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If you have sold or transferred all your shares in Lushang Life Services Co., Ltd., you should at once hand this circular to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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Lushang Life Services Co., Ltd.
魯商生活服務股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2376)

**MAJOR TRANSACTION AND
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS –
NEW MASTER DEPOSIT SERVICES AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

The capitalized terms used in this cover page have the same meanings as those defined in the section headed "Definitions" of this circular.

The Company will convene and hold the EGM at 11 a.m. on Friday, June 30, 2023, at 38th Floor, Block 5, Lushang Guo'ao City, No. 9777 Jingshi Road Lixia District, Jinan, Shandong, the PRC. A notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use in the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.lushangfuwu.com).

Shareholders who intend to appoint a proxy to attend the EGM are required to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same not later than 24 hours before the time designated for the EGM (being before 11 a.m. on Friday, June 30, 2023) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

June 15, 2023

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DEFINITIONS

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

“AGM”	the 2023 annual general meeting of the Company (or any adjournment thereof) to be convened and held on June 30, 2023
“associate(s)”	shall have the same meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“Commercial Finance”	Shandong Commercial Group Finance Co., Ltd. (山東省商業集團財務有限公司), a wholly-owned subsidiary of Shandong Commercial
“Company”	Lushang Life Services Co., Ltd. (魯商生活服務股份有限公司) (formerly known as Shandong Lushang Property Services Co., Ltd. (山東魯商物業服務有限公司)), a company established in the PRC with limited liability on March 24, 2006 and converted into a joint stock company with limited liability on March 12, 2021 and the H Shares of which are listed on the Stock Exchange (stock code: 2376)
“connected person(s)”	shall have the same meaning as ascribed to it under the Listing Rules
“controlling shareholder”	shall have the same meaning as ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	ordinary share(s) issued by the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid for in Renminbi
“Domestic Shareholder(s)”	holder(s) of the Domestic Share(s)
“Effective Date”	the date immediately following the EGM

DEFINITIONS

“EGM”	the 2023 first extraordinary general meeting of the Company (or any adjournment thereof) to be convened and held at 38th Floor, Block 5, Lushang Guo’ao City, No. 9777 Jingshi Road Lixia District, Jinan, Shandong, the PRC on Friday, June 30, 2023 at 11 a.m. (or immediately after the conclusion of the AGM, whichever is earlier) for the purpose of considering and, if thought fit, approving, the New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps therefor)
“Existing Master Deposit Services Agreement”	the master deposit services agreement entered into by the Company and Commercial Finance on June 22, 2022
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	the ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is/are listed on the Main Board of the Stock Exchange and subscribed for and traded in Hong Kong dollars
“H Shareholder(s)”	holder(s) of the H Share(s)
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“Independent Board Committee”	the independent board committee established by the Board, comprising all the independent non-executive Directors, namely Ms. Leung Bik San, Ms. Chen Xiaojing and Mr. Ma Tao, to advise the Independent Shareholders in respect of the New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps therefor)

DEFINITIONS

“Independent Financial Adviser” or “Dongxing”	Dongxing Securities (Hong Kong) Company Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps therefor)
“Independent Shareholders”	the Shareholders who are not required to abstain from voting at the EGM for the relevant resolution with respect to the New Master Deposit Services Agreement and the transactions contemplated thereunder
“Independent Third Party(ies)”	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”	June 12, 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Lushang Freda”	Lushang Freda Pharmaceutical Co., Ltd. (魯商福瑞達醫藥股份有限公司) (formerly known as Lushang Health Industry Development Co., Ltd. (魯商健康產業發展股份有限公司)), a joint stock company established in the PRC with limited liability on April 21, 1993, whose shares are listed on the Shanghai Stock Exchange (stock code: 600223) and a controlling shareholder of the Company
“New Master Deposit Services Agreement”	the new master deposit services agreement entered into by the Company and Commercial Finance on June 9, 2023

DEFINITIONS

“PRC”	the People’s Republic of China, excluding, for the purposes of this circular only, Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prospectus”	the prospectus of the Company dated June 27, 2022
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shandong Commercial”	Shandong Commercial Group Co., Ltd. (山東省商業集團有限公司), a company established in the PRC with limited liability on November 26, 1992 and a controlling shareholder of the Company
“Share(s)”	Domestic Share(s) and H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited



Lushang Life Services Co., Ltd.

魯商生活服務股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2376)

Executive Directors:

Mr. Wang Zhongwu (*Chairman*)

Mr. Shao Meng

Mr. Yang Yunlong

Non-executive Directors:

Ms. Li Lu

Ms. Luo Ye

Independent Non-executive Directors:

Ms. Leung Bik San

Ms. Chen Xiaojing

Mr. Ma Tao

Registered office in the PRC:

Room 202, Block 2

Lushang Guo'ao City

No. 9777 Jingshi Road

Lixia District, Jinan

Shandong, PRC

Principal place of business

in Hong Kong:

40/F, Dah Sing Financial Centre

248 Queen's Road East

Wanchai

Hong Kong

June 15, 2023

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION AND
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS –
NEW MASTER DEPOSIT SERVICES AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated June 9, 2023 in relation to, among other things, the New Master Deposit Services Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among others, (i) further information in relation to the New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps); (ii) a letter of recommendation from the Independent Board Committee; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice convening the EGM.

LETTER FROM THE BOARD

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

As the Existing Master Deposit Services Agreement will be expiring on the date of the AGM and the Company is expected to carry on the transactions contemplated thereunder upon its expiry, the Company and Commercial Finance entered into the New Master Deposit Services Agreement on June 9, 2023 (after trading hours).

The principal terms of the New Master Deposit Services Agreement are set out below:

THE NEW MASTER DEPOSIT SERVICES AGREEMENT

Date

June 9, 2023

Parties

- (a) The Company; and
- (b) Commercial Finance.

Term

Subject to compliance with the Listing Rules, from the Effective Date to December 31, 2025 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.

Subject matter

Under the New Master Deposit Services Agreement, the Group has agreed to use the deposit services provided by Commercial Finance (the “**Deposit Services**”). Pursuant to the New Master Deposit Services Agreement, the Group may deposit its funds in Commercial Finance from time to time.

Based on information available and to the best knowledge of the Directors, Commercial Finance is a non-bank financial institution established in May 1996 with a credit rating of 2A provided by CBIRC. As at the Latest Practicable Date, based on public record, the Finance Permit Licence (金融許可證) held by Commercial Finance is valid and has not been withdrawn or revoked.

The relevant parties shall enter into individual deposit services agreements, terms of which shall be consistent with the principal terms of the New Master Deposit Services Agreement in all material aspects.

LETTER FROM THE BOARD

Pricing policy

The fees of the Deposit Services shall be determined on arm's length basis in accordance with the following policy:

- (i) the interest rate in respect of the deposits placed by the Group with Commercial Finance will be equal to or higher than the interest rate offered by independent banks or other financial institutions in China for comparable deposits of the same type and term; and
- (ii) the commercial terms provided by Commercial Finance in respect of the Deposit Services will be equal to or more favourable compared to those offered to the Group by Independent Third Parties.

Payment arrangement

The payment mechanism for all fees and payments pursuant to the New Master Deposit Services Agreement should be specified in the relevant specific agreement to be entered into by the parties.

Historical transaction amount

The existing maximum daily deposit balances (including paid interests) which the Group deposits with Commercial Finance for the year ended December 31, 2022 and for the period from January 1, 2023 until the date of the AGM will not exceed RMB250.0 million and RMB250.0 million, respectively.

