建泉融資有限公司
VBG Capital Limited

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28 September 2023

To: The independent board committee and the independent shareholders of Xingye Wulian Service Group Co. Ltd.

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF HENAN ZHENG ZHI YUE REAL ESTATE CO., LTD

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 28 September 2023 issued by the Company to the Shareholders (the "**Circular**"), of which this letter of advice forms part. Capitalised terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed "Definitions" in the Circular unless the context requires otherwise.

On 5 July 2023, the Purchaser (an indirect wholly-owned subsidiary of the Company) and the Vendor entered into the Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire the Sale Share at the total cash consideration of RMB95,000,000 (the "**Consideration**"). Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the accounts of the Group.

According to the Letter from the Board, the Acquisition constitutes a very substantial acquisition and a connected transaction for the Company under Chapters 14 and 14A of the Listing Rules respectively. The Acquisition is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising Messrs. Xu Chun, Feng Zhidong and Zhou Sheng (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Acquisition is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Agreement and the transactions contemplated thereunder at the EGM. We, VBG Capital 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, apart from (i) having acted as the independent financial adviser of the Company relating to the continuing connected transactions of which a circular dated 25 November 2022 was issued; and (ii) the existing engagement in connection with the Acquisition and the Transactions, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates. We consider ourselves independent pursuant to Rule 13.84 of the Listing Rules to form our opinion in respect of the Acquisition.

BASIS OF OUR OPINION

In formulating our opinion with regard to the Acquisition, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the EGM. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We 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 not, however, conducted any independent investigation into the business and affairs or future prospects of the Group, the Vendor, the Target Company or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Group or the Target Company, and we have not been furnished with any such evaluation or appraisal, save and except for the valuation report of the Property Project as set out in Appendix V to the Circular (the "**Valuation**"). The Valuation was prepared by the Independent Valuer. Since we are not experts in the valuation of land and properties, we have relied solely upon the Valuation for the market value of the Property Project as at 31 July 2023.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we did not conduct any independent in-depth investigation into the accuracy and completeness of such information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Acquisition, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Acquisition

Information on the Group

Established in 1999, the Group is a reputable property management service provider in Henan Province. The Group provides a wide range of property management services which include, amongst others, security, cleaning, greening and gardening, parking space management, repair and maintenance for common areas and customer services, and other value-added services.

The Group's portfolio of properties under management expanded rapidly in recent years. The year-on-year expansion of the aggregate GFA of properties under management of the Group was approximately 50.0% and 29.2% in 2019 and 2020, respectively. Since 2021, in view of the intensified competition in the property management services industry, the Group has implemented new strategy to expand its pipeline property portfolio to residential properties other than non-residential properties. As a result, the Group's portfolio of properties under management expanded significantly by approximately 112.9% from 2020 to 2021 and further by approximately 9.1% from 2021 to 2022. As at 31 December 2022, the aggregate GFA of properties under the Group's management was approximately 7.2 million square meters.

Starting from October 2017, the Group also provides its customers with property engineering services which include planning, design and installation of security and surveillance systems, access control systems, carpark management systems and construction site management systems.

Contributed by the successful development of the aforesaid two business segments, the Group's total revenue rose by approximately 14.0% from approximately RMB281.7 million for the year ended 31 December 2021 to approximately RMB321.1 million for the year ended 31 December 2022. Nonetheless, owing to fierce market competition, net profit of the Group dropped by approximately 13.4% from approximately RMB54.5 million for the year ended 31 December 2021 to approximately RMB47.2 million for the year ended 31 December 2022.

Information on the Target Company

As extracted from the Letter from the Board, the Target Company is a real estate developing company incorporated in the PRC. As at the Latest Practicable Date, the Target Company was wholly-owned by the Vendor.

The Property Project

As at the Latest Practicable Date, save for the Property Project which is a commercial development located in a central business district and high-end financial industry cluster of Zhengzhou City, Henan Province, the Target Company did not have other material business operation. At present, the Property Project is at the construction stage and will be developed into a commercial complex comprising the Hotel and saleable commercial units. Construction of the Property Project is scheduled to be completed in early 2026.

As advised by the Directors, the Target Company has engaged a hotel management company (the "**Hotel Management Company**") to, inter alia, manage and promote the business of the Hotel and saleable commercial units. From our due diligence research, we noted that the Hotel Management Company belongs to a leading international hotel group with 18 hotel brands. That hotel group currently owns, manages and leases more than 6,000 hotels with over 900,000 hotel rooms in more than 100 countries and regions globally, of which around 650 hotels and 167,000 hotel rooms are situated in the PRC. For the year ended 31 December 2022, the said hotel group recorded revenue from reportable segments of approximately USD1,843 million, surging substantially by approximately 32.6% as compared to the prior year. During the same said year, it also enjoyed profit after tax of approximately USD376 million, surging substantially by approximately 41.9% as compared to the prior year.

Further information with regard to the business operation and market positioning of the Hotel shall be presented under the section headed "The Deed of Non-Competition" of this letter of advice.

Financial information on the Target Company

Set out below is the audited financial information on the Target Company for the four months ended 30 April 2023 and the two years ended 31 December 2022 as extracted from Appendix II to the Circular:

	For the four months ended 30 April 2023	**For the year ended 31 December 2022**	**For the year ended 31 December 2021**
	RMB'000	*RMB'000*	*RMB'000*
Loss for the period/year	452	1,504	1,669

As the Target Company has not commenced any business, no revenue was generated and the losses were mainly arising from administrative expenses.

