group has various lease contracts for land, property and other equipment. As at 30 June 2022, the Group recognised aggregate lease liabilities of HK$18,732,000 under HKFRS 16 in respect of non-cancellable operating lease contracts.

### Financial guarantees

The Group has provided guarantees with respect to banking facilities granted by certain banks in connection with mortgage loans entered into by certain purchasers of the Group's trade centers and residential properties and bank loans entered into by lessees of certain of the Group's residential and commercial properties. The guarantees granted to such purchasers of trade centers and residential properties will be released when the purchasers obtain building ownership certificates, which will then be pledged to the banks. For such leased residential and commercial properties, the guarantees will be released accordingly when the lessees repay the loan. As at the close of business on 30 June 2022, the guarantees amounted to HK$9,778 million.

Save as otherwise disclosed above, and apart from intra-group liabilities and normal trade payables, the Group did not have, at the close of business on 30 June 2022, any other debt securities issued and outstanding, or authorised or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, any other mortgages and charges or any guarantees or any finance lease commitments or material contingent liabilities.

## WORKING CAPITAL

The Directors are of the opinion that, after taking into account the Disposal, the internal resources available to the Group, external borrowings, presently available banking facilities and in the absence of unforeseen circumstances, the Group will have sufficient working capital for its present requirements for the next 12 months from the date of this circular.

## MATERIAL ACQUISITIONS OF MEMBERS OF THE GROUP

As at the Latest Practicable Date, none of the member of the Group has involved in any material acquisition since 31 March 2022, being the date to which the latest published audited accounts of the Company were made up.

## NO MATERIAL ADVERSE CHANGE

The Directors confirm that there was no material adverse change in the financial or trading position or outlook of the Group between 31 March 2022, being the date to which the latest published audited financial statements of Group were made up, and the Latest Practicable Date.

## FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group may be exposed to the risk of negative developments in national and regional economies, property and financial markets. It may result in reductions in sales and selling prices of the properties, rental rates and occupancy rates of properties, and demand for ancillary services and facilities it provides. It may also result in recession, inflation, deflation and currency fluctuations as well as restrictions in the availability of credit, increases in financing and other operating costs. The development of the Group's projects may subject to market risks as it usually takes time to complete. Though the Group appoints quality partners for the development of its projects, it may still be subject to associated risk of the quality and safety of the products and services provided to the Group. The Group may also be subject to a number of regulatory environments in the territories in which it operates. Changes in the regulatory approach to such matters as ownership of assets and businesses, regulations related to development and operations, exchange controls, tax rules and employment legislation may impact the business of the Group. Changes in the political environment in such territories may also affect the business of the Group. The management of the Group will keep abreast of the environment and policy changes and make the necessary adjustments in response to such changes, if any. Further steps taken by the Group to manage the financial risk are set out in notes to the financial statements.

As disclosed in the annual report of the Company for the year ended 31 March 2022, the international trade landscape remains intricate and complicated and routine measures have been taken for the pandemic prevention and control, which are expected to bring continuous impact and challenges to the development of enterprises and the Company will continue to focus on real business and make every effort to promote transformation and upgrading in line with future development direction.

Looking ahead, it is expected that the COVID-19 and the PRC-U.S. trade conflict will continue to pose challenges to all industries. The Group will continue to adopt a prudent attitude and actively face challenges and monitor the business operations, control and reduce unnecessary expenses so as to save costs. Relying on the "Trade and Logistics+" model that has been adhered to for many years coupled with market procurement trade pilot, the national e-commerce demonstration base and other policy advantages, the Group will continue to improve the trade industry ecosystem and strive to create an "Integrating Industries into Projects, Building Beautiful New City Conducive to Work and Life".

The Company considers the entering into the transactions as a good opportunity to better allocate its resources for and direct its focus on core industries such as the trade and logistics business and to explore other business opportunities should such opportunities arise with the aim of improving the financial performance of the Group as a whole.

## MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

The Target Group is principally engaged in the provision of property management services (including value-added ancillary services). Such value-added ancillary services include advertising, public venue and various management services, park lighting, park road and professional fire crew. Set out below is the management discussion and analysis of the Target Group for the three years ended 31 March 2020, 2021 and 2022.

### Treasury Policies

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

**Liquidity and Financial Resources**

The Target Group's principal financial instruments comprise interest-bearing other borrowings and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Target Group's operations.

**Cash and Bank Balances**

As at 31 March 2020, 31 March 2021 and 31 March 2022, the Target Group had RMB117,744,000, RMB20,780,000 and RMB137,034,000 cash and bank balances, respectively. The Target Group's cash and bank balances were primarily denominated in Renminbi.

Certain of the Target Group's bank deposits with a carrying amount of RMB50,000,000 as at 31 March 2020 were pledged to secure interest-bearing other borrowings.

Certain of the Target Group's bank deposits with a carrying amount of RMB120,000,000 as at 31 March 2022 were pledged to provide guarantee to a related company.

**Borrowing and Charges on the Group's Assets**

***Interest-bearing other borrowings***

As at 31 March 2020, 31 March 2021 and 31 March 2022, the total interest-bearing other borrowings of the Target Group was RMB334,343,000, nil and nil, respectively. Out of the total interest-bearing other borrowings of RMB334,343,000 as at 31 March 2020, RMB32,489,000 was repayable within one year, and RMB301,854,000 was repayable in the second to fifth years.

On 14 September 2017, the Target Group entered into an asset-backed securities ("**ABS**") arrangement with an independent third party by pledging the future six years' right of receiving management fees for certain properties under its management for a maximum of six years. An aggregate amount of RMB760,000,000 is the priority portion of the ABS which had been purchased by the third parties. The net proceeds from the ABS, after deducting the issuance costs, amounted to approximately RMB742,535,000, which are repayable from one year to six years. Interest is payable quarterly in arrears. Holders of the priority portions of the ABS are entitled to receive interest at varying rates ranging from 6.3% to 6.6% per annum based on the terms and dates of redemption. A portion of the above ABS with the principal amounts of RMB120,000,000 and RMB100,000,000 matured and were settled on 15 September 2018 and 15 September 2019, respectively.

On 25 September 2019, the Target Group repurchased a part of the ABS at an aggregated principal amount of RMB270,000,000 and resold part of the ABS at an aggregated principal amount of RMB67,500,000 in November 2019 and December 2019.

During the year end 31 March 2021, the Target Group repaid and redeemed the remaining ABS at an aggregated principal amount of RMB337,500,000. The total consideration was RMB343,250,000, resulting in a loss on redemption amounting to RMB5,750,000.

The ABS are secured by certain of the Target Group's bank deposits with a carrying amount of RMB50,000,000 as at 31 March 2020.

All interest-bearing other borrowings of the Target Group were denominated in Renminbi with interest rates ranging from 6.5% to 6.6% per annum.

**Commitments**

As at 31 March 2020, 31 March 2021 and 31 March 2022, the Target Group did not have any significant commitments.

**Foreign Exchange Risk and Interest Rate Risk**

The Target Group does not have any significant exposure to risk of changes in foreign currency exchange rate. The Target Group only conducts business within Mainland China. Except for any potential future dividends of its subsidiary that might be declared to its shareholders, the bulk of the Target Group's revenue, capital investment and expenses are denominated in RMB.

The Target Group does not have any significant exposure to risk of changes in market interest rates as the Target Group's debt obligations are with fixed interest rates. The Target Group has not used any financial instruments to hedge its exposure to interest rate risk during the three years ended 31 March 2020, 2021 and 2022.

**Significant Investments of the the Target Group**

The Target Group had no significant investments during the three years ended 31 March 2020, 31 March 2021 and 31 March 2022.

**Material Acquisitions and Disposals of Subsidiaries and Associated Companies**

The Target Group had no material acquisitions and disposals of subsidiaries and associated companies during the three years ended 31 March 2020, 2021 and 2022.

**Segmental Information**

For the three years ended 31 March 2020, 2021 and 2022, international trade tensions worsened, China-US relations were tightening, and the economy faced increasingly challenging conditions. Meanwhile, with the resurgence of the epidemic domestically, first-tier cities such as Shanghai and Shenzhen also adopted different level of precautionary measures. Apart from that, the real estate sector and related industries suffered a downturn while others encountered severe operational challenges. In the first half of the year ended 31 March 2022, liquidity crisis occurred consecutively across several sectors and within well-known companies due to the worsening macroeconomic situation and a difficult domestic and external capital market. In October 2021, international rating agencies downgraded the credit ratings of nearly 30 listed companies in Mainland China and offshore financing channels and refinancing nearly stagnated, leaving a number of companies facing financing difficulties. In the second half of the year ended 31 March 2022, the Russia-Ukraine conflict further disrupted the international landscape and brought more uncertainty to future developments. In the first quarter of the year 2022, China's gross domestic product (GDP) grew by 4.8% year-on-year, a significant drop in growth.

During the year ended 31 March 2022, the Target Group was also affected by trade tensions, impact of pandemic and torrential rain in China South City Zhengzhou, which contributed to instability affecting the development of the cross-border e-commerce industry impacting incubation and investment within the industry. Recurring outbreaks further raised the difficulty of operations in the e-commerce and trade industries.

**Human Resources**

The wages and salaries of the Target Group were RMB87,306,000, RMB88,438,000 and RMB74,477,000, for the three years ended 31 March 2020, 2021 and 2022, respectively. The pension scheme contributions of the Target Group were RMB16,041,000, RMB1,463,000 and RMB13,039,000, for the three years ended 31 March 2020, 2021 and 2022, respectively. The employees of the Target Group which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Target Group is required to contribute a certain percentage of the payroll costs to the central pension scheme.

**Future plans for material investments or capital assets**

As at the Latest Practicable Date, the Target Group did not enter into any agreement in respect of any proposed acquisitions and did not have any other future plans relating to material investment or capital asset.

**Gearing ratio**

The Target Group's gearing ratio (net debt divided by total equity) was 166%, 30% and 2% as at 31 March 2020, 31 March 2021 and 31 March 2022, respectively.

**Contingent liabilities**

The Target Group had no significant contingent liabilities as at 31 March 2020, 31 March 2021 and 31 March 2022.

The Board of Directors
China South City Holdings Limited

Dear Sirs,

We report on the historical financial information of Shenzhen First Asia Pacific Property Management Co., Ltd (the "**Target Company**") and its subsidiary (together, the "**Target Group**") set out on pages 102 to 138, which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Group for each of the years ended 31 March 2020, 2021 and 2022 (the "**Relevant Periods**"), and the consolidated statements of financial position of the Target Group as at 31 March 2020, 2021 and 2022, and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages 102 to 138 forms an integral part of this report, which has been prepared for inclusion in the circular of China South City Holdings Limited dated 25 August 2022 (the "**Circular**") in connection with the proposed disposal of 50% equity interest in the Target Company.

**The Sole Director's responsibility for the Historical Financial Information**

The sole director of the Target Company is responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, and for such internal control as the sole director determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the sole director, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Target Group as at 31 March 2020, 2021 and 2022 and of the financial performance and cash flows of the Target Group for each of the Relevant Periods in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 102 have been made.

**Dividends**

We refer to note 18 to the Historical Financial Information which states that no dividends have been paid by the Target Company in respect of the Relevant Periods.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong
25 August 2022

## I. HISTORICAL FINANCIAL INFORMATION

**Preparation of the Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

| | | **Year ended 31 March** | | |
|---|---|---|---|---|
| | | **2022** | **2021** | **2020** |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* |
| **REVENUE** | *5* | 547,336 | 533,434 | 551,243 |
| Cost of sales | | (379,135) | (375,289) | (405,036) |
| **Gross profit** | | 168,201 | 158,145 | 146,207 |
| Other income and gains | *5* | 2,886 | 16,815 | 43,944 |
| Administrative expenses | | (26,309) | (30,511) | (35,546) |
| Other expenses | | (24,397) | (15,653) | (17,617) |
| Finance costs | *6* | (916) | (21,968) | (70,807) |
| **PROFIT BEFORE TAX** | *7* | 119,465 | 106,828 | 66,181 |
| Income tax expenses | *8* | (29,623) | (25,817) | (16,882) |
| **PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | 89,842 | 81,011 | 49,299 |

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | | As at 31 March | | |
|---|---|---|---|---|
| | | **2022** | **2021** | **2020** |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | *9* | 2,627 | 2,461 | 2,684 |
| Deferred tax assets | *17* | 18,389 | 12,312 | 8,544 |
| Total non-current assets | | 21,016 | 14,773 | 11,228 |
| CURRENT ASSETS | | | | |
| Inventories | *10* | 973 | 1,478 | 1,059 |
| Trade receivables | *11* | 92,563 | 80,075 | 87,057 |
| Prepayments, other receivables and other assets | *12* | 9,300 | 7,434 | 10,040 |
| Due from related companies | *24* | 530,122 | 567,388 | 653,863 |
| Cash and bank balances | *13* | 137,034 | 20,780 | 117,744 |
| Total current assets | | 769,992 | 677,155 | 869,763 |
| CURRENT LIABILITIES | | | | |
| Interest-bearing other borrowings | *14* | – | – | 32,489 |
| Trade and other payables | *15* | 270,577 | 235,151 | 241,901 |
| Contract liabilities | *16* | 79,734 | 122,818 | 81,288 |
| Tax payables | | 67,134 | 50,238 | 20,749 |
| Total current liabilities | | 417,445 | 408,207 | 376,427 |
| NET CURRENT ASSETS | | 352,547 | 268,948 | 493,336 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 373,563 | 283,721 | 504,564 |
| NON-CURRENT LIABILITIES | | | | |
| Interest-bearing other borrowings | *14* | – | – | 301,854 |
| Total non-current liabilities | | – | – | 301,854 |
| Net assets | | 373,563 | 283,721 | 202,710 |
| EQUITY | | | | |
| Equity attributable to owners of the parent | | | | |
| Share capital | *19* | 50,000 | 50,000 | 50,000 |
| Other reserves | *20* | 323,563 | 233,721 | 152,710 |
| Total equity | | 373,563 | 283,721 | 202,710 |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Share capital *RMB'000* | Statutory surplus reserve *RMB'000* | Retained profits *RMB'000* | Total equity *RMB'000* |
|---|---|---|---|---|
| At 1 April 2019 | 50,000 | 1,238 | 102,173 | 153,411 |
| Profit for the year | – | – | 49,299 | 49,299 |
| Total comprehensive income for the year | – | – | 49,299 | 49,299 |
| Transfer from retained profits | – | 4,930 | (4,930) | – |
| At 31 March 2020 | 50,000 | 6,168 | 146,542 | 202,710 |

| | Share capital *RMB'000* | Statutory surplus reserve *RMB'000* | Retained profits *RMB'000* | Total equity *RMB'000* |
|---|---|---|---|---|
| At 1 April 2020 | 50,000 | 6,168 | 146,542 | 202,710 |
| Profit for the year | – | – | 81,011 | 81,011 |
| Total comprehensive income for the year | – | – | 81,011 | 81,011 |
| Transfer from retained profits | – | 8,101 | (8,101) | – |
| At 31 March 2021 | 50,000 | 14,269 | 219,452 | 283,721 |

| | Share capital *RMB'000* | Statutory surplus reserve *RMB'000* | Retained profits *RMB'000* | Total equity *RMB'000* |
|---|---|---|---|---|
| At 1 April 2021 | 50,000 | 14,269 | 219,452 | 283,721 |
| Profit for the year | – | – | 89,842 | 89,842 |
| Total comprehensive income for the year | – | – | 89,842 | 89,842 |
| Transfer from retained profits | – | 8,984 | (8,984) | – |
| At 31 March 2022 | 50,000 | 23,253 | 300,310 | 373,563 |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Notes | Year ended 31 March 2022 RMB'000 | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit before tax | | 119,465 | 106,828 | 66,181 |
| Adjustments for: | | | | |
| Finance costs | 6 | 916 | 21,968 | 70,807 |
| Interest income | 5 | (101) | (18,365) | (23,242) |
| Net gains on disposal of property, plant and equipment | 5 | – | (30) | (2) |
| Depreciation of property, plant and equipment | 7 | 539 | 604 | 1,940 |
| Impairment of trade receivables | 7 | 24,360 | 15,102 | 16,911 |
| Losses/(gains) on redemption/repurchase of asset-backed securities | 5 | – | 5,750 | (17,240) |
| | | 145,179 | 131,857 | 115,355 |
| Change in inventories | | 505 | (419) | 121 |
| Change in trade receivables | | (36,848) | (8,120) | (18,426) |
| Change in prepayments, other receivables and other assets | | (1,866) | 2,606 | 5,833 |
| Change in contract liabilities | | (43,084) | 41,530 | 44,040 |
| Change in trade and other payables | | 35,426 | (2,514) | (1,854) |
| Change in restricted cash | | (120,000) | 50,000 | – |
| Change in due from related companies | | 60,156 | – | – |
| Cash generated from operations | | 39,468 | 214,940 | 145,069 |
| Taxes paid | | (18,804) | (96) | (551) |
| **Net cash flows from operating activities** | | 20,664 | 214,844 | 144,518 |

| | Year ended 31 March | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Cash flows from investing activities** | | | |
| Proceeds from disposal of property, plant and equipment | 32 | 70 | 49 |
| Interest received | 101 | 18,365 | 23,242 |
| Purchases of property, plant and equipment | (737) | (421) | (1,572) |
| Change in due from related companies | (22,890) | 86,475 | 168,328 |
| **Net cash flows (used in)/from investing activities** | (23,494) | 104,489 | 190,047 |
| **Cash flows from financing activities** | | | |
| Repayment and redemption of asset-backed securities | – | (343,250) | (82,760) |
| Repurchase of asset-backed securities | – | – | (270,000) |
| Resell of asset-backed securities | – | – | 67,500 |
| Payment of interest | (916) | (23,047) | (57,848) |
| **Net cash flows used in financing activities** | (916) | (366,297) | (343,108) |
| **Net decrease in cash and cash equivalents** | (3,746) | (46,964) | (8,543) |
| Cash and cash equivalents at beginning of financial year | 20,780 | 67,744 | 76,287 |
| **Cash and cash equivalents at end of financial year** | 17,034 | 20,780 | 67,744 |

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

The Target Company is a limited liability company incorporated in the People's Republic of China (the "**PRC**") on 31 December 2003 under the Companies Law of PRC. Its registered office is located at No. 1 Huanan Avenue, Pinghu Town, Longgang District, Shenzhen.