The actual maximum daily deposit balances (including paid interests) for the year ended December 31, 2022 and for the period from January 1, 2023 to the Latest Practicable Date under the Existing Master Deposit Services Agreement was RMB248.8 million, representing a utilization rate of almost 100%.

Proposed annual caps

The proposed caps under the New Master Deposit Services Agreement for the period from the Effective Date to December 31, 2023 and the two years ending December 31, 2025, respectively are as follows:

	For the period from the Effective Date to December 31, 2023 (RMB'000)	For the year ending December 31, 2024 2025 (RMB'000)	
Maximum daily deposit balance	350,000	350,000	350,000
Maximum interest income	7,040	7,040	7,040

LETTER FROM THE BOARD

The above annual caps were determined with reference to, among other things, the following factors:

In relation to deposit amount

- (i) the historical maximum daily deposit balances under the Existing Master Deposit Services Agreement;
- (ii) the cash and cash equivalent of approximately RMB429 million as of December 31, 2022, which represents a significant increase of approximately 56% as compared to the amount of RMB275 million as at December 31, 2021 and generally in line with the increase in the proposed annual caps of approximately 40% as compared to the annual caps under the Existing Master Deposit Services Agreement; and
- (iii) the deposit balance (including paid interests) of approximately RMB248.83 million with Commercial Finance as of December 31, 2022.

In relation to interest amount

- (i) the percentage, being approximately 27.38%, of the total deposits by the Company with Commercial Finance being kept in current account. Such percentage is derived from the average percentage of the total deposit by the Company with Commercial Finance being kept in current account as at December 31, 2021 and 2022;
- (ii) the percentage, being approximately 72.62%, of the total deposits by the Company with Commercial Finance being kept as fixed deposit. Such percentage is derived from the average percentage of the total deposit by the Company with Commercial Finance being kept as fixed deposit as at December 31, 2021 and 2022; and
- (iii) the existing maximum interest rate to be offered by Commercial Finance of approximately 3.5% per annum for five-year fixed deposits, of approximately 2.25% per annum for one-year fixed deposits, approximately 2.05% per annum for six-month fixed deposits, approximately 1.85% per annum for three-month fixed deposits, approximately 0.8% per annum for one-day notice deposits and approximately 0.35% per annum for current account deposits, which shall be subject to the relevant guiding opinions as published by the People's Bank of China from time to time.

Reasons for and benefits of entering into the New Master Deposit Services Agreement

The Group has engaged Commercial Finance to provide Deposit Services since 2019. It is expected that the Group will continue to do so in its ordinary and usual course of business upon expiry of the Existing Master Deposit Services Agreement. The Company consider that using the Deposit Services provided by Commercial Finance could allow it to (but is not obliged to) use the deposit services provided by Commercial Finance in order to deploy and manage the Group's financial resources in a more flexible and efficient manner.

LETTER FROM THE BOARD

For avoidance of doubt, the New Master Deposit Services Agreement does not restrict the Group to use the services provided by other commercial banks or independent financial institutions in China. The Group may make choices at its discretion based on its business needs and the costs and quality of relevant services.

Prior to entering into the New Master Deposit Services Agreement, the management of the Group has conducted due diligence and assessment on the financial capability of Commercial Finance by reviewing the audited financial statements of Commercial Finance. According to the audited financial statements of Commercial Finance as provided to the Company by Commercial Finance, as of December 31, 2022, Commercial Finance had total assets of approximately RMB8,490.6 million, registered capital of RMB2 billion and a capital adequacy ratio of 27.6%. During the year ended December 31, 2022, the Group's deposits in Commercial Finance only accounted for a very small scale of the total deposits placed in it and hence, the Group is not its major customer. In addition, the proposed annual cap for the maximum daily deposit balance of RMB350 million only accounts for approximately 14.29% of the net asset value of Commercial Finance of approximately RMB2,449.1 million as at December 31, 2022.

The Directors have also reviewed the information published by Commercial Finance and did not note any material adverse matters in relation to Commercial Finance which would materially impair its financial capability as at the Latest Practicable Date. The finance department of the Company will continue to monitor and prudently manage its operating cash inflows and outflows as well as its overall working capital requirements, and report to the senior management of the Company on a regular basis. Based on the above, the Directors are of the view that Commercial Finance has a sound credit worthiness and financial capacity as at the Latest Practicable Date.

The Directors (including the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) are of the view that the terms of the New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps therefor) are fair and reasonable, on normal commercial terms and will be conducted in the ordinary course of business of the Group and in the interests of the Company and its Shareholders as a whole.

INTERNAL CONTROL MEASURES

In respect of the Deposit Services, the Company has adopted internal policies and measures in relation to cash management. In particular:

- (i) the Company has adopted a treasury management policy for managing its cashflow and utilizing surplus cash reserves;
- (ii) before placing any new deposit with Commercial Finance, the finance department of the Group will obtain interest rates quoted by People's Bank of China and two major domestic commercial banks in the PRC. Such information together with the quote by Commercial Finance will be submitted to the chief financial officer of the Company for approval to ensure terms offered by Commercial Finance shall not be less favourable to the Group than terms offered by commercial banks who are Independent Third Parties;

LETTER FROM THE BOARD

- (iii) the finance department will be responsible for closely monitoring the ongoing and continuing cash deposits at Commercial Finance and the interest income to ensure the annual caps will not be exceeded;
- (iv) the internal audit department of the Group will conduct regular checks to review and assess whether the deposit services have been provided in accordance with the terms of the relevant agreements and on normal commercial terms;
- (v) the implementation and enforcement of such transactions with Commercial Finance would be independently scrutinized by the independent non-executive Directors so that appropriate measures can be taken by the Company to adjust the level of deposits with Commercial Finance on a timely basis; and
- (vi) the auditors of the Company will also conduct an annual review on the pricing terms and annual caps of the relevant continuing connected transactions.

The independent non-executive Directors will continue to review the transactions contemplated under the New Master Deposit Services Agreement and the auditors of the Company will also conduct an annual review on the pricing terms and proposed annual caps of the relevant continuing connected transactions thereof.

INFORMATION ON THE PARTIES

The Group is principally engaged in the provision of property management services, community value-added services and value-added services to non-property owners in the PRC.

Based on information available and to the best knowledge of the Directors, Commercial Finance is a non-bank financial institution established in May 1996 with a credit rating of 2A provided by CBIRC. It is principally engaged in handling financial affairs, credit authentication and related consulting and financing advisory matters for member units, absorbing deposits from member units, etc. and a wholly-owned subsidiary of Shandong Commercial.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Commercial Finance is a wholly-owned subsidiary of Shandong Commercial, a controlling shareholder of the Company, and therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the New Master Deposit Services Agreement will also constitute continuing connected transactions of the Company.

LETTER FROM THE BOARD

As the highest applicable percentage ratio (other than the profits ratio) as defined under the Listing Rules in respect of the highest annual cap for the New Master Deposit Services Agreement exceeds 5%, the New Master Deposit Services Agreement and the transactions contemplated thereunder will be subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further, as the highest applicable percentage ratio in respect of the highest annual cap under the New Master Deposit Services Agreement exceeds 25%, the transactions contemplated under the Deposit Service Framework Agreement also constitute a major transaction of the Company. The New Master Deposit Services Agreement and the transactions contemplated thereunder will be subject to the reporting, announcement, circular (including independent financial advice) and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Board Approval

At the Board meeting held to approve the New Master Deposit Services Agreement, none of the Directors has or is deemed to have a material interest in the New Master Deposit Services Agreement and is required to abstain from voting on the relevant Board resolutions approving the New Master Deposit Services Agreement.