As at 30 April 2023, the audited net asset value of the Target Company was approximately RMB92,547,000.

Industry overview

Based on our independent research, the gross domestic products ("**GDP**") of Henan Province was approximately RMB6,134.5 billion in 2022, representing an increase of approximately 3.1% as compared to the prior year. In terms of GDP contribution, Zhengzhou City ranked first in Henan Province, with a GDP of approximately RMB1,293.5 billion in 2022, increasing by approximately RMB24.4 billion year-on-year and accounting for approximately 21.1% of the total GDP of Henan Province.

The tourism industry

In 2022, Henan Province received approximately 436.0 million domestic tourists, and its total tourism revenue was approximately RMB316.0 billion. The visitor traffic of Henan Province ranked the 5th in the PRC. By the end of the year, there were 681 A-class tourist attractions in Henan Province, among them, 215 tourist attractions were above 4A-class. The number of star hotels and tourist agencies in Henan Province were 361 and 1,229, respectively.

Following the relaxation of control measures in 2023, the tourism industry of Henan Province has experienced a strong recovery. The number of tourists visited Henan Province during the Lunar New Year Festival in 2023 was approximately 33.8 million, ranking the 5th in the PRC. At the same time, the tourism industry of Henan Province generated revenue of approximately RMB17.5 billion, ranking the 7th in the PRC. Subsequent to the Lunar New Year Festival, Henan Province attracted approximately 55.2 million tourists during the Labour Day holiday in 2023, which was the first "golden week" for traveling after the relaxation of the control measures. As compared to the pre-pandemic situation in 2019, the number of tourists who visited Henan Province during the Labour Day holiday in 2023 jumped by approximately 21.3%; whereas the revenue generated by the tourism industry jumped by approximately 7.7% to approximately RMB31.0 billion.

In accordance with the "Notice on Printing and Issuing the "14th Five-Year Plan" for the Integrated Development of Cultural Tourism in Henan Province (《關於印發河南省"十四五"文化旅遊融合發展規劃的通知》)" issued by the Henan government, the "14th Five-Year" period is an important strategic period full with opportunities to develop the culture and tourism industry in Henan Province. The Henan government intends to use Zhengzhou Xinzheng International Airport as a hub to accelerate the construction of a comprehensive aviation airport group covering all provincial cities, key counties and important tourist attractions. The Henan government will also commence the construction of new tourist attractions. It is estimated that by the end of 2025, the aggregate contribution of the Henan tourism industry will account for more than 12% of the provincial GDP, with the number of tourists and revenue generated achieving an average annual growth rate of around 15% and 20%, respectively.

On the other hand, the exhibition industry is one of the leading modern service industries of Zhengzhou City. The construction of the Zhongyuan International Exhibition Center and Zhongyuan Longzi Lake Academic Exchange Center have already been completed, bringing an additional exhibition area of 86,000 square meters. At present, the occupancy rate of the Henan exhibition halls is two times the national average. Some well-known exhibitions will be permanently settled in Zhengzhou City, including, amongst others, the Cross-Border Electronic Commerce Conference, the World Sensors Conference, Abrasives Grinding Exhibition and the Industrial Equipment Expo. Those will become the trendsetters of industrial development and attract more business travelers to Zhengzhou City.

The rental apartments market

Attributable to various factors, such as accelerated urbanization, high housing prices, and the tightening of property purchase and loan restrictions imposed by the PRC government, which have caused difficulties in home buying by the non-resident population and new urban residents, there have been a mounting demand for rental apartments in the PRC. From 2017 to 2021, the size of the PRC's centralized long-term rental apartments market jumped from approximately RMB14.4 billion to approximately RMB44.9 billion. The size of the PRC's centralized long-term rental apartments market is expected to reach approximately RMB125.2

billion in 2026, demonstrating an astonishing compound annual growth rate of approximately 22.8% from 2021 to 2026.

While first-tier cities are the largest and fastest growing markets from 2017 to 2021, with a compound annual growth rate of approximately 33.8% and an estimated aggregate market size of approximately RMB73.5 billion in 2026, the centralized long-term rental apartments markets of other cities have also grown considerably by approximately 18.4% on a compound annual basis from 2017 to 2021, the aggregate market size of which is expected to reach approximately RMB51.7 billion in 2026.

With the increase of national per capita disposable income, tenants can afford more spending on rental apartments and have higher requirements for the quality of living environment. As a result, the price index for rental transactions has been persistently rising, providing a strong economic basis for the future development of the rental apartments market. Leveraging on the accumulated experience in project construction and operation management, it is expected that an increasing number of rental apartment brands will emerge from the role of merely a rental housing asset management expert to a comprehensive one-stop rental housing service provider. Through the application of digital intelligence, Internet of Things and 5G etc., the development of smart living can be further promoted which will bring tenants with a more convenient and efficient living experience. In the future, the rental apartments market will utilize full digitalization to realize intelligence and reconstruct the management of rental apartments. Systematic-and-digital apartment management will become an industry consensus. On the one hand, the grouping and analysis of tenants' preference and behaviours data in the backstage system will allow a more accurate matching of household needs. On the other hand, the online mode and visualization of business management, personnel management and financial account management will be able to provide more opportunities for the expansion of property management scale, cost reduction and efficiency enhancement of the rental apartments market.