In the opinion of the sole director, the immediate holding company of the Target Company is First Asia Pacific Group Company Limited, a company incorporated in Hong Kong, and the ultimate holding company of the Target Company is China South City Holdings Limited ("**China South City**"), a limited liability company registered in Hong Kong and listed on The Stock Exchange of Hong Kong Limited.

During the Relevant Periods, the principal activities of the Target Group are mainly property management services (including value-added ancillary services).

**Information about subsidiary**

Particulars of the Target Company's subsidiary, which being a limited company under PRC law, are as follows:

| Name | Place of incorporation/ registration and business | Nominal value of registered share capital | Date of incorporation/ registration | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Direct % | Indirect % | |
| 深圳亞華物業管理有限公司 Shenzhen Yahua Property Management Co., Ltd | PRC/ Mainland China | RMB10,000,000 | 9 April 2020 | 100 | – | Provision of property management services |

### 2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2021, together with the relevant transitional provisions have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention at the end of each of the Relevant Periods.

The Historical Financial Information has also been prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.2 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Target Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

| | |
|---|---|
| Amendments to HKFRS 3 | *Reference to the Conceptual Framework*[1] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |
| Amendments to HKFRS 17 | *Insurance Contracts*[2, 5] |
| Amendments to HKFRS 17 | *Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information*[2] |
| Amendments to HKAS 1 | *Classification of Liabilities as Current or Non-current*[2,4] |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | *Disclosure of Accounting Policies*[2] |
| Amendments to HKAS 8 | *Definition of Accounting Estimates*[2] |
| Amendments to HKAS 12 | *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2] |
| Amendments to HKAS 16 | *Property, Plant and Equipment: Proceeds before Intended Use*[1] |
| Amendments to HKAS 37 | *Onerous Contracts – Cost of Fulfilling a Contract*[1] |
| *Annual Improvements to HKFRSs 2018-2020* | Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[1] |

1 Effective for annual periods beginning on or after 1 January 2022
2 Effective for annual periods beginning on or after 1 January 2023
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 ***Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*** was revised in October 2020 to align the corresponding wording with no change in conclusion
5 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

The Target Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Target Group is not yet in a position to state whether they would have a significant impact on the Target Group's results of operations and financial position.

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Subsidiary**

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Company's voting rights and potential voting rights.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Subsidiary (continued)**

The results of subsidiary are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiary that are not classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each year as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the combined statement of profit or loss in the period in which it arises.

**Related parties**

A party is considered to be related to the Target Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or of a parent of the Target Group;

or

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Related parties (continued)**

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the parent of the Target Group.

**Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Furniture and fixtures | 10% to 33% |
| Motor vehicles | 20% to 25% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Leases**

The Target Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

***Target Group as a lessee***

*Short-term leases*

The Target Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases is recognized as an expense on a straight-line basis over the lease term.

**Investments and other financial assets**

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Target Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Target Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Target Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Target Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments and other financial assets (continued)**

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Group's combined statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Target Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Group has transferred substantially all the risks and rewards of the asset, or (b) the Target Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Group continues to recognise the transferred asset to the extent of the Target Group's continuing involvement. In that case, the Target Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Group could be required to repay.

**Impairment of financial assets**

The Target Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Target Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of financial assets (continued)**

***General approach***

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Target Group considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Target Group may also consider a financial asset to be in default when internal or external information indicates that the Target Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

***Simplified approach***

For trade receivables that do not contain a significant financing component or when the Target Group applies the practical expedient of not adjusting the effect of a significant financing component, the Target Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Target Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Target Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

**Financial liabilities**

***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Target Group's financial liabilities include trade and other payables, interest-bearing bank and other borrowings, due to fellow subsidiaries, other long-term payables.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial liabilities (continued)**

***Subsequent measurement***

The subsequent measurement of financial liabilities depends on their classification as follows:

*Financial liabilities at amortized cost (loans and borrowings)*

After initial recognition, interest-bearing bank and other borrowings, other long-term payables are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in the statement of profit or loss.

*Financial guarantee contracts*

Financial guarantee contracts issued by the Target Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Target Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognized.

**Derecognition of financial liabilities**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the statement of profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

**Inventories**

Inventories, representing consumables, are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Cash and cash equivalents**

For the purpose of the combined statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the combined statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Target Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiary, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Income tax (continued)**

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiary, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Target Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

**Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

**Revenue recognition**

***Revenue from contracts with customers***

The Group provides property management services (including value-added ancillary services). Revenue from contracts with customers is recognised when services are rendered to the customer at an amount that reflects the consideration to which the Target Group expects to be entitled in exchange of those services.

***Property management services***

For property management services, the Group bills a fixed amount for services provided on a monthly basis and recognises it as revenue in the amount to which the Group has a right to invoice and that corresponds.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition (continued)**

***Value-added ancillary services***

Value-added ancillary services mainly include advertising services and various public venue management services. The target group agrees the price for each service with the customers upfront and issues the monthly bill to the customers which varies based on the actual level of services completed in that month.

***Other income***

Interest income is recognised, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

**Contract liabilities**

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Target Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Target Group performs under the contract.

**Employee benefits**

***Pension scheme***

The employees of the Target Group which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Target Group is required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

**Estimation uncertainty (continued)**

***Provision for expected credit losses on trade receivables***

The Target Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, service type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Target Group's historical observed default rates. The Target Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Target Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Target Group's trade receivables is disclosed in note 11 to the Historical Financial Information.

### 4. OPERATING SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segment, has been identified as the sole director of the Company.

**Information about major customer**

For the years ended 31 March 2022, 2021 and 2020, revenue from the ultimate holding company and its subsidiaries ("**China South City Group**") contributed 17%,14% and 24% of the Group's revenue respectively. Other than China South City Group, the Group has a large number of customers, none of whom contributed 10% or more of the Group's revenue during the years ended 31 March 2022, 2021 and 2020.

**Operating segment information**

The Group is principally engaged in the provision of property management services (including value-added ancillary services) in the PRC. Management reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the chief operating decision-maker of the Company regards that there is only one segment which is used to make strategic decisions.

**Information about geographical areas**

The major operating entity of the Group is domiciled in the PRC. Accordingly, all of the Group's revenue was derived in the PRC during the Relevant Periods.

As at 31 March 2022, 2021 and 2020, all of the non-current assets were located in the PRC.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

| | Year ended 31 March | | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| *Revenue from contract with customers* | 547,336 | 533,434 | 551,243 |

**Revenue from contracts with customers**

***(i) Disaggregated revenue information***

**For the year ended 31 March 2022**

| | **Property management services** | **Value-added ancillary services** | **Total** |
|---|---|---|---|
| **Timing of revenue recognition** | | | |
| Services transferred over time | 530,769 | 16,567 | 547,336 |

**For the year ended 31 March 2021**

| | **Property management services** | **Value-added ancillary services** | **Total** |
|---|---|---|---|
| **Timing of revenue recognition** | | | |
| Services transferred over time | 513,259 | 20,175 | 533,434 |

**For the year ended 31 March 2020**

| | **Property management services** | **Value-added ancillary services** | **Total** |
|---|---|---|---|
| **Timing of revenue recognition** | | | |
| Services transferred over time | 529,186 | 22,057 | 551,243 |

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 5. REVENUE, OTHER INCOME AND GAINS (continued)

#### *(ii) Performance obligations*

Information about the Target Group's performance obligations is summarised below:

*Property management services*

The Group recognises revenue in the amount that equals the right to invoice which corresponds directly with the value to the customer of the Group's performance to date on a monthly basis and payment is generally due within 60 days from the billing date. The Group has elected the practical expedient for not disclosing the remaining performance obligations for these types of contracts.

*Value-added ancillary services*

Value-added ancillary services mainly include advertising services and various public venue management services. As the customers simultaneously receive and consume the benefits provided by the Group's performance, thus the revenue is recognised over time when the performance obligations are satisfied.

An analysis of other income and gains is as follows:

| | Year ended 31 March | | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Other income** | | | |
| Interest income | 101 | 18,365 | 23,242 |
| Government grants* | 1,037 | 89 | 227 |
| Others | 1,748 | 4,081 | 3,233 |
| | 2,886 | 22,535 | 26,702 |
| Gains/(Losses) | | | |
| Net gains on disposal of property, plant and equipment | – | 30 | 2 |
| (Losses)/gains on redemption/repurchase of asset-backed securities | – | (5,750) | 17,240 |
| | – | (5,720) | 17,242 |
| | 2,886 | 16,815 | 43,944 |

* Government grants have been received from the relevant government authorities to foster and support the development of the Target Group in Mainland China. In the opinion of management, there are no unfulfilled conditions or contingencies relating to these grants.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 6. FINANCE COSTS

An analysis of finance costs is as follows:

| | Year ended 31 March | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Interest on interest-bearing other borrowings | – | 15,302 | 54,299 |
| Interest arising from discounted bills | 916 | 6,666 | 16,508 |
| | 916 | 21,968 | 70,807 |

### 7. PROFIT BEFORE TAX

The Target Group's profit before tax is arrived at after charging:

| | | Year ended 31 March | | |
|---|---|---|---|---|
| | *Notes* | 2022 | 2021 | 2020 |
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| Cost of services provided | | 302,010 | 301,549 | 323,263 |
| Depreciation of property, plant and equipment | *9* | 539 | 604 | 1,940 |
| Lease payments not included in the measurement of lease liabilities | | 238 | 204 | 267 |
| Employee benefit expense: | | | | |
| Wages and salaries | | 74,477 | 88,438 | 87,306 |
| Pension scheme contributions | | 13,039 | 1,463 | 16,041 |
| Impairment of trade receivables* | *11* | 24,360 | 15,102 | 16,911 |

* Included in "Other expenses" in the consolidated statement of profit or loss.

### 8. INCOME TAX EXPENSES

Under the relevant income tax law, the Target Group are subject to corporate income tax ("**CIT**") at the statutory rate of 25% on their respective taxable income during the Relevant Periods.

| | | Year ended 31 March | | |
|---|---|---|---|---|
| | *Note* | 2022 | 2021 | 2020 |
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| Current Mainland China CIT | | | | |
| Current for the year | | 36,145 | 30,756 | 21,069 |
| Overprovision in prior year | | (445) | (1,171) | 193 |
| Deferred Mainland China CIT | *17* | (6,077) | (3,768) | (4,380) |
| Total tax charge for the year | | 29,623 | 25,817 | 16,882 |

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 8. INCOME TAX EXPENSES (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective rate is as follows:

| | Year ended 31 March | | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Profit before tax | 119,465 | 106,828 | 66,181 |
| Tax at the statutory tax rate | 29,866 | 26,707 | 16,545 |
| Adjustments in respect of current tax of previous years | (445) | (1,171) | 193 |
| Expenses not deductible for tax | 202 | 281 | 144 |
| | 29,623 | 25,817 | 16,882 |

### 9. PROPERTY, PLANT AND EQUIPMENT

| | **Furniture and fixtures** | **Motor Vehicles** | **Others** | **Total** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **31 March 2022** | | | | |
| At 31 March 2021: | | | | |
| Cost | 3,955 | 2,764 | 1,380 | 8,099 |
| Accumulated depreciation | (2,667) | (2,414) | (557) | (5,638) |
| Net carrying amount | 1,288 | 350 | 823 | 2,461 |
| At 1 April 2021, net of accumulated depreciation | 1,288 | 350 | 823 | 2,461 |
| Additions | 443 | 294 | – | 737 |
| Disposals | (8) | – | (24) | (32) |
| Depreciation provided during the year | (472) | (43) | (24) | (539) |
| At 31 March 2022, net of accumulated depreciation | 1,251 | 601 | 775 | 2,627 |
| At 31 March 2022: | | | | |
| Cost | 4,322 | 3,058 | 1,356 | 8,736 |
| Accumulated depreciation | (3,071) | (2,457) | (581) | (6,109) |
| Net carrying amount | 1,251 | 601 | 775 | 2,627 |

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 9. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Furniture and fixtures *RMB'000* | Motor Vehicles *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **31 March 2021** | | | | |
| At 31 March 2020: | | | | |
| Cost | 3,730 | 2,751 | 1,320 | 7,801 |
| Accumulated depreciation | (2,240) | (2,403) | (474) | (5,117) |
| Net carrying amount | 1,490 | 348 | 846 | 2,684 |
| At 1 April 2020, net of accumulated depreciation | 1,490 | 348 | 846 | 2,684 |
| Additions | 348 | 13 | 60 | 421 |
| Disposals | (40) | – | – | (40) |
| Depreciation provided during the year | (510) | (11) | (83) | (604) |
| At 31 March 2021, net of accumulated depreciation | 1,288 | 350 | 823 | 2,461 |
| At 31 March 2021: | | | | |
| Cost | 3,955 | 2,764 | 1,380 | 8,099 |
| Accumulated depreciation | (2,667) | (2,414) | (557) | (5,638) |
| Net carrying amount | 1,288 | 350 | 823 | 2,461 |

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 9. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Furniture and fixtures | Motor Vehicles | Others | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **31 March 2020** | | | | |
| At 31 March 2019: | | | | |
| Cost | 3,668 | 3,427 | 7 | 7,102 |
| Accumulated depreciation | (1,621) | (2,376) | (6) | (4,003) |
| Net carrying amount | 2,047 | 1,051 | 1 | 3,099 |
| At 1 April 2019, net of accumulated depreciation | 2,047 | 1,051 | 1 | 3,099 |
| Additions | 255 | 4 | 1,313 | 1,572 |
| Disposals | (47) | – | – | (47) |
| Depreciation provided during the year | (765) | (707) | (468) | (1,940) |
| At 31 March 2020, net of accumulated depreciation | 1,490 | 348 | 846 | 2,684 |
| At 31 March 2020: | | | | |
| Cost | 3,730 | 2,751 | 1,320 | 7,801 |
| Accumulated depreciation | (2,240) | (2,403) | (474) | (5,117) |
| Net carrying amount | 1,490 | 348 | 846 | 2,684 |

### 10. INVENTORIES

| | As at 31 March | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Consumables | 973 | 1,478 | 1,059 |

