
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately upon completion of the [REDACTED] and the [REDACTED] and without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED], Zhong An BVI will hold 75% of the issued share capital of our Company. Zhong An BVI is directly wholly-owned by Zhong An. Zhong An is owned as to approximately 57.89% by Whole Good, which is directly wholly-owned by Mr. Shi. Hence, Mr. Shi, Whole Good, Zhong An and Zhong An BVI will be our Controlling Shareholders under the Listing Rules.

Each of Whole Good and Zhong An BVI is an investment holding company. After the [REDACTED], Zhong An and its subsidiaries (excluding our Group) are principally engaged in property development, property investment and other property development related services, pursuant to which the Remaining Zhong An Group will continue to be principally engaged in the development, sales of and investment in residential properties in the PRC while the CNC Group will continue to be principally engaged in the development, sales and leasing of and investment in commercial properties and operation and management of hotel and cinema in the PRC (together, the “**Retained Business**”).

Mr. Shi is the ultimate controlling shareholder of Zhong An and he is currently serving as the chairman of the board of directors and executive director of Zhong An, and chairperson of the board of directors and non-executive director of China New City. He is also the chairman of the Board and executive Director of our Company.

DELINEATION OF BUSINESS

The Retained Business

Our Directors are of the view that there is clear delineation between the Retained Business and our business and, as a result, none of the Retained Business would compete, or is expected to compete, directly or indirectly, with our business upon [REDACTED].

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The following table sets forth the principal business operations of our Group and the Remaining Group (which comprised the Remaining Zhong An Group and the CNC Group) as of the Latest Practicable Date:

Principal business operations

Our Group

- (i) property management services to property developers, property owners, residents and tenants which primarily comprise (a) security services, (b) cleaning services, (c) gardening and landscaping services, (d) repair and maintenance services and/or (e) car park management services. The portfolio of managed properties mainly comprises (i) residential properties; and (ii) non-residential properties including commercial and office buildings, serviced apartments, public and other properties (such as office buildings of PRC governmental bodies, industrial parks, hospitals, schools and prison) and excluding hotel and cinema;
- (ii) value-added services principally to property developers which primarily comprise (a) sales office management services; (b) preliminary planning and design consultancy services; and (c) pre-delivery inspection services; and
- (iii) community value-added services principally to property owners and residents of our managed properties which primarily comprise (a) common area management services; (b) renovation waste disposal services; and (c) car parking space sales agency services.

The Remaining Group

- (i) The Remaining Zhong An Group: development, sales of and investment in residential properties; and
- (ii) The CNC Group: development, sales and leasing of and investment in commercial properties and operation and management of hotel and cinema.

Given the different nature of businesses between our Group and the Remaining Group, there is clear delineation between the businesses of our Group and that of the Remaining Group. Our Directors are therefore of the view that there is no competition between the businesses of our Group and the Retained Business.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Other businesses of our Controlling Shareholders

In addition to the businesses of our Group and the Remaining Group, Mr. Shi is also interested in shipping and shipping consultancy business which will not be included in our Group upon the [REDACTED]. Since the shipping and shipping consultancy business are separate and distinct from our business, there is no competition with the businesses of our Group.

To ensure that competition will not exist in the future, each of our Controlling Shareholders has entered into the Deed of Non-Competition in favor of our Company to the effect that each of them will not, and will procure each of their respective close associates not to, directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with our business, see “—Deed of Non-Competition” below for details.

Save as disclosed above, as of the Latest Practicable Date, none of our Controlling Shareholders, our Directors and their respective close associates had any interest in any business which competes or is likely to compete, either directly or indirectly with our Company’s business which would require disclosure under Rule 8.10 of the Listing Rules.

OUR BUSINESS RELATIONSHIP WITH THE REMAINING GROUP

We have a well-established and ongoing business relationship with the Remaining Group. Property management services are important to the daily operations of the Remaining Group as property developers in the PRC. We have been providing various services to the Remaining Group including residential and non-residential property management services since 1998 and 2005, respectively. Our Directors consider that our Group does not particularly rely on the Remaining Group, having considered the reasons as set forth in the paragraph headed “—Independence from our Controlling Shareholders and their close associates” in this section of this document.

