

ALTUS CAPITAL LIMITED

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22 August 2023

To the Independent Board Committee and the independent Shareholders

Redsun Services Group Limited

Room 2612, 26/F China Merchants Tower
Shun Tak Centre
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Hong Kong

Dear Sir and Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS — SUPPLEMENTAL
PARKING SPACE SALES AND LEASING AGENCY SERVICES
FRAMEWORK AGREEMENT 1;
(2) MAJOR TRANSACTION AND CONTINUING CONNECTED
TRANSACTIONS — SUPPLEMENTAL PARKING SPACE SALES AND
LEASING AGENCY SERVICES FRAMEWORK AGREEMENT 2;
AND
(3) RECTIFICATION OF BREACH OF THE LISTING RULES**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders in respect of (1) discloseable transaction and continuing connected transactions — Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 1; and (2) major transaction and continuing connected transactions — Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 2 (together the “**Transactions**”); and (3) the rectification of the payment of the Historical Refundable Deposits (“**Rectification**”), details of which are set out in the “Letter from the Board” contained in the circular of the Company dated 22 August 2023 (the “**Circular**”). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

As disclosed in the Prospectus, on 11 March 2020, Nanjing Hong Yang Property Management, an indirect wholly-owned subsidiary of the Company, entered into the Parking Space Sales and Leasing Agency Services Framework Agreement with Redsun Properties, pursuant to which the Group agreed to provide sales agency services for unsold car parking spaces of Redsun Properties and its associates. As disclosed on the CCT Announcement, on 8 December 2022, the Company entered into the New Parking Space Sales and Leasing Agency Services Framework Agreement with Redsun Properties.

As disclosed in note 33 to the consolidated financial statements for the Reporting Period disclosed in the 2022 Annual Report, the Group entered into an agreement in relation to parking space sales agency services with a subsidiary of Redsun Properties, pursuant to which the Group paid the Historical Refundable Deposits in an aggregate amount of RMB200,910,000 during the Reporting Period, of which the outstanding balance of the Historical Refundable Deposits as at 31 December 2022 amounted to RMB188,072,642. As at the date of the Announcement, the outstanding balance of the Historical Refundable Deposit amounts to RMB153,529,221.

On 7 June 2023, the Company and Redsun Properties entered into the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements, pursuant to which members of the Group shall pay to members of Redsun Properties Group the Refundable Deposits in connection with the sales agency services contemplated under the Parking Space Sales and Leasing Agency Services Framework Agreement and the New Parking Space Sales and Leasing Agency Services Framework Agreement, respectively.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Redsun Properties is indirectly held as to 71.88% by Mr. Zeng Huansha, the ultimate controlling Shareholder of the Company. Therefore, Redsun Properties is an associate of Mr. Zeng Huansha and thus constitutes a connected person of the Company under Chapter 14A of the Listing Rules, and the transactions contemplated under the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios of the proposed annual caps in respect of the Refundable Deposits contemplated under the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 1 exceed 5% but are less than 25%, such payment of the Refundable Deposits constitutes a discloseable transaction and continuing connected transactions of the Company and is subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

Meanwhile, as one or more of the applicable percentage ratios of the proposed annual caps in respect of the Refundable Deposits contemplated under the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 2 exceed 25% but are less than 100%, such payment of the Refundable Deposits constitutes a major transaction and continuing connected transactions of the Company and is subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

RECTIFICATION OF BREACH OF THE LISTING RULES

During the Reporting Period, the Company had paid the Historical Refundable Deposits in an aggregate amount of RMB200,910,000 to Redsun Properties, among which the amount of RMB188,072,642 remained outstanding as of 31 December 2022 and the amount of RMB151,839,663 remains outstanding as of the Latest Practicable Date. As one or more of the applicable percentage ratios in respect of the Historical Refundable Deposits exceed 5% but are less than 25%, such payment of the Historical Refundable Deposits constituted a discloseable transaction and continuing connected transactions of the Company and is subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules. As the Company had not complied with such applicable requirements prior to making the payment of the Historical Refundable Deposits, such payment constituted a breach of Chapter 14 and Chapter 14A of the Listing Rules.