Recommendation of the Independent Board Committee

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, has been established and considers that (i) the terms of the New Master Deposit Services Agreement (including the proposed annual caps) are on normal commercial terms and are fair and reasonable; and (ii) the transactions contemplated under the New Master Deposit Services Agreement (including the proposed annual caps) are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution in relation to the New Master Deposit Services Agreement (including the proposed annual caps) proposed at the EGM. The text of the letter from the Independent Board Committee is set out on page 14 of this circular.

THE EGM

The Company will convene and hold the EGM at 11 a.m. on Friday, June 30, 2023 (or immediately after the conclusion of the AGM, whichever is earlier), at 38th Floor, Block 5, Lushang Guo'ao City, No. 9777 Jingshi Road Lixia District, Jinan, Shandong, the PRC to consider and, where appropriate, approve the New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps). A notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular. The Company will publish an announcement of the poll results in the manner required under Rule 13.39(5) of the Listing Rules after the conclusion of the EGM.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the resolutions to be proposed at the EGM will be voted on by poll.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Shandong Commercial and its associates, holding 100,000,000 Domestic Shares, representing approximately 75% of the total issued share capital of the Company, shall abstain from voting at the EGM on the resolution in relation to the New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps). Apart from Shandong Commercial, none of the other Shareholders has a material interest in the New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps) and is required to abstain from voting on the relevant resolution in the EGM.

The register of members of the Company will be closed from Tuesday, June 27, 2023 to Friday, June 30, 2023, both days inclusive, during which no transfer of Shares will be effected. Shareholders whose names appear on the register of members of the Company to Friday, June 30, 2023 shall be entitled to attend and vote at the EGM. To be eligible for attending and voting at the EGM, all share transfer documents accompanied by the relevant share certificates and other appropriate documents must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders), or the registered office of the Company at Room 202, Block 2 Lushang Guo'ao City No. 9777 Jingshi Road Lixia District, Jinan Shandong, PRC (for Domestic Shareholders) not later than 4:30 p.m. on Monday, June 26, 2023 for registration.

If you intend to appoint a proxy to attend the EGM, you are required to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the form. If the instrument appointing the proxy is signed by a person authorised by the appointer, the power of attorney authorizing the execution of the instrument or other authorization documents shall be notarized and must be served concurrently with the instrument. The form of proxy, together with the copies of the notarized power of attorney or other authorization documents, shall be deposited at the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders), or the registered office of the Company at Room 202, Block 2 Lushang Guo'ao City No. 9777 Jingshi Road Lixia District, Jinan Shandong, PRC (for Domestic Shareholders) no later than 24 hours before the time designated for the EGM or any adjournment thereof (as the case may be) before the form becomes effective. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting thereof should you so wish.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out in this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps); and (ii) the letter from the Independent Financial Adviser set out in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps), as well as the principal factors and reasons taken into account by the Independent Financial Adviser in arriving at its advice. Having taken into account the terms of the New Master Deposit Services Agreement, the information provided in the letter from the Board and the letter from the Independent Financial Adviser, the Independent Board Committee considers that (i) the terms of the New Master Deposit Services Agreement (including the proposed annual caps) are on normal commercial terms and are fair and reasonable; and (ii) the transactions contemplated under the New Master Deposit Services Agreement (including the proposed annual caps) are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the ordinary resolution as set out in the notice of EGM and to be proposed at the EGM for approving the New Master Deposit Services Agreement and the transactions contemplated thereunder and the proposed annual caps.

The Directors (including the independent non-executive Directors, after considering the advice from the Independent Financial Adviser) are of the view that the New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable, on normal commercial terms and will be conducted in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole and therefore recommends you to vote in favour of the ordinary resolutions to be proposed at the EGM.

By Order of the Board
Lushang Life Services Co., Ltd
Mr. WANG Zhongwu
Chairman and executive Director



Lushang Life Services Co., Ltd.

魯商生活服務股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2376)

June 15, 2023

To the Independent Shareholders

Dear Sir/Madam,

**MAJOR TRANSACTION AND
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS –
NEW MASTER DEPOSIT SERVICES AGREEMENT**

We refer to the circular issued by the Company to the Shareholders dated June 15, 2023 (the “**Circular**”) which this letter forms a part of. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to consider the New Master Deposit Services Agreement and to advise you in respect of the New Master Deposit Services Agreement and the transactions contemplated thereunder and the proposed annual caps, details of which are set out in the “Letter from the Board” on page 5 to 13 of the Circular. Dongxing Securities (Hong Kong) Company Limited has been appointed as the Independent Financial Adviser in this regard.

We wish to draw your attention to the “Letter from the Board” and the “Letter from Independent Financial Adviser” as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in their letter of advice, we are of the view that (i) the terms of the New Master Deposit Services Agreement (including the proposed annual caps) are on normal commercial terms and are fair and reasonable; and (ii) the transactions contemplated thereunder (including the proposed annual caps) are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the ordinary resolution for approving the New Master Deposit Services Agreement and the transactions contemplated thereunder and the proposed annual caps at the EGM.

Yours faithfully,
For and on behalf of
the Independent Board Committee of
Lushang Life Services Co., Ltd.

Ms. Leung Bik San

*Independent non-executive
Director*

Ms. Chen Xiaojing

*Independent non-executive
Director*

Mr. Ma Tao

*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and Independent Shareholders in relation to New Master Deposit Services Agreement and the transactions contemplated thereunder (including the proposed annual caps) for inclusion in this circular.



DONGXING SECURITIES
(HONG KONG) COMPANY LIMITED
Room 7503B-7504
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

June 15, 2023

To: The Independent Board Committee and the Independent Shareholders of Lushang Life Services Co., Ltd.

Dear Sirs,

MAJOR TRANSACTION AND RENEWAL OF CONTINUING CONNECTED TRANSACTIONS – NEW MASTER DEPOSIT SERVICES AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the New Master Deposit Services Agreement and the proposed annual caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated June 15, 2023 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As at the Latest Practicable Date, Commercial Finance is a wholly-owned subsidiary of Shandong Commercial, a controlling shareholder of the Company, and therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the New Master Deposit Services Agreement will also constitute continuing connected transactions of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the highest applicable percentage ratio (other than the profits ratio) as defined under the Listing Rules in respect of the highest annual cap for the New Master Deposit Services Agreement exceeds 5%, the New Master Deposit Services Agreement and the transactions contemplated thereunder will be subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further, as the highest applicable percentage ratio in respect of the highest annual cap under the New Master Deposit Services Agreement exceeds 25%, the transactions contemplated under the Deposit Service Framework Agreement also constitutes a major transaction of the Company. The New Master Deposit Services Agreement and the transactions contemplated thereunder will be subject to the reporting, announcement, circular (including independent financial advice) and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Independent Board Committee, comprising all independent non-executive Directors, namely Ms. LEUNG Bik San, Ms. CHEN Xiaojing and Mr. MA Tao, has been established to consider and advise the Independent Shareholders in respect of the terms of the New Master Deposit Services Agreement and as to whether the proposed annual caps are fair and reasonable and are in the interests of the Company and its Shareholders as a whole. We, Dongxing Securities (Hong Kong) Company Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. Save for this appointment as the Independent Financial Adviser in relation to this transaction, there were no other engagements between us and the Group in the past two years. Apart from normal professional fees paid or payable to us in connection with this transaction, no other arrangement exists whereby we had received or would receive any fees or benefits from the Company or any parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider ourselves independent in accordance with Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied upon the accuracy of the information and representations contained in the Circular and information provided to us by the Directors and the management of the Company (the "**Management**"). We have assumed that all statements, information, and representations made or referred to in the Circular and all information and representations which have been provided by the Directors and the Management, for which they are solely and wholly responsible, were true, accurate and complete at the time they were made and continue to be true as at the Latest Practicable Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. The Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM.