As confirmed by CIA, the business relationship between the Remaining Group and us is common among PRC property management companies and their parent group companies and has been mutually beneficial and complementary. In addition, according to CIA, high-quality property management services enhance the satisfaction of property owners and residents. Thus, property developers tend to select and work closely with well-resourced property management companies that provide a comprehensive range of services. Benefiting from such a long-standing relationship, we consider that we are familiar with the strategies, standards and requirements of the Remaining Group and are therefore able to provide tailored services to them in order to meet their specific needs. Despite the vast choices of service providers that provide similar services in the market, we believe that it would not be in the best interest of the Remaining Group to select and engage other service providers, considering the amount of time and relevant experience required for such other service providers to provide equally satisfying services that are comparable to that of our Group. Over years of cooperation, our Group on one hand, and the Remaining Group on the other hand, have gained thorough

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

understanding of the business operations of each other and hence our Directors are of the view that our relationships have become mutually beneficial and complementary and is unlikely to change adversely or be terminated. We believe our close and long-term cooperative relationship with the Remaining Group is instrumental to their respective success in establishing a well-recognized brand image, while enabling us to reinforce our existing market position and enhance our competitiveness in the PRC property management industry. It is therefore commercially beneficial for the Remaining Group and our Group to maintain a stable business relationship.

We have a success rate of 100% of the tender bids submitted by our Group for the residential projects developed by the Remaining Group during the Track Record Period. We believe our high retention rate of 100% of all properties developed by the Remaining Group during the Track Record Period also led to the Remaining Group relying on our support to promote its brand image by continuously delivering quality property management services to property owners and residents of its developed properties. Given there is a certain degree of mutuality and complementarity of ongoing business between the Remaining Group and our Group, as well as our proven track record in securing property management service engagements from the Remaining Group during the Track Record Period, we consider that we have a competitive advantage that distinguishes us from our competitors and believe we will continue to be able to secure future engagements from them and be able to maintain our revenue from them upon [REDACTED].

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS AND THEIR CLOSE ASSOCIATES

We believe that we are capable of carrying on our business independently of our Controlling Shareholders and their respective close associates (other than our Group) after [REDACTED] for the following reasons:

Management Independence

Our Board comprises four executive Directors and three independent non-executive Directors. Save for the one executive Director, namely Mr. Shi who is also an executive director and chairman of the board of directors of Zhong An and a non-executive director and chairperson of the board of directors of China New City, there is no overlap of directors and senior management members among our Company, Zhong An and China New City.

Our Directors are of the view that our Group does not rely on our Controlling Shareholders and their respective close associates in terms of management, and that the day-to-day operations and management functions of our Group can be managed independently of our Controlling Shareholders given that:

- (i) our Board has a composition of four executive Directors and three independent non-executive Directors who are responsible for various functions of our Group;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (ii) Mr. Shi is the only overlapping Director of our Company. Since he has been overseeing business development, formulation and implementation of business strategies of both the property development of the Remaining Zhong An Group and property management of our Group since their commencement of business in 1997 and 1998, respectively, it is expected that while continuing to be supported by senior management teams of Zhong An and our Company, he will be able to devote sufficient time in handling his duties as executive director and chairman of the board of directors of both Zhong An and our Company, and non-executive director and chairperson of the board of directors of China New City;
- (iii) other than Mr. Shi, all of our other Directors and our senior management members are independent from our Controlling Shareholders. Our Group has established our own business, finance, human resources and administration departments which are responsible for daily operations of our Group;
- (iv) there are three non-overlapping executive Directors of our Company, representing a majority of the executive Directors who will be responsible for the daily management of our Group;
- (v) there is no overlap of the five senior management members of our Group with the senior management members of the Remaining Group and therefore senior management members of our Group and the Remaining Group will be able to exercise independent judgment free from any conflict of interest;
- (vi) our independent non-executive Directors account for more than one-third of our Board and they are independent from the Remaining Group. They will provide impartial and professional advice and bring independent judgment to the decision making of the Board;
- (vii) upon the [REDACTED], our Company will implement corporate governance measures to avoid any potential conflicts of interest as a result of overlapping of director, namely Mr. Shi between the Remaining Group and our Group. For details, see “—Corporate Governance Measures” in this section of the document; and
- (viii) all Directors are aware of their responsibilities as Directors of our Company, including, among other things, their fiduciary duties to act for the benefit and in the best interests of our Company and our Shareholders as a whole.

Our Directors consider that Mr. Shi serving as executive director and chairman of the board of directors of Zhong An and our Company, and non-executive director and chairperson of the board of directors of China New City will be beneficial to the management and business development of Zhong An, China New City and our Company, will facilitate the continuous business cooperation between the Remaining Zhong An Group, the CNC Group and our Group and will provide strong and consistent leadership to the Remaining Zhong An Group, the CNC Group and our Group. In view of the above, our Directors believe that our

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Company has sufficient and effective control mechanisms to ensure that our Directors will perform their duties properly and safeguard the interests of our Company and our Shareholders as a whole.

Operational Independence

Substantial portion of revenue generated from independent third parties

The following tables set forth the breakdowns of the revenue of our Group generated from (i) the Remaining Group and its joint ventures and associates; and (ii) independent third-party customers during the Track Record Period:

	For the year ended December 31,					
	2020		2021		2022	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Remaining Group and its joint ventures and associates	72,996	31.6	103,904	35.1	109,818	34.3
Independent third-party customers	157,699	68.4	191,790	64.9	209,917	65.7
Total revenue	230,695	100.0	295,694	100.0	319,735	100.0

Given that the property management fees are payable by individual property owners after the properties are delivered, the vast majority of our customers are third-party customers who are independent from our Controlling Shareholders. Accordingly, most of our revenue was derived from independent third-party customers during the Track Record Period which accounted for over 64.8% of the total revenue of our Group, and such proportion is expected to increase once the contracted but undelivered projects developed by the Remaining Group and its joint ventures and associates are delivered to independent third-party customers.

In addition, we recorded a continued increase in the revenue from third-party customers during the Track Record Period from approximately RMB157.7 million for the year ended December 31, 2020 to approximately RMB191.8 million for the year ended December 31, 2021 by approximately 21.6% then to approximately RMB209.9 million for the year ended December 31, 2022 by approximately 9.5%. In view of the above, our Directors consider that our Group does not rely on the Remaining Group as our main source of revenue.

Preliminary property management service agreements obtained through a standard and regulated tender and bidding process

Under the applicable PRC laws and regulations, property management companies are generally required to obtain preliminary property management service agreements for residential properties through participation in the tender process. If there are fewer than three bidders or the scale of the property is relatively small, the property developer can select and

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

engage a property management company without going through the tender process by directly entering into an agreement with the prior approval of the real estate administrative department of the relevant district or county government where the property is located. The composition of the tender evaluation committee and the tender evaluation process must comply with the requirements of the relevant PRC laws and regulations. For further details of the tender process, see “Regulatory Overview—Laws and Regulations Relating to Property Management Services and Other Related Services— Appointment of Property Management Enterprises ” in this document.

For property management services of purely non-residential properties, we generally obtained those property management service agreements through commercial negotiation.

During the Track Record Period, we have submitted nine, 12 and ten tenders for projects developed by the Remaining Zhong An Group or its joint ventures and associates for the years ended December 31, 2020, 2021 and 2022, respectively, and our tender success rates were 100% throughout the Track Record Period. Despite most of the preliminary management service agreements entered into during the Track Record Period were related to residential properties developed by the Zhong An Group or its joint ventures and associates, in view of the above regulations on the tender and bidding processes, such preliminary management service agreements were granted to us based on merits of our profile and proposal and regardless of our shareholding relationship with the Remaining Group. We do not enjoy a preferential right to be engaged as the management service provider for preliminary management service agreements and will not be automatically awarded with such agreements simply by reason of our relationship with the Remaining Group.

Property owners’ right to re-appoint or replace property management service providers after delivery of the residential properties

At the post-delivery stage of the residential property projects where all or part of the property units have been sold and delivered by the property developers to individual property owners, the general meeting of property owners could establish property owners’ associations to represent property owners’ interests in matters related to property management. The property owners’ associations, once established, are operated by the property owners independently without the involvement of the property developers.

Under the PRC laws, the property owners have the right to, through the property owners’ general meetings, re-appoint or replace the existing property management service providers and authorize the property owners’ associations to enter into new property management service agreements with the selected property management service providers. The property developers (including the Remaining Group) do not have any influence over the decision-making process of the property owners in respect of the re-appointment or replacement of the property management service providers.