### 11. TRADE RECEIVABLES

| | As at 31 March | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables | 165,593 | 128,745 | 120,625 |
| Impairment | (73,030) | (48,670) | (33,568) |
| | 92,563 | 80,075 | 87,057 |

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 11. TRADE RECEIVABLES (continued)

Trade receivables represent service income receivables from customers which are payable on issuance of invoices or in accordance with the terms of the related service agreements. The Target Group generally allows a credit period of not exceeding 60 days to its customers, except for certain customers which are granted with a longer credit term. The Target Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimize credit risk. Overdue balances are reviewed regularly by senior management. In view of this and the fact that the Target Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Target Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of each of the Relevant Periods based on the payment due date, net of loss allowance, is as follows:

| | As at 31 March | | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 1 year | 68,262 | 56,090 | 66,210 |
| 1-2 years | 21,534 | 20,372 | 14,820 |
| 2-3 years | 2,767 | 3,613 | 6,027 |
| | 92,563 | 80,075 | 87,057 |

The movements in the loss allowance for impairment of trade receivables are as follows:

| | As at 31 March | | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At beginning of year | 48,670 | 33,568 | 16,657 |
| Impairment losses *(note 7)* | 24,360 | 15,102 | 16,911 |
| At end of year | 73,030 | 48,670 | 33,568 |

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type, service type, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 11. TRADE RECEIVABLES (continued)

Set out below is the information about the credit risk exposure on the Target Group's trade receivables using a provision matrix

**As at 31 March 2022**

| | Within 1 year | 1 to 2 years | 2 to 3 years | Over 3 years | Total |
|---|---|---|---|---|---|
| Expected loss rate *(%)* | 7% | 36% | 88% | 100% | 44% |
| Gross carrying amount *(RMB'000)* | 73,776 | 33,879 | 23,907 | 34,031 | 165,593 |
| Expected credit losses *(RMB'000)* | 5,514 | 12,345 | 21,140 | 34,031 | 73,030 |

**As at 31 March 2021**

| | Within 1 year | 1 to 2 years | 2 to 3 years | Over 3 years | Total |
|---|---|---|---|---|---|
| Expected loss rate *(%)* | 6% | 30% | 78% | 100% | 38% |
| Gross carrying amount *(RMB'000)* | 59,819 | 29,199 | 16,579 | 23,148 | 128,745 |
| Expected credit losses *(RMB'000)* | 3,729 | 8,827 | 12,966 | 23,148 | 48,670 |

**As at 31 March 2020**

| | Within 1 year | 1 to 2 years | 2 to 3 years | Over 3 years | Total |
|---|---|---|---|---|---|
| Expected loss rate *(%)* | 7% | 35% | 65% | 100% | 28% |
| Gross carrying amount *(RMB'000)* | 70,859 | 22,899 | 17,454 | 9,413 | 120,625 |
| Expected credit losses *(RMB'000)* | 4,649 | 8,079 | 11,427 | 9,413 | 33,568 |

### 12. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | As at 31 March | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Prepayments | 1,469 | 2,329 | 1,787 |
| Deposits and other receivables | 7,831 | 5,105 | 8,253 |
| | 9,300 | 7,434 | 10,040 |

The loss allowance of financial asserts included in prepayments, other receivables and other assets was assessed to be minimal.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 13. CASH AND BANK BALANCES

| | As at 31 March | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Cash and bank balances | 137,034 | 20,780 | 117,744 |
| Less: Restricted cash* | (120,000) | – | (50,000) |
| Cash and cash equivalents | 17,034 | 20,780 | 67,744 |

* Restricted cash mainly comprises: (i) pledged deposits to secure interest-bearing borrowings; and (ii) pledged deposits to provide guarantee to related companies.

At the end of the Relevant Periods, the cash and bank balances of the Target Group denominated in RMB amounted to RMB137,034,000, RMB20,780,000 and RMB117,744,000, respectively. RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Target Group, and earn interest at the respective short-term time deposit rates. The bank balances and restricted cash are deposited with creditworthy banks with no recent history of default.

Certain of the Target Group's bank deposits with a carrying amount of RMB50,000,000 as at 31 March 2020 were pledged to secure interest-bearing other borrowings (note 14).

Certain of the Target Group's bank deposits with a carrying amount of RMB120,000,000 as at 31 March 2022 were pledged to provide guarantee to a related company.

### 14. INTEREST-BEARING OTHER BORROWINGS

| | As at 31 March 2020 | | |
|---|---|---|---|
| | Effective interest rate (%) | Maturity | RMB'000 |
| Current: | | | |
| Interest-bearing other borrowings – secured | 6.5% | 2020 | 32,489 |
| Non-current: | | | |
| Interest-bearing other borrowings – secured | 6.5%-6.6% | 2021-2023 | 301,854 |
| Analysed into: | | | |
| Within one year | | | 32,489 |
| From two to five years | | | 301,854 |
| | | | 334,343 |

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 14. INTEREST-BEARING OTHER BORROWINGS (continued)

On 14 September 2017, the Target Group entered into an asset-backed securities ("**ABS**") arrangement with an independent third party by pledging the future six years' right of receiving management fees for certain properties under its management for a maximum of six years. An aggregate amount of RMB760,000,000 is the priority portion of the ABS which had been purchased by the third parties. The net proceeds from the ABS, after deducting the issuance costs, amounted to approximately RMB742,535,000, which are repayable from one year to six years. Interest is payable quarterly in arrears. Holders of the priority portions of the ABS are entitled to receive interest at varying rates ranging from 6.3% to 6.6% per annum based on the terms and dates of redemption. A portion of the above ABS with the principal amounts of RMB120,000,000 and RMB100,000,000 matured and were settled on 15 September 2018 and 15 September 2019, respectively.

On 25 September 2019, the Target Group repurchased a part of the ABS at an aggregated principal amount of RMB270,000,000 and resold part of the ABS at an aggregated principal amount of RMB67,500,000 in November 2019 and December 2019.

During the year end 31 March 2021, the Target Group repaid and redeemed the remaining ABS at an aggregated principal amount of RMB337,500,000. The total consideration was RMB343,250,000, resulting in a loss on redemption amounting to RMB5,750,000.

The ABS are secured by certain of the Target Group's bank deposits with a carrying amount of RMB50,000,000 as at 31 March 2020 (note 13).

All interest-bearing other borrowings of the Target Group were denominated in Renminbi with interest rates ranging from 6.5% to 6.6% per annum.

The carrying amounts of the Target Group's other borrowings approximate to their fair values, which have been calculated by discounting the expected future cash flows at the prevailing interest rates.

### 15. TRADE AND OTHER PAYABLES

| | As at 31 March | | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | 144,131 | 104,898 | 119,322 |
| Other payables and accruals | 126,446 | 130,253 | 122,579 |
| | 270,577 | 235,151 | 241,901 |

Trade and other payables are non-interest-bearing and repayable within the normal operating cycle or on demand.

### 16. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

| | **31 March 2022** | **31 March 2021** | **31 March 2020** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| *Advances received from customers* | | | |
| Property management services | 79,734 | 122,818 | 81,288 |

Contract liabilities include advances received from customers in relation to the property management services.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 17. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Relevant Periods are as follows:

| **Assets** | *Note* | **Provision for impairment of trade receivables** *RMB'000* |
|---|---|---|
| At 1 April 2019 | | 4,164 |
| Deferred tax credited to profit or loss during the year | *8* | 4,380 |
| At 31 March 2020 | | 8,544 |
| At 1 April 2020 | | 8,544 |
| Deferred tax credited to profit or loss during the year | *8* | 3,768 |
| At 31 March 2021 | | 12,312 |
| At 1 April 2021 | | 12,312 |
| Deferred tax credited to profit or loss during the year | *8* | 6,077 |
| At 31 March 2022 | | 18,389 |

### 18. DIVIDENDS

No dividends have been paid or declared by the Target Company since the date of its incorporation and up to the end of the Relevant Periods.

### 19. SHARE CAPITAL

| | **31 March 2022** *RMB'000* | **31 March 2021** *RMB'000* | **31 March 2020** *RMB'000* |
|---|---|---|---|
| Registered capital | 50,000 | 50,000 | 50,000 |
| Paid-in capital: | 50,000 | 50,000 | 50,000 |

### 20. OTHER RESERVES

The amounts of the Target Company's reserves and the movements therein for each of the Relevant Periods are presented in the consolidated statements of changes in equity.

Pursuant to the relevant laws and regulations in PRC, the Target Company is required to transfer a certain percentage of its net profit after tax (after offsetting any prior years' losses, if any) to statutory reserve funds which are restricted as to use, until the balance of the statutory reserve funds reaches 50% of its registered capital.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 21. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

**Changes in liabilities arising from financing activities**

| | Interest-bearing other borrowings *RMB'000* | Interest payable included in trade and other payables *RMB'000* |
|---|---|---|
| At 1 April 2019 | 628,120 | – |
| Changes from financing cash flows | (330,836) | (12,272) |
| Gains on redemption/repurchase of asset-backed securities | (17,240) | – |
| Interest expense | 54,299 | 16,508 |
| At 31 March 2020 | 334,343 | 4,236 |

| | Interest-bearing other borrowings *RMB'000* | Interest payable included in trade and other payables *RMB'000* |
|---|---|---|
| At 1 April 2020 | 334,343 | 4,236 |
| Changes from financing cash flows | (355,395) | (10,902) |
| Losses on redemption of asset-backed securities | 5,750 | – |
| Interest expense | 15,302 | 6,666 |
| At 31 March 2021 | – | – |

| | Interest payable included in trade and other payables *RMB'000* |
|---|---|
| At 1 April 2021 | – |
| Changes from financing cash flows | (916) |
| Interest expense | 916 |
| At 31 March 2022 | – |

### 22. COMMITMENTS

At the end of each of the Relevant Periods, the Target Group did not have any significant commitments.

### 23. PLEDGE OF ASSETS

Details of the Target Group's assets pledged for the Target Group's interest-bearing other borrowing are included in note 13 to the Historical Financial Information.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 24. RELATED PARTY TRANSACTIONS AND BALANCES

In addition to the transactions detailed elsewhere in the Historical Financial Information, the Target Group had the following transactions with related parties during the Relevant Periods:

**(i) Transactions with related parties**

| | Year ended 31 March | | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Interest income | – | 18,098 | 22,859 |
| Property management services service income | 91,279 | 77,143 | 130,505 |
| | 91,279 | 95,241 | 153,364 |

The prices for the above service fees and other transactions were determined in accordance with the terms mutually agreed by the contracted parties.

**(ii) Outstanding balances with related parties**

| | Year ended 31 March | | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Due from related parties: | | | |
| Fellow subsidiaries | 530,122 | 567,388 | 653,863 |

The current balances with the fellow subsidiaries are mainly trading balances which are unsecured, interest-free and have no fixed terms of repayment.

**(iii)** During the Relevant Periods, the Target Group in Mainland China used the offices of fellow subsidiaries for free of charge.

**(iv)** No director of the Company received any fees or emoluments in respect of their services during the Relevant Periods. The sole director and key management of the Company also served the Company's parent company and fellow subsidiaries and received fees and emoluments from the parent company and fellow subsidiaries of the Target Group.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 25. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

| **Financial assets** | | **As at 31 March** | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | Financial assets measured at amortized cost | Financial assets measured at amortized cost | Financial assets measured at amortized cost |
| Trade receivables | 92,563 | 80,075 | 87,057 |
| Financial assets included in prepayments, deposits and other receivables | 7,831 | 5,105 | 8,253 |
| Due from related companies | 530,122 | 567,388 | 653,863 |
| Cash and bank balances | 137,034 | 20,780 | 117,744 |
| | 767,550 | 673,348 | 866,917 |

| **Financial liabilities** | | **As at 31 March** | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | Financial liabilities at amortised cost | Financial liabilities at amortised cost | Financial liabilities at amortised cost |
| Interest-bearing other borrowings | – | – | 334,343 |
| Financial liabilities included in trade payables and other payables and accruals | 270,577 | 235,151 | 241,901 |
| | 270,577 | 235,151 | 576,244 |

### 26. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, trade receivables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in trade and other payables and interest-bearing other borrowings, approximate to their carrying amounts largely due to the short term maturities of these instruments.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial instruments comprise interest-bearing other borrowings and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Target Group's operations. The Target Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Target Group's financial instruments are interest rate risk, foreign exchange risk, credit risk and liquidity risk. The sole director reviews and agrees policies for managing each of these risks and they are summarised below.

**Interest rate risk**

The Target Group does not have any significant exposure to risk of changes in market interest rates as the Target Group's debt obligations are with fixed interest rates. The Target Group has not used any financial instruments to hedge its exposure to interest rate risk during the Relevant Periods.

**Foreign exchange risk**

The Target Group does not have any significant exposure to risk of changes in foreign currency exchange rate. The Company only conducts business within Mainland China. Except for any potential future dividends of its subsidiary that might be declared to their shareholders, the bulk of the Company's revenue, capital investment and expenses are denominated in RMB.

**Credit risk**

***Maximum exposure and year-end staging as at 31 March 2022, 2021 and 2020***

The table below shows the credit quality and the maximum exposure to credit risk based on the Target Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 March 2022, 2021 and 2020. The amounts presented are gross carrying amounts for financial assets.

**31 March 2022**

| | **12-month ECLs** | **Lifetime ECLs** | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Simplified approach** | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables* | – | – | – | 165,593 | 165,593 |
| Financial assets included in prepayments, deposits and other receivables | 7,831 | – | – | – | 7,831 |
| Due from related companies | 530,122 | – | – | – | 530,122 |
| Cash and bank balances | 137,034 | – | – | – | 137,034 |
| | 674,987 | – | – | 165,593 | 840,580 |

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**31 March 2021**

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Simplified approach | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables* | – | – | – | 128,745 | 128,745 |
| Financial assets included in prepayments, deposits and other receivables | 5,105 | – | – | – | 5,105 |
| Due from related companies | 567,388 | – | – | – | 567,388 |
| Cash and bank balances | 20,780 | – | – | – | 20,780 |
| | 593,273 | – | – | 128,745 | 722,018 |

**31 March 2020**

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Simplified approach | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables* | – | – | – | 120,625 | 120,625 |
| Financial assets included in prepayments, deposits and other receivables | 8,253 | – | – | – | 8,253 |
| Due from related companies | 653,863 | – | – | – | 653,863 |
| Cash and bank balances | 117,744 | – | – | – | 117,744 |
| | 779,860 | – | – | 120,625 | 900,485 |

* For trade receivables to which the Target Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 11 to the financial statements.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Liquidity risk**

The Target Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations. The Target Group's objective is to maintain a balance between continuity of funding and flexibility through the use of corporation bonds, and funds generated from operations.