The 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 as contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any omission of any material facts that would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position, or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and/or the Management.

This letter is issued to the Independent Board Committee and the Independent Shareholders, solely in connection for their consideration of the New Master Deposit Services Agreement and the proposed annual caps, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the New Master Deposit Services Agreement and the proposed annual caps and in giving our recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into consideration of the following principal factors and reasons.

1. Background information of the parties to the New Master Deposit Services Agreement

a. Information on the Company and the Group

The Group is principally engaged in the provision of property management services, community value-added services and value-added services to non-property owners in the PRC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of the consolidated financial information on the Group for the two years ended 31 December 2022 as extracted from the Company's annual report for the year ended 31 December 2022 (the "2022 Annual Report"):

Financial results

	For the year ended December 31, 2022 (audited) RMB'000	For the year ended December 31, 2021 (audited) RMB'000
Revenue	627,734	582,803
Profit for the year	78,297	77,017

According to the 2022 Annual Report, the Group derived its revenue from (i) property management services; (ii) value-added services to non-property owners; and (iii) community value-added services.

Revenue from Property Management Services

The revenue of the property management services increased by 15.1% from RMB255.5 million for the year ended December 31, 2021 to RMB294.1 million for the year ended December 31, 2022, primarily due to the optimization of the project portfolio and strategic expansion of city services during 2022.

Revenue from Value-added Services to Non-property Owners

The revenue from value-added services to non-property owners decreased by 8.3% from RMB204.8 million for the year ended December 31, 2021 to RMB187.9 million for the year ended December 31, 2022, primarily due to the decrease in the number of projects delivered by property developers during 2022 resulting from the downturn of the real estate market, which led to the decrease in the revenue from preliminary property management services and pre-delivery services.

Revenue from Community Value-added Services

The revenue of the community value-added services increased by 19.0% from RMB122.5 million for the year ended December 31, 2021 to RMB145.7 million for the year ended December 31, 2022, primarily due to the increase in gross floor area under management for residential properties and commercial properties.

As depicted by the above table, the net profit of the Group for the year ended December 31, 2022 remains relatively stable as compared to the year ended December 31, 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

b. Information on Commercial Finance

Based on information available and to the best knowledge of the Directors, Commercial Finance is a non-bank financial institution established in May 1996 with a credit rating of 2A provided by CBIRC. It is principally engaged in handling financial affairs, credit authentication and related consulting and financing advisory matters for member units, absorbing deposits from member units, etc. and a wholly-owned subsidiary of Shandong Commercial.

2. Reasons for and benefits of the renewal of the New Master Deposit Services Agreement

The Group has engaged Commercial Finance to provide Deposit Services since 2019. It is expected that the Group will continue to do so in its ordinary and usual course of business upon expiry of the Existing Master Deposit Services Agreement. The Company consider that using the Deposit Services provided by Commercial Finance could allow it to (but is not obliged to) use the deposit services provided by Commercial Finance in order to deploy and manage the Group's financial resources in a more flexible and efficient manner.

For avoidance of doubt, the New Master Deposit Services Agreement does not restrict the Group to use the services provided by other commercial banks or independent financial institutions in China. The Group may make choices at its discretion based on its business needs and the costs and quality of relevant services.

Prior to entering into the New Master Deposit Services Agreement, the management of the Group has conducted due diligence and assessment on the financial capability of Commercial Finance by reviewing the audited financial statements of Commercial Finance. According to the audited financial statements of Commercial Finance as provided to the Company by Commercial Finance, as of December 31, 2022, Commercial Finance had total assets of approximately RMB8,490.6 million, registered capital of RMB2 billion and a capital adequacy ratio of 27.6%. During the year ended December 31, 2022, the Group's deposits in Commercial Finance only accounted for a very small scale of the total deposits placed in it and hence, the Group is not its major customer. In addition, the proposed annual caps for the maximum daily deposit balance of RMB350 million only accounts for approximately 14.29% of the net asset value of Commercial Finance of approximately RMB2,449.1 million as at December 31, 2022.

The Directors have also reviewed the information published by Commercial Finance and did not note any material adverse matters in relation to Commercial Finance which would materially impair its financial capability as at the Latest Practicable Date. The finance department of the Company will continue to monitor and prudently manage its operating cash inflows and outflows as well as its overall working capital requirements, and report to the senior management of the Company on a regular basis. Based on the above, the Directors are of the view that Commercial Finance has a sound credit worthiness and financial capacity as at the Latest Practicable Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have further (i) considered the principal businesses of the Group and the needs of the Deposit Services in the ordinary course of its business; (ii) obtained and reviewed the Finance Permit Licence (金融許可證) issued by CBIRC and noted that Commercial Finance is qualified to provide such Deposit Services; and (iii) noted that the Group had commenced business relationship with Commercial Finance since 2019, and had developed a mutual and in-depth understanding of each other's business operations and shared a similar service philosophy.

In view of the above and the internal controls as mentioned under the paragraph headed "INTERNAL CONTROL MEASURES" in the Letter from the Board, we concur with the Directors' view that the services under the New Master Deposit Services Agreement are fair and reasonable, on normal commercial terms and will be conducted in the ordinary course of business of the Group, and are in the interests of the Company and the Shareholders as a whole.

A. NEW MASTER DEPOSIT SERVICES AGREEMENT

i) Principal terms of the New Master Deposit Services Agreement

Reference is made to the Prospectus in respect of, among other things, the Existing Master Deposit Services Agreement.

As the Existing Master Deposit Services Agreement will be expiring on the date of the AGM and the Company is expected to carry on the transactions contemplated thereunder upon its expiry, the Company and Commercial Finance entered into the New Master Deposit Services Agreement on June 9, 2023 (after trading hours).

The principal terms of the New Master Deposit Services Agreement are set out below:

Date:	June 9, 2023
Parties:	(a) The Company; and (b) Commercial Finance.
Subject matter:	Under the New Master Deposit Services Agreement, the Group has agreed to use the deposit services provided by Commercial Finance (the " Deposit Services "). Pursuant to the New Master Deposit Services Agreement, the Group may deposit its funds in Commercial Finance from time to time.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on information available and to the best knowledge of the Directors, Commercial Finance is a non-bank financial institution established in May 1996 with a credit rating of 2A provided by CBIRC. As at the Latest Practicable Date, based on public record, the Finance Permit Licence (金融許可證) held by Commercial Finance is valid and has not been withdrawn or revoked.

The relevant parties shall enter into individual deposit services agreements, terms of which shall be consistent with the principal terms of the New Master Deposit Services Agreement in all material aspects.

Term: Subject to compliance with the Listing Rules, from the Effective Date to December 31, 2025 (both days inclusive). The term may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.