China Hotel Industry Study 2022

We have further researched independently about the PRC's hotel industry and found a report named "China Hotel Industry Study 2022" jointly prepared by the China Tourist Hotel Association and Horwath HTL (the "**Industry Report**"). With reference to the Industry Report, due to market changes, the PRC's hotel industry evolved and demonstrates the following characteristics in recent years:

- Although operating income rose in general due to the rebound in demand, profit increases varied across different tiers of the hotel market. In terms of the five-star market, the increase in revenue coupled with relative control of operating costs drove a 30% increase in gross operating profit per available room (GOPPAR) as compared to 2020, resulting in an increase in gross operating profit margin (GOP%) from 20% to 23%. With streamlined facilities helping to ease operating burden, three-star/limited-service hotels were relatively less affected by the pandemic, with GOP% already levelling off at 33% of pre-epidemic levels. Amidst pressure from both sides, the traditional four-star full-service hotel markets were struggling once again, performing at the bottom of all tiers in terms of GOPPAR and GOP%, resulting in a gradually widening gap with the other tiers.

- In general, people are now desperate to escape the pandemic by spending time with mother nature, and the enthusiasm for vacations has never been so high, not only driving the market performance of the resort hotels, but also promoting that of the urban luxury hotels. Under the policy initiatives such as "staying put holidays" and "not leaving your city unless necessary", more and more residents are willing to spend their weekends and holidays in local luxury hotels for a "staycation". Thus, the "star hotels" with excellent facilities were widely sought after by the market, and their price premiums were further accentuated. By contrast, the traditional hotels with limited facilities struggled to improve their room rates.

- New ways of attracting guests have been emerging, such as customized theme presentations, influencer marketing, cross-border cooperation and co-branding, international brand therefore enjoyed comparative advantage in marketing.

- Specifically, the 2021 key operating statistics of international five-star hotels and domestic four-star hotels in the PRC differed in the manner as detailed below:

	International five-star hotels	**Domestic four-star hotels**
Size per available room		
– Standard room	44 square meters	32 square meters
– Executive room	47 square meters	38 square meters
Average room rate	RMB778 per night	RMB387 per night
Annual revenue per available room	RMB259,617	RMB133,152
Annual GOPPAR (GOP%)	RMB63,157 (24.3%)	RMB18,245 (13.7%)
Departmental revenue per available room		
– Rooms	RMB141,971	RMB62,649
– Food & beverage	RMB105,811	RMB48,820
– Spa & fitness center	RMB4,674	RMB3,421

	International five-star hotels	Domestic four-star hotels
Departmental expense per available room		
– Administration & general expenses	RMB25,028	RMB21,328
– Marketing & promotion	RMB15,194	RMB5,687
– Energy	RMB18,240	RMB9,673
Origin of guests		
– China & Hong Kong	94.4%	98.3%
– Other Asia	2.4%	1.0%
– North America	1.2%	0.1%
– South America	0.1%	0.1%
– Europe	1.0%	0.3%
Average food & beverage check per cover		
– Coffee shop	RMB102	RMB74
– Chinese	RMB271	RMB180
– Western/Specialty	RMB251	RMB90
– Lounge/Bar	RMB141	RMB51
– Room service	RMB139	RMB64
– Banquet & function	RMB359	RMB179

Reasons for the Acquisition

As illustrated under the sub-section headed "Information on the Group" of this letter of advice, the Group is principally engaged in property management and value-added services and property engineering services. Throughout the years of business advancement, the Group has proactively responded to market changes by adopting new strategies for sustaining business growth.

As advised by the Directors, the Company sees the opportunities to step forward and continue to develop its potential in commercial properties, especially at prime locations. Further, in light of its track record in the provision of property management and value-added services, the Directors foresee that the Group can also expand the scope of its existing services to and fully integrate its property management solutions into property projects which are still under development. Amidst the fierce competition in the market that the Group currently operates in, the Directors consider that the foray into a new business segment in investment, development and construction of non-residential properties, with the primary objective of long-term holding, leasing and management of such properties, provides good opportunity to the Group to tap into a new market which is of greater growth potential and higher profit margin. Given that the Property Project relates to development of the Hotel, the Target Company has engaged the Hotel Management Company to, inter alia, manage and promote the business of the Hotel. The

Directors believe that the Property Project will deliver attractive return to the Group in the medium to long term spectrum.

We noted that the Group is a reputable property management service provider in Henan Province with over 24 years of operating history. Initially targeting non-residential properties and then further expanded to residential properties, the Group provides a wide range of property management services and other value-added services to its customers. From 2017 onwards, the Group also started to provide its customers with property engineering services. With such profound experience, we concur with the Directors that the Group possesses ample knowledge on the property market of Henan Province. The Property Project will be developed into a commercial complex comprising the Hotel and saleable commercial unit. To assist the Group in the management and promotion of the business of the Hotel and saleable commercial units, the Hotel Management Company, being a member of a leading international hotel group based on our independent research, has been engaged. Moreover, as revealed by our independent research, the future outlook of both the tourism industry of Henan Province and the rental apartments market of the PRC are likely to be positive. Having considered the above together with the possible benefits and synergies to be created through the integration of the Group's expertise in its existing and new businesses, we concur with the Directors that the Acquisition is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

2. The Deed of Non-Competition

On 18 February 2020, the controlling shareholders of the Company (the "**Controlling Shareholders**"), who are principally engaged in the business of property development, have entered into the Deed of Non-Competition in favour of the Company. As at the Latest Practicable Date, the Controlling Shareholders together operated several saleable commercial units (the "**Commercial Units**") and a hotel (being the Zhengshang Jianguo Hotel) in Zhenzhou City.

Given the commercial rationale of the Acquisition as discussed under the sub-section headed "Reasons for the Acquisition" above, the Directors consider that notwithstanding that the Property Project involving the Hotel and commercial saleable units, and the Commercial Units and the Zhengshang Jianguo Hotel currently held by the Controlling Shareholders appear to be in potential competition with each other, there will be no potential competition between the Group and the Controlling Shareholders as the Group will continue to focus on its principal business of provision of property management and property engineering services and therefore will not become a competitor of the Controlling Shareholders in the property development market.

Besides the commercial rationale of the Acquisition which may eliminate the potential competition, as advised by the Directors, although the Commercial Units are located in Zhengzhou City, they are situated either outside the prime locations of Zhengzhou City or within surrounding counties/cities adjacent to Zhengzhou City where the infrastructure (especially the roads and transportation facilities) is still under development and property prices are much lower (below RMB10,000 per square meter versus at least RMB25,000 per square meter as in the case of prime locations of Zhengzhou City). Because of the material property price difference, the Directors are of the view that no potential competition will exist as there is a clear delineation between the Group and the Controlling Shareholders with respect to the existing development of the Property Project and the Commercial Units.

As aforementioned, the Hotel is located in a central business district and high-end financial industry cluster in Zhengzhou City. Based on its existing development plan, the Hotel will be developed into a large scale five-star hotel with a variety of restaurants and ancillary facilities such as swimming pools, spa and fitness center, children center and banquet and function rooms. In addition, the Hotel will be managed by the Hotel Management Company under a globally recognized brand. Leveraging on its proximity to the central business district in Zhengzhou City, the Hotel will also be equipped with convention centers and conference rooms to cater for the need of business travelers. Given the said distinctive features, the Hotel will target at high-end business travelers and corporate guests, as well as high-end leisure travelers, with an expected average room rate of around RMB650 per night. On top of income from room rentals, it is expected that the Hotel can enjoy a diversified income stream from providing services in relation to conferences, banquets and food & beverage.

At the same time, we understand that the Controlling Shareholders operate the Zhengshang Jianguo Hotel in Zhengzhou City, which was refurbished from a premise originally not intended to be operated as a hotel. With limited dining area and other ancillary facilities, the Zhengshang Jianguo Hotel is positioned in the market as a medium scale four-star domestic "loft" style hotel targeting at individual transient travelers. Currently, the average room rate of the Zhengshang Jianguo Hotel is around RMB350 per night. A majority of its revenue is derived from room rentals.

With the above being the case, we concur with the Directors that there is clear delineation between the business operation and market positioning of the Hotel and the Zhengshang Jianguo Hotel. Having undergone thorough feasibility study and market research, the Hotel is intended to be operated as a five-star luxury hotel targeting at high-end domestic and international business and leisure travelers. Moreover, in order to enhance the brand image and quality of management of the Hotel, the Hotel Management Company was engaged as the management company to oversee the daily operation and management of the Hotel.

As also revealed by the Industry Report, international five-star hotels (being the Hotel) and domestic four-star hotels (being the Zhengshang Jianguo Hotel) in the PRC differ substantially in terms of room size and rates, profitability, revenue model and cost structure, target guests group (in turn the spending power and pattern of their customers) etc. Due to market changes, the PRC's hotel industry evolved and the divergences between international five-star hotels and domestic four-star hotels have been widened. As such, the Directors' view that there is no potential competition between the Hotel and the Zhengshang Jianguo Hotel to be dealt with is substantiated.

Taking into account the above factors, we are of the view that the Deed of Non-Competition would be complied with after Completion.

3. Principal terms of the Agreement

On 5 July 2023, the Purchaser (an indirect wholly-owned subsidiary of the Company) and the Vendor entered into the Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire the Sale Share at the Consideration of RMB95,000,000. The entire Consideration shall be settled in cash.

The Consideration

As confirmed by the Directors, the Consideration was determined with reference to, among other factors, the unaudited reassessed net asset value of the Target Group (the "**Reassessed NAV**") in the amount of approximately RMB93,978,000. The Reassessed NAV was calculated by:

	RMB'000	*Note*
Indicative market value of the Property Project as at 30 April 2023 *(Note 1)*	277,000	(a)
Minus: Audited book value of the Property Project as at 30 April 2023	275,569	(b)
Increase in value of the Property Project	1,431	(c)=(a)-(b)
Add: Audited net asset value of the Target Company as at 30 April 2023 *(Note 2)*	92,547	(d)
The Reassessed NAV	**93,978**	**(c)+(d)**

Notes:

1. Referencing to the valuation report of the Property Project as set out in Appendix V to the Circular.

2. Based on the accountants' report on the Target Company as set out in Appendix II to the Circular.

With reference to the above calculation, the Consideration is roughly equivalent to the Reassessed NAV.

The Valuation

We have reviewed the Valuation, sent out an information request list and discussed with the Independent Valuer regarding the methodology adopted for and the basis and assumptions used in arriving at the Valuation. The Independent Valuer have adopted the market approach as the principal valuation methodology.

As confirmed by the Independent Valuer, this approach is universally considered as an accepted valuation approach for valuing most forms of real estate and property project and is consistent with normal market practice. We have reviewed the market comparable transactions adopted by the Independent Valuer and discussed with the Independent Valuer regarding the reasons for adoption of those market comparable transactions and the calculations to arrive at the Valuation. As advised by the Independent Valuer, since the Property Project shall comprise the Hotel and saleable commercial units, they have identified market transactions of both hotels and commercial properties for comparison purpose. There are altogether four and five hotel comparables and commercial properties comparables, respectively. The hotel comparables are located in Chongqing City, Wuhan City, Zhengzhou City and Beijing City with around 80 to 500 rooms; whereas the commercial properties comparables are all located in the same district as the Property Project in Zhengzhou City and are of similar commercial nature. As the hotel comparables differ from the Hotel in terms of location and scale of operation, the Independent Valuer have made adjustments to the applicable parameters deduced therefrom for the purpose of the Valuation. Other adjustments have also been made in consideration for the variance in quality of the commercial properties comparables. After obtaining and studying the background information of those market comparable transactions, we concur with the Independent Valuer that they are largely similar with the Property Project in terms of usage and property type and the adjustments made due to imperfect comparability in location, scale of development and quality are justifiable.

For our due diligence purpose, we have enquired into (i) the terms of engagement of the Independent Valuer with the Company; (ii) the Independent Valuer's experience and qualification in relation to the preparation of the Valuation; and (iii) the steps and due diligence measures taken by the Independent Valuer for conducting the Valuation. We were informed that site inspection of the Property Project was carried out in July 2023 by the Independent Valuer, during which the Independent Valuer have inspected the exterior of the Property Project. From the mandate letter provided by the Independent Valuer, we are satisfied with their terms of engagement with the Company. From the credentials they provided, we noted that the Independent Valuer were involved in the valuation for a number of acquisitions conducted by listed companies in Hong Kong, and the director in charge of the Valuation is a Registered Professional Surveyor in General Practice Division with over 26 years valuation experience on properties in Hong Kong and the PRC. We are thus satisfied with the Independent Valuer's experience and qualification for preparation of the Valuation. The Independent Valuer have further confirmed that they are independent to the Group, the Vendor and the Target Company.

Details of the basis and assumptions of the Valuation are included in the valuation report of the Property Project as contained in Appendix V to the Circular. During our discussion with the Independent Valuer regarding the basis and assumptions of the Valuation, we have not found any material facts which may lead us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for or the information used in the Valuation. Nevertheless, Shareholders should note that valuation of assets or properties usually involves assumptions and therefore the Valuation may or may not reflect the true market value of the Property Project as at 31 July 2023.

Other valuation methodologies

Trading multiples analysis

As the trading multiples analysis is a commonly adopted valuation method in the market, we have attempted to use this analysis to further assess the fairness and reasonableness of the Consideration. As the first step, we began with searching for Hong Kong listed companies which are engaged in similar line of business as the Target Company, i.e. real estate development in the PRC, and generate their revenues entirely from such business. Given that the Target Company only owns one property development project in a single province of the PRC, the scale of its operation is much smaller than the other listed PRC property developers in Hong Kong. Moreover, the Target Company is currently a private company. These two factors have posed difficulties for our search and selection of fair and representative samples of comparable listed companies (the "**Comparable Companies**") as basis for the price multiples analysis. In addition, the major parameters for calculations of the price to earnings ratio and price to book ratio of the Target Company under the trading multiples analysis are its latest net profit and net asset value. In this relation, we noted that the Target Company was loss making in its latest full financial year, making the price to earnings ratio inapplicable. As for the price to book ratio, as said, the Target Company is only at its preliminary stage of development while the operations and asset structure of other potential listed Comparable Companies are relatively more mature. In such circumstances, the appropriateness of the price to book ratio as an alternative assessment for the Consideration would be undermined. Taking into account (i) the aforesaid limitations of the price multiples analysis for assessing the Consideration; and (ii) the operations and prospects of the Comparable Companies are inevitably different from the Target Company, the trading multiples analysis would not be an appropriate valuation method for assessing the fairness and reasonableness of the Consideration.

Dividend yield analysis

Since the Target Company had not declared any dividend to its shareholders during the year ended 31 December 2022, there is no recent basis to assess the Consideration based on the historical dividend yield of the Target Company. Thus, the dividend yield analysis would be inapplicable for assessing the fairness and reasonableness of the Consideration.

Having considered that the Target Company's major business operation is the Property Project, the valuation of the Target Company shall hence largely be the Valuation. In light of that the Consideration is roughly equivalent to the Reassessed NAV, we are of the view that the Consideration is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

4. Possible financial effects of the Acquisition

As advised by the Directors, upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the accounts of the Group.

Net asset value and gearing

According to the annual report of the Company for the year ended 31 December 2022 (the "**Annual Report**"), the audited consolidated net assets of the Group amounted to approximately RMB413.5 million as at 31 December 2022. Based on the unaudited pro forma financial information on the Enlarged Group as set out in Appendix IV to the Circular, as if the Acquisition had been completed on 31 December 2022, the net assets of the Enlarged Group would remain stable at approximately RMB412.5 million.

According also to the Annual Report, the gearing ratio (defined as the total debt (of which debt represents interest-bearing borrowings) divided by the total equity) was nil as at 31 December 2022 as the Group had no interest-bearing borrowings as at the even date. Based on the unaudited pro forma financial information on the Enlarged Group as set out in Appendix IV to the Circular, the gearing ratio of the Enlarged Group would stay at nil upon Completion.

Liquidity

According to the Annual Report, the audited consolidated cash and cash equivalents of the Group as at 31 December 2022 amounted to approximately RMB467.7 million. Based on the unaudited pro forma financial information on the Enlarged Group as set out in Appendix IV to the Circular, as if the Acquisition had been completed on 31 December 2022, the cash and cash equivalents of the Enlarged Group would be reduced slightly to approximately RMB466.8 million.

It should be noted that the above analyses are for illustrative purposes only and do not purport to represent how the financial position of the Enlarged Group will be upon Completion.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisition is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder, and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
VBG Capital Limited

Doris Sing
Managing Director

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 18 years of experience in corporate finance industry.

建泉融資有限公司
VBG Capital Limited
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28 September 2023

To: The independent board committee and the independent shareholders of Xingye Wulian Service Group Co. Ltd.

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONTINUING CONNECTED TRANSACTIONS THE MASTER CONSTRUCTION FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Master Construction Framework Agreement, the Transactions and the Annual Caps, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 28 September 2023 issued by the Company to the Shareholders (the "**Circular**"), of which this letter of advice forms part. Capitalised terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed "Definitions" in the Circular unless the context requires otherwise.

Reference is made to the Acquisition Announcement. Upon completion of the Acquisition which is subject to, among other things, approval by the Independent Shareholders at the EGM, the Target Company will become a wholly-owned subsidiary of the Group. As at the Latest Practicable Date, the Target Company held the Property Project. On 5 July 2023, the Company and Zensun Development entered into the Master Construction Framework Agreement pursuant to which the Group has conditionally agreed to engage Zensun Development Group for provision of the Construction Services to the Group from time to time for the period commencing from the Effective Date and ending on 31 December 2025. Based on the Company's current estimation, it is proposed that the Annual Caps be set at RMB36.8 million, RMB212.6 million and RMB244.5 million for the period from the Effective Date to 31 December 2023 and each of the two years ending 31 December 2024 and 2025, respectively.

According to the Letter from the Board, the Transactions constitute a very substantial acquisition and non-exempt continuing connected transactions for the Company under Chapters 14 and 14A of the Listing Rules, respectively. The Master Construction Framework Agreement, the Transactions and the Annual Caps are therefore subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements.

The Independent Board Committee comprising Messrs. Xu Chun, Feng Zhidong and Zhou Sheng (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Master Construction Framework Agreement (including the Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Master Construction Framework Agreement, the Transactions and the Annual Caps at the EGM. We, VBG Capital 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, apart from (i) having acted as the independent financial adviser of the Company relating to the continuing connected transactions of which a circular dated 25 November 2022 was issued; and (ii) the existing engagement in connection with the Transactions and the Acquisition, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates. We consider ourselves independent pursuant to Rule 13.84 of the Listing Rules to form our opinion in respect of the Master Construction Framework Agreement, the Transactions and the Annual Caps.

BASIS OF OUR OPINION

In formulating our opinion with regard to the Master Construction Framework Agreement, the Transactions and the Annual Caps, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the announcements of the Company regarding the Transactions and the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the EGM. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We 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 not, however, conducted any independent investigation into the business and affairs or future prospects of the Group, Zensun Development Group or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Master Construction Framework Agreement, the Transactions and the Annual Caps. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we did not conduct any independent investigation into the accuracy and completeness of such information.

In addition, Shareholders should note that as the Annual Caps are relating to future events and estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2025, and they do not represent forecasts of revenues or costs to be recorded from the Master Construction Framework Agreement. Consequently, we express no opinion as to how closely the actual revenues or costs to be recorded under the Master Construction Framework Agreement will correspond with the Annual Caps.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Master Construction Framework Agreement, the Transactions and the Annual Caps, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Master Construction Framework Agreement

Information on the Group

Established in 1999, the Group is a reputable property management service provider in Henan Province. The Group provides a wide range of property management services which include, amongst others, security, cleaning, greening and gardening, parking space management, repair and maintenance for common areas and customer services, and other value-added services.

The Group's portfolio of properties under management expanded rapidly in recent years. The year-on-year expansion of the aggregate GFA of properties under management of the Group was approximately 50.0% and 29.2% in 2019 and 2020, respectively. Since 2021, in view of the intensified competition in the property management services industry, the Group has implemented new strategy to expand its pipeline property portfolio to residential properties other than non-residential properties. As a result, the Group's portfolio of properties under management expanded significantly by approximately 112.9% from 2020 to 2021 and further by approximately 9.1% from 2021 to 2022. As at 31 December 2022, the aggregate GFA of properties under the Group's management was approximately 7.2 million square meters.

Starting from October 2017, the Group also provides its customers with property engineering services which include planning, design and installation of security and surveillance systems, access control systems, carpark management systems and construction site management systems.

Contributed by the successful development of these two business segments, the Group's total revenue rose by approximately 14.0% from approximately RMB281.7 million for the year ended 31 December 2021 to approximately RMB321.1 million for the year ended 31 December 2022. Nonetheless, owing to fierce market competition, net profit of the Group dropped by approximately 13.4% from approximately RMB54.5 million for the year ended 31 December 2021 to approximately RMB47.2 million for the year ended 31 December 2022.

Information on Zensun Development Group

So far as known to the Directors, the principal business of Zensun Development Group (including Zhengyang Construction) comprises provision of Construction Services and investment holdings in the PRC.

As advised by the Directors, Zensun Development Group possesses various required certifications, qualifications and registrations with abundant experience in carrying out the Construction Services in the PRC, which includes Special-grade Qualification for Construction Main Contractor* (建築工程施工總承包特級資質), being the highest construction qualification in the scope of construction main contractor recognised by the relevant government bureaus, and such qualifications and experience enable Zensun Development Group to take up large-scale non-municipal engineering construction projects without restrictions.

For our due diligence purpose, we have requested and obtained (i) copies of the construction and engineering qualification certificate(s) possessed by Zensun Development Group; and (ii) information regarding the track record of Zensun Development Group in providing Construction Services in the PRC.

Reasons for the Transactions

As mentioned in the Acquisition Announcement, the Target Company has entered into a construction contract (the "**Construction Contract**") with Zhengyang Construction, a direct wholly-owned subsidiary of Zensun Development, pursuant to which the Target Company agreed to engage Zhengyang Construction as the contractor for provision of design and construction services for the Property Project which is under development.

As mentioned under the sub-section headed "Information on Zensun Development Group" of this letter of advice, Zensun Development Group possesses various required certifications, qualifications and registrations with abundant experience in carrying out the Construction Services in the PRC, and such qualifications and experience enable Zensun Development Group to take up large-scale non-municipal engineering construction projects without restrictions. Accordingly, the Directors consider Zensun Development Group to be a competent candidate to continue to provide the Construction Services for the development of the Property Project.

Taking into account the above reasons for the Transactions, we concur with the Directors that the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Master Construction Framework Agreement

Summarised below are the principal terms of the Master Construction Framework Agreement as extracted from the Letter from the Board:

Date:	5 July 2023
Parties:	(1) The Company; and (2) Zensun Development as service provider
Term:	The Master Construction Framework Agreement shall commence from the Effective Date and continue up to and including 31 December 2025, unless terminated earlier in accordance with the Master Construction Framework Agreement.
Subject matter:	Pursuant to the Master Construction Framework Agreement, the Group shall conditionally appoint Zensun Development Group as its service provider to provide Construction Services to the Group during the Term. Relevant members of the Group may from time to time enter into Individual Agreement(s) with relevant members of Zensun Development Group in relation to the provision of Construction Services during the Term. The Individual Agreement(s) shall be on the basis of the service plans prepared by the Group and confirmed by both the Group and Zensun Development Group and the terms of the Individual Agreement(s) shall be subject to the terms and conditions of the Master Construction Framework Agreement. All transactions under the existing agreements between relevant members of the Group and relevant members of Zensun Development Group in respect of the Construction Services to be rendered after the date of the Master Construction Framework Agreement will be governed by the Master Construction Framework Agreement as from the Effective Date and subject to the Annual Caps.

Services to be provided: Pursuant to the Master Construction Framework Agreement, Zensun Development Group shall provide Construction Services to the Group which shall be construction, engineering and related services, including but not limited to, building and general construction, civil engineering, building exterior and interior design, building repair, renovation, maintenance, consultancy and other services, demolition, piling and foundation, building and property fitting out and decoration work, construction and project management, supply of construction and building equipment and materials, electrical and mechanical engineering works, supply and installations of air-conditioning, heating and ventilation systems, fire services systems, plumbing and drainage systems, lift repair and maintenance services and electrical systems.

Pricing policy

For contracts in relation to procurement of Construction Services with contract sum of RMB2 million or above, the Group shall issue tender invitations to at least three construction contractors on the list of authorised contractors (including Independent Third Parties and Zensun Development Group) (the "**Authorised Contractors List**") maintained by the Group with the required qualifications and capability to undertake construction projects as well as good reputation and credibility.

For contracts in relation to procurement of Construction Services with contract sum of less than RMB2 million, the Group shall obtain quotations from at least three construction contractors with the required qualifications and capability as well as good reputation and credibility.

The Assessment Committee will assess the tenders or quotations submitted in respect of the Construction Services with the following principal assessment criteria (the "**Criteria**"):

(i) the pricing of the tender or quotation (in particular, in respect of a quotation or tender submitted by Zensun Development Group, the service fees and terms shall be no less favourable to the Group than the fees quoted by and terms available from Independent Third Parties);

(ii) the technical specifications of the tender including construction planning, technical skills, quality and construction schedule; and

(iii) the evaluation of the service provider considering the background and qualification, industry reputation, track record and previous work experience with the Group (if any).

In the event that the Company fails to receive enough bids or quotations at its satisfaction, the Company may reassess the scope of services required or revisit the design requirements and relaunch the tender or seek revised quotations.

Bidders assessed with the highest score based on the above Criteria will be awarded the Individual Agreement(s) for the Construction Services. If a member of Zensun Development Group is considered by the Assessment Committee to have achieved the highest score based on the Criteria, an Individual Agreement will be entered into, where the fees for the Construction Services will be the pricing bid or quotation placed by relevant member of Zensun Development Group.

In relation to the aforesaid pricing and procurement process, we have (i) requested the Company to provide us with copies of the relevant internal control policy of the Group and the Authorised Contractors List; and (ii) discussed with the Directors regarding the implementation of the entire process. Based on the documents we obtained and our discussion with the Directors, we understand that there are four qualified and competent construction contractors on the Authorised Contractors List from which the Group can select to issue tender invitations for contracts in relation to procurement of Construction Services with contract sum of RMB2 million or more. Such number of qualified and competent construction contractors is sufficient to fulfil the tender invitations requirement. As for contracts with contract sum of less than RMB2 million, the Group shall obtain quotations from at least three construction contractors with the required qualifications and capability as well as good reputation and credibility. The Group has set up the Assessment Committee, whose members shall consist of Mr. Qiu Ming, the Chief Executive Officer and Chairman of the Board, Mr. Liu Zhenqiang, a non-executive Director, Mr. Feng Zhidong, an independent non-executive Director, Mr. Zhang Yong, the deputy general manager of the Group and other responsible management officers of the Group, to assess the tenders or quotations submitted in respect of the Construction Services based on the standard objective Criteria as highlighted above. Having considered that (i) suitable independent contractors will be invited to compete with Zensun Development Group as service provider for the Construction Services; (ii) the Assessment Committee, comprising senior executives/officers of the Group, shall oversee the entire appraisal and scoring process; and (iii) the assessment Criteria are objective and appropriate, we consider that the pricing and procurement process under the Master Construction Framework Agreement is fair and reasonable.

In light of the above, we are of the opinion that the terms of the Master Construction Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. The Annual Caps

The table below demonstrates the Annual Caps for the period from the Effective Date to 31 December 2023 and each of the two years ending 31 December 2024 and 2025:

	For the period from the Effective Date to 31 December 2023 *RMB' million*	For the year ending 31 December 2024 *RMB' million*	For the year ending 31 December 2025 *RMB' million*
The Annual Caps	36.8	212.6	244.5

As aforementioned, the Target Company has entered into the Construction Contract with Zhengyang Construction pursuant to which the Target Company agreed to engage Zhengyang Construction as the contractor for provision of design and construction services for the Property Project which is under development. The preliminary contract fee under the Construction Contract is RMB380 million (the "**Preliminary Contract Fee**"). It is expected that the construction of the Property Project will be completed in early 2026. As advised by the Directors, out of the total Preliminary Contract Fee, the contract sum awarded to Zhengyang Construction was approximately RMB4.2 million, RMB39.9 million and RMB1 million, respectively, for the two years ended 31 December 2021 and 2022, and the four months ended 30 April 2023.

In view of the expertise, qualification and reputation of Zensun Development Group in property development and construction, the Directors consider it to be a competent candidate to continue to provide the Construction Services for the development of the Property Project. With this being the case, the Annual Caps were mainly determined with reference to the current development plan and construction schedule of the Property Project, as well as the budgeted Preliminary Contract Fee to be incurred at each stage of the construction. In this relation, we have requested and obtained from the Company the said development plan and schedule of the Property Project. We have further discussed with the Directors regarding the construction progress and scale, and breakdown of the budgeted Preliminary Contract Fee. Upon our enquiry, we understand that at present, the Property Project is at the preliminary construction stage with the site preparation and levelling work completed. The foundation work has commenced, after the completion of which the major rough framing and exterior construction work are scheduled to get started in 2024, then followed by the chief mechanical, electrical and plumbing, and other interior fixtures work. Based on such timetable, it is expected that substantial amount of Construction Services will be required in 2024 and 2025. The total budgeted Preliminary Contract Fee payable to Zensun Development Group annually from 2023 (from the Effective Date) to 2025 is RMB35 million, RMB150 million and RMB154.2 million, respectively. At the same time, given that the construction period is of medium to long term, the actual construction and engineering costs may vary from the budgets due to inflation and/or potential increase in market price and other unforeseeable factors. Hence, the Directors have set aside an additional 5% buffer and we consider such buffer to be reasonable.

Moreover, as advised by the Directors, the Company sees the opportunities to step forward and continue to develop its potential in commercial properties, especially at prime locations. In light of its track record in the provision of property management and value-added services, the Directors foresee that the Group can also expand the scope of its existing services to and fully integrate its property management solutions into property projects which are still under development. Having considered it is the Group's first attempt to tap into the new business segment in investment, development and construction of non-residential properties and the Property Project will still be under construction in the coming few years, the Company will take a prudent approach and currently expect to undertake one additional property refurbishment project with contract fee of not more than RMB220 million and construction period of around three years. The Company expects that around 25% (i.e. RMB55 million) and 37.5% (i.e. RMB82.5 million) of the contract fee will be required in 2024 and 2025, respectively. Thus, when setting the Annual Caps for the years ending 31 December 2024 and 2025, the Company has included such additional possible demand for Construction Services and we consider the estimation basis to be justifiable.

In view of the above basis of determination of the Annual Caps, we are of the view that the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

4. Relevant Listing Rules' requirements

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 and 14A.55 of the Listing Rules pursuant to which (i) the amounts of the Transactions must be restricted by the Annual Caps for the years concerned under the Master Construction Framework Agreement; (ii) the terms of the Master Construction Framework Agreement (together with the Annual Caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the Master Construction Framework Agreement (together with the Annual Caps) must be included in the Company's subsequent published annual reports and financial accounts. As also stipulated under Rule 14A.56 of the Listing Rules, auditors of the Company must provide a letter to the Board confirming, among other things, that the Transactions are carried out in accordance with the pricing policies of the Company, and the Annual Caps are not being exceeded. In the event that the total amounts of the Transactions exceed the Annual Caps, or that there is any material amendment to the terms of the Master Construction Framework Agreement, the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

With the aforesaid stipulated requirements for continuing connected transactions of the Listing Rules in place, the Transactions will be monitored and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Master Construction Framework Agreement (including the Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Master Construction Framework Agreement, the Transactions and the Annual Caps, and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
VBG Capital Limited

Doris Sing
Managing Director

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 18 years of experience in corporate finance industry.