During the Track Record Period, we had five property management services agreements expired because of the formation of property owners’ associations, respectively, among these, we renewed four property management service agreements by entering into property management service agreements with the respective property owners’ associations. We chose not to submit tender application with the property owners’ association for one property project primarily due to commercial consideration that there were better business opportunities to reallocate our resources.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

External projects

During the Track Record Period, there was a steadily increasing trend in the contribution of property projects developed by independent third-party developers (“**External Projects**”) to (i) the total GFA under management of our Group, which amounted to approximately 44.7%, 44.3% and 46.0% as of December 31, 2020, 2021 and 2022, respectively; and (ii) our revenue generated from property management services, which amounted to approximately 23.9%, 27.5% and 28.5% for the three years ended December 31 2022, respectively. As of December 31, 2022, our Group has 62 External Projects out of 95 projects under our management, which included residential properties and non-residential properties. We intend to continue to actively obtain property management service agreements for External Projects.

In order to reduce our reliance on the Remaining Group, further expand our property management services portfolio and increase the proportion of the External Projects, our Group had participated in various tender process for External Projects during the Track Record Period. Besides, our Group has established an investment development center to identify potential property management projects from independent third-party property developers. Our Group has also been actively exploring potential acquisition opportunities for third party property management companies or property projects. For details of our strategic acquisitions and investments plan, see “Future Plans and [REDACTED]—[REDACTED]” in this document.

Licenses required for operations

We hold, by our own, all the relevant licenses and permits that are material to our business operations, and enjoy the benefits brought by them.

Operational facilities

As of the Latest Practicable Date, save as disclosed in the section headed “Connected Transactions”, all properties and facilities necessary for our business operations are separate from and independent of the Remaining Group.

Employees

As of the Latest Practicable Date, we generally recruit our full-time employees independently and primarily through recruitment websites (including external recruitment websites and internal corporate website), on-campus recruitment programs, job fair, recruiting firms and internal referrals.

Continuing connected transactions

The section headed “Connected Transactions” sets forth the continuing connected transactions between our Group and Zhong An, China New City and their respective associates which will continue after the [REDACTED]. All such transactions will be carried out after arm’s length negotiations and on normal commercial terms. Save for the continuing

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

connected transactions set forth in the section headed “Connected Transactions”, our Directors currently do not expect to enter into any other additional continuing connected transactions between our Group and Zhong An, China New City or their respective associates upon or shortly after the [REDACTED].

As such, we expect that we will be able to maintain the aggregate amounts of the continuing connected transactions between our Group and Zhong An, China New City and their respective associates at a reasonable percentage with respect to our total revenue after the [REDACTED]. Accordingly, we are of the view that such continuing connected transactions do not and will not affect our operational independence from the Remaining Group.

Financial Independence

We have established our own finance department with a team of financial staff which is responsible for financial control, accounting, reporting, group credits and internal control of our Company, which is independent from the Remaining Group.

All loans, advances and balances of non-trade nature due to or from members of the Remaining Group and other related parties which were not arising out of the ordinary course of business will be offset or fully settled before [REDACTED]. As of the Latest Practicable Date, there are (i) no share pledges or guarantees provided by members of the Remaining Group on our Group’s borrowing; and (ii) no share pledges or guarantees provided by members of our Group on the Remaining Group’s borrowing.

Accordingly, we believe that we are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

DEED OF NON-COMPETITION

Each of our Controlling Shareholders has irrevocably and unconditionally undertaken to us in the Deed of Non-Competition that he/it will not, and will procure his/its close associates (other than members of our Group) not to directly or indirectly be involved or engaged in any business that directly or indirectly competes, or may compete, with our businesses (the “**Restricted Businesses**”), or hold shares or interest in any companies or business that compete directly or indirectly with the business engaged by our Group from time to time, or conduct any Restricted Businesses, except where our Controlling Shareholders and their close associates hold less than 10% of the total issued share capital or registered capital of any company which is engaged in any business that is or may be in competition with any business engaged by any member of our Group and they do not have right to appoint majority of the composition of the board of directors of such company. The above restrictions do not apply to the business of any of our Controlling Shareholders and his/its close associates that (i) had already been disclosed in this section; (ii) is not the same, similar or in competition with the Restricted Business; or (iii) was a Restricted Business but later no longer a Restricted Business.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Further, each of our Controlling Shareholders has undertaken that if any new business investment/other business opportunity relating to the Restricted Businesses (the “**Competing Business Opportunity**”) is identified by/made available to him/it or any of his/its close associates, he/it shall, and shall procure that his/its close associates shall, refer such Competing Business Opportunity to our Company on a timely basis by giving written notice (the “**Offer Notice**”) within 30 Business Days of identifying the target company (if relevant), the nature of the Competing Business Opportunity, the investment or acquisition costs and all other details reasonably necessary for our Company to consider whether to pursue such Competing Business Opportunity.