Pricing policy: The fees of the Deposit Services shall be determined on arm's length basis in accordance with the following policy:

- (i) the interest rate in respect of the deposits placed by the Group with Commercial Finance will be equal to or higher than the interest rate offered by independent banks or other financial institutions in China for comparable deposits of the same type and term; and
- (ii) the commercial terms provided by Commercial Finance in respect of the Deposit Services will be equal to or more favourable compared to those offered to the Group by Independent Third Parties.

Payment arrangement: The payment mechanism for all fees and payments pursuant to the New Master Deposit Services Agreement should be specified in the relevant specific agreement to be entered into by the parties.

ii) Assessment on the principal terms of the New Master Deposit Services Agreement

In order to assess the fairness and reasonableness of the terms of the New Master Deposit Services Agreement, we have obtained and reviewed the Existing Master Deposit Services Agreement, the New Master Deposit Services Agreement, the Company's internal control policy and the list of deposits setting out the information of all the deposit status within the financial year 2022 and the period up to March 31, 2023 between (i) the Company and Commercial Finance; and (ii) the Company and independent commercial banks (the "**List of Deposits**"). We have reviewed three samples of material deposits receipts between the Company and Commercial Finance from the List of Deposits covering financial year 2022 and the period up to March 31, 2023, to examine whether the deposit interest rates and other commercial terms provided by Commercial Finance are in line with the pricing policy specified in the New Master Deposit Services Agreement.

According to the List of Deposits, we were able to compare the interest rates with respect to each type of Deposit Services including current account deposit and fixed deposit offered by Commercial Finance against the similar type of Deposit Services with comparable duration and size offered by independent commercial banks for the financial year 2022 and the period up to March 31, 2023. We noted that the current account deposit interest rates offered by Commercial Finance was 0.35% per annum and the interest rates offered by Commercial Finance ranged from approximately 0.8% to 3.5% per annum for different duration ranging from one-day notice deposit to five-year fixed deposit; while the current account deposit interest rates offered by independent commercial banks was approximately 0.25% per annum and the interest rates offered by independent commercial banks ranged from approximately 0.45% to 2.65% per annum for different duration ranging from one-day notice deposit to five-year fixed deposit. We found that by making comparison between each similar type of Deposit Services with comparable duration offered by Commercial Finance and independent commercial banks which the Group engaged during the financial year 2022, the interest rates offered by Commercial Finance were more favourable compared to those offered by independent commercial banks, we consider that the current account and fixed deposit interest rates offered by the Commercial finance are fair and reasonable. For the current account deposit, the Company could withdraw the deposit from Commercial Finance and independent financial institutions at any time and without any restrictions. For the fixed deposit, there will not be any penalty for early withdrawal from Commercial Finance and independent financial institutions by the Company at any time. We also compared the major terms of the contracts such as service fees and the restrictions on deposit withdrawal procedures. It is considered that these arrangements are more favourable or similar to the Company and expected to remain unchanged during the terms of the New Master Deposit Services Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We understand that the Company will ensure that the current account and fixed deposit interest rate and commercial terms provided by Commercial Finance are in line with the pricing policy and are fair and reasonable, the Company's finance department was responsible for liaising the commercial terms, etc. of the deposit service agreement with Commercial Finance, and has compared deposit services of the same type and term provided by Commercial Finance with those offered by other independent major commercial banks. The pricing policy would ensure the interest rate to be provided by Commercial Finance to the Company will be equal to or higher than the interest rates offered by the comparable banks for comparable deposits of the same type and term and creates a more favourable option to the Company, we consider that the pricing policy is fair and reasonable and on normal commercial terms.

Furthermore, the Company's finance department will also monitor and confirm that the applicable interest rates provided by Commercial Finance to the Company will not be lower than the interest rates of other major commercial banks as provided in their quotations. Based on the List of Deposits and the samples deposit receipts provided by the Company, we noted that the Company followed the abovementioned pricing policy.

Also, as the New Master Deposit Services Agreement is made on a non-commitment basis, the Company has the discretion in deciding whether or not to use the Deposit Services provided by Commercial Finance. The Company is not obliged to use the Deposit Services provided by Commercial Finance if it decided not to do so. The Company is free to choose the most beneficial interest rates, including depositing a sizable portion of its cash and cash equivalents with Commercial Finance if indeed that is the best option.

Having considered that (i) the current account and fixed deposit interest rates offered by Commercial Finance were more favourable compared to those offered by independent commercial banks to the Company with respect to the similar type of Deposit Services with comparable duration and size under same period of time; (ii) other commercial terms offered by Commercial Finance were no less favourable than/similar to that offered by independent commercial banks to the Company with respect to the similar type of Deposit Services; and (iii) the Company has sole discretion to make its selection according to the relevant conditions and quality of services being delivered by other commercial banks or Commercial Finance, we concur with the Directors' view that the terms of the New Master Deposit Services Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

iii) The Proposed Annual Caps

Proposed annual cap and basis of determination

The existing maximum daily deposit balances (including paid interests) which the Group deposits with Commercial Finance for the year ended December 31, 2022 and for the period from January 1, 2023 until the date of the AGM will not exceed RMB250.0 million and RMB250.0 million, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The actual maximum daily deposit balances (including paid interests) for the year ended December 31, 2022 and for the period from January 1, 2023 to the Latest Practicable Date under the Existing Master Deposit Services Agreement was RMB248.8 million, representing a utilization rate of almost 100%.

The proposed annual caps under the New Master Deposit Services Agreement for the period from the Effective Date to December 31, 2023 and the two years ending December 31, 2025, respectively are as follows:

	For the period from the Effective Date to December 31, 2023 (RMB'000)	For the year ending December 31, 2024 (RMB'000)	For the year ending December 31, 2025 (RMB'000)
Maximum daily deposit balance	350,000	350,000	350,000
Maximum interest income	7,040	7,040	7,040

The above annual caps were determined with reference to, among other things, the following factors:

In relation to deposit amount

- (i) the historical maximum daily deposit balances under the Existing Master Deposit Services Agreement;
- (ii) the cash and cash equivalent of approximately RMB429 million as of December 31, 2022, which represents a significant increase of approximately 56% as compared to the amount of RMB275 million as at December 31, 2021 and generally in line with the increase in the proposed annual caps of approximately 40% as compared to the annual caps under the Existing Master Deposit Services Agreement ; and
- (iii) the deposit balance (including paid interests) of approximately RMB248.8 million with Commercial Finance as of December 31, 2022.

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In relation to interest amount

- (i) the percentage, being approximately 27.38%, of the total deposits by the Company with Commercial Finance being kept in current account. Such percentage is derived from the average percentage of the total deposit by the Company with Commercial Finance being kept in current account as at December 31, 2021 and 2022;
- (ii) the percentage, being approximately 72.62%, of the total deposits by the Company with Commercial Finance being kept as fixed deposit. Such percentage is derived from the average percentage of the total deposit by the Company with Commercial Finance being kept as fixed deposit as at December 31, 2021 and 2022; and
- (iii) the existing maximum interest rate to be offered by Commercial Finance of approximately 3.5% per annum for five-year fixed deposits, of approximately 2.25% per annum for one-year fixed deposits, approximately 2.05% per annum for six-month fixed deposits, approximately 1.85% per annum for three-month fixed deposits, approximately 0.8% per annum for one-day notice deposits and approximately 0.35% per annum for current account deposits, which shall be subject to the relevant guiding opinions as published by the People's Bank of China from time to time.

Our view on the Proposed Annual Caps

In assessing the fairness and reasonableness of the proposed annual caps in relation to maximum daily deposit balance under the New Master Deposit Services Agreement, we have discussed with the Management on the basis and assumptions of determining the maximum daily deposit balance and have considered the following factors: 1) the historical transaction amounts of the Deposit Services between the Group and Commercial Finance and the high cash level maintained by the Company all the time; 2) the significant increase in the cash and cash equivalents of RMB275 million of the Group as at December 31, 2021 to RMB429 million as at December 31, 2022, representing an increase of 56%, and 3) the increase of the proposed annual caps of 40% is generally in line with the increase of the cash and cash equivalent. Taking into account the above, we are of the view that the proposed annual caps in relation to the maximum daily deposit balance are fair and reasonable and is in the interests of the Shareholders as a whole.

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In respect of the proposed annual caps in relation to maximum interest income, we have also discussed with the Management the basis and assumptions of deriving the interest income, in particular, 1) the maximum daily deposit balance as discussed above; 2) the expected percentage of approximately 30% of the deposits will be kept in current account and approximately 70% of the deposits will be kept as fixed deposits with reference to historical percentage indicated above; and 3) the existing maximum interest rate to be offered by Commercial Finance ranging from 0.8% to 3.5% per annum for different duration ranging from one-day notice deposit to five-year fixed deposit and 0.35% per annum for current account deposits, which shall be subject to the relevant guiding opinions as published by the People's Bank of China from time to time. We have further reperformed the calculation of the expected interest income and noted that it is generally in line with the proposed annual caps with a slight buffer taken into account the percentage of deposits to be kept in current account or fixed deposits and the interest rate for different duration of fixed deposits may vary according to the Group's actual business needs at different time. In view of the above, we are of the view that the proposed annual caps in relation to the maximum interest income are fair and reasonable and is in the interests of the Shareholders as a whole.

INTERNAL CONTROL MEASURES

In respect of the Deposit Services, the Company has adopted internal policies and measures in relation to cash management. In particular:

- (i) the Company has adopted a treasury management policy for managing its cashflow and utilizing surplus cash reserves;
- (ii) before placing any new deposit with Commercial Finance, the finance department of the Group will obtain interest rates quoted by People's Bank of China and two major domestic commercial banks in the PRC. Such information together with the quote by Commercial Finance will be submitted to the chief financial officer of the Company for approval to ensure terms offered by Commercial Finance shall not be less favourable to the Group than terms offered by commercial banks who are Independent Third Parties;
- (iii) the finance department will be responsible for closely monitoring the ongoing and continuing cash deposits at Commercial Finance and the interest income to ensure the annual caps will not be exceeded;

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- (iv) the internal audit department of the Group will conduct regular checks to review and assess whether the deposit services have been provided in accordance with the terms of the relevant agreements and on normal commercial terms;
- (v) the implementation and enforcement of such transactions with Commercial Finance would be independently scrutinized by the independent non-executive Directors so that appropriate measures can be taken by the Company to adjust the level of deposits with Commercial Finance on a timely basis; and
- (vi) the auditors of the Company will also conduct an annual review on the pricing terms and annual caps of the relevant continuing connected transactions.

We have further reviewed the internal control documents regarding the continuing connected transactions between the Company and the connected parties and as advised by the Management, we noted that respective pricing policies for the continuing connected transactions of the Company under the New Master Deposit Services Agreement will be supervised and monitored by the relevant personnel and management of the Company to ensure that all the continuing connected transactions are conducted on normal commercial terms and in accordance with the pricing policies of the Company and will not be prejudicial to the interests of the Company and the Shareholders as a whole. The relevant personnel and management of the Company will conduct regular checks and assess whether individual transactions contemplated under continuing connected transactions are conducted in accordance with the terms of the relevant agreement and will also regularly review whether the price charged/paid for a specific transaction is fair and reasonable and in accordance with the applicable pricing policy. The independent non-executive Directors will continue to review the transactions contemplated under the New Master Deposit Services Agreement, and the auditors of the Company will also conduct an annual review on the pricing terms and annual caps thereof.

In view of the above, we consider that the terms of reference, if implemented effectively by the Company, are sufficient to safeguard Shareholders' interest in the provision of the New Master Deposit Services Agreement. Accordingly, we are of the view that the internal control procedures are in place and in compliance with the internal measures as mentioned above.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OPINION AND RECOMMENDATIONS

Having considered the above principal factors and reasons, we are of the view that the New Master Deposit Services Agreement and the proposed annual caps are (i) in the ordinary and usual course of the business of the Group; (ii) on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend Independent Shareholders to vote in favour of the relevant resolution for approving the New Master Deposit Services Agreement and the proposed annual caps at the EGM.

Yours faithfully,
For and on behalf of
Dongxing Securities (Hong Kong) Company Limited

TSANG Wing Ngai
Executive Director
Investment Banking Department

Mr. TSANG Wing Ngai is a licensed person registered with the Securities and Future Commission since 2008 and is currently a responsible officer of Dongxing Securities (Hong Kong) Company Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Mr. TSANG has over 14 years of experience in the corporate finance industry, and has participated in the provision of independent financial advisory services for various connected transactions involving companies listed in Hong Kong.

1. FINANCIAL INFORMATION OF THE GROUP FOR EACH OF THE THREE YEARS ENDED DECEMBER 31, 2020, 2021 AND 2022

Details of the financial information of the Group for the two years ended December 31, 2020 and 2021 are disclosed in the Prospectus and details of the financial information of the Group for the year ended December 31, 2022 and are disclosed in the 2022 annual report of the Company, all of which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.lushangfuwu.com) and can be accessed at the website addresses below:

For the Prospectus, please see:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0627/2022062700017.pdf> (pages I-4 to I-61)

For the annual report of the Company for the year ended December 31, 2022, please see:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0428/2023042801338.pdf> (pages 71 to 120)

2. INDEBTEDNESS STATEMENT

As at April 30, 2023, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding property lease liabilities of approximately RMB2.5 million. The Group had not issued any debt securities and did not have any term loans.

As at April 30, 2023, the Group did not have any bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, nor any secured or guaranteed borrowings.

As at April 30, 2023, the Group had vehicle finance leases of RMB1.2 million. Save for the above, there were no other mortgages and charges.

As at April 30, 2023, the Group did not have any contingent liabilities or guarantees.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the existing cash and bank balances, other internal resources and available existing unutilised credit facilities, the Group has sufficient working capital for its present requirements and to satisfy its requirements for at least the next 12 months from the date of publication of this circular. The Company has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

At present, under the context of the slowdown in the growth of management scale of the property industry, the further increase in market concentration and the gradual decrease in dependence on related party projects, the Group has stepped up its efforts in developing third-party projects, so as to effectively reduce its business dependence on related parties. Moreover, the Group still has raised proceeds and sufficient equity funds for mergers and acquisitions, investment and improvement of information management capabilities. Therefore, the Directors believe that the Group will maintain long-term stable development and will be able to seize future market opportunities.

In the future, the Company will maintain its high-quality development. By focusing on the vision of being a comprehensive service provider for people to live a better life, the Company will fully penetrate the “integrated lifestyle business chain” and “whole asset management operation and maintenance chain”, cultivate four key capabilities of products strength, organizational strength, technological strength and operational strength and create a “6+N” service model. Leveraging on the six main service offerings of property services, value-added operation services, city services, design services, decoration services and landscaping services, the properties under our management covers various types of properties, including residential buildings, office buildings, public buildings, industrial parks, hospitals and schools. We are committed to becoming a leading comprehensive property service provider and smart city space service provider in Shandong Province by implementing a three-step strategy of “strengthening foundation”, “building brand” and “promoting development”.