The Company proposes to put forward ordinary resolutions at the EGM for the Independent Shareholders to consider and, if thought fit, approve the entering into of the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements, the transactions contemplated thereunder and the rectification of the payment of the Historical Refundable Deposits. In the event that such ordinary resolutions are not passed at the EGM, Redsun Properties (for itself and on behalf of its subsidiaries and associates) undertakes to refund the outstanding balance of the Historical Refundable Deposits to the Group within five working days after the date of the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Wang Fen, Mr. Li Xiaohang and Mr. Zhao Xianbo, has been established to advise the independent Shareholders as to (i) whether the terms of the Transactions (including the Proposed Annual Caps) and the Rectification are fair and reasonable; (ii) whether the Transactions and the Rectification are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (iii) how to vote in respect of the relevant resolutions to be proposed at the EGM approving the Transactions (including the Proposed Annual Caps) and the Rectification (the “**Resolutions**”), taking into account the recommendations of the Independent Financial Adviser.

THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser to the Independent Board Committee and the independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the independent Shareholders as to (i) whether the terms of the Transactions (including the Proposed Annual Caps) and the Rectification are fair and reasonable; (ii) whether the Transactions and the Rectification are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (iii) how to vote in respect of the relevant Resolutions.

We acted as the independent financial adviser for the Company with regards to the non-exempt continuing connected transactions, details of which were set out in the circular of the Company dated 10 February 2023. Save for the aforesaid transaction, we have not acted as independent financial adviser or financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the Transactions and the Rectification is at market level and not conditional upon successful passing of the Resolutions, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling shareholder(s) or connected person(s).

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others (i) the New Parking Space Sales and Leasing Services Framework Agreement; (ii) the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements; (iii) 2022 Annual Report and the interim report of the Company for the six months ended 30 June 2022 (“**2022 Interim Report**”); (iv) other information set out in the Circular; (v) the CCT Announcement; (vi) the Prospectus; and (vii) the announcement of the Company dated 16 August 2023 in relation to the Second Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 2.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Group (the “**Management**”). We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management were reasonably made after due and careful enquiry and were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regards to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any such statements, information, opinions or representations we relied on in forming our opinion are untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render them untrue, inaccurate or misleading. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors:

1. Background information

1.1. Information of the Group

The Group is a comprehensive community service provider in Jiangsu Province, the PRC. It is principally engaged in the provision of property management services, value-added services to non-property owners and community value-added services. According to the Prospectus, the Group has been providing parking space sales and leasing agency services to Redsun Properties since 2017.

Set out below extract of financial position of the Group as at 31 December 2022, being the latest publicly available financial information, with comparison figures as at 30 June 2022.

| | As at 31 December 2022 <i>RMB'000</i> <i>(audited)</i> | As at 30 June 2022 <i>RMB'000</i> <i>(unaudited)</i> |
|------------------------------|---|---|
| Non-current assets | 284,891 | 363,081 |
| Current assets | 1,295,259 | 1,149,378 |
| — Due from related companies | 440,523 | 90,241 |
| — Cash and bank balances | 545,729 | 721,869 |
| Current liabilities | 624,317 | 552,258 |
| Non-current liabilities | 65,645 | 80,550 |
| Net assets | 890,188 | 879,651 |

Source: 2022 Annual Report and 2022 Interim Report

Due to the payment of the Refundable Deposits of approximately RMB200.9 million, due from related parties increased from approximately RMB90.2 million as at 30 June 2022 to RMB440.5 million as at 31 December 2022. Cash and bank balances decreased by approximately RMB176.2 million from approximately RMB721.9 million to RMB545.7 million for the same period. Despite such changes, the net assets of the Group remained stable as at 31 December 2022 as compared to that of 30 June 2022.

1.2. Information of Redsun Properties

Redsun Properties is a property developer established in the Yangtze River Delta region and operating in the PRC, focusing on the development of residential properties and the development, operation and management of commercial and comprehensive properties.

Set out below extract of financial position of Redsun Properties as at 31 December 2022, being the latest publicly available financial information, with comparison figures as at 30 June 2022.

| | As at 31 December 2022 | As at 30 June 2022 |
|---------------------------|---------------------------------------|--------------------------------------|
| | <i>RMB'000</i> <i>(audited)</i> | <i>RMB'000</i> <i>(unaudited)</i> |
| Non-current assets | 28,126,447 | 29,646,048 |
| Current assets | 73,606,517 | 90,228,880 |
| — Cash and bank balances | 4,858,420 | 9,502,390 |
| Current liabilities | 66,603,529 | 71,254,704 |
| Non-current liabilities | 11,330,968 | 18,132,846 |
| Net assets | 23,798,467 | 30,487,378 |

Source: Redsun Properties' annual report for the year ended 31 December 2022 and interim report for the six months ended 30 June 2022.