The maturity profile of the Target Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

| | **Within 1 year** | **2 to 5 years** | **Total** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **As at 31 March 2022** | | | |
| Financial liabilities included in trade and other payables and accruals | 270,577 | – | 270,577 |
| **As at 31 March 2021** | | | |
| Financial liabilities included in trade and other payables and accruals | 235,151 | – | 235,151 |
| **As at 31 March 2020** | | | |
| Financial liabilities included in trade and other payables and accruals | 241,901 | – | 241,901 |
| Interest-bearing other borrowings | 54,556 | 331,738 | 386,294 |
| | 296,457 | 331,738 | 628,195 |

### 28. CAPITAL MANAGEMENT

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 28. CAPITAL MANAGEMENT (continued)

The Target Group monitors capital using a gearing ratio (net debt to the total equity) and total liabilities to total assets ratio. Net debt includes trade payables and interest-bearing other borrowings less cash and bank balances. The gearing ratios as at the end of the Relevant Periods were as follows:

| | As at 31 March | | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | 144,131 | 104,898 | 119,322 |
| Interest-bearing other borrowings | – | – | 334,343 |
| Less: Cash and bank balances *(note 13)* | (137,034) | (20,780) | (117,744) |
| Net debt | 7,097 | 84,118 | 335,921 |
| Total equity | 373,563 | 283,721 | 202,710 |
| Total assets | 791,008 | 691,928 | 880,991 |
| Total liabilities | 417,445 | 408,207 | 678,281 |
| Net debt/Total equity | 2% | 30% | 166% |
| Total liabilities/Total assets | 53% | 59% | 77% |

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 29. STATEMENT OF FINANCIAL POSITION OF THE TARGET COMPANY

Information about the statement of financial position of the Target Company at the end of the reporting period is as follows:

| | As at 31 March | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 2,627 | 2,461 | 2,684 |
| Deferred tax assets | 18,389 | 12,312 | 8,544 |
| Total non-current assets | 21,016 | 14,773 | 11,228 |
| CURRENT ASSETS | | | |
| Inventories | 969 | 1,478 | 1,059 |
| Trade receivables | 152,352 | 80,310 | 87,057 |
| Prepayments, other receivables and other assets | 9,294 | 7,434 | 10,040 |
| Due from related companies | 530,122 | 567,388 | 653,863 |
| Cash and bank balances | 77,017 | 20,623 | 117,744 |
| Total current assets | 769,754 | 677,233 | 869,763 |
| CURRENT LIABILITIES | | | |
| Interest-bearing other borrowings | – | – | 32,489 |
| Trade and other payables | 270,372 | 235,151 | 241,901 |
| Contract liabilities | 79,734 | 122,818 | 81,288 |
| Tax payables | 67,135 | 50,238 | 20,749 |
| Total current liabilities | 417,241 | 408,207 | 376,427 |
| NET CURRENT ASSETS | 352,513 | 269,026 | 493,336 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 373,529 | 283,799 | 504,564 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing other borrowings | – | – | 301,854 |
| Total non-current liabilities | – | – | 301,854 |
| Net assets | 373,529 | 283,799 | 202,710 |
| EQUITY | | | |
| Share capital | 50,000 | 50,000 | 50,000 |
| Other reserves | 323,529 | 233,799 | 152,710 |
| Total equity | 373,529 | 283,799 | 202,710 |

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 29. STATEMENT OF FINANCIAL POSITION OF THE TARGET COMPANY (continued)

Information about the other reserves of the Target Company at the end of the reporting period is as follows:

| | Statutory surplus reserve *RMB'000* | Retained profits *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| At 1 April 2019 | 1,238 | 102,173 | 103,411 |
| Profit for the year | – | 49,299 | 49,299 |
| Total comprehensive income for the year | – | 49,299 | 49,299 |
| Transfer from retained profits | 4,930 | (4,930) | – |
| At 31 March 2020 | 6,168 | 146,542 | 152,710 |

| | Statutory surplus reserve *RMB'000* | Retained profits *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| At 1 April 2020 | 6,168 | 146,542 | 152,710 |
| Profit for the year | – | 81,089 | 81,089 |
| Total comprehensive income for the year | – | 81,089 | 81,089 |
| Transfer from retained profits | 8,101 | (8,101) | – |
| At 31 March 2021 | 14,269 | 219,530 | 233,799 |

| | Statutory surplus reserve *RMB'000* | Retained profits *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| At 1 April 2021 | 14,269 | 219,530 | 233,799 |
| Profit for the year | – | 89,730 | 89,730 |
| Total comprehensive income for the year | – | 89,730 | 89,730 |
| Transfer from retained profits | 8,984 | (8,984) | – |
| At 31 March 2022 | 23,253 | 300,276 | 323,529 |

### 30. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 31 March 2022.

**Introduction**

This unaudited pro forma consolidated statement of assets and liabilities of the Group (the "**Unaudited Pro Forma Financial Information**") has been prepared by the Directors in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the Disposal and the exercise of Put Option or Call Option on the assets and liabilities of the Group (the "**Possible Repurchase**") as if the Disposal and the Possible Repurchase had taken place on 31 March 2022.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated assets and liabilities after the completion of the Disposal and the Possible Repurchase.

**Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of The Group**

| | The Group as at 31 March 2022 (Audited) *HK$'000* *(Note 1)* | Pro forma adjustments (Unaudited) *HK$'000* *(Note 2)* | After the disposal (Unaudited) *HK$'000* | Pro forma adjustments (Unaudited) *HK$'000* *(Note 3)* | After Possible Repurchase (Unaudited) *HK$'000* |
|---|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | | |
| Property, plant and equipment | 817,380 | (3,239) | 814,141 | 3,239 | 817,380 |
| Investment properties | 57,767,160 | | 57,767,160 | | 57,767,160 |
| Investment in an associate | – | 1,457,656 | 1,457,656 | (1,457,656) | – |
| Right-of-use assets | 543,937 | | 543,937 | | 543,937 |
| Properties under development | 1,578,157 | | 1,578,157 | | 1,578,157 |
| Goodwill | | | | 2,454,709 | 2,454,709 |
| Financial assets at fair value through profit or loss | 3,325 | | 3,325 | | 3,325 |
| Other long-term receivables | 560,758 | | 560,758 | | 560,758 |
| Deferred tax assets | 3,684,246 | (22,674) | 3,661,572 | 22,674 | 3,684,246 |
| **Total non-current assets** | 64,954,963 | | 66,386,706 | | 67,409,672 |

| | The Group as at 31 March 2022 (Audited) *HK$'000* *(Note 1)* | Pro forma adjustments (Unaudited) *HK$'000* *(Note 2)* | After the disposal (Unaudited) *HK$'000* | Pro forma adjustments (Unaudited) *HK$'000* *(Note 3)* | After Possible Repurchase (Unaudited) *HK$'000* |
|---|---|---|---|---|---|
| **CURRENT ASSETS** | | | | | |
| Properties held for finance lease | 135,251 | | 135,251 | | 135,251 |
| Properties held for sale | 46,693,652 | | 46,693,652 | | 46,693,652 |
| Inventories | 51,353 | (1,200) | 50,153 | 1,200 | 51,353 |
| Trade receivables | 2,351,409 | (114,130) | 2,237,279 | 114,130 | 2,351,409 |
| Prepayments, other receivables and other assets | 5,519,728 | (11,467) | 5,508,261 | 11,467 | 5,519,728 |
| Cash and bank balances | 4,681,068 | 1,288,693 | 5,969,761 | (1,288,693) | 4,681,068 |
| **Total current assets** | 59,432,461 | | 60,594,357 | | 59,432,461 |
| **CURRENT LIABILITIES** | | | | | |
| Trade and other payables | 12,049,373 | (333,620) | 11,715,753 | 333,620 | 12,049,373 |
| Due to an associate | – | 653,640 | 653,640 | (653,640) | – |
| Contract liabilities | 15,543,565 | (98,313) | 15,445,252 | 98,313 | 15,543,565 |
| Interest-bearing bank and other borrowings | 8,530,761 | | 8,530,761 | | 8,530,761 |
| Senior notes | 9,622,708 | | 9,622,708 | | 9,622,708 |
| Medium-term notes | 799,382 | | 799,382 | | 799,382 |
| Financial liabilities at fair value through profit or loss | 14,231 | | 14,231 | | 14,231 |
| Domestic company bonds | 1,797,258 | | 1,797,258 | | 1,797,258 |
| Tax payable | 4,648,572 | (82,777) | 4,565,795 | 82,777 | 4,648,572 |
| **Total current liabilities** | 53,005,850 | | 53,144,780 | | 53,005,850 |
| **NET CURRENT ASSETS** | 6,426,611 | | 7,449,577 | | 6,426,611 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | 71,381,574 | | 73,836,283 | | 73,836,283 |
| **NON-CURRENT LIABILITIES** | | | | | |
| Interest-bearing bank and other borrowings | 12,552,811 | | 12,552,811 | | 12,552,811 |
| Senior notes | 2,672,456 | | 2,672,456 | | 2,672,456 |
| Other long-term payables | 15,413 | | 15,413 | | 15,413 |
| Deferred tax liabilities | 11,050,922 | | 11,050,922 | | 11,050,922 |
| **Total non-current liabilities** | 26,291,602 | | 26,291,602 | | 26,291,602 |
| **Net assets** | 45,089,972 | 2,454,709 | 47,544,681 | | 47,544,681 |

*Notes:*

(1) Figures are extracted from the audited consolidated statement of financial position of the Group as at 31 March 2022 as set out in the published annual report of the Company for the year ended 31 March 2022.

(2) In according with the Equity Transfer Agreement dated 15 July 2022, the Vendor agreed to dispose 50% equity interests in the Target Company to the Purchaser at the consideration of RMB1,256,600,000 (equivalent to approximately HK$1,457,656,000). For the purpose of this Unaudited Pro Forma Financial Information, it is assumed that deconsolidation of assets and liabilities of the Target Group has been taken place and all the consideration has been collected by cash on 31 March 2022.

Accordingly, this adjustment reflects the effect of the completion of the Disposal and details are summarised as follows:

| | *HK$'000* |
|---|---|
| Cash consideration | 1,457,656 |
| The book value of total equity of the Target Group as at 31 March 2022 | (460,603) |
| The fair value of the remaining equity of the Target Group after the Disposal as at 31 March 2022 | 1,457,656 |
| Reallocation of exchange reserve | 8,249 |
| Estimated gain on the Disposal *(note)* | 2,462,958 |

*Note:* Following assumptions are taken by the Directors to arrive at estimated gain on the Disposal:

– tax expense in relation to the Disposal is not provided;

– the working capital remains the same as at 31 March 2022;

– As it is highly unlikely that the Put Option Triggering Events will occur, the fair value of the Put Option is assumed to be zero.

Actual gain on disposal arising from the Disposal depends on actual proceeds from the Disposal, actual amount of net assets of the Target Group, actual reallocation of exchange reserve and actual fair value of the remaining equity of the Target Group. Therefore, the actual gain on disposal shall be different from the amount calculated in the above table.

(3) The Possible Repurchase is assumed for pro forma purposes to take place immediately after the Disposal on 31 March 2022. For the purpose of preparation of the Unaudited Pro Forma Financial Information, HK$1,457,656,000 is assumed to be repaid to the Purchaser with reference to Note 2 above.

The calculation of estimated goodwill on the Possible Repurchase to be recognised, if the Possible Repurchase had taken place on 31 March 2022, is as follows:

| | *HK$'000* |
|---|---|
| Cash consideration | 1,457,656 |
| Nets assets of the Target Group as at 31 March 2022 | (460,603) |
| The fair value of the remaining equity of the Target Group after the Disposal as at 31 March 2022 | 1,457,656 |
| Estimated Goodwill on the Possible Repurchase *(note)* | 2,454,709 |

*Note:* Following assumptions are taken by the Directors to arrive at estimated goodwill on the Possible Repurchase:

– tax expense in relation to the Disposal is not provided;

– the working capital remains the same as at 31 March 2022;

– As it is highly unlikely that the Put Option Triggering Events will occur, the fair value of the Put Option is assumed to be Zero;

– the fair value of the assets obtained and the liabilities assumed equals to their respective book value as at 31 March 2022;

– no impairment of the goodwill arising from the Possible Repurchase.

When preparing the pro forma consolidated statement of assets and liabilities of the Group, it has been assumed that the Disposal and Possible Repurchase occurred on the same day. Upon the completion of the Possible Repurchase, the Company will perform a purchase price allocation for financial reporting purposes using the information available as at the completion date of the Possible Repurchase. The fair value of net indefinable assets acquired and resulting goodwill calculated then will likely be different from the amounts disclosed above. The Company will assess the impairment of goodwill and intangible assets following the requirement of HKAS 36 then.

(4) RMB is converted into HK$ at an exchange rate of RMB1 = HK$1.233 for illustrative purpose.

(5) Apart from notes above, no other adjustment has been made to reflect any result or other transactions of the Group entered into subsequent to 31 March 2022 for the purpose of preparation of the Unaudited Pro Forma Financial Information.

(6) The above adjustments are not expected to have a continuing effect on the Unaudited Pro Forma Financial Information of the Group.

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To the Directors of China South City Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China South City Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities of the Group as at 31 March 2022 and the related notes set out in Appendix III of the circular dated 25 August 2022 (the "**Circular**") issued by the Company (the "**Unaudited Pro Forma Financial Information**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix III of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors illustrating the impact of the proposed disposal of 50% equity interest in Shenzhen First Asia Pacific Property Management Company Limited (the "**Target Company**") (the "**Disposal**") and the exercise of put option or call option on the Group's assets and liabilities as at 31 March 2022 as if the Disposal and the exercise of put option or call option had taken place at 31 March 2022. As part of this process, information about the Group's assets and liabilities as at 31 March 2022 has been extracted by the Directors from the published annual report of the Group as at 31 March 2022.

**Directors' responsibility for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

**Our independence and quality control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements*, and *Other Assurance* and *Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting accountants' responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrative the impact of the Disposal on unadjusted financial information of the Group as if the Disposal had taken place at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Disposal would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Disposal, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Disposal in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

**Ernst & Young**
Certified Public Accountants
Hong Kong
25 August 2022

**Valuation Report**

**on the Entire Shareholders' Equity Value of Shenzhen First Asia Pacific Property Management Company Limited Involved in the Equity Interest Proposed to be Transferred by China South City Holdings Limited**

To China South City Holdings Limited:

Shenzhen Zhongqihua Land Real Estate Assets Appraisal Co., Ltd. (深圳中企華土地房地產資產評估有限公司) was engaged by the Company to conduct an valuation on the market capitalization of the entire shareholders' equity value of Shenzhen First Asia Pacific Property Management Company Limited as at 30 September 2021, the Valuation Benchmark Date, by adopting the asset-based approach and income approach with necessary appraising procedures. The valuation details are reported as follows:

## I. THE ENGAGING PARTY, APPRAISED ENTITY AND OTHER USERS OF THE VALUATION REPORT AGREED IN THE VALUATION ENGAGEMENT CONTRACT

The engaging party of the valuation is China South City Holdings Limited; the appraised entity is Shenzhen First Asia Pacific Property Management Company Limited ("**Asia Pacific Property**"); and other users of the valuation report agreed in the valuation engagement contract are users stipulated by laws and administrative regulations.

### (I) Brief introduction of the engaging party

| | |
|---|---|
| Company name: | 華南城控股有限公司 |
| English name: | China South City Holdings Limited |
| Stock code: | 1668.HK |
| Registration place: | Hong Kong, the PRC |
| Registered address: | Suites 3306–08, 33/F., Tower 5, The Gateway, 15 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong |
| Date of incorporation: | 8 May 2002 |
| Main business scope: | development and operation of large-scale integrated logistics and trade centres, development of residential and commercial ancillary facilities, property management, e-commerce and provision of logistics and warehousing services. |

**(II) Brief introduction of the appraised entity**

***1. Company profile***

| | |
|---|---|
| Company name: | Shenzhen First Asia Pacific Property Management Company Limited |
| Legal domicile: | China South International Industrial Materials City, No. 1, South China Avenue, Pinghu Town, Longgang District, Shenzhen |
| Legal representative: | Li Zesong |
| Registered capital: | RMB50 million |
| Date of establishment: | 31 December 2003 |
| Term of operation: | from 31 December 2003 to 31 December 2026 |
| Economic nature: | limited liability company (sole proprietorship from Taiwan, Hong Kong and Macao) |
| Scope of business: | general operations: property management; domestic service; landscaping; cleaning service; pests removal service; house repairing; house maintenance; real estate broker; property management information consulting; enterprise management consulting; enterprise management scheme planning; advertising business; sales and operation of daily necessities; wholesale, import and export of office supplies, sports equipment, knitwear and textiles, daily necessities, clothing, shoes and hats, hardware and electrical products, chemical products (excluding hazardous chemicals) and related ancillary business; exhibition business (undertaking exhibition services of subsidiary agricultural products, agricultural capital products, forest products, livestock products, aquatic products, food, cultural products, handicrafts, electronic products, household appliances, industrial products, chemical products, non-ferrous metals, precious stones, jade, mechanical equipment, building materials, hardware and electrical products, daily necessities, jewelry, knitwear and textiles and clothing). Licensed operations: parking service for motor vehicles at parking lots; swimming pool operation and management; club operation and management. |

**2. *Shareholders of the company and their shareholding percentage and changes of equity***

*(1) Establishment of the company*

Asia Pacific Property was established on 31 December 2003 by China South City Holdings Limited and China South International Industrial Materials City (Shenzhen) Company Limited, with a registered capital of RMB3 million and a paid-up capital of RMB3 million. Upon the establishment of the company, the shareholding of shareholders is as follows:

| No. | Name of shareholder | Capital contribution (*RMB'0,000*) | Shareholding (*%*) |
|---|---|---|---|
| 1 | China South City Holdings Limited | 75.00 | 25.00 |
| 2 | China South International Industrial Materials City (Shenzhen) Company Limited | 225.00 | 75.00 |
| | **Total** | 300.00 | 100.00 |

*(2) First capital increase*

In March 2008, the shareholders of Asia Pacific Property called for a board meeting, which resolved to increase the registered capital of Asia Pacific Property from RMB3 million to RMB5 million, including a capital injection of RMB0.5 million from China South City Holdings Limited and a capital injection of RMB1.5 million from China South International Industrial Materials City (Shenzhen) Company Limited. The equity structure after the completion of this capital increase is as follows:

| No. | Name of shareholder | Amount of capital contribution (*RMB'0,000*) | Shareholding (*%*) |
|---|---|---|---|
| 1 | China South City Holdings Limited | 125.00 | 25.00 |
| 2 | China South International Industrial Materials City (Shenzhen) Company Limited | 375.00 | 75.00 |
| | **Total** | 500.00 | 100.00 |

*(3) Second capital increase*

In October 2012, China South International Industrial Materials City (Shenzhen) Company Limited, the shareholders, increased the capital of Asia Pacific Property by RMB45 million, and the registered capital was increased from RMB5 million to RMB50 million; the capital contribution of China South City Holdings Limited remained unchanged. The equity structure after the completion of this capital increase is as follows:

| No. | Name of shareholder | Amount of capital contribution *(RMB'0,000)* | Shareholding *(%)* |
|---|---|---|---|
| 1 | China South City Holdings Limited | 125.00 | 2.50 |
| 2 | China South International Industrial Materials City (Shenzhen) Company Limited | 4,875.00 | 97.50 |
| | **Total** | 5,000.00 | 100.00 |

*(4) The equity transfer*

In July 2017, the shareholders of Asia Pacific Property called for a shareholders meeting and agreed that the shareholders, China South City Holdings Limited and China South International Industrial Materials City (Shenzhen) Company Limited, to transfer 2.50% and 97.50% equity interest in Asia Pacific Property to First Asia Pacific Group Company Limited, respectively. The equity structure after the completion of this equity transfer is as follows:

| No. | Name of shareholder | Amount of capital contribution *(RMB'0,000)* | Shareholding *(%)* |
|---|---|---|---|
| 1 | First Asia Pacific Group Company Limited | 5,000.00 | 100.00 |
| | **Total** | 5,000.00 | 100.00 |

As at the Valuation Benchmark Date, there was no other change in equity.

### 3. *Property rights and operation management structure of the Company:*

*(1) Structure of property rights*

As at the Valuation Benchmark Date, the capital structure of Asia Pacific Property is as follows:

China South City Holdings Limited (incorporated in Hong Kong)

↓ 100%

Alliance Century Limited (incorporated in Cayman Islands)

↓ 100%

Bartow Investments Limited (incorporated in British Virgin Islands)

↓ 100%

First Asia Pacific Group Company Limited
(incorporated in Hong Kong)

↓ 100%

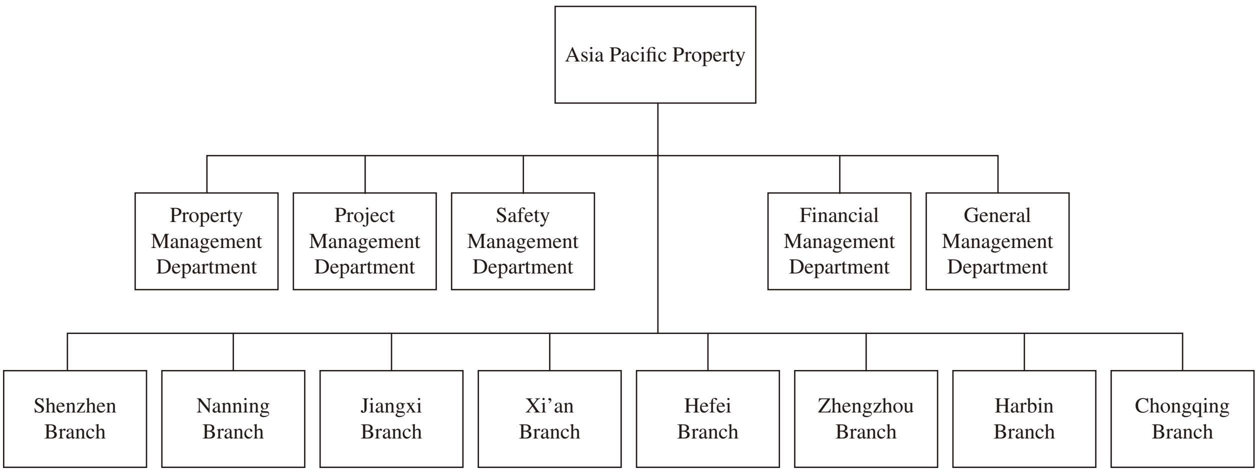
Asia Pacific Property (established in PRC)

↓ 100%

Shenzhen Yahua Property Management Company Limited
(深圳亞華物業管理有限公司) (established in PRC)

*(2) Organizational structure*

As at the Valuation Benchmark Date, the organizational structure of Asia Pacific Property is as follows:




***4. Basic information of the subsidiary and branches:***

According to the purpose of this valuation, the branches and subsidiary of Asia Pacific Property are as follows:

| No. | Name of Companies | Abbreviation | Shareholding *(%)* | Date of establishment | Nature |
|---|---|---|---|---|---|
| 1 | Shenzhen Yahua Property Management Company Limited | Yahua Property | 100.00 | April 2020 | Subsidiary |
| 1-1 | Shenzhen Yahua Property Management Company Limited Nanchang Branch | Yahua Nanchang Branch | – | December 2020 | Branch |
| 2 | Shenzhen First Asia Pacific Property Management Company Limited Zhengzhou Branch | Zhengzhou Branch | – | January 2013 | Branch |
| 3 | Shenzhen First Asia Pacific Property Management Company Limited Chongqing Branch | Chongqing Branch | – | July 2014 | Branch |

| No. | Name of Companies | Abbreviation | Shareholding (%) | Date of establishment | Nature |
|---|---|---|---|---|---|
| 4 | Shenzhen First Asia Pacific Property Management Company Limited Harbin Branch | Harbin Branch | – | October 2012 | Branch |
| 5 | Shenzhen First Asia Pacific Property Management Company Limited Xi'an Branch | Xi'an Branch | – | January 2012 | Branch |
| 6 | Shenzhen First Asia Pacific Property Management Company Limited Nanning Branch | Nanning Branch | – | July 2010 | Branch |
| 7 | Shenzhen First Asia Pacific Property Management Company Limited Shenzhen Branch | Shenzhen Branch | – | September 2014 | Branch |
| 8 | Shenzhen First Asia Pacific Property Management Company Limited Jiangxi Branch | Jiangxi Branch | – | April 2011 | Branch |
| 9 | Shenzhen First Asia Pacific Property Management Company Limited Hefei Branch | Hefei Branch | – | June 2013 | Branch |

### 5. *Assets, financial condition and business operation as at the Valuation Benchmark Date*

The financial condition of the appraised entity as at the Valuation Benchmark Date is set out in the table below:

**Balance sheet as at 30 September 2021 (Consolidated)**

*Unit: RMB'0,000*

| **Item** | **30 September 2021** |
|---|---|
| Current assets | 67,634.36 |
| Non-current assets | 1,713.40 |
| **Total assets** | **69,347.75** |
| Current liabilities | 39,036.36 |
| Non-current liabilities | – |
| **Total liabilities** | **39,036.36** |
| **Shareholder's equity** | **30,311.40** |
| **Equity attributable to owners of the parent** | **30,311.40** |

**Balance sheet as at 30 September 2021 (the company)**

*Unit: RMB'0,000*

| **Item** | **30 September 2021** |
|---|---|
| Current assets | 67,613.52 |
| Non-current assets | 1,713.40 |
| **Total assets** | **69,326.92** |
| Current liabilities | 39,016.21 |
| Non-current liabilities | – |
| **Total liabilities** | **39,016.21** |
| **Shareholder's equity** | **30,310.71** |

Business operation of the appraised entity as at the Valuation Benchmark Date is set out in the table below:

**Income statement from April to September 2021 (Consolidated)**

*Unit: RMB'0,000*

| **Item** | **April to September 2021** |
|---|---|
| **I. Total operating revenue** | 24,157.42 |
| Less: Operating costs | 19,520.45 |
| Taxes and surcharges | 51.91 |
| Selling expenses | – |
| Administrative expenses | 1,473.65 |
| R&D expenses | – |
| Finance costs | 56.19 |
| Among which: Interest expenses | – |
| Interest income | 8.02 |
| Add: Other gains | 216.79 |
| Investment gains (losses are denoted with "-") | – |
| Among which: Investment gains from associates and joint ventures | – |
| Gains on derecognition of financial assets measured at amortized cost (losses are denoted with "-") | – |
| Net gains of exposure hedging (losses are denoted with "-") | – |
| Gains from changes in fair value (losses are denoted with "-") | – |
| Credit impairment losses (losses are denoted with "-") | -1,030.70 |
| Impairment losses of assets (losses are denoted with "-") | – |
| Gains on disposal of assets (losses are denoted with "-") | – |
| **II. Operating profit (losses are denoted with "-")** | 2,241.31 |
| Add: Non-operating incomes | 83.19 |
| Less: Non-operating expenses | 2.57 |
| **III. Total profit (losses are denoted with "-")** | 2,321.93 |
| Less: Income tax expenses | 491.46 |
| **IV. Net profit (losses are denoted with "-")** | 1,830.47 |
| **V. Net profit attributable to owners of the parent (losses are denoted with "-")** | 1,830.47 |

**Income statement from April to September 2021 (the company)**

*Unit: RMB'0,000*

| Item | April to September 2021 |
|---|---|
| **I. Total operating revenue** | 24,075.63 |
| Less: Operating costs | 19,446.10 |
| Taxes and surcharges | 51.83 |
| Selling expenses | – |
| Administrative expenses | 1,473.62 |
| R&D expenses | – |
| Finance costs | 57.28 |
| Among which: Interest expenses | 1.95 |
| Interest income | -4.35 |
| Add: Other gains | 216.79 |
| Investment gains (losses are denoted with "-") | – |
| Among which: Investment gains from associates and joint ventures | – |
| Gains on derecognition of financial assets measured at amortized cost (losses are denoted with "-") | – |
| Net gains of exposure hedging (losses are denoted with "-") | – |
| Gains from changes in fair value (losses are denoted with "-") | – |
| Credit impairment losses (losses are denoted with "-") | -1,030.70 |
| Impairment losses of assets (losses are denoted with "-") | – |
| Gains on disposal of assets (losses are denoted with "-") | – |
| **II. Operating profit (losses are denoted with "-")** | 2,232.88 |
| Add: Non-operating incomes | 83.19 |
| Less: Non-operating expenses | 2.57 |
| **III. Total profit (losses are denoted with "-")** | 2,313.51 |
| Less: Income tax expenses | 491.46 |
| **IV. Net profit (losses are denoted with "-")** | 1,822.05 |

Financial statements of the appraised entity as at the Valuation Benchmark Date shall be verified by the seal of the corporation.

***6. Relationship between the engaging party and the appraised entity***

The engaging party is the shareholder of the appraised entity.

**(III) Other users of the valuation report agreed in the valuation engagement contract**

The valuation report is only for the use of the engaging party and users of the valuation report stipulated by national laws and regulations, and shall not be used or relied upon by any other third party.

## II. PURPOSES OF VALUATION

China South City Holdings Limited intends to transfer part of its equity interests in Asia Pacific Property, it shall value the market value of all equity interest of Asia Pacific Property as at the Valuation Benchmark Date to provide meaningful reference for the said economic activity.

## III. VALUATION TARGET AND SCOPE OF VALUATION

**(I) Valuation target**

The valuation target is the value of all equity interest Asia Pacific Property.

**(II) Scope of Valuation**

The scope of valuation covers all assets and liabilities of Asia Pacific Property. As at the Valuation Benchmark Date, the assets within the scope of valuation include current assets, long-term equity investments, fixed assets, intangible assets, long-term deferred expenses and deferred income tax assets, and the liability includes current liabilities. The carrying amounts of total assets, total liabilities and net assets are RMB693,269,200, RMB390,162,100 and RMB303,107,100, respectively.

The valuation target and scope of valuation are consistent with those involved in the economic activity. As at the Valuation Benchmark Date, the carrying amount of the assets and liabilities within the scope of valuation are confirmed by the seal of the appraised entity.

**(III) Information on major assets within the scope of valuation is as follows:**

The main physical assets declared by the enterprise to be included in the scope of valuation are equipment assets, which mainly are machinery equipment, vehicles and electronic equipment. As at the Valuation Benchmark Date, their details are as follows:

***(1) Machinery equipment***

Machinery equipment is the equipment for the daily operation of each company, mainly including cooling fans, heptafluoropropane fire extinguishing systems, elevating step ladders and hot air curtain machines, all of these devices are well-maintained and can function properly.

***(2) Transportation equipment***

Transportation equipment is the equipment mainly used for daily operations, such as electric vehicles, sprinklers, electric patrol cars and motorcycles, all of these vehicles are well-maintained and can function properly.

***(3) Electronic equipment***

Electronic equipment mainly comprises computers, projectors, printers, cameras and air conditioners, all of which are well-maintained and can function properly.

***(4) Information on intangible assets declared by the enterprise***

The intangible assets declared by the enterprise are mainly office software. As at the Valuation Benchmark Date, such software can be used except for certain deactivation.

***(5) Information on the other off-balance sheet assets declared by the enterprise***

Nil.

***(6) References to the relevant assets involved in the conclusions of other institutions' reports***

Nil.

**IV. TYPE OF VALUE**

According to the purposes of valuation, the type of value of the valuation target is determined to be the market value.

Market value refers to the estimated amount of value of a normal and arm's-length transaction made by the valuation target as at the Valuation Benchmark Date under the circumstances where the voluntary buyer and the voluntary seller acts rationally and without any imposition.

## V. VALUATION BENCHMARK DATE

The Valuation Benchmark Date of this report is 30 September 2021.

The Valuation Benchmark Date is determined by the engaging party.

## VI. BASIS OF VALUATION

### (I) Basis of economic activity

Statement of Appraisal Institution Engaged for the Project of Proposed Transfer of Equity Interests in Asia Pacific Property by China South City Holdings (《華南城控股擬轉讓亞太物業股權項目聘請估值機構的聲明》).

### (II) Legal and regulatory bases

1. Company Law of the People's Republic of China (《中華人民共和國公司法》) (adopted and revised at the 6th Session of the Standing Committee of the 13th National People's Congress on 26 October 2018);

2. Civil Code of the People's Republic of China (《中華人民共和國民法典》) (adopted at the 3rd Session of the 13th National People's Congress on 28 May 2020);

3. Financial Supervision and Administration Measures for the Asset Appraisal Industry (《資產評估行業財政監督管理辦法》) (Order No. 86 of the Ministry of Finance of the People's Republic of China, amended by Order No. 97 of the Ministry of Finance);

4. Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) (amended for the second time at the 7th Session of the Standing Committee of the 13th National People's Congress on 29 December 2018);

5. Accounting Standards for Business Enterprises – Basic Standards (《企業會計準則—基本準則》) (Order No. 33 of the Ministry of Finance), The Decision of the Ministry of Finance on Amending the Accounting Standards for Business Enterprises – Basic Standards (《財政部關於修改〈企業會計準則—基本準則〉的決定》) (Order No. 76 of the Ministry of Finance);

6. Interim Regulation of the People's Republic of China on Value Added Tax (《中華人民共和國增值稅暫行條例》) (Order No. 691 of the State Council);

7. Detailed Rules for the Implementation of the Interim Regulation of the People's Republic of China on Value Added Tax (《中華人民共和國增值稅暫行條例實施細則》) (Order No. 50 of the Ministry of Finance and the State Taxation Administration);

8. Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (《財政部稅務總局關於調整增值稅稅率的通知》) (Finance and Taxation [2018] No. 32);

9. Notice on Complete Implementation of the Pilot Program of Replacing Business Tax with Value-Added Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (Finance and Taxation [2016] No. 36);

10. Announcement of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs on Relevant Policies for Deepening the Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》) (Announcement No. 39 [2019] of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs);

11. Guidelines for the Application of Regulatory Rules – Appraisal No. 1 (《監管規則適用指引—評估類第1號》) of China Securities Regulatory Commission;

12. Other relevant laws, regulations, notification documents, etc.

**(III) Basis of ownership**

1. Other relevant property title certificates.

**(IV) Pricing basis**

1. Provisions on the Standards for Compulsory Retirement of Motor Vehicles (《機動車強制報廢標準規定》) (Order No. 12 [2012] of the Ministry of Commerce, National Development and Reform Commission, Ministry of Public Security and Ministry of Environmental Protection, implemented from 1 May 2013);

2. Benchmark loan rate for LPR and foreign exchange rate as at the Valuation Benchmark Date;

3. Other relevant valuation information recorded and collected by the valuation personnel during the on-site survey;

4. Other information related to this valuation.

**(V) Other References**

1. The list of assets and the declaration form for valuation provided by the appraised entity;

2. Financial statements of and stamped by the appraised entity;

3. Database of Shenzhen Zhongqihua Land Real Estate Assets Appraisal Co., Ltd.

## VII. VALUATION METHOD

The income approach refers to the valuation method that determines the value of a valuation target by capitalising or discounting its expected income.

