

**RAINBOW.**

RAINBOW CAPITAL (HK) LIMITED  
波博資本有限公司

29 December 2023

*To the Independent Board Committee and the Independent Shareholders*

Orient Victory Smart Urban Services Holding Limited  
1201B, 12/F  
Tower 1 Admiralty Centre  
18 Harcourt Road  
Admiralty, Hong Kong

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS  
IN RELATION TO THE 2024 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 2024 Framework Agreement and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company dated 29 December 2023 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

The 2021 Framework Agreement will expire on 31 December 2023. As such, on 4 December 2023 (after trading hours), the Company entered into the 2024 Framework Agreement with OVPD. Pursuant to the 2024 Framework Agreement, OVPD agrees to appoint the Group for the provision of the Property Management Services, the Commercial Properties and Merchants Management Services and the Environmental Sanitation Engineering Services for a term commencing on 1 January 2024 and ending on 31 December 2026.

As at the Latest Practicable Date, OVPD is wholly-owned by Mr. Shi, the chairman of the Board, the chief executive officer of the Company and an executive Director. As OVPD is wholly-owned by Mr. Shi, OVPD is an associate of Mr. Shi and therefore a connected person of the Company. Therefore, the Continuing Connected Transactions will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios (other than the profits ratio) in respect of the maximum amount of the Proposed Annual Caps are more than 5% and exceed HK\$10 million, the Continuing Connected Transactions are subject to the reporting, annual review, announcement, circular and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Mr. Shi and OVRE (an associate of Mr. Shi) are required to abstain from voting on the resolution regarding the 2024 Framework Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps) to be proposed at the EGM.

The Independent Board Committee has been formed to consider and advise the Independent Shareholders as to whether the terms of the 2024 Framework Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps) are on normal commercial terms or better, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. We, Rainbow Capital, has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group, Mr. Shi, OVRE, or OVPD Group that could reasonably be regarded as relevant to our independence. There was no engagement or connection between the Group, Mr. Shi, OVRE, or OVPD Group and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group, Mr. Shi, OVRE, or OVPD Group. Accordingly, we are independent from the Company pursuant to the requirements under Rule 13.84 and therefore are qualified to give independent advice in respect of the 2024 Framework Agreements and the transactions contemplated thereunder.

## **BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, OVPD Group or their respective substantial shareholders, subsidiaries or associates.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the terms of the 2024 Framework Agreement (including the Proposed Annual Caps), we have taken into account the principal factors and reasons set out below:

### 1. Information of the parties

#### (i) Information of the Group

The Group is principally engaged in the property management and leasing services businesses for residential and commercial properties, the environmental hygiene businesses, the integrated development businesses and the diversified tourism products and services businesses.

#### *Financial performance*

Set out below is a summary of the consolidated financial information of the Group for (i) the two years ended 31 December 2022 (“FY2021” and “FY2022”, respectively) as extracted from the annual report of the Company FY2022 (the “2022 Annual Report”); and (ii) the six months ended 30 June 2022 and 2023 (“6M2022” and “6M2023”, respectively) as extracted from the interim report of the Company for 6M2023 (the “2023 Interim Report”):

	<b>FY2022</b> <i>HK\$'000</i> (audited)	<b>FY2021</b> <i>HK\$'000</i> (audited)	<b>6M2023</b> <i>HK\$'000</i> (unaudited)	<b>6M2022</b> <i>HK\$'000</i> (unaudited)
<b>Revenue</b>	<b>226,967</b>	<b>128,352</b>	<b>169,698</b>	<b>100,899</b>
– Property management businesses	157,469	72,035	84,855	75,837
– Environment hygiene businesses	40,800	2,171	80,068	11,708
– Integrated development businesses	28,698	53,579	4,775	13,354
– Diversified tourism products and services businesses	–	567	–	–
Cost of sales and services	(158,489)	(92,121)	(122,459)	(72,735)
<b>Gross profit</b>	<b>68,478</b>	<b>36,231</b>	<b>47,239</b>	<b>28,164</b>
Other income	4,552	3,171	2,398	2,619
Selling, general and administrative expenses	(35,741)	(57,861)	(34,262)	(21,292)
Impairment of intangible assets	–	(4,213)	–	–
Share of results of an associate	(2,578)	41	(71)	(102)
Fair value changes on investment properties	(6,840)	3,144	(4,568)	(4,770)
Finance costs	(2,891)	(1,721)	(1,439)	(1,588)
<b>Profit/(Loss) before tax</b>	<b>24,980</b>	<b>(18,222)</b>	<b>18,495</b>	<b>3,031</b>
<b>Profit/(Loss) for the year/period from continuing operations attributable to Shareholders</b>	<b>23,661</b>	<b>(14,626)</b>	<b>18,159</b>	<b>2,320</b>

#### FY2022 vs FY2021

The Group's revenue increased by approximately 76.8% from approximately HK\$128.4 million for FY2021 to approximately HK\$227.0 million for FY2022. Such increase was mainly driven by (a) the recognition of full year performance of the property management businesses for FY2022, while only approximately 7.5 months of relevant revenue was recognised for FY2021 since the Group completed the acquisition of Dongsheng Property on 18 May 2021; and (b) the number of environmental hygiene service projects secured by the Group increased from one for FY2021 to four for FY2022, which was partially offset by the decrease in revenue from integrated development businesses by approximately 46.4% primarily attributable to (a) the decrease in number of visitors of the tourist attraction and cultural spot amid the stricter prevention and control measures for the COVID-19 pandemic put in place by the local government in the second half of 2022; and (b) fewer marketing, event planning and consulting services for real estate projects undertaken by the Group during FY2022.

The Group's gross profit increased by approximately 89.0% from approximately HK\$36.2 million for FY2021 to approximately HK\$68.5 million for FY2022. Such increase was primarily attributable to the increase in revenue from property management businesses during FY2022, which had a higher gross profit margin as compared to other businesses.

The Group turnaround from loss attributable to the Shareholders of approximately HK\$14.6 million for FY2021 to profit attributable to Shareholders of approximately HK\$23.7 million for FY2022. The turnaround was primarily attributable to (a) the increase in gross profit as mentioned above; and (b) the decrease in selling, general and administrative expenses from approximately HK\$57.9 million for FY2021 to approximately HK\$35.7 million for FY2022.

#### 6M2023 vs 6M2022

The Group's revenue increased by approximately 68.2% from approximately HK\$100.9 million for 6M2022 to approximately HK\$169.7 million for 6M2023, mainly driven by the increase in revenue from environmental hygiene businesses from approximately HK\$11.7 million for 6M2022 to approximately HK\$80.1 million for 6M2023 by approximately 583.9%. Such increase is attributable to the Group's continued effort to expand the environmental hygiene businesses and the full operations of new projects secured in 2022 during the period. As at 30 June 2023, the Group secured five environmental hygiene service projects at an aggregate annual contract sum of approximately HK\$134.8 million.

The Group's gross profit increased by approximately 67.7% from approximately HK\$28.2 million for 6M2022 to approximately HK\$47.2 million for 6M2023. Such increase was primarily attributable to the increase in revenue from environmental hygiene businesses.

The Group's profit attributable to Shareholders increased by approximately 682.7% from approximately HK\$2.3 million for 6M2022 to approximately HK\$18.2 million for 6M2023 mainly due to the increase in gross profit, which was partially offset by the increase in selling, general and administrative expenses from approximately HK\$21.3 million for 6M2022 to approximately HK\$34.3 million for 6M2023.

*Financial position*

Set out below is a summary of the consolidated statements of financial position of the Group as at 31 December 2021 and 2022 and 30 June 2023 as extracted from the 2022 Annual Report and the 2023 Interim Report:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2022</b>	<b>2021</b>	<b>30 June</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(unaudited)
<b>Non-current assets</b>	<b>320,702</b>	<b>274,154</b>	<b>297,396</b>
Goodwill	–	–	–
Property, plant and equipment	155,629	105,704	140,067
Investment properties	82,437	100,599	74,542
Right-of-use assets	27,046	32,151	26,603
Intangible assets	109	159	93
Investments in an associate	27,779	32,916	26,515
Prepayments, deposits and other receivables	25,614	–	25,745
Deferred tax assets	2,088	2,625	3,831
<b>Current assets</b>	<b>491,118</b>	<b>618,265</b>	<b>510,198</b>
Inventories	15,535	16,385	15,060
Trade receivables	65,656	30,607	128,110
Amounts due from an associate	141,901	153,943	132,622
Prepayments, deposits and other receivables	61,854	160,688	47,755
Restricted bank deposits	315	1,423	–
Cash and cash equivalents	205,857	255,219	186,651
<b>Total assets</b>	<b>811,820</b>	<b>892,419</b>	<b>807,594</b>
<b>Current liabilities</b>	<b>145,007</b>	<b>169,020</b>	<b>142,208</b>
Trade payables	45,545	31,178	35,302
Contract liabilities	25,297	29,688	22,006
Other payables	60,194	96,730	71,779
Tax payables	5,337	1,390	5,907
Lease liabilities	7,704	9,024	5,535
Obligation under finance lease	–	–	1,679
Provisions	930	1,010	–

	<b>As at 31 December</b>		<b>As at 30 June</b>
	<b>2022</b>	<b>2021</b>	<b>2023</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(unaudited)
<b>Non-current liabilities</b>	<b>60,530</b>	<b>77,405</b>	<b>56,283</b>
Lease liabilities	47,134	62,450	43,625
Obligation under finance lease	–	–	1,823
Deferred tax liabilities	12,734	13,226	10,835
Provisions	662	1,729	–
<b>Total liabilities</b>	<b>205,537</b>	<b>246,425</b>	<b>198,491</b>
<b>Net assets</b>	<b>606,283</b>	<b>645,994</b>	<b>609,103</b>
<b>Equity attributable to Shareholders</b>	<b>589,156</b>	<b>623,374</b>	<b>584,058</b>
<b>Current ratio (Note)</b>	<b>3.4</b>	<b>3.7</b>	<b>3.6</b>

*Note: Being current assets divided by current liabilities.*

As at 30 June 2023, total assets of the Group were approximately HK\$807.6 million, mainly consisted of (a) property, plant and equipment of approximately HK\$140.1 million; (b) investment properties of approximately HK\$74.5 million; (c) trade receivables of approximately HK\$128.1 million; (d) amounts due from an associate of approximately HK\$132.6 million; and (e) cash and cash equivalents of approximately HK\$186.7 million.

As at 30 June 2023, the total liabilities of the Group were approximately HK\$198.5 million, mainly consisting of (a) trade payables of approximately HK\$35.3 million, (b) other payables of approximately HK\$71.8 million, and (c) lease liabilities of approximately HK\$49.2 million.

As at 30 June 2023, the Group recorded equity attributable to Shareholders of approximately HK\$584.1 million, with a current ratio of approximately 3.6 times.

**(ii) Information of OVPD**

OVPD is a company incorporated in the PRC, and is principally engaged in real estate development in the PRC. OVPD is wholly-owned by Mr. Shi, the chairman of the Board, the chief executive officer of the Company and an executive Director. Mr. Shi is also a controlling shareholder of the Company holding, including through OVRE, 8,024,734,025 Shares (representing approximately 62.1% of the entire issued share capital of the Company) as at the Latest Practicable Date.

## **2. Reasons for and benefits of entering into the 2024 Framework Agreement**

As stated in the Letter from the Board, the Company has commenced to engage in the property management and leasing services businesses upon the completion of the acquisition of Dongsheng Property on 18 May 2021. Since the property management and leasing services businesses (including the Property Management Services, the Commercial Properties and Merchants Management Services) in the 2021 Framework Agreement have provided stable income to the Group, and such businesses have been the principal businesses of the Group, it is believed that the continuation of such services would be beneficial to the Group's development in the future.

To diversity its business and explore more income stream, the Group developed into the environmental hygiene businesses from the fourth quarter of 2021. In 2022, the PRC government launched a series of influential policies and implementation measures to support the environmental hygiene related industry, such as the Urban and Rural Community Sanitation and Cleaning Service Requirements (城鄉社區環衛清潔服務要求) and Urban Road Cleaning and Quality Evaluation Standards (城市道路清掃保潔與品質評價標準). In such case, the Group has considered the opportunities in the market. In addition, the Group expects the provision of the Environmental Sanitation Engineering Services would further create synergy with Group's existing businesses and generate greater income. The Environmental Sanitisation Engineering Services (which includes greening engineering services) would therefore, be a valuable opportunity to extend the business footprints of the Group in various areas, and enable the Group to efficiently utilise its resources as a whole.

Taking into account that (i) as stated in the announcement of the Company dated 8 February 2021, Dongsheng Property and its subsidiaries has been providing property management services to the OVPD Group since 2013; (ii) the property management and leasing services businesses for residential and commercial properties and the environmental hygiene businesses are the Group's principal businesses, which accounted for approximately 97.2% of the Group's total revenue for 6M2023; and (iii) the financial performance of the Group turnaround from loss to profit for FY2022 primarily attributable to the gross profit generated from the property management businesses, we concur with the Directors that the entering into of the 2024 Framework Agreement is in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole.

## **3. Principal terms of the 2024 Framework Agreement**

Details of the terms of the 2024 Framework Agreement are set out in the Letter from the Board. Set out below are the principal terms of the 2024 Framework Agreement:

Date	:	4 December 2023 (after trading hours)
Parties	:	(i) The Company; and (ii) OVPD.
Term	:	Commencing on 1 January 2024 and ending on 31 December 2026.

Subject Matter : (i) Property Management Services

In relation to the Property Management Services, the Group shall be responsible for the following matters including but not limited to:

- (a) providing property management services including maintenance, concierge, cleaning, safety, administration and management services for the sales offices, display units, leisure areas and other related areas;
- (b) providing property management services including assistance on keeping public order and safety, maintenance and management of common areas, operation, maintenance and management of the facilities and equipment, cleaning, gardening, repair, owners' home maintenance service and arranging for decoration and renovation services for commercial and residential units and car parking spaces; and
- (c) providing pre-delivery services including inspection and cleaning services and consultancy services for residential units prior to the delivery of residential units, and property management office preparation services.

(ii) Commercial Properties and Merchants Management Services

Under the 2024 Framework Agreement, in relation to the Commercial Properties and Merchants Management Services, the Group shall be responsible for the following matters, including but not limited to:

- (a) providing guidance and assistance to merchants;
- (b) advertising and promoting vacancies;
- (c) preparing yearly operation proposal;
- (d) envisaging work plan and preparing budget plan;
- (e) preparing regular management reports;
- (f) organising property management team;



- (g) carrying out property management services including maintenance, concierge, cleaning, safety, administration and management for the facilities, car parking spaces, etc. within the commercial properties;
  - (h) supervising repair and maintenance works of the facilities within the commercial properties; and
  - (i) providing assistance to the OVPD Group for the recovery of rent, management fees, etc. from merchants and tenants.
- (iii) Environmental Sanitation Engineering Services

Under the 2024 Framework Agreement, in relation to the Environmental Sanitation Engