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Desun Real Estate Investment Services Group Co., Ltd.

德商產投服務集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2270)

CONTINUING CONNECTED TRANSACTION

THE PROPERTY SERVICES FRAMEWORK AGREEMENT

On 7 December 2023 (after trading hours), the Company entered into the Property Services Framework Agreement with the Ultimate Controlling Shareholders, pursuant to which the Company agreed to provide a range of property management services and other value-added services to the Ultimate Controlling Shareholders' Associated Companies for a term of three years, commencing from 1 January 2024 and up to 31 December 2026.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Zou Kang and Ms. Zou Jian are the controlling shareholders of the Group (with Mr. Zou Kang also being a non-executive Director) and are therefore connected persons of the Company for the purpose of the Listing Rules. Accordingly, the transactions under the Property Services Framework Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the annual caps for the transactions contemplated under the Property Services Framework Agreement are, on an annual basis, more than 5% and the proposed annual caps for the transactions contemplated under the Property Services Framework Agreement are more than HK\$10,000,000, the transactions contemplated under the Property Services Framework Agreement are subject to the reporting, annual review, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For the purpose of obtaining the Independent Shareholders' approval for the transactions contemplated under the Property Services Framework Agreement as well as the proposed annual caps for such transactions for each of the three years ending 31 December 2024, 2025 and 2026, the Company will convene a general meeting pursuant to the Listing Rules.

GENERAL

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the transactions contemplated under the Property Services Framework Agreement as well as the proposed annual caps for each of the three years ending 31 December 2024, 2025 and 2026 in respect of the transactions contemplated under the Property Services Framework Agreement. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders on the same. The Ultimate Controlling Shareholders and their respective associates will abstain from voting on the ordinary resolution(s) approving the transactions contemplated under the Property Services Framework Agreement as well as the proposed annual caps for each of the three years ending 31 December 2024, 2025 and 2026 in respect of the transactions contemplated under the Property Services Framework Agreement at the EGM to be held by the Company.

A circular containing, among other things, a letter of advice from the independent financial adviser to both the Independent Board Committee and the Independent Shareholders and a letter of recommendation from the Independent Board Committee to the Independent Shareholders and the details of the EGM to be held to approve the Property Services Framework Agreement as well as the proposed annual caps for each of the three years ending 31 December 2024, 2025 and 2026 in respect of the transactions contemplated under the Property Services Framework Agreement, will be dispatched to the Shareholders on or before 5 January 2023 in accordance with the Listing Rules as more time is required to finalise the circular to the Shareholders.

THE PROPERTY SERVICES FRAMEWORK AGREEMENT

On 7 December 2023 (after trading hours), the Company entered into the Property Services Framework Agreement with the Ultimate Controlling Shareholders, pursuant to which the Company agreed to provide a range of property management services and other value-added services to the Ultimate Controlling Shareholders' Associated Companies for a term of three years, commencing from 1 January 2024 and up to 31 December 2026.

Pursuant to the Property Services Framework Agreement, the services of which the Group may provide to the Ultimate Controlling Shareholders' Associated Companies are as follows:

- ***Property management services:*** including but not limited to security, cleaning, greening and gardening and repair and maintenance services to residential properties and non-residential properties developed and/or owned by the Ultimate Controlling Shareholders' Associated Companies.
- ***Pre-delivery and sales assistance services:*** including but not limited to the provision of (i) sales assistance services; (ii) sales agency services; (iii) pre-delivery routine quality inspection of properties after the completion of construction; and (iv) sales office canteen services.
- ***Commercial operational services and assets management services:*** including but not limited to the provision of (i) tenant sourcing services such as identifying and attracting tenants for commercial properties and coordinating the signing of tenancy agreement, etc.; (ii) services during operation stage such as tenant management and rent collection services, etc.; and (iii) sales agency services for unsold carpark space and residential properties.
- ***Decoration and renovation services:*** including but not limited to (i) sales office decoration; (ii) residential interior decoration and renovation; (iii) commercial and office building decoration and renovation; and (iv) other decoration and renovation services including sales of decoration and renovation products.
- ***Other value-added services:*** including but not limited to canteen logistics support services, equipment maintenance services, and other value-added services to property owners.

(a) Pricing

The prices/rates of the provision of services charged by the Group shall be determined on the basis of arm's length negotiations between the relevant parties or through public tender process (as the case may be), taking into account:

- ***In respect of the property management services:*** (i) the types and locations of the properties; (ii) the scope and quality of the services; (iii) the estimated costs and expenses; (iv) the target profit margins; (v) the profiles of property owners and residents; (vi) the local government's guidance price on property management fees (where applicable); and (vii) the pricing of comparable properties, etc.

- ***In respect of the pre-delivery and sales assistance services:*** (i) the different service and required standards; (ii) the anticipated costs to be incurred for rendering the services, including but not limited to labour, consumables, management fees and administrative expenses; and (iii) the prevailing market price for rendering similar services, etc.
- ***In respect of the commercial operational services and assets management services:*** (i) the anticipated costs including labour costs and administrative expenses; and (ii) the prevailing market price for similar services.
- ***In respect of the decoration and renovation services:*** (i) the nature and location of the decorated and renovated properties; (ii) the required area, scale and quality of the decorated and renovated properties; (iii) the anticipated costs including materials, labour costs and administrative expenses; and (iv) the prevailing market price for similar decorations and renovations.
- ***In respect of other value-added services:*** (i) the nature and location of the properties; (ii) the brand, scale and location of the properties; (iii) GFA of the properties; (iv) the operation costs, such as cost of raw materials and labour and administration expenses; and (v) the prevailing market price of similar services, etc.

In determining the prevailing market prices/rates, the Group will consider quotes offered to at least three Independent Third Parties for services of the same or similar quality for comparison from time to time.

(b) Historical annual caps for each of the three years ended/ending 31 December 2021, 2022 and 2023

	For the year ended 31 December 2021 (RMB'000)	For the year ended 31 December 2022 (RMB'000)	For the year ending 31 December 2023 (RMB'000)
The aggregate amounts of the fees payable by the Ultimate Controlling Shareholders' Associated Companies to the Group	<u>115,000</u>	<u>147,500</u>	<u>192,500</u>

(c) Historical transaction amounts for the two years ended 31 December 2021 and 2022 and the estimated transaction amounts for the year ending 31 December 2023

The historical amounts paid by the Ultimate Controlling Shareholders' Associated Companies to the Group for the two years ended 31 December 2021 and 2022 and the estimated amounts to be paid by the Ultimate Controlling Shareholders' Associated Companies to the Group for the year ending 31 December 2023 are set out as below:

	For the year ended 31 December 2021 <i>(RMB in million)</i>	For the year ended 31 December 2022 <i>(RMB in million)</i>	For the year ending 31 December 2023 <i>(RMB in million)</i>
The aggregate amounts of the fees payable by the Ultimate Controlling Shareholders' Associated Companies to the Group	<u>112.71</u>	<u>84.12</u>	<u>65.93</u>

(d) Proposed annual caps and basis of determination for each of the three years ending 31 December 2024, 2025 and 2026

	Proposed annual cap for the year ending 31 December 2024 <i>(RMB'000)</i>	Proposed annual cap for the year ending 31 December 2025 <i>(RMB'000)</i>	Proposed annual cap for the year ending 31 December 2026 <i>(RMB'000)</i>
The aggregate amounts of the fees payable by the Ultimate Controlling Shareholders' Associated Companies to the Group	<u>70,000</u>	<u>70,000</u>	<u>70,000</u>

The above annual caps of the fees payable to the Group were determined with reference to:

- ***In respect of the provision of property management services:*** it is estimated that the aggregate amounts of the fees payable by the Ultimate Controlling Shareholders' Associated Companies to the Group in respect of the provision of property management services for the years of 2024, 2025 and 2026 will be RMB19,457,600, RMB20,689,700 and RMB19,655,200, respectively. In arriving the aforementioned estimations, the Company has considered (i) the historical transaction amounts of the property management services provided to the residential properties and non-residential properties of the Ultimate Controlling Shareholders' Associated Companies; (ii) the expected labour costs and administration expenses; (iii) the number of residential properties and non-residential properties currently managed by the Group as engaged by the Ultimate Controlling Shareholders' Associated Companies pursuant to existing contracts; and (iv) the existing and future property development projects and plans of the Ultimate Controlling Shareholders' Associated Companies, the expected total GFA of the properties to be sold and delivered by the Ultimate Controlling Shareholders' Associated Companies which require property management services and the estimated time of pre-sales and delivery.
- ***In respect of the pre-delivery and sales assistance services:*** it is estimated that the aggregate amounts of the fees payable by the Ultimate Controlling Shareholders' Associated Companies to the Group in respect of the pre-delivery and sales assistance services for the years of 2024, 2025 and 2026 will be RMB20,025,900, RMB20,025,900 and RMB20,025,900, respectively. In arriving the aforementioned estimations, the Company has considered (i) the historical transaction amounts of the pre-delivery and sales assistance services provided to the Ultimate Controlling Shareholders' Associated Companies; and (ii) the existing and future property development projects and plans of the Ultimate Controlling Shareholders' Associated Companies and the estimated time of pre-sale and delivery of the properties.
- ***In respect of the commercial operational services and assets management services:*** it is estimated that the aggregate amounts of the fees payable by the Ultimate Controlling Shareholders' Associated Companies to the Group in respect of the commercial operational services and asset management services for the years of 2024, 2025 and 2026 will be RMB9,985,600, RMB9,985,600 and RMB9,985,600, respectively. In arriving the aforementioned estimations, the Company has considered (i) the historical transaction amounts of the commercial operational services provided to the Ultimate Controlling Shareholders' Associated Companies; (ii) the estimated occupancy rate of the properties based on historical trend; (iii) the GFA of the properties which the Company are engaged to manage; (iv) the estimated rental and management fees with respect to the

properties which the Company were engaged to manage; and (v) the portfolio of properties of the Ultimate Controlling Shareholders' Associated Companies which require assets entrusted operation management services.

- ***In respect of the decoration and renovation services:*** it is estimated that the aggregate amounts of the fees payable by the Ultimate Controlling Shareholders' Associated Companies to the Group in respect of the decoration and renovation services for the years of 2024, 2025 and 2026 will be RMB16,500,000, RMB17,325,000 and RMB18,191,300, respectively. In arriving the aforementioned estimations, the Company has considered (i) the anticipated costs including materials, labour costs and administrative expenses; and (ii) the estimated GFA of properties of the Ultimate Controlling Shareholders' Associated Companies and the estimated time of delivery of the properties.
- ***In respect of other value-added services:*** it is estimated that the aggregate amounts of the fees payable by the Ultimate Controlling Shareholders' Associated Companies to the Group in respect of other value-added services for the years of 2024, 2025 and 2026 will be RMB1,873,700, RMB1,873,700 and RMB1,873,700, respectively. In arriving the aforementioned estimations, the Company has considered (i) the historical transaction amount of the various types of value-added services provided to the Ultimate Controlling Shareholders' Associated Companies; and (ii) the expected cost of raw materials and labour and administration expenses.

A reasonable buffer is also added to cater for the operating need from time to time in determining the proposed annual caps of the fees payable to the Group under the Property Services Framework Agreement.

(e) Internal control

In order to ensure that the terms under the Property Services Framework Agreement for the continuing connected transactions contemplated thereunder are fair and reasonable and the connected transactions are carried out under normal commercial terms, the Company have adopted the following internal control procedures:

- the Company has adopted and implemented a management system on connected transactions. Under such system, the Audit Committee under the Board is responsible for conducting reviews on compliance with relevant laws and regulations, the Company's policies and the Listing Rules in respect of the connected transactions. In addition, the Audit Committee under the Board, the Board and other internal departments of the Company (including but not limited to the finance department and the compliance and legal department) are jointly responsible for evaluating the terms under the framework agreements for connected transactions, in particular, with respect to the fairness of the pricing policies and annual caps under each agreement;

- the Audit Committee under the Board, the Board and other internal departments of the Company also regularly monitor the fulfilment status and the transaction updates under the Property Services Framework Agreement. In addition, the management of the Company also regularly reviews the pricing policies of the Property Services Framework Agreement;
- prior to entering into any separate subsidiary agreements, the personnel of various departments including the legal department, the finance department and the operation department of the Company will review and assess the specific terms and conditions of the transactions to ensure their consistency with the Property Services Framework Agreement. During such internal review process, the relevant personnel will examine, among others, (a) information of the parties; (b) the terms of the agreement; (c) the type and scope of services to be provided by the Group thereunder; and (d) whether the contract price is in line with the pricing policy, in order to ensure comment (if any) from various departments of the Group will be properly addressed;
- the independent non-executive Directors and auditors of the Company will conduct annual reviews of the continuing connected transactions under the Property Services Framework Agreement and provide annual confirmations to ensure that, pursuant to Rules 14A.55 and 14A.56 of the Listing Rules, the transactions are conducted in accordance with the terms of the agreements, on normal commercial terms and in accordance with the relevant pricing policies;
- the finance department will maintain and update the list of connected persons of the Group. Such list will be circulated to members and relevant departments of the Group on a quarterly basis; and
- when considering service fees for the services to be provided by the Group to the connected persons, the Group will constantly research prevailing market conditions and practices and make reference to the pricing and terms between the Group and Independent Third Parties for similar transactions, to ensure that the pricing and terms offered to the connected persons from mutual commercial negotiations are fair, reasonable and are no less favourable than those to be offered to the Independent Third Parties.

REASONS FOR AND BENEFITS OF ENTERING INTO THE PROPERTY SERVICES FRAMEWORK AGREEMENT

The Group is principally engaged in providing property management services and value-added services, whereas the Ultimate Controlling Shareholders' Associated Companies are mainly property development companies which require property management services for their properties from the Group. Through the continuous cooperation between the Ultimate Controlling Shareholders' Associated Companies and the Group in respect of the provision of the property management services and value-added services, the Directors believe that the Group has built a long-standing, synergistic and on-going relationship with the Ultimate Controlling Shareholders' Associated Companies which support the growth between both parties.

The Directors (excluding the independent non-executive Directors who will give their opinion in the circular based on the recommendation of the independent financial adviser) consider that the continuing connected transactions contemplated under the Property Services Framework Agreement are on normal commercial terms or better, and are entered into in the ordinary and usual course of business of the Group. The terms and conditions contained therein and the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PARTIES

The Group

The Group is an integrated property management services and commercial operational services provider, providing property management services and commercial operational services for mid- to high-end residential properties and commercial properties.

Mr. Zou Kang and Ms. Zou Jian

Mr. Zou Kang and Ms. Zou Jian are the controlling shareholders of the Company, with Mr. Zou Kang also being a non-executive Director.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Zou Kang and Ms. Zou Jian are the controlling shareholders of the Group (with Mr. Zou Kang also being a non-executive Director) and are therefore connected persons of the Company for the purpose of the Listing Rules. Accordingly, the transactions under the Property Services Framework Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the annual caps for the transactions contemplated under the Property Services Framework Agreement are, on an annual basis, more than 5% and the proposed annual caps for the transactions contemplated under the Property Services Framework Agreement are more than HK\$10,000,000, the transactions contemplated under the Property Services Framework Agreement are subject to the reporting, annual review, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

Mr. Zou Kang, being a non-executive Director and one of the Ultimate Controlling Shareholders, has abstained from voting on the Board resolution(s) approving the Property Services Framework Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the Directors attended the Board meeting has a material interest in or is required to abstain from voting on the relevant Board resolution(s).

For the purpose of obtaining the Independent Shareholders' approval for the transactions contemplated under the Property Services Framework Agreement as well as the proposed annual caps for the transactions contemplated under the Property Services Framework Agreement for each of the three years ending 31 December 2024, 2025 and 2026, the Company will convene a general meeting pursuant to the Listing Rules.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the transactions contemplated under the Property Services Framework Agreement as well as the proposed annual caps for the transactions contemplated under the Property Services Framework Agreement for each of the three years ending 31 December 2024, 2025 and 2026. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders on the same. The Ultimate Controlling Shareholders and their respective associates will abstain from voting on the ordinary resolution(s) approving the transactions contemplated under the Property Services Framework Agreement as well as the proposed annual caps for each of the three years ending 31 December 2024, 2025 and 2026 in respect of the transactions contemplated under the Property Services Framework Agreement at the EGM to be held by the Company.

A circular containing, among other things, a letter of advice from the independent financial adviser to both the Independent Board Committee and the Independent Shareholders and a letter of recommendation from the Independent Board Committee to the Independent Shareholders and the details of the EGM to be held to approve the Property Services Framework Agreement as well as the proposed annual caps for each of the three years ending 31 December 2024, 2025 and 2026 in respect of the transactions contemplated under the Property Services Framework Agreement, will be dispatched to the Shareholders on or before 5 January 2023 in accordance with the Listing Rules as more time is required to finalise the circular to the Shareholders.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings as set out below:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee under the Board
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“China” or “PRC”	the People’s Republic of China, and for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Company”	Desun Real Estate Investment Services Group Co., Ltd. (德商產投服務集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 2270)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning given to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held to approve, among other things, the Property Services Framework Agreement and the transactions contemplated thereunder
“GFA”	Gross floor area
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all independent non-executive Directors, namely Mr. Fang Liqiang, Mr. Chen Di and Mr. Yan Hong to advise the Independent Shareholders on the Property Services Framework Agreement and the transactions contemplated thereunder

“Independent Shareholder(s)”	Shareholders other than Mr. Zou Kang, Ms. Zou Jian, Sky Donna, Pengna Holding and other Shareholders who are required under the Listing Rules to abstain from voting at the EGM for the resolution(s) approving the Property Services Framework Agreement and the transactions contemplated thereunder
“Independent Third Party(ies)”	person(s) who is(are) third party(ies) independent of the Company and connected persons of the Company
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Pengna Holding”	Pengna Holding Limited, a company incorporated in the BVI with limited liability, which is wholly owned by Ms. Zou Jian, and is one of the controlling shareholders of the Company
“Property Services Framework Agreement”	the property services framework agreement entered into on 7 December 2023 among Mr. Zou Kang, Ms. Zou Jian and the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) of US\$0.0001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Sky Donna”	Sky Donna Holding Limited, a company incorporated in the BVI with limited liability, which is wholly owned by Mr. Zou Kang, and is one of the controlling shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Ultimate Controlling Shareholders”	collectively Mr. Zou Kang and Ms. Zou Jian
“Ultimate Controlling Shareholders’ Associated Companies”	companies in which Mr. Zou Kang and/or Ms. Zou Jian can exercise or control the exercise of 30% or more of the voting power at their general meetings and their subsidiaries

“%”

per cent

By order of the Board
Desun Real Estate Investment Services Group Co., Ltd.
Mr. Zhang Zhicheng
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 7 December 2023

As at the date of this announcement, the executive Directors are Mr. Zhang Zhicheng, Ms. Xiong Jianqiu, Ms. Wan Hong, Mr. Liu Jun and Mr. Shao Jiazhen, the non-executive Director is Mr. Zou Kang, and the independent non-executive Directors are Mr. Fang Liqiang, Mr. Chen Di and Mr. Yan Hong.