The market approach refers to the valuation method that determines the value of a valuation target by comparing it with comparable listed companies or comparable transaction cases.

The asset-based approach refers to the valuation method that determines the value of valuation target by appraising the value of various assets and liabilities on the balance sheet and that of identifiable assets and liabilities off-balance sheet based on the balance sheet of the valuation target as at the Valuation Benchmark Date.

The valuation methods selected for this valuation are asset-based approach and income approach. Reasons for such selection are as follows:

Valuation personnel has conducted investigation and learned about the general operation of the Asia Pacific Property. The principal activity of the appraised entity is property management services which is involved in a wide range of areas with good return. As a result, it maintains the ability to gain continued revenue in the future. Income approach is adopted for this valuation as the revenue and risk for the valuation target in coming years can be estimated.

The condition of the adoption of market approach is that there is a well-established, fair and active open market with sufficient market data and comparable transaction cases. As the property right exchange market in China is not fully developed, accurate transaction background and methods are not available although there are comparable cases of similar transactions made by appraised entity and property companies in the market. Apart from that, there may be great discrepancy among those cases and it is difficult for us to obtain the financial data in respect of the comparable ones. In consequence, it is not feasible to reasonably compare the appraised entity with those transaction cases. As a result, market approach was not adopted for this valuation after taking into all of the above consideration.

The asset-based approach refers to the valuation method of calculating shareholders' aggregate equity interest by adding up the appraised value of assets the value of the enterprise and deducting the appraised value of liabilities to reflect the replacement cost of the appraised entity as at the Valuation Benchmark Date. Since it is easy to collect the information related to the assets and liabilities of the appraised entity, conditions for adopting the asset-based approach for the valuation are met.

**(I) Asset-based Approach**

***1. Current assets***

(1) Monetary fund includes cash and bank deposits. The appraised value of monetary fund is determined by the verified value through cash counts, verified bank statements, etc.

(2) Trade receivables and other receivables. Valuation personnel shall determine the valuation based on the recoverable amount of each payment on the basis of accurate verification of receivables. For the receivables believed to be fully recovered on adequate grounds, the appraised value is calculated according to the full amount of receivables; For the partial amount which is probably irrecoverable, in the event that it is difficult to determine the amount of irrecoverable receivables, historical information and on-site investigation are used to investigate and familiarize the situation, specifically analyse the amount, time and reasons of loans, recovery of the amounts, as well as the capital, credit and current situation of operating management to estimate the partial amount which is probably irrecoverable in accordance with the aging analysis method and calculated the valuation by deducting such amount as risk loss; for those which have conclusive evidences proving that the receivable cannot be recovered, the appraised value will be nil.

(3) Prepayments. Valuation personnel have investigated and learned about from relevant personnel of the appraised entity the reason why there were prepayments and conducted a check on the certificate and contracts related to the prepayments on a sample basis. Valuation personnel has determined the valuation based on the entitlement value which are recoverable on the basis of accurate verifying the prepayments. For the corresponding entitlement which are recoverable, the valuation shall be determined based on the verified carrying amount.

(4) Inventories-raw materials. Valuation personnel have investigated and learned about from the appraised entity the purchase model and information about the market price of the revolving materials in stock. They have conducted a check on the certificate and contracts of substantial amount on a sample basis as well as inspected and learned about the quality and performance about the materials. This valuation was determined based on carrying amount.

(5) Other current assets mainly comprise of input tax to be deducted. Valuation personnel have verified the alignment among sub-ledgers, general ledgers and the statement balances, checked relevant information such as a portion of original certificate and contracts on a sample basis to verify the authenticity, content of business and the amount of transactions. The valuation was determined based on the verified carrying amount.

***2. Long-term equity investment***

For the general valuation for holding long-term equity investment, the value of all shareholders' equity interest in the appraised entity shall be first assessed and then multiple the percentage of shareholdings to calculate the value of the shareholder's partial equity.

***3. Equipment Assets***

According to the purpose of valuation, in accordance with the principle of on-going use, based on the market price, and taking into account the characteristics of the appraised equipment and the information collected, the valuation is mainly carried out using the cost approach. For some equipment and vehicles acquired for a long period, the market approach is adopted and the valuation is based on the second-hand price.

*(1) Cost approach*

The formula for the calculation of cost approach is as follow:

Equipment valuation = replacement cost × composite depreciation rates

① Determination of replacement cost

A. Determination of the replacement cost of machinery and equipment

Replacement cost generally includes: purchase price of equipment, freight and miscellaneous charges, installation and commissioning fees, other expenses and value-added tax (the "**VAT**") deductions.

The formula for the calculation of equipment replacement cost is as follow:

Equipment replacement cost = purchase price (tax inclusive) of equipment + freight and miscellaneous fees + installation and commissioning fees + other expenses - deductible VAT

a. Purchase price of equipment

For large key equipment, the purchase price is mainly determined by reviewing the order contract and invoice of equipment, inquiring the quotation in the 2021 Mechanical and Electrical Products Quotation Manual or consulting the market price on the Valuation Benchmark Date with the manufacturer, or referring to the recent prices of similar equipment on Valuation Benchmark Date; for small equipment, the purchase price is determined mainly by inquiring the market quotation information on Valuation Benchmark Date; for the equipment for which the market quotation information is not available, it is mainly determined by referring to the purchase price of similar equipment.

b. Freight and miscellaneous fees

It is determined comprehensively pursuant to, where appropriate, the transportation distance between the equipment manufacturer and the equipment user, the size of equipment, the weight and value of equipment, and the means of transportation used and other factors. Freight and miscellaneous fees will be no longer considered separately if they are included in the purchase price of the equipment.

Freight and miscellaneous fees = purchase price of equipment × freight and miscellaneous fee rate

c. Installation and commissioning fees

Based on the purchase price of equipment, different installation rates are adopted to calculate the installation and commissioning fees pursuant to the characteristics, weight, ease of installation of the equipment. For the equipment that does not need to be installed, the installation and commissioning fees are not taken into account.

Installation and commissioning fees = purchase price of equipment × installation and commissioning fee rate

d. Other expenses

Other expenses are mainly the basic expenses of equipment. Pursuant to the features of equipment, and based on the purchase price (tax inclusive) of equipment respectively, the valuation personnel determines other expenses with reference to different professional nature of production equipment according to the charging standard of different industry regulations or investigation and understanding of the actual equipment basic expenses level of enterprise equipment.

e. Deductible VAT

According to "Finance and Taxation [2016] No. 36", "Finance and Taxation [2018] No. 32", and "Announcement No. 39 [2019] of the Ministry of Finance, the State Administration of Taxation and General Administration of Customs", the formula for the calculation of deductible VAT of the equipment eligible for VAT deduction is as follow:

Deductible equipment VAT = purchase price of equipment/1.13×13%

Deductible equipment transportation fees VAT: it shall be deducted for the VAT on the transportation fees of fixed assets in accordance with relevant national tax policies. The formula is:

Deductible equipment transportation fees VAT = transportation fees/1.09×9%

Deductible equipment installation fees VAT: it shall be deducted by a certain percentage in accordance with relevant national tax policies. The formula is:

Deductible equipment installation VAT = installation fees/1.06×6%

Deductible equipment basic expenses VAT = equipment basic expenses/1.09×9%

B. Determination of the replacement cost of vehicles

It is determined based on the latest market quotation and transaction price information of the local vehicle market on Valuation Benchmark Date. Its calculation formula is as follows:

Replacement cost of vehicles = purchase price - deductible VAT

C. Determination of the replacement cost of electronic devices

Electronic devices included into this analysis are small devices with relatively simple composition and ready-to-use, the purchase price of which generally include the freight and miscellaneous fees, thus no installation and commissioning fees and freight and miscellaneous fees shall be calculated. Meanwhile, according to the provisions of "Finance and Taxation [2016] No. 36", "Finance and Taxation [2018] No. 32", "Announcement No. 39 [2019] of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs" and other documents, the replacement cost of devices qualified for VAT deduction shall be net of corresponding VAT. Therefore, other device replacement cost = device purchase price with tax - deductible VAT

Device purchase price is determined mainly through consulting the manufacturer or referring and analyzing the market quotation information on the Valuation Benchmark Date; in the case of devices without market quotation information, mainly by referring to the purchase price of similar devices.

② Determination of the composite depreciation rate

A. For special devices and general machine and equipment, the determination of their useful life is mainly based on their economic life and used life and on-site investigation in respect of use and technical condition of the devices. Their composite depreciation rate then is determined according to the following formula.

Composite depreciation rate = useful life/(useful life + used life)×100%

B. For small devices such as electronic devices and air conditioner, their composite depreciation rate is mainly based on their economic life, while for large electronic devices, the working environment, operation condition of the devices and other factors are taken into account to determine their composite depreciation rate. The calculation formula is as follows:

Life-method depreciation rate = (economic life - used life)/economic life×100%

Composite depreciation rate = life-method depreciation rate × adjustment coefficient

C. The theoretical depreciation rate of vehicles is mainly based on the Provisions on the Standards for Compulsory Retirement of Motor Vehicles (Decree No. 12 of 2012) (《機動車強制報廢標準規定》(2012第12號令)) jointly issued by the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection on 27 December 2012 and determined in accordance with the principle of mileage-method depreciation rate or life-method depreciation rate, whichever is lower. The calculation formula is as follows:

Useful-life depreciation rate = useful life/(used life + useful life)×100%

Mileage depreciation rate = (specified mileage - travelled mileage)/specified mileage×100%

Theoretical depreciation rate = min (useful-life depreciation rate, mileage depreciation rate)

Composite depreciation rate = theoretical depreciation rate × adjustment coefficient

③ Determination of valuation

Device valuation = device replacement cost × composite depreciation rate

*(2) Market approach*

Some devices purchased for a long period are valued based on the second market price on the Valuation Benchmark Date using market approach.

***4. Other intangible assets***

The valuation of outsourced softwares available in the market without upgraded version on the Valuation Benchmark Date is determined according to the market price of similar softwares on the Valuation Benchmark Date; while the valuation of those currently available in the market and upgraded is determined by deducting the upgrading fees of the softwares from the current market price. For softwares that are no longer traded in the market but can still be used for its original purpose, the depreciation rate is determined by referring to the original purchase costs of the company and the changing trend of the market price of similar softwares, and the valuation is calculated according to the following formula:

Valuation = original purchase price × (1 - depreciation rate)

### 5. *Long-term unamortized expenditures*

In terms of the valuation of long-term unamortized expenditures, the valuation personnel conducted a random-checking on all original vouchers, contracts and invoices to verify the authenticity and completeness of the audit content. It is verified that the amount of long-term unamortized expenditures is true and accurate, and the balance of amortization is correct. Long-term unamortized expenditures can still be entitled to the corresponding rights and interests or assets in the future beneficial period and are valued according to the balance to be amortized during the remaining beneficial period.

### 6. *Deferred income tax assets*

In terms of the valuation of deferred income tax assets, the valuation personnel verified the calculation process of deferred income tax assets in combination with the relevant provisions for bad debts of items and the income tax rate applicable to the appraised entity on the Valuation Benchmark Date. This valuation of deferred income tax assets arising from bad debt provision is valued based on the verified carrying amount.

### 7. *Liabilities*

Liabilities of the appraised entity include trade payables, amounts received in advance, employee compensation payable, taxes payable and other payables. The valuation personnel first verified the consistency between the sub-ledgers and the general ledger, and inspected the detailed items. At the same time, sampling was conducted against the relevant accounting vouchers and other information of such amounts to verify the authenticity of the carrying amount of the debts. Valuation is determined based on the verified carrying amount.

## (II) Income approach

The discounted cash flow approach under the income approach is adopted to assess the overall corporate value so as to indirectly calculating the total value of equity interest of shareholders. Overall corporate value comprises operating assets value arising from ordinary business operations and non-operating assets value not involved in ordinary business operations. The determination of the operating assets value, using discounted free cash flow model for enterprises, which is based on the free cash flow of enterprise for several years in the future, is calculated by adding up the sum after discounted at an appropriate discount rate. The calculation model is as follows:

Total value of equity interest of shareholders = overall corporate value – interest-bearing debt value

***1. Overall corporate value***

Overall corporate value refers to the sum of the total value of equity interest of Shareholders and interest-bearing debt value. According to the allocation and use of the asset of the appraised entity, the overall corporate value is calculated according to the following formula:

Overall corporate value = operating assets value + surplus assets value + non-operating assets value - non-operating liabilities value

*(1) Value of operating assets*

Operating assets refer to assets and liabilities under the free cash flow forecast after the Valuation Benchmark Date relating to production and operation of the appraised entity. Value of operating assets is calculated as follows:

$$p = \frac{F0}{(1+r)^{m/12/2}} + \sum_{i=1}^{n} \frac{Fi}{(1+r)^{(i-0.5+m/12)}} + \frac{Ft}{r \times (1+r)^{(i-0.5+m/12)}}$$

where, P: Value of the operating assets of the enterprise as at the Valuation Benchmark Date;

F0: Free cash flow of the enterprise forecast from the Valuation Benchmark Date to the end of March 2022;

Fi: Net free cash flow forecast for the financial year i ahead;

Ft: Net free cash flow in perpetual period;

r: Discount rate (herein: weighted average cost of capital (WACC));

n: Detailed forecast period;

i: FY i of the detailed forecast period;

m: number of months from the Valuation Benchmark Date to the end of March 2022;

where, the calculation formula of free cash flow of the enterprise is as follows:

Free cash flow of the enterprise = Net profit before interest and tax x (1 - income tax rate) + depreciation and amortisation - capital expenditure - increase in working capital where, discount rate (weighted average cost of capital (WACC)) is calculated as follows:

$$WACC = K_e \times \frac{E}{E+D} + K_d \times (1 - t) \times \frac{D}{E+D}$$

where, $k_e$: Cost of equity capital;

$k_d$: Cost of interest-bearing debt capital;

E: Market value of equity;

D: Market value of interest- bearing debts;

t: Income tax rate.

Where, cost of equity capital is calculated using the capital asset pricing model (CAPM). The calculation formula is as follows:

$$K_e = r_f + MRP \times \beta_L + r_c$$

where, $r_f$: Risk-free rate of return;

MRP: Market risk premium;

$\beta_L$: Systematic risk coefficient of equity;

$r_c$: Enterprise specific risk adjustment coefficient.

*(2) Value of surplus assets*

Surplus assets refer to assets that exceed the needs of the production and operation of the enterprise as at the Valuation Benchmark Date and are not covered by the free cash flow forecast of the enterprise after the Valuation Benchmark Date. Surplus assets of the appraised entity are surplus cash in excess of the operating cash required to maintain the ordinary operations of the enterprise, which are valued by using the cost method in this valuation.

*(3) Value of non-operating assets and non-operating liabilities*

Non-operating assets and non-operating liabilities refer to assets and liabilities that are not related to the production and operation of the stamped entity and are not covered by the free cash flow forecast of the enterprise after the Valuation Benchmark Date. The non-operating assets and non-operating liabilities of the appraised entity include other receivables, other current assets, deferred income tax assets and other payables, which are valued by using the cost method in this valuation.