5. NO MATERIAL ADVERSE CHANGES

The Directors confirm that there are no material adverse changes in the financial or trading position of the Group since December 31, 2022 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

6. LITIGATION

As at the Latest Practicable Date, to the best of the Directors’ knowledge, information and belief, no member of the Group was engaged in any litigation, arbitration or claim of material importance to the Group, and no litigation, arbitration or claim of material importance to the Group was pending or threatened against any member of the Group.

7. MISCELLANEOUS

- (a) The registered office of the Company is Room 202, Block 2, Lushang Guo’ao City No. 9777 Jingshi Road, Lixia District, Jinan, Shandong, PRC.
- (b) The principal place of business of the Company in Hong Kong is 40/F, Dah Sing Financial Centre, 248 Queen’s Road East, Wanchai, Hong Kong.

- (c) The Company's H Shares Registrar is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The joint company secretaries of the Company are Mr. Yang Zhen and Mr. Wong Wai Chiu. Mr. Wong Wai Chiu was certified as a chartered secretary by The Hong Kong Chartered Governance Institute in September 2018 and a certified public accountant by the Institute of Certified Public Accountants of Australia in December 2010. Mr. Wong was also admitted as a certified trust practitioner of Hong Kong Trustees' Association in September 2019.

8. MATERIAL CONTRACTS

Within the two years immediately preceding the date of this circular and up to the Latest Practicable Date, the Company has entered into the following contracts (not being contracts entered into in the ordinary course of business) that are or may be material (all as defined in the Prospectus):

- (a) the Deed of Non-competition;
- (b) the Deed of Indemnity; and
- (c) the Hong Kong Underwriting Agreement.

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. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors, Supervisors and the chief executive of the Company in the registered capital of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors, Supervisors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company's associated corporation (within the meaning of Part XV of SFO), which will be required to be notified to the Company and the Stock Exchange pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code are as follows:

Name	Name of associated corporation	Nature of interest	Number of Shares interested	Approximate percentage of shareholding
Mr. Wang Zhongwu	Lushang Freda	Beneficial owner	200,000 ⁽¹⁾	0.02%
Ms. Li Lu	Lushang Freda	Beneficial owner	300,000 ⁽²⁾	0.03%
Mr. Shao Meng	Lushang Freda	Beneficial owner	2,681 ⁽³⁾	0.00%
Mr. Wang Hongtao	Lushang Freda	Beneficial owner	130,000 ⁽⁴⁾	0.01%
Mr. Zhang Xiangqian	Lushang Freda	Beneficial owner	73,334 ⁽⁵⁾	0.01%

Notes:

- (1) Mr. Wang Zhongwu was interested in (i) 100,000 shares of Lushang Freda; and (ii) 100,000 underlying shares of Lushang Freda by virtue of the options granted to him under a share option scheme of Lushang Freda.

- (2) Ms. Li Lu was interested in (i) 200,000 shares of Lushang Freda; and (ii) 100,000 underlying shares of Lushang Freda by virtue of the options granted to her under a share option scheme of Lushang Freda.
- (3) Mr. Shao Meng was interested in 2,681 underlying shares of Lushang Freda by virtue of the options granted to him under a share option scheme of Lushang Freda.
- (4) Mr. Wang Hongtao was interested in (i) 83,333 shares of Lushang Freda; and (ii) 46,667 underlying shares of Lushang Freda by virtue of the options granted to him under a share option scheme of Lushang Freda.
- (5) Mr. Zhang Xiangqian was interested in (i) 36,667 shares of Lushang Freda; and (ii) 36,667 underlying shares of Lushang Freda by virtue of the options granted to him under a share option scheme of Lushang Freda.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors and chief executive of the Company had interests or short positions in the shares, underlying shares and debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the persons (other than Directors, Supervisors and chief executives of the Company) or corporations who had an interest or short position in the shares and/or underlying shares of the Company which has 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 required to be kept under Section 336 of the SFO were as follows:

Name	Nature of interest	Class of Shares	Number of Shares interested ⁽¹⁾	Approximate percentage of shareholding in the relevant class of Shares ⁽²⁾	Approximate percentage of shareholding in the total Shares ⁽³⁾
Lushang Freda ⁽⁴⁾	Beneficial owner	Domestic Shares	95,100,000 (L)	95.1%	71.3%
	Interest in controlled corporation	Domestic Shares	4,900,000 (L)	4.9%	3.7%
Shandong Commercial	Interest in controlled corporation	Domestic Shares	100,000,000 (L)	100%	75.0%

Name	Nature of interest	Class of Shares	Number of Shares interested ⁽¹⁾	Approximate percentage of shareholding in the relevant class of Shares ⁽²⁾	Approximate percentage of shareholding in the total Shares ⁽³⁾
Beijing Urban Construction Group Co., Ltd.* (北京城建集團有限責任公司)	Interest in controlled corporation	H Shares	6,495,000 (L)	19.48%	4.87%
Beijing Urban Construction Real Estate Development Co., Ltd.* (北京城建房地產開發有限公司)	Beneficial owner	H Shares	6,495,000 (L)	19.48%	4.87%
HWABAO TRUST CO., LTD	Trustee	H Shares	6,495,000 (L)	19.48%	4.87%
CHINA INTERNATIONAL ECONOMIC TRADING LIMITED	N/A ⁽⁵⁾	H Shares	4,680,000 (L)	14.04%	3.51%
LU DUNKE ⁽⁶⁾	Interest in controlled corporation	H Shares	3,650,000 (L)	10.95%	2.74%
Wenshang County Science Advancement and Construction Security and Workforce Co., Ltd.* (汶上縣科進建安勞務有限責任公司) ⁽⁶⁾	Beneficial owner	H Shares	3,650,000 (L)	10.95%	2.74%
FAN QINYUAN ⁽⁷⁾	Interest in controlled corporation	H Shares	3,025,000 (L)	9.07%	2.27%
Nantong Chen Yun Construction Workforce Co., Ltd.* (南通辰運建築勞務有限公司) ⁽⁷⁾	Beneficial owner	H Shares	3,025,000 (L)	9.07%	2.27%
Shandong Tian Qi Venture Capital Co., Ltd.* (山東天齊創業投資有限公司) ⁽⁷⁾	Beneficial owner	H Shares	2,254,500 (L)	6.76%	1.69%

Notes:

- (1) The letter “L” denotes the person’s long position in the Shares.
- (2) Calculated based on the Company’s 100,000,000 Domestic Shares or 33,340,000 H Shares in issue as at the Latest Practicable Date.
- (3) Calculated based on the total number of 133,340,000 Shares in issue as at December 31, 2022.
- (4) Shandong Lushang Innovation Development Co., Ltd. (“**Lushang Innovation**”) holds 4,900,000 Shares, representing approximately 3.7% of our total Shares in issue. As at December 31, 2022, Lushang Innovation was wholly owned by Lushang Freda, which is owned as to approximately 52.0% by Shandong Commercial and 1.7% by Lushang Group Co., Ltd., a company owned as to approximately 68.2% by Shandong Commercial. By virtue of the SFO, Lushang Freda is deemed to be interested in the Shares held by Lushang Innovation and Shandong Commercial is deemed to be interested in the Shares held by Lushang Freda.
- (5) Based on the disclosure of interests form submitted by CHINA INTERNATIONAL ECONOMIC TRADING LIMITED on July 11, 2022 in respect of the relevant event that occurred on the Listing Date.
- (6) 汶上縣科進建安勞務有限責任公司 is a company beneficially wholly-owned by LU DUNKE.
- (7) 南通辰運建築勞務有限公司 is a company beneficially wholly-owned by FAN QINYUAN.
- (8) Ms. Li Lu, a non-executive Director, is currently the secretary of the board of directors of Lushang Freda.
- (9) Ms. Li Han, a proposed non-executive Director (for details, please refer to the announcement and circular of the Company both dated June 1, 2023), is currently an assistant director of the financial management department of Shandong Commercial.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any persons (other than Directors, Supervisors and chief executives of the Company) who had an interest or short position in the Shares or underlying Shares which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein. Save as disclosed above, none of the Directors is a director or employee of a company which has an interest in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors, Supervisors nor their respective close associates had any direct or indirect interests in any business that constitutes or may constitute a competing business of the Company.

4. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, no Director or Supervisor had entered into any service contract or letter of appointment with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. DIRECTORS' INTEREST IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date:

- (a) none of the Directors had any direct or indirect interest in any assets which have been, since December 31, 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or are proposed to be acquired, disposed of by, or leased to any member of the Group;
- (b) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group; and
- (c) none of the Directors or Supervisors is also an employee or director of any substantial shareholder of the Company.

6. QUALIFICATION OF EXPERT AND CONSENT

The qualification of the expert who has given an opinion or advice in this circular is as follow:

Name	Qualification
Dongxing Securities (Hong Kong) Company Limited	a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, the expert mentioned above (i) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinion and the references to its names included herein in the form and context in which it is respectively included; (ii) has no direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group; and (iii) has no direct or indirect interests in any assets which have been, since December 31, 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.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors have confirmed that there is no material adverse change in the financial or trading position of the Company since December 31, 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. DOCUMENTS ON DISPLAY

A copy of each of the following documents will be available on display online on the Stock Exchange's website and on the Company's website from the date of this circular up to and including the date of the EGM:

- (a) the written consent of the Independent Financial Adviser, which was referred to in the section headed "Qualification of Expert and Consent" in this appendix;
- (b) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in this circular; and
- (c) the New Master Deposit Services Agreement.

NOTICE OF EXTRAORDINARY GENERAL MEETING



Lushang Life Services Co., Ltd.
魯商生活服務股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 2376)

NOTICE IS HEREBY GIVEN that the 2023 first extraordinary general meeting of Lushang Life Services Co., Ltd. (the “**Company**”) will be convened and held at 38th Floor, Block 5, Lushang Guo’ao City, No. 9777 Jingshi Road Lixia District, Jinan, Shandong, the PRC on Friday, June 30, 2023 at 11 a.m. (or immediately after the conclusion of the annual general meeting of the Company held on the same day, whichever is earlier) (the “**EGM**”) for the purposes of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

“**THAT** the master deposit services agreement dated June 15, 2023 and entered into between the Company and Shandong Commercial Group Finance Co., Ltd. (the “**New Master Deposit Services Agreement**”) and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby confirmed and approved and the Directors be and are hereby authorised to do all such acts, deeds and things and to sign, execute and deliver all such documents as they may, in their absolute discretion, consider necessary, desirable or expedient to give effect, determine, revise, supplement or complete any matters relating to or in connection with the New Master Deposit Services Agreement and the transactions contemplated thereunder.”

By order of the Board
Lushang Life Services Co., Ltd.
Mr. WANG Zhongwu
Chairman and executive Director

Hong Kong, June 15, 2023

As at the date of this circular, the Board comprises Mr. WANG Zhongwu as Chairman and executive Director, Mr. SHAO Meng and Mr. YANG Yunlong as executive Directors, Ms. LI Lu and Ms. LUO Ye as non-executive Directors, and Ms. LEUNG Bik San, Ms. CHEN Xiaojing and Mr. MA Tao as independent non-executive Directors.

Notes:

- (a) Individual shareholders who wish to attend the meeting in person shall produce their identity cards or other effective document or proof of identity and stock account cards. Proxies of individual shareholders shall produce their effective proof of identity and form of proxy. A corporate shareholder should attend the meeting by its legal representative or proxy appointed by the legal representative. A legal representative who wishes to attend the meeting should produce his/her identity card or other valid documents evidencing his/her capacity as a legal representative. If appointed to attend the meeting, the proxy should produce his/her identity card and an authorization instrument duly signed by the legal representative of the corporate shareholder.

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) Any shareholder entitled to attend and vote at the EGM is entitled to appoint one or more person(s) (if the shareholder holds two or more issued shares of the Company (the “**Share(s)**”), whether (each of) such person is a shareholder of the Company or not, as his/her/its proxy or proxies to attend and vote on his/her/its behalf at the EGM.

The instrument appointing a proxy must be signed by the shareholder or his/her attorney duly authorized in writing. For a corporate shareholder, the proxy instrument must be affixed with the common seal or signed by its director or attorney duly authorized in writing.

If the power of attorney of the proxy is signed by the authorized person of the appointer under a power of attorney or other authorization document(s) given by the appointer, such power of attorney or other authorization document(s) shall be notarized and served at the same time as the power of attorney. To be valid, the form of proxy, together with a notarially certified copy of the power of attorney or other authorization document(s), must be delivered to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong (for H shareholders), or to the registered office of the Company at Room 202, Block 2 Lushang Guo’ao City No. 9777 Jingshi Road Lixia District, Jinan, Shandong, PRC (for domestic shareholders) not later than 24 hours before the designated time for the holding of the EGM or any adjournment thereof (as the case may be).

In case of registered joint holders of any Shares, any one of the registered joint holders can vote on such Shares at the EGM in person or by proxy as if he/she is the only holder entitled to vote. If more than one registered joint holders attend the EGM in person or by proxy, only the vote of the person whose name appears first in the register of members of the Company relating to such Shares (in person or by proxy) will be accepted as the sole and exclusive vote of the joint holders.

After the completion and return of the form of proxy and the power of attorney, you can attend and vote in person at the EGM or any adjournment thereof should you so wish. In this case, the power of attorney will be deemed to have been revoked.

- (c) According to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the resolutions to be proposed at the EGM will be voted on by poll. Results of the poll voting will be posted on the website of the Company (www.lushangfuwu.com) and the website of the Stock Exchange (www.hkexnews.hk) upon the conclusion of the EGM.
- (d) The Company’s register of members will be closed from Tuesday, June 27 2023 to Friday, June 30, 2023, both days inclusive, during which period no transfer of the Shares will be effected. The shareholders whose names appear on the Company’s register of members on Friday, June 30, 2023 shall be entitled to attend and vote at the EGM.

For a shareholder to be eligible for attending and voting at the EGM, all share transfer documents accompanied by the relevant share certificates and other appropriate documents must be lodged with the Company’s H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong (for H shareholders) or to the registered office of the Company at Room 202, Block 2 Lushang Guo’ao City No. 9777 Jingshi Road Lixia District, Jinan, Shandong, PRC (for domestic shareholders) no later than 4:30 p.m. on Monday, June 26, 2023 for registration.

- (e) Shareholders attending the EGM are responsible for their own transportation and accommodation expenses.