Upon receiving the Offer Notice, our Company shall seek approval from a board committee who do not have an interest in the Competing Business Opportunity (the “**Independent Board**”) as to whether to pursue or decline the Competing Business Opportunity (any Director who has actual or potential interest in the Competing Business Opportunity shall abstain from attending (unless their attendance is specifically requested by the Independent Board) and voting at, and shall not be counted in the quorum for, any meeting convened to consider such Competing Business Opportunity). The Independent Board shall consider the financial impact of pursuing the Competing Business Opportunity offered, whether the nature of the Competing Business Opportunity is consistent with our Group’s strategies and development plans and the general market conditions of our business. If appropriate, the Independent Board may appoint independent financial advisors and legal advisor to assist in the decision making process in relation to such Competing Business Opportunity. The Independent Board shall, within 30 Business Days of receipt of the written notice referred above, inform our Controlling Shareholders in writing on behalf of our Company its decision whether to pursue or decline the Competing Business Opportunity.

The relevant Controlling Shareholder shall be entitled but not obliged to pursue such Competing Business Opportunity if he/it has received a notice from the Independent Board declining such Competing Business Opportunity or if the Independent Board failed to respond within such 30 Business Days’ period mentioned above. If there is any material change in the nature, terms or conditions of such Competing Business Opportunity pursued by the relevant Controlling Shareholder, he/it shall refer such revised Competing Business Opportunity to our Company as if it were a new Competing Business Opportunity.

The Deed of Non-Competition will lapse automatically if our Controlling Shareholders and their respective close associate cease to hold, whether directly or indirectly, 30% or above of our Shares with voting rights or our Shares cease to be [REDACTED] on the Stock Exchange.

Each of our Controlling Shareholders has further undertaken to us that he/it will provide and procure his/its close associates to provide on best endeavor basis, all information necessary for the annual review by our independent non-executive Directors for the enforcement of the Deed of Non-Competition. They will make an annual declaration in our annual report on the compliance with the Deed of Non-Competition in accordance with the principle of voluntary disclosure in the corporate governance report.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

In addition, our Company has taken, or will take, the following measures to safeguard good corporate governance standards in respect of the Deed of Non-Competition:

- our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-Competition by our Controlling Shareholders;
- we will disclose decisions on matters reviewed by the independent non-executive Directors (including the reasons for not taking up the Competing Business Opportunity referred to our Company) and their basis and the review by our independent non-executive Directors on the compliance with, and the enforcement of, the Deed of Non-Competition in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules; and
- in the event that any of our Directors and/or their respective close associates has material interests in any matter to be deliberated by our Board in relation to the compliance and enforcement of the Deed of Non-Competition, he may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association.

CORPORATE GOVERNANCE MEASURES

Each of our Controlling Shareholders and his/its respective close associates may not compete with us as provided in the Deed of Non-Competition. Each of our Controlling Shareholders has confirmed that he/it fully comprehends his/its obligations to act in our Shareholders' best interests as a whole. Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (a) as part of our preparation for the [REDACTED] and the [REDACTED], we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provided that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (b) a Director with material interests shall make full disclosure in respect of matters that may have conflict or potentially conflict with any of our interest and abstain from the board meetings on matters in which such Director or his associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (c) we have appointed independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our [REDACTED]. For details of our independent non-executive Directors, see “Directors and Senior Management—Board of Directors—Independent non-executive Directors” in this document;
- (d) our Directors (including our independent non-executive Directors) will seek independent and professional opinions from external advisors at our Company’s cost as and when appropriate in accordance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules;
- (e) any transactions between our Company and our connected persons shall be in compliance with the relevant requirements of Chapter 14A of the Listing Rules, including the announcement, reporting and independent Shareholders’ approval requirements (if applicable);
- (f) we have appointed Rainbow Capital (HK) Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to Directors’ duties and corporate governance;
- (g) as required by the Listing Rules, our independent non-executive Directors shall review any connected transactions annually and confirm in our annual report that such transactions have been entered into in our ordinary and usual course of business, are either on normal commercial terms or on terms no less favorable to us than those available to or from independent third parties and on terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and
- (h) on an annual basis, our independent non-executive Directors will review the non-compete undertakings provided by our Controlling Shareholders and their compliance with such undertakings.