*2. Value of interest-bearing debts*

Interest-bearing debts refer to the liabilities bearing interest payable by the appraised entity as at the Valuation Benchmark Date. The appraised entity has no interest-bearing liabilities.

**VIII. IMPLEMENTATION AND PARTICULARS OF VALUATION PROCEDURES**

The valuation personnel conducted valuation of the assets and liabilities of the valuation target during the period between 17 January 2022 and 8 June 2022. The implementation and particulars of the valuation procedures are as follows:

**(I) Acceptance of engagement**

In January 2022, our Company and the engaging party reached consensus on the basic matters (including the valuation purpose, the valuation target and the scope of valuation, and the Valuation Benchmark Date etc.) related to the valuation service and the rights and obligations of the parties, and we have, upon negotiations with the engaging party, prepared an appropriate valuation plan.

**(II) First-phase preparation**

After accepting the engagement, the project team drew up a specific work plan and formed a stamp team according to the valuation purpose, the features of the valuation target and the schedule. At the same time, a list of information and declaration forms required for the valuation were drawn up according to the actual needs of the project.

**(III) On-site investigation**

During the period between 17 January 2022 and 21 January 2022, the valuation personnel conducted necessary investigations and verification on the assets and liabilities of the valuation target and carried out necessary due diligence investigation on the operation and management of the appraised entity.

***1. Asset verification***

*(1) Guiding the appraised entity on how to complete the forms and to prepare materials to be provided to the appraisal institute*

The valuation personnel guided the financial and asset management personnel of the appraised entity on how to correctly and carefully fill out each of the required forms covering the assets which fall under the scope of this valuation according to the "Detailed Statement of Valuation" and instructions to complete the statement and the list of information were provided by the appraisal institute. They are also required to collect and prepare title certification of the assets and documents and information that can reflect their performance, status and economic and technical indexes.

*(2) Preliminary review and improvement of the Detailed Statement of Valuation filled out by the stamped entity*

The valuation personnel checked the relevant information to have an understanding of the details of the assets which fall under the scope of this valuation and carefully reviewed various "Detailed Statements of Valuation" to check if there is any incomplete information, errors, or unclear statements of asset items. Based on their experience and the information they had obtained, the valuation personnel reviewed the "Detailed Statements of Seals" to check if there were any omission and provided feedback to the appraised entity for them to improve the "Detailed Statements of Valuation".

*(3) On-site survey*

The valuation personnel conducted, with the cooperation of the relevant personnel of the appraised entity, on-site survey on various assets in terms of the types, quantity and allocation of the assets. Different survey methods were used in light of the nature and features of the different types of assets.

*(4) Supplementation, modification and improvement of Detailed Statements of Valuation*

Based on the results of the on-site surveys, the valuation personnel further improved the "Detailed Statements of Valuation" after proper communication with the relevant personnel of the appraised entity in order to ensure the consistency among the accounts, forms and actual circumstances.

*(5) Verification of property title certificates*

After verifying the property title certificates which fall under the scope of the assets of the Company, the valuation personnel requested the enterprise to verify or provide relevant supporting documents related to property title for assets with defective title or unclear ownership.

***2. Due diligence***

The valuation personnel conducted necessary due diligence in order to fully understand the operation and management of the appraised entity and the risks which the entity is facing. The due diligence work mainly covered the following:

(1) History, substantial shareholders and shareholding percentage, necessary property rights and operation and management structure of the appraised entity;

(2) Assets, finance, production, operation and management of the appraised entity;

(3) Business plans, development planning and financial forecast of the appraised entity;

(4) Previous valuations and transactions of the valuation target and the appraised entity;

(5) Macro and regional economic factors affecting the production and operation of the appraised entity;

(6) Development trend and prospects of the industry in which the appraised entity is engaged in;

(7) Other relevant information and materials.

**(IV) Collection of information**

The valuation personnel conducted information for the valuation project, including the information acquired directly from the market and other channels, the information obtained from the engaging and relevant parties and the information obtained from government agencies, professional institutions and other relevant departments. They made necessary analysis, induction and collation of the collected information to develop basis for valuation and estimate.

**(V) Valuation and estimation**

The valuation personnel adopted, in light of the specific situations of various assets, the corresponding formulae and parameters to make analysis, calculation and judgment on the assets using the selected valuation methods to reach a preliminary conclusion of valuation. Then the project leader summarized the preliminary conclusion of valuation concerning the various assets, and prepared the preliminary valuation report.

**(VI) Internal audit**

According to the Administrative Measures for Valuation Process of our Company, the project leader would submit the valuation report for our internal audit after the preliminary valuation report has been prepared. Upon completion of the internal audit, the project leader will then communicate with the engaging or other relevant parties as agreed by the engaging party on contents of the valuation report. We will issue and submit the valuation report after reasonable modification of the report based on the feedback.

## IX. VALUATION ASSUMPTIONS

The following assumptions were used for the analysis and estimate in the valuation report:

1. There will be no material changes to the relevant national laws, regulations and policies and the macroeconomic situation, and there will be no material changes to the political, economic and social environment in the regions where the parties to the transaction are located;

2. the enterprise will continue to operate as a going concern after the Valuation Benchmark Date;

3. there will be no material changes to the interest rates, exchange rates, tax bases, tax rates, policy-imposed levies in relation to the appraised entity after the Valuation Benchmark Date;

4. the management of the appraised entity will be responsible and stable, and will have the capability to perform their duties after the Valuation Benchmark Date;

5. unless otherwise specified in the Valuation Report, the appraised entity will fully comply with all relevant laws and regulations;

6. there will be no force majeure and unforeseeable factors which may have a material adverse impact on the appraised entity after the Valuation Benchmark Date;

7. the accounting policies to be adopted by the appraised entity after the Valuation Benchmark Date are consistent with the accounting policies adopted in the preparation of the Valuation Report in material respects;

8. based on the existing management style and standard of the appraised entity, the scope and way of business operation will remain consistent after the Valuation Benchmark Date;

9. the impacts of future potential pledge, guarantee and additional consideration to be paid under special circumstances which may affect the valuation have not been taken into account;

10. the cash inflow and cash outflow of the appraised entity will be evenly distributed over time after the Valuation Benchmark Date;

11. the property projects under construction will be delivered in time and there will be no material changes to future property management fee collection plans;

12. the unit price of property management fee for various types of properties will remain stable and there will be no material changes in the future.

The conclusion of valuation of the valuation report is as at the Valuation Benchmark Date based on the above assumptions. In the event of any material changes to the above assumptions, the valuation personnel and the appraisal institute shall not be responsible for deducing different conclusions of valuation due to any changes of the assumptions.

## X. VALUATION CONCLUSIONS

### (I) Valuation results using income approach

The carrying amount of total assets of Asia Pacific Property was RMB693,269,200, the carrying amount of its total liabilities was RMB390,162,100, and the carrying amount of its net assets was RMB303,107,100.

Based on the valuation under income approach, the total interests attributable to shareholders amounted to RMB2,766,316,500, representing an appreciation amount of RMB2,463,209,400 and an appreciation rate of 812.65%.

### (II) Valuation results using assets-based approach

As at the Valuation Benchmark Date, the carrying amount of total assets of Asia Pacific Property was RMB693,269,200, its valuation was RMB693,452,200, representing an appreciation amount of RMB183,000 and an appreciation rate of 0.03%; the carrying amount of its total liabilities was RMB390,162,100, its valuation was RMB390,162,100 with no appreciation or depreciation; the carrying amount of its net assets was RMB303,107,100, its valuation using assets-based approach was RMB303,290,100, representing an appreciation amount of RMB183,000 and an appreciation rate of 0.06%.

The detailed valuation results using assets-based approach are set out in the following consolidated statement of valuation results:

**Consolidated Statement of Valuation Results using Assets-based Approach**

Valuation Benchmark Date: 30 September 2021
*Unit: RMB0,000*

| Item | | Carrying amount A | Valuation result B | Appreciation or depreciation C=B-A | Appreciation rate% D=C/A×100% |
|---|---|---|---|---|---|
| I. Current assets | 1 | 67,613.52 | 67,613.52 | 0.00 | 0.00 |
| II. Non-current assets | 2 | 1,713.40 | 1,731.70 | 18.30 | 1.07 |
| Of which: Long-term equity investment | 3 | 0.00 | 0.68 | 0.68 | |
| Investment properties | 4 | 0.00 | 0.00 | 0.00 | |
| Fixed assets | 5 | 191.40 | 212.24 | 20.84 | 10.89 |
| Projects under construction | 6 | 0.00 | 0.00 | 0.00 | |
| Oil and gas assets | 7 | 0.00 | 0.00 | 0.00 | |
| Intangible assets | 8 | 62.85 | 59.63 | -3.22 | -5.13 |
| Of which: land use rights | 9 | 0.00 | 0.00 | 0.00 | |
| Other non-current assets | 10 | 1,459.14 | 1,459.14 | 0.00 | 0.00 |
| **Total assets** | **11** | **69,326.92** | **69,345.22** | **18.30** | **0.03** |
| III. Current liabilities | 12 | 39,016.21 | 39,016.21 | 0.00 | 0.00 |
| IV. Non-current liabilities | 13 | 0.00 | 0.00 | 0.00 | |
| **Total liabilities** | **14** | **39,016.21** | **39,016.21** | **0.00** | **0.00** |
| **Net assets** | **15** | **30,310.71** | **30,329.01** | **18.30** | **0.06** |

### (III) Valuation conclusions

Based on the valuation under income approach, the valuation of total equity attributable to shareholders was RMB2,766,316,500, and based on the valuation under assets-based approach, the valuation of total equity attributable to shareholders was RMB303,290,100, the difference resulting therefrom was RMB2,463,026,400 with a difference rate of 89.04%.

The difference between the two valuation approaches was mainly because: Assets-based approach is a valuation idea that determines the value of valuation target based on reasonable valuation of the assets values and liabilities of the enterprise, taking into consideration the reacquisition of assets; income approach is a valuation idea that determines the value of valuation object by discounting the expected revenue of appraised entity, taking into consideration the future profitability of the enterprise and reflecting the comprehensive profitability of the assets of the enterprise.

Under income approach, valuation personnel will reach conclusions by making reasonable predictions based on professional analysis on the enterprise's historical operating status and future revenue forecast, taking into consideration the impact on the value of all equity attributable to shareholders of the enterprise from factors including whether each segment asset in the enterprise is being used in reasonable and sufficient way and whether the combination of such assets has made contributions accordingly, as well as the impact on the value of all equity attributable to shareholders from factors like the enterprise's competitiveness in the industry, management capability, human resources and synergy of elements.

Asia Pacific Property is mainly engaged in property management services. Its major resources on which operations rely include fixed assets and working capital, as well as intangible resources such as technical team, sales team, management team and customer resources. Income approach is used for enterprise valuation by capitalizing or discounting the estimated revenue of appraised entity from judging the profitability of asset, and as such it can give a full picture of the values of off-balance sheet assets like enterprise brand and goodwill. In the view of rational investors, equity value is estimated based on the future expected cash flow returns to investors.

The key parameters of the forecasts under income approach are consistent with those inferred from valuation assumptions, can serve as a relatively adequate and reasonable basis for forecasting future revenue, are rigorous analysis on the history, current situation and future of segment industries and markets, and have prediction in line with market forces. The valuation procedures have been fully implemented with reasonable consideration for the possible impact of relevant information obtained from Valuation Benchmark Date to the reporting date. Therefore, the valuation results under income approach are well-placed to reflect the expected profitability of the enterprise and the value of equity attributable to shareholders of the enterprise. Asset-based approach is used to appraise the value of an enterprise by evaluating the value of each segment asset and considering relevant liabilities from the perspective of asset replacement. In comparison, the perspectives and approaches in the asset-based approach when assessing enterprise value are indirect and can be difficult to give a full picture of the value of off-balance sheet assets such as enterprise brand and goodwill.

Based on the above analysis, the valuation conclusions of the valuation report adopts the valuation results under income approach, i.e. the valuation result of the value of equity attributable to all shareholders of Asia Pacific Property is RMB2,766,316,500.

Due to the limitations from objective conditions, the valuation report does not take into consideration the impact of premiums or discounts that may arise in light of having control or lack of control on the value of valuation target.

## XI. SPECIAL NOTES

Set out below are relevant matters identified during the valuation that may affect valuation conclusions but cannot be evaluated or estimated by valuation personnel with their competence and professionalism:

(I) When engaging the valuation, the engaging parties and relevant principals shall be responsible for the authenticity, completeness and legality of title certificates, financial and accounting information and others provided by them. The purpose of performing the valuation business is to appraise the value of valuation target and give professional opinion, and it is not within valuation personnel' s practice scope to confirm or express opinion on the legal title of object. Valuation personnel shall not provide guarantee on the legal titles of valuation target.

(II) In the valuation report, for all tables or textual expressions denominated in RMB ten thousand, any difference between the total amount and the sum of individual sub-values is due to rounding off.

(III) This valuation is based on the Hong Kong accounting period, and the historical balance sheet data of the appraised entity used is confirmed by the enterprise with its seal affixed thereon. Valuation personnel analyzed and judged the financial statements in accordance with the requirements of the valuation method used, while assuming no responsibility to give a professional opinion as to whether relevant financial statements present fairly the financial position as at the Valuation Benchmark Date and the results of operations and cash flows for the period.

(IV) Shenzhen Yahua Property Management Company Limited (深圳亞華物業管理有限公司), a wholly-owned subsidiary of Asia Pacific Property, with a registered capital of RMB10 million is included in the valuation. As at the Valuation Benchmark Date, Asia Pacific Property made no actual contribution.

(V) Given the objective impacts from the pandemic and the market environment, Asia Pacific Property actively answered the government's call for further helping market entities in relieving difficulties in response to the COVID-19 pandemic by agreeing to reduce the portion of service charges receivable from China South International Industrial Materials City (Shenzhen) Company Limited. In accordance with relevant agreements entered into by both parties, for the property management services (including but not limited to property fee concessions and property management of vacant house), various management services in relation to advertising and parking values, park lighting, park road, professional fire crew, pre-delivery consultancy services, sales office services provided by Asia Pacific Property to China South International Industrial Materials City (Shenzhen) Company Limited in relation to each project as at or before 31 December 2021, service fee in the outstanding portion is no longer need to be settled and shall cease to be charged on China South International Industrial Materials City (Shenzhen) Company Limited since then.

Since 1 January 2022, China South International Industrial Materials City (Shenzhen) Company Limited shall pay the corresponding service fee to Asia Pacific Property, with specific payment standard and settlement time being agreed upon otherwise by both parties.

(VI) For the charging standards on management fee in relation to vacant properties, the vacancy fees paid by China South International Industrial Materials City (Shenzhen) Company Limited to Asia Pacific Property for commercial projects (including business apartment projects) and residential projects are at 30% and 100% for the properties used, respectively, without taking into consideration the risk of whether China South International Industrial Materials City (Shenzhen) Company Limited has the ability to meet paying obligations continuously in the future or not; the charging standards on management fee in relation to vacant properties will not change subsequently.

(VII) For the forecast data for the period from October 2021 to March 2022, adjustments were made to actual profits incurred of Asia Pacific Property.

Users of the valuation report shall pay attention to the impact from the above special matters on valuation conclusions.

## XII. RESTRICTIONS ON USE OF VALUATION REPORT

### (I) Scope of use of the valuation report

1. Users of the valuation report: The engaging party and the users of valuation report stipulated by national laws and administrative regulations.

2. The valuation conclusions disclosed in the valuation report shall only be effective for the corresponding economic activities of the project.

3. The valuation conclusion of the valuation report shall be valid for one year from the Valuation Benchmark Date. The engaging party or other users of the valuation report shall use the asset valuation report within the stated validity period of valuation conclusions.

4. Without the written permission from the engaging party, the valuation institution and its valuation personnel shall not provide or disclose the content of the valuation report to a third party, unless otherwise provided by laws and administrative regulations.

5. Without the consent from the valuation institution, the content of the valuation report shall not be extracted, cited or disclosed in public media, unless otherwise required by laws and regulations and agreed otherwise by relevant parties.

**(II)** The valuation institution and its valuation personnel shall bear no responsibility for any use of the valuation report by the engaging party or other users of valuation report without complying with laws, administrative regulations and the scope of use set out in the valuation report.

**(III)** Except for the engaging party, the users of valuation report agreed in the valuation engagement contract and the users of valuation report stipulated by laws and administrative regulations, any other institutions or individuals shall not be the users of the report.

**(IV)** The users of the valuation report shall correctly understand and use valuation conclusions, which are not equivalent to realizable prices of valuation target and shall not be deemed as a guarantee to the realizable prices of valuation target.

**(V)** The valuation report is a professional report issued by the valuation institution after performing necessary valuation procedures in accordance with the engagement. The valuation report shall not be put into use unless and until it has been signed by valuation personnel undertaking the valuation with the seal of the valuation institution affixed there on.

**(VI)** The valuation conclusions disclosed in the valuation report shall only be effective for the economic activities described in the valuation report and the valuation conclusions shall be valid for one year from the Valuation Benchmark Date.

## XIII. DATE OF VALUATION REPORT

The valuation report was issued on 8 June 2022.

Valuation personnel: Xiang Xuci (向緒茨)

Valuation personnel: Peng Juan (彭娟)

Shenzhen Zhongqihua Land
Real Estate Assets Appraisal Co., Ltd.

8 June 2022

*The following is the text of a report from the Reporting Accountants for the purpose of incorporation in this circular.*

28 July 2022

The Board of Directors
China South City Holdings Limited (the "**Company**")

Dear Sirs,

**REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF SHENZHEN FIRST ASIA PACIFIC PROPERTY MANAGEMENT COMPANY LIMITED (HEREINAFTER REFERRED TO AS "SHENZHEN FIRST ASIA PACIFIC")**

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the "**Forecast**") on which the valuation dated 8 June 2022 prepared by Shenzhen Zhongqihua Land Real Estate Assets Appraisal Co., Ltd. in respect of the equity interest of Shenzhen First Asia Pacific as at 30 September 2021 is based. The valuation is set out in the announcement of the Company in relation to the disposal of 50% equity interest in Shenzhen First Asia Pacific dated 28 July 2022 (the "**Announcement**"). The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

**Directors' responsibilities**

The directors of the Company (the "**Directors**") are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the "**Assumptions**"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in ASSUMPTIONS OF THE VALUATION UNDER INCOME APPROACH of the Announcement.

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants' responsibilities**

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of Shenzhen First Asia Pacific. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under Rule 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

**Opinion**

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in accordance with the Assumptions adopted by the Directors.

Yours faithfully,

**Ernst & Young**
*Certified Public Accountants*
*Hong Kong*

*The following is the text of a letter from the Board for the purpose of incorporation in this circular.*

China South City

**China South City Holdings Limited**
**華南城控股有限公司**
*(incorporated in Hong Kong with limited liability)*
**(Stock Code: 1668)**

28 July 2022

Listing Division
The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place Central
Hong Kong

Dear Sirs,

Re: Announcement – Connected and Discloseable Transaction in relation to the Proposed Disposal of 50% Equity Interest in the Target Company

We, China South City Holdings Limited (the "**Company**") (Stock code: 1668), refer to the announcement of the Company dated 28 July 2022 (the "**Announcement**") of which this letter forms part. Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

We refer to the Valuation conducted by Shenzhen Zhongqihua Land Real Estate Assets Appraisal Co., Ltd., an independent valuer. The Valuation adopts an asset-based approach and income approach, among which the income approach (which is based on the discounted cash flow forecast) is regarded as a profit forecast under Rule 14.61 of the Listing Rules. We have discussed with the Valuer the different aspects upon which the Valuation was prepared (including the principal and commercial assumptions) and have reviewed the Valuation for which the Valuer is responsible.

Pursuant to Rule 14.62 of the Listing Rules, we have also engaged Ernst & Young, acting as the Company's reporting accountants, to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (which does not involve the adoption of accounting policies), and considered the report from Ernst & Young which was prepared in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "*Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*" issued by the Hong Kong Institute of Certified Public Accountants, as set out in Appendix I to the Announcement.

On the basis of the above, we confirm that the Valuation has been made after due and careful enquiry by us.

Yours faithfully,
For and on behalf of the Board
**China South City Holdings Limited**
**CHENG Chung Hing**
*Chairman and Executive Director*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this 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 this circular misleading.

## 2. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they had taken or were deemed to have taken under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules, were as follows:

| | | Number of Shares held | | | | | |
|---|---|---|---|---|---|---|---|
| **Name of Directors** | **Class of Shares** | **Corporate interest** | **Personal interest** | **Family interest** | **Share Options** | **Total** | **Approximate percentage of the Company's total number of issued Shares(5)** |
| Cheng Chung Hing | Ordinary Shares | 2,306,553,791(1) | – | – | – | 2,306,553,791 | 20.16% |
| Cheng Tai Po | Ordinary Shares | 588,984,145(2) | 4,936,000 | – | – | 593,920,145 | 5.19% |
| Geng Mei | Share Options | – | – | – | 30,000,000(3) | 30,000,000 | 0.37% |
| Cheng Ka Man Carman | Share Options | – | – | – | 7,800,000(3) | 7,800,000 | 0.09% |
| Li Wai Keung | Share Options | – | – | – | 2,000,000(4) | 2,000,000 | 0.02% |
| Leung Kwan Yuen Andrew | Share Options | – | – | – | 2,000,000(4) | 2,000,000 | 0.02% |
| Hui Chiu Chung | Share Options | – | – | – | 2,000,000(4) | 2,000,000 | 0.02% |

*Notes:*

(1) Mr. Cheng is interested in 100% of the issued share capital of Accurate Gain Developments Limited which in turn was deemed to have interests in 2,306,553,791 Shares. Mr. Cheng is the father of Ms. Cheng Ka Man Carman and the younger brother of Mr. Cheng Tai Po.

(2) Mr. Cheng Tai Po is interested in 100% of the issued share capital of Proficient Success Limited which in turn holds 588,984,145 Shares and is therefore deemed to be interested in the aforesaid 588,984,145 Shares. Mr. Cheng Tai Po is the elder brother of Mr. Cheng Chung Hing and the uncle of Ms. Cheng Ka Man Carman.

(3) The relevant interests are share options granted Ms. Geng Mei and Ms. Cheng Ka Man Carman pursuant to the Company's 2019 Share Option Scheme adopted on 13 September 2019.

(4) The relevant interests are share options granted to Mr. Leung Kwan Yuen Andrew, Mr. Li Wai Keung and Mr. Hui Chiu Chung pursuant to the Company's 2009 Share Option Scheme adopted on 4 September 2009.

(5) The percentage shareholding is calculated on the basis of 11,441,892,848 Shares issued as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Directors, none of the Directors nor the chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

## 3. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS

| Name | Long/Short Positions | Notes | Nature of interest | Number of Shares held | Percentage of the Company's issued share capital[(6)] |
|---|---|---|---|---|---|
| Shenzhen SEZ Construction and Development Group Co., Ltd. | Long | (1) | Deemed interest in controlled corporation | 3,350,000,000 | 29.28% |
| SEZ Construction & Development International (Hong Kong) LIMITED | Long | (1)(2) | Deemed interest in controlled corporation | 3,350,000,000 | 29.28% |
| SEZ Construction & Development Investment Holding LIMITED | Long | (2) | Beneficial owner | 3,350,000,000 | 29.28% |
| Accurate Gain Developments Limited | Long | (3) | Beneficial owner | 2,306,553,791 | 20.16% |
| Tencent Holdings Limited | Long | (4) | Deemed interest in controlled corporation | 955,936,666 | 8.35% |
| THL H Limited | Long | (4) | Beneficial owner | 955,936,666 | 8.35% |
| Proficient Success Limited | Long | (5) | Beneficial owner | 588,984,145 | 5.15% |

*Notes:*

(1) SEZ Construction & Development International (Hong Kong) LIMITED is wholly owned by Shenzhen SEZ Construction and Development Group Co., Ltd.

(2) SEZ Construction & Development Investment Holding LIMITED is wholly owned by SEZ Construction & Development International (Hong Kong) LIMITED.

(3) Mr. Cheng Chung Hing owns 100% of the issued share capital of Accurate Gain Developments Limited.

(4) THL H Limited is wholly owned by Tencent Holdings Limited.

(5) Mr. Cheng Tai Po owns 100% of the issued share capital of Proficient Success Limited.

(6) The percentage shareholding is calculated on the basis of 11,441,892,848 Shares issued as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Directors or chief executive of the Company, no other person (other than a Director or chief executive of the Company) had, or were deemed or taken to have interest or short position in the Shares or underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

## 4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any subsidiary or associated company of the Company which (a) (including continuous and fixed term contracts) had been entered into or amended within the Relevant Period; (b) are continuous contracts with a notice period of 12 months or more; or (c) are fixed term contracts with more than 12 months to run irrespective of the notice period.

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group other than contracts expiring or determinable by the relevant employer within one year without payment of any compensation (except statutory compensation).

## 5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close associates was considered by the Company to have interests in businesses which compete, or might compete, either directly or indirectly, with the business of the Group.

## 6. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors had any interests, either directly or indirectly, in any assets which had been, since 31 March 2022, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any of the Directors was materially interested and which was significant in relation to the business of the Group.

## 7. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the issue of this circular:

(a) the Equity Transfer Agreement; and

(b) the subscription agreement dated 30 December 2021 in respect of the subscription of 3,350,000,000 new Shares by the Purchaser or its wholly owned subsidiary entered into between the Company and the Purchaser.

## 8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any other member of the Group was engaged in any material litigations or claims and no litigations or claims of material importance is pending or threatened against the Company or any member of the Group.

## 9. EXPERTS AND CONSENTS

(1) The following are the qualifications of the experts who have given their opinion or advice which is contained in this circular:

| Name | Qualification |
|---|---|
| Anglo Chinese Corporate Finance, Limited | A corporation licensed under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO |
| Ernst & Young | Certified Public Accountants, Hong Kong |
| Shenzhen Zhongqihua Land Real Estate Assets Appraisal Co., Ltd. | Professional valuer |

(2) As at the Latest Practicable Date, the above experts did not have any shareholding, direct or indirect, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(3) As at the Latest Practicable Date, none of the experts have any direct or indirect interest in any asset which has been, since 31 March 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

(4) The above experts have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their letters and the reference to their names included herein in the form and context in which they appear.

## 10. MISCELLANEOUS

(1) The registered office of the Company is located at Suites 3306–08, 33/F., Tower 5, The Gateway, 15 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong.

(2) The company secretary of the Company is Mr. Chan Hing Chau, who is a member of Hong Kong Institute of Certified Public Accountants.

(3) The share registrar of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(4) In any event of inconsistency, the English version of this circular shall prevail over the Chinese version to the extent of such inconsistency.

**11. DOCUMENTS ON DISPLAY**

Copies of the following documents will be available on the Company's website (www.chinasouthcity.com) and the website of the Stock Exchange (www.hkexnews.hk) for a period of 14 days from the date of this circular:

(a) the material contract referred to in paragraph (a) of the section headed "7. Material Contracts" in this appendix;

(b) the letters of consent referred to under the section headed "9. Experts and Consents" in this appendix;

(c) the letter from Anglo Chinese Corporate Finance, Limited, the Independent Financial Adviser, the text of which is set out on pages 34 to 91 of this circular;

(d) the accountants' report of the Target Company issued by the Reporting Accountants, the text of which is set out in Appendix II to this circular;

(e) the assurance report on the compilation of the pro forma financial information of the Group issued by the Reporting Accountants, the text of which is set out in Appendix III to this circular;

(f) the report from the Reporting Accountants in relation to the profit forecast, the text of which is set out in Appendix V of this circular;

(g) the letter from the Board in relation to the profit forecast, the text of which is set out in Appendix VI of this circular;

(h) the letter from the Independent Board Committee, the text of which is set out on pages 32 to 33 of this circular;

(i) the valuation report of the Business Equity Value of the Target Company, the text of which is set out in Appendix IV of this circular;

(j) the Property Management Transactions Framework Agreement; and

(k) this circular.

China South City Holdings Limited
華南城控股有限公司

*(incorporated in Hong Kong with limited liability)*
**(Stock Code: 1668)**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting (the "**EGM**") of China South City Holdings Limited (the "**Company**") will be held at Fung Shui Room, 6/F., Marco Polo Hongkong Hotel, Harbour City, Kowloon, Hong Kong, on Friday, 9 September 2022 at 10:00 a.m. for the purposes of considering and, if thought fit, passing with or without modification, the following ordinary resolutions.

Unless otherwise defined, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 25 August 2022 of which this notice forms part.

**Shareholders should note that:**

1. "**THAT:**

(a) the Equity Transfer Agreement dated 15 July 2022 and entered into among the Vendor, the Purchaser and the Company (as amended and/or restated from time to time) and the transactions contemplated thereunder (including, among other things, the Disposal, the grant and the exercise of the Put Option and the grant and the exercise of the Call Option) be hereby approved, ratified and confirmed; and

(b) the Directors be and are hereby authorised to do all such acts and things and execute all such further documents or deeds as he/she may, in his/her absolute discretion, consider necessary, appropriate, desirable or expedient for the purpose of, or in connection with, the implementation of or giving effect to or the completion of any matters relating to the Equity Transfer Agreement and the transactions contemplated thereunder (including, among other things, the Disposal, the grant and the exercise of the Put Option and the grant and the exercise of the Call Option), and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith.

2. “**THAT:**

(a) the transactions under the Property Management Transaction Framework Agreement (including the annual caps for the Property Management Transactions) be hereby approved, ratified and confirmed; and

(b) the Directors be and are hereby authorised to do all such acts and things and execute all such further documents or deeds as he/she may, in his/her absolute discretion, consider necessary, appropriate, desirable or expedient for the purpose of, or in connection with, the implementation of or giving effect to or the completion of any matters relating to the Property Management Transactions Framework Agreement and the transactions contemplated thereunder, and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith.

By Order of the Board
**China South City Holdings Limited**
**Cheng Chung Hing**
*Chairman and Executive Director*

Hong Kong, 25 August 2022

*Notes:*

(1) As (i) the Disposal, the grant and the exercise of the Put Option and the grant and the exercise of the Call Option are all transactions contemplated under the Equity Transfer Agreement; (ii) the Disposal, the grant and the exercise of the Put Option and the grant and the exercise of the Call Option are part and parcel to the same transactions which have been negotiated and agreed by the Group and the Purchaser simultaneously; and (iii) the approval of each of Disposal, the grant and the exercise of the Put Option and the grant and the exercise of the Call Option is interdependent on, and cannot proceed without, the approvals of the other two, the Company will seek Independent Shareholders’ approval for each of the Disposal, the grant and the exercise of the Put Option and the grant and the exercise of the Call Option under the same single resolution at the EGM. As a result, Independent Shareholders which exercise their rights to vote will be either voting in favour of the one single resolution which includes all of the Disposal, the grant and the exercise of the Put Option and the grant and the exercise of the Call Option, or voting against it.

(2) Reference is made to the announcement of the Company dated 23 August 2022 in relation to the closure of the register of members of the Company. For the purpose of determining Shareholders who are entitled to attend and vote at the EGM to be held on Friday, 9 September 2022, the registers of members of the Company will be closed from Tuesday, 6 September 2022 to Friday, 9 September 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the EGM, Shareholders are reminded to ensure that all share transfer documents accompanied by the relevant share certificates are lodged for registration with the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, by no later than 4:30 p.m. on Monday, 5 September 2022.

(3) A member entitled to attend and vote at the above meeting convened by the above notice, is entitled to appoint one or more than one proxy to attend and to vote in his stead. A proxy need not be a member of the Company.

(4) A form of proxy for the meeting is enclosed. The form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time for holding meeting or adjourned meeting thereof, and in defaults the form of proxy shall not be treated as valid.

(5) Completion and return of the form of proxy will not preclude members from attending and voting in person at the above meeting or any adjourned meeting thereof should they so wish. In such case, such form of proxy shall be deemed to be revoked.

(6) Where there are joint holders of any Shares, the vote of the senior who tenders a vote whether is person, or by proxy, shall be accepted to the exclusion of the votes of other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company.