Net assets of Redsun Properties decreased to approximately RMB23.8 billion as at 31 December 2022 as compared to approximately RMB30.5 billion as at 30 June 2022. The cash and bank balances decreased from approximately RMB9.5 billion as at 30 June 2022 to approximately RMB4.9 billion as at 31 December 2022.

Set out below certain ratios according to the “Three Red Lines” assessment of Redsun Properties, which is generally adopted by the regulators for property development companies in China.

| | As at 31 December 2022 | As at 30 June 2022 | Regulatory requirement |
|--|---------------------------------------|-----------------------------------|-----------------------------------|
| Gearing ratio (excluding contract liabilities) | 68.5% | 66.8% | < 70% |
| Net gearing ratio | 81.7% | 59.4% | < 100% |
| Cash to short-term debt ratio | 0.29 times | 0.7 times | > 1 time |

The cash to short-term debt ratio as at 31 December 2022 is not within the regulatory requirement. If such situation continues, the ability to obtain external financing of Redsun Properties may be affected.

Nonetheless, with regard to the prospect of the real estate sector in the PRC as a whole, we noted that various policies introduced by the PRC government with an aim to stabilise the real estate market and reinforce the status of real estate being a major industry in the PRC. According to the Notice of the People's Bank of China and the China Banking and Insurance Regulatory Commission on Enhancing the Current Financial Support for the Steady and Healthy Development of the Real Estate Market* (中國人民銀行中國銀行保險監督管理委員會關於做好當前金融支持房地產市場平穩健康發展工作的通知) published in November 2022, the PRC government will maintain the real estate financing in a stable and orderly manner to support the healthy development of the real estate market. Further, based on the 2022 Central Economic Working Conference* (2022中央經濟工作會議) which took place in December 2022, the PRC government has made clear that the real estate industry is a pillar of the nation's economy, and the government will make strategies from the supply and demand aspects and to assist real estate corporations in their transformation into a new industry model.

2. Reasons for and benefits of the Transactions and the reasons for the Rectification

2.1 Reasons for and benefits of the Transactions

The services to be provided under the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements are sales agency services, which are within the scope of the of the Group's principal activities as described in the section headed "1.1. Information of the Group" above. Accordingly, the Directors believe and we concur that the Transactions are conducted in the ordinary and usual course of business of the Group and consistent with the business and commercial objectives of the Group.

The purpose of the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements is to continue to govern the terms of operations between the Group and Redsun Properties in relation to sales agency services, in particular, on managing the Refundable Deposits. The entering into of the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements will enable the Group to diversify its income stream.

It is noted that the Group agreed to, based on business situation, pay the Refundable Deposits to the Redsun Properties Group and entered into the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements in anticipation of the continuation of such types of services, which is believed to be conducive for the Group to ensure a stable income stream and enhance profitability as a whole since the Group would be able to obtain the exclusive right to provide the Parking Space Sales and Leasing Agency Services.

In addition, the Company has adopted the following measures to monitor the recoverability of Refundable Deposits under the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements:

- (i) the Group will review the latest financial position of Redsun Properties, assess the ongoing risks by monitoring the announcements of Redsun Properties and the refunding status of the Refundable Deposits on a monthly basis to monitor the credit risk in relation to the payment of the Refundable Deposits; and
- (ii) the designated personnel will report to the board of Directors of the Company if he or she is aware of any material adverse event in relation to the financial position of Redsun Properties, based on which the Management will consider to cease or downsize the transactions contemplated under the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements.

Since the refund mechanism for the Refundable Deposits has been agreed by the parties and explicitly provided under the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements, the Company believes that the risks in respect of the recoverability of the Refundable Deposits are controllable by the Group.

Taking into account that (i) the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements are entered into to govern the general terms of the future cooperation between the Group and Redsun Properties; (ii) such agreements outline the principal terms (including the pricing policies and the Refundable Deposits) of the Transactions; (iii) the Transactions are expected to be of a recurrent nature and in the ordinary and usual course of business for the Group; and (iv) the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements allows the Group to continue to provide sales agency services to the Redsun Properties on an exclusive basis, we consider that the entering into of the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements is in the interests of the Company and the Shareholders as a whole.

2.2 Reasons for the Rectification

During the Reporting Period, the Company had paid the Historical Refundable Deposits to Redsun Properties during the course of providing services to Redsun Properties under the transactions contemplated under the Parking Space Sales and Leasing Agency Services Framework Agreement. As one or more of the applicable percentage ratios in respect of the Historical Refundable Deposits exceed 5% but are less than 25%, such payment of the Historical Refundable Deposits constituted a discloseable transaction and continuing connected transactions of the Company and should have been reported, reviewed annually, announced, and sought independent Shareholders' approval at a general meeting under Chapter 14 and Chapter 14A of the Listing Rules. As

the Company had not complied with such applicable requirements prior to making the payment of the Historical Refundable Deposits, such payment constituted a breach of Chapter 14 and Chapter 14A of the Listing Rules. The purpose of the Rectification is to allow the Independent Shareholders to consider and, if thought, fit, to approve the relevant resolutions to rectify the mistake.

In the event that the ordinary resolutions in relation to the Transactions and the Rectification are not passed at the EGM, Redsun Properties (for itself and on behalf of its subsidiaries and associates) undertakes to refund the outstanding balance of the Historical Refundable Deposits to the Group within five working days after the date of the EGM.

The Board clarified that the abovementioned breach of the Listing Rules was due to an inadvertent oversight. Since the Group has been involved in a number of continuing connected transactions with Redsun Properties Group (including those contemplated under the Parking Space Sales and Leasing Agency Services Framework Agreement), the Company was mistaken of the nature and classification of the Refundable Deposits. The Company regrets such unintentional breach of the Listing Rules and reiterates its belief that continuing compliance with the Listing Rules and other applicable regulatory requirements is of utmost importance.

Taking into account (i) the inadvertent mistake of the Group; (ii) the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements are in the interests of the Company and the Shareholders as a whole; (iii) the Rectification is to allow the Independent Shareholders to consider and, if thought, fit, to approve the relevant resolutions to rectify the mistake; (iv) the enhanced internal control measures adopted by the Management to safeguard the interest of the Group (as further discussed in the section headed “5. Enhanced internal control measures” below; and (v) in the event that the resolutions related to the Transactions and the Rectification are not passed at the EGM, Redsun Properties (for itself and on behalf of its subsidiaries and associates) undertakes to refund the outstanding balance of the Historical Refundable Deposits (approximately RMB151.8 million as at the Latest Practicable Date) to the Group within five working days after the date of the EGM, we consider that the Rectification is in the interests of the Company and the Shareholders as a whole.

3. Principal Terms of the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements

3.1. Term

- (i) The term of Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 1 is from 20 March 2020 to 31 December 2022 with retrospective effect.
- (ii) The term of Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 2 is from 1 January 2023 to 31 December 2025 with retrospective effect, subject to renewal of the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 2 by mutual agreement of the parties.

3.2. Subject matter

In connection with the sales agency services in respect of the unsold parking spaces owned by Redsun Properties contemplated under the Parking Space Sales and Leasing Agency Services Framework Agreement and the New Parking Space Sales and Leasing Agency Services Framework Agreement (as the case may be), which the Group is entitled to receive agency fees, members of the Group shall pay to members of Redsun Properties Group the Refundable Deposits in an amount equal to sales reserve prices of the relevant parking spaces (in the case of the unsold parking spaces).

Pricing policy

The pricing policy of the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements is set out below.

With respect to the unsold parking spaces, the amount of the Refundable Deposits shall be equal to total sales reserve price of such unsold parking spaces, which is a unified standard of Redsun Properties applicable to the refundable deposits payable by an independent third party to them in respect of the same services and is in line with the industry practices. The total sales reserve price is calculated according to the formula below:

$$\begin{array}{rcccl} \text{Total} & & & & \text{number of unsold} \\ \text{selling/sales} & & & & \text{parking spaces} \\ \text{reserve} & = & \text{sales reserve} & & \text{under the relevant} \\ \text{price} & & \text{price of each} & * & \text{definitive sales} \\ & & \text{unsold parking} & & \text{agency services} \\ & & \text{space} & & \text{agreement(s)} \end{array}$$

The sales reserve price for the unsold parking spaces is determined with reference to (i) the popularity of the unsold parking spaces; (ii) the real estate market condition and the scope of services provided; and (iii) the location of the unsold parking spaces. Based on the (i) list of sales reserve price of parking spaces; and (ii) the average selling price of parking spaces in 2022 provided by the Management, we noted that the sales reserve price for all projects which the Group is expected to provide Parking Spaces Sales and Leasing Agency Services are the same as the average actual selling price of the parking spaces of the same projects in 2022, being the latest available information in relation to a full financial year. We concurred with the Management that the average actual selling price of the parking spaces of the same projects reflected the basis of the pricing policy of the sales reserve price.

The above pricing policy sets out the basis of determination of the Refundable Deposits payable by the Group to the Redsun Properties Group, which is in principal on terms no more favourable than those offered by an independent third party and is in line with the industry practice (which will be further discussed under the section headed “3.4 Assessing the fairness and reasonableness of the principal terms” below). As such, such pricing policy is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3.3. Other terms

With respect to the unsold parking spaces, the Refundable Deposits shall be refunded to the Group as follows:

- (a) for the parking spaces sold by the Group, the amount of the Refundable Deposits shall be set-off by the total sales reserve price for such parking spaces received by the Group;
- (b) for the parking spaces failed to be sold by the Group, the Refundable Deposits shall be refunded in full within 30 working days after the expiration of (i) the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 1 on 31 December 2022; and (ii) the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 2 on 31 December 2025, respectively, or on the date(s) as agreed by parties under the relevant definitive sales agency services agreement(s) (whichever is earlier).

3.4. Assessing the fairness and reasonableness of the principal terms

In assessing the fairness and reasonableness of the of the principal terms of the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements, we have conducted an independent research of comparable transactions (“**Comparable Transactions**”) involving payment of refundable deposits in respect of exclusive sales agency rights for parking spaces which

were announced by Main Board-listed companies engaged in property management in the PRC (“**Selection Criteria**”). Based on the Selection Criteria, we have identified an exhaustive list of nine Comparable Transactions announced during the period of 12 months prior to the 7 June 2023, being the date of the Announcement (the “**Review Period**”). Set out below details of the Comparable Transactions and the corresponding terms of the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements:

| Company Name | Stock Code | Date of the announcement | Market Capitalisation as at 7 June 2023 (HK\$ million) | Base price of parking lots | Deposit rate | Interest rate | Connected transaction | Tenure (Year) | Time limit for the refund of the deposits of the unsold parking spaces | Maximum daily balance of the deposits (RMB million) | Total assets value (RMB million) |
|---------------------------------------|------------|--------------------------|---|--|-------------------------------------|---------------|-----------------------|------------------|--|--|-------------------------------------|
| | | | | | | | | | | | |
| S-Enjoy Service Group Co., Limited | 1755 | 21 April 2023 | 3,834 | Pre-determined acceptable lowest sales price based on (i) popularity of the parking space; (ii) the condition of the real estate market; and (iii) location | 100% of the base price | Not disclosed | Yes | 1 | Within 30 days upon expiry of agreement | 515 | 6,151 |
| S-Enjoy Service Group Co., Limited | 1755 | 8 May 2023 | 3,834 | Pre-determined acceptable lowest sales price based on (i) popularity of the parking space; (ii) the condition of the real estate market; and (iii) location | 100% of the base price | Not disclosed | Yes | 1 | Within 30 days upon expiry of agreement | 515 | 6,151 |
| Times Neighborhood Holdings Limited | 9928 | 21 March 2023 | 591 | Not disclosed | Not disclosed | Nil | Yes | 0.5 | Not disclosed | Not disclosed | 2,929 |
| Shimao Services Holdings Limited | 873 | 6 December 2022 | 4,122 | Minimum acceptable sale price that the owner is willing to sell, which was determined with reference to the historical transaction price of carpark spaces in the proximity area | Not more than 35% of the base price | Nil | Yes | 1 to 3 | Not disclosed | 264 | 14,600 |
| Ronshine Service Holding Co., Limited | 2207 | 23 November 2022 | 2,068 | Approximately 65% of the estimated market value of the parking spaces based on available transaction price of comparable car parking spaces in the surrounding markets | 15% of the agreed market value | Nil | Yes | 3 | Within 30 working days upon expiry of agreement | 150 | 1,198 |
| Poly Property Services Co Limited | 6049 | 16 November 2022 | 22,410 | Minimum price to be charged for the sales and leasing price at no exceeding 80% of the agreed price, which is determined by negotiations between parties with reference to comparable average price in the surrounding markets | Not more than 50% of the base price | Not disclosed | Yes | 3 | After expiry of agreement (specific time limit not disclosed) | 2,000 | 13,110 |
| Roiserv Lifestyle Services Co Limited | 2146 | 15 November 2022 | 658 | Approximately 70% to 80% of the agreed market value | 100% of the base price | Not disclosed | No | 2 | Within seven working days upon expiry of agreement | 615 | 3,954 |
| Sino-Ocean Service Holding Limited | 6677 | 14 October 2022 | 1,776 | Minimum price to be charged for the sale, which is determined by negotiation between parties taking into account the average price of comparables parking spaces in the surrounding markets, location, occupancy rate, parking space ratio and sale progress of the relevant project | Not more than 50% of the base price | Nil | Yes | 3 | Within 15 working days upon expiry of agreement | 450 | 4,086 |

| Company Name | Stock Code | Date of the announcement | Market Capitalisation as at 7 June 2023 (HK\$ million) | Base price of parking lots | Deposit rate | Interest rate | Connected transaction | Tenure (Year) | Time limit for the refund of the deposits of the unsold parking spaces | Maximum daily balance of the deposits (RMB million) | Total assets value (RMB million) |
|------------------------------|------------|--------------------------|---|---|-------------------------------------|---------------|-----------------------|------------------|--|--|-------------------------------------|
| Dexin Services Group Limited | 2215 | 9 June 2022 | 2,676 | Minimum price to be charged for sale or leasing, which in principal shall not exceed 80% of the agreed price determined by negotiation between the parties with reference to the comparable average price in the surrounding markets | Not exceeding 50% of the base price | Nil | Yes | Approx. 2.5 | Within 30 days upon expiry of agreement | 300 | 1,315 |
| The Company | 1971 | 7 June 2023 | 610 | Sales reserve price, which is determined with reference to (i) the popularity of the unsold parking spaces; (ii) the real estate market condition and the scope of services provided; and (iii) the location of the unsold parking spaces | 100% of the base price | Nil | Yes | 3 | Within 30 working days after the expiration of (i) the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 1 on 31 December 2022; and (ii) the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 2 on 31 December 2025, respectively, or on the date(s) as agreed by parties under the relevant definitive sales agency services agreement(s) (whichever is earlier) | 307 | 1,580 |

Note: We are of the view that the transactions announced by Times Neighborhood Holdings Limited on its announcement dated 21 March 2023 (which occurred within the Review Period) form part of the Comparable Transactions as they fulfilled the Selection Criteria.

For the base price of parking spaces, except for one Comparable Transaction which did not disclose, all remaining eight Comparable Transactions adopted the based price determined with reference to market elements such as comparable transaction price, location, popularity and market condition. As such, the setting of the base price under the pricing policy of the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements is in line with the majority of the Comparable Transactions and is therefore fair and reasonable.

For the deposit rate the base price, except for one Comparable Transaction which did not disclose, seven out of the remaining eight Comparable Transactions adopted a deposit rate of 35% to 100% of the base price. In particular, three Comparable Transactions adopted 100% deposit rate to their base price. Accordingly, the deposit rate adopted by the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements is in line with the market practice based on the Comparable Transactions and is therefore justifiable.

For the interest rate charged for the refundable deposits, except for four Comparable Transactions which did not disclose, all remaining five Comparable Transactions adopted nil interest rate for the refundable deposits. Accordingly, the nil interest rate adopted by the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements is in line with the market practice based on the Comparable Transactions and is therefore justifiable.

For the time limit for the refund of deposits of the unsold parking spaces, except for three Comparable Transactions which did not disclose the specific time limit, the remaining six Comparable Transactions adopted a time limit of 7 to 30 working days, within which the outstanding deposits should be refunded after the expiry of the relevant agreement. As the Refundable Deposits shall be refunded within 30 working days after the expiration of the relevant framework agreement, such term is in line with the majority of the Comparable Transactions and is therefore fair and reasonable.

3.5. Section conclusion

Based on the analysis set out under this section, we are of the view that the terms of the transactions contemplated under the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements and the Rectification are on normal commercial terms, are fair and reasonable and are in the interests of the Company and Shareholders as a whole.

4. Historical Transaction Amounts and Proposed Annual Caps

4.1. Historical Transaction Amounts

Set out below is a summary of the historical transaction amount the Historical Refundable Deposits paid by the Group to the Redsun Properties Group for the year ended 31 December 2022, pursuant to the Parking Space Sales and Leasing Agency Services Framework Agreement (as supplemented by the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 1):

| | For the year ended 31 December | | |
|--|---------------------------------------|----------------|----------------|
| | 2020 | 2021 | 2022 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Maximum daily balance of the Historical Refundable Deposits | — | — | 200,910 |

4.2. Proposed Annual caps

4.2.1. The Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 1

The table below sets forth the proposed annual caps for the Refundable Deposits to be paid by the Group to the Redsun Properties Group for the year ended 31 December 2022 pursuant to the Parking Space Sales and Leasing Agency Services Framework Agreement (as supplemented by the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 1):

| | For the year ended 31 December | | |
|--|--------------------------------|---------|---------|
| | 2020 | 2021 | 2022 |
| | RMB'000 | RMB'000 | RMB'000 |
| Maximum daily balance of the Historical Refundable Deposits | — | — | 200,910 |

According to the “Letter from the Board”, for the avoidance of doubt, no Refundable Deposits was paid by the Group to the Redsun Properties Group for the two years ended 31 December 2020 and 2021. Save for the Historical Refundable Deposits of RMB200,910,000 paid by the Group in the year ended 31 December 2022, no other Refundable Deposits had been paid by the Group to the Redsun Properties Group as of the date of the Announcement.

We noted that the proposed annual cap for the Refundable Deposits to be paid by the Group to the Redsun Properties Group for the year ended 31 December 2022 was the same as the Historical Refundable Deposits, which was the aggregated amount paid by the Company to Redsun Properties during the year ended 31 December 2022. Therefore, we are of the view that the proposed annual caps for the Refundable Deposits under the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 1 are fair and reasonable.

4.2.2. *The Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 2*

The table below sets forth the proposed annual caps for the Refundable Deposits to be paid by the Group to the Redsun Properties Group for the three years ending 31 December 2025 pursuant to the New Parking Space Sales and Leasing Agency Services Framework Agreement (as supplemented by the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreement 2):

| | For the year ended 31 December | | |
|---|---------------------------------------|----------------|----------------|
| | 2023 | 2024 | 2025 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Maximum daily balance of the Refundable Deposits | 305,949 | 307,919 | 307,309 |

According to the “Letter from the Board”, in arriving at the proposed annual caps for the Refundable Deposits, the Directors have taken into account, among others, (i) the amount and balance of Historical Refundable Deposits during the relevant periods; (ii) the estimated value of the unsold parking spaces of Redsun Properties Group available for sale by the Group as an agent for the year ended 31 December 2022 and the three years ending 31 December 2025, respectively; and (iii) the cash flow and working capital of the Group.

To assess the fairness and reasonableness of the proposed annual caps for the Refundable Deposits for the three years ending 31 December 2025, we have reviewed the calculation of the maximum daily balance of the Refundable Deposits for each of the three years ending 31 December 2025 and noted that:

- (i) the maximum daily balance of the Refundable Deposits was derived by the estimated value of the unsold parking spaces of Redsun Properties available for sale by the Group as an agent, which is consistent with the disclosure on the “Letter from the Board”;
- (ii) the estimated value of the unsold parking spaces was determined based on (a) the estimated price of the parking spaces; and (b) the estimated number of parking spaces to be sold by the Group as agent for each of the years ending 31 December 2025;

Set out below is the formula:

$$\text{Estimated value of the unsold parking spaces available for sale by the Group} = \sum \left(\begin{array}{l} \text{Estimated price of the} \\ \text{parking spaces of} \\ \text{each project} \end{array} * \begin{array}{l} \text{Estimated number of} \\ \text{the parking spaces to} \\ \text{be sold by the Group} \\ \text{as agent of each} \\ \text{project} \end{array} \right)$$

- (iii) for the estimated price of the parking spaces, historical average selling price of parking spaces of the surrounding area was adopted, which we believe is a reasonable basis; and
- (iv) for the estimated number of parking spaces to be sold by the Group as agent for each of the three years ending 31 December 2025, the Company estimated it based on (a) the total number of remaining unsold parking spaces of the relevant real estate development project; (b) the historical number of sale made during the past four years; and (c) the selling progress and occupancy rate of the residential properties of the real estate development project, which we believe are reasonable bases.

Taking into account the analysis set out under this section, we are of the view that the proposed annual caps with regard to the Transactions contemplated under the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements are fair and reasonable.

5. Enhanced internal control measures

As set out under the paragraph headed “Enhanced Internal control measures” under the “Letter from the Board” in the Circular, there are certain additional internal control measures in place to safeguard the interests of the Group.

To safeguard the interests of the Group, the Group has adopted and will continue to adhere to, among others, the following internal control measures to ensure the recoverability of the Refundable Deposits placed with the Redsun Properties Group:

- (i) the finance department of the Company closely monitors the payment from the sales of the parking spaces which is collected by Redsun Properties every month, and offset the balance of the paid Refundable Deposits on a monthly basis;
- (ii) since the Refundable Deposits are paid based on the estimated depletion of the overall parking spaces in the following year of the project, the Company closely monitors the overall depletion of the project’s parking spaces and the occupancy of the housing owners on a monthly basis to calculate the depletion rate, and evaluates the possibility of achieving the remaining depletion target of the parking spaces throughout the year to monitor the risk of recovering the Refundable Deposits;
- (iii) the Company holds a special meeting with the project companies of Redsun Properties every quarter to communicate and understand the overall sales status of the parking spaces of the respective projects in order to evaluate (a) the latest financial status of the project companies of Redsun Properties; (b) the liquidity risk and net asset value; and (c) the default risk and repayment ability, so that the credit risk related to the Refundable Deposits is minimized;

- (iv) if the sales of individual project parking spaces fail to meet expectations, i.e. when there is a risk of the recoverability of the Refundable Deposits, the Group will communicate with the management of Redsun Properties as a whole, and negotiate for the delivery of higher quality parking spaces from the other projects as compensation;
- (v) the Group generally adopts a policy under which the maximum daily balance of Refundable Deposits shall not be more than 50% of the cash and cash equivalents balances. In order to monitor the maximum daily balance of the Refundable Deposits, the Company shall, on a weekly basis, compare the expected maximum daily balance of the Refundable Deposits payable to the relevant members of Redsun Properties Group in connection with the Parking Space Sales and Leasing Agency Services pursuant to the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements (as the case may be) with the then prevailing cash and cash equivalents balance of the Group to ensure that the aforesaid 50% threshold is not exceeded;
- (vi) the Group will regularly review the latest financial position of Redsun Properties Group, evaluate the liquidity risk and the scale of its net assets to assess the default risk such that the credit risk in connection with the payment of the Refundable Deposits is minimized and managed carefully by the Group; and
- (vii) the independent non-executive Directors will also review the implementation, payment and refund of the Refundable Deposits to ensure that the Refundable Deposits are paid out and refunded in accordance with the terms as set out in the Supplemental Parking Space Sales and Leasing Agency Services Framework Agreements.

We have reviewed the above internal control measures designed to ensure recoverability of the deposits placed with the Redsun Properties Group, and noted that (i) the monthly updates in payment of sales proceeds and depletion rate of parking spaces as well as the quarterly meetings with project companies of Redsun Properties on sales status and financial status provide quantitative information for the Group to monitor the possibility of selling the parking spaces and the risk of recovering the Refundable Deposits; (ii) the policy to limit the maximum daily balance of Refundable Deposits at 50% of the cash and cash equivalents balances allows the Group to control the potential risk relating to the Refundable Deposits; and (iii) the Management is allowed to negotiate for higher quality parking spaces from other projects, which in turn, allows the Group to offset the Refundable Deposits more quickly.

In addition, we understand that:

- (i) the breach of Listing Rules in relation to the Refundable Deposits was due to an inadvertent oversight, where the Company was mistaken of the nature and classification of the Refundable Deposits;
- (ii) the Group will provide internal trainings on connected transaction(s) to all the relevant personnel, including senior management in all business departments of the Group on a regular basis to reinforce and to reinforce and re-explain their understanding in terms of the following aspects:
 - the list of connected persons of the Group and such connected persons list shall be updated by personnel/senior management of the relevant subsidiary from time to time;
 - the relevant extracts of the Listing Rules (in particular the requirements under Chapter 14 and 14A of the Listing Rules have been circulated to the relevant personnel and senior management of each member of the Group;
 - the methods used to review and monitor the data relating to continuing connected transactions (including annual cap amount, monthly transaction amount and cumulated amount etc.) from time to time; and
 - the importance of reporting any potential connected transaction(s) to the relevant personnel and senior management of the Company in advance in order to ascertain whether there will be any implications under the Listing Rules.

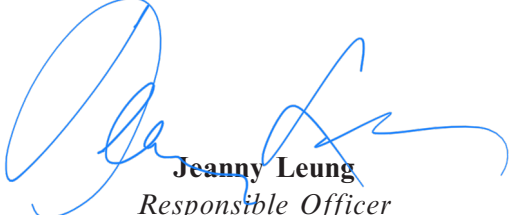
Taking into account the above, we are of the view the enhanced internal control measures would assist the Management to better mandate and monitor the continuing connected transactions going forward.

RECOMMENDATION

Having considered the above principal factors, we are of the view that (i) the terms of the Transactions (including the Proposed Annual Caps) and the Rectification are fair and reasonable; (ii) the Transactions and the underlying transactions of the Rectification are on normal commercial terms or better, 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 the independent Shareholders, as well as the Independent Board Committee to advise the independent Shareholders, to vote in favour of the Resolutions to approve the Transactions (including the Proposed Annual Caps) and the Rectification at the EGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited



Jeanny Leung
Responsible Officer

*Ms. Jeanny Leung (“**Ms. Leung**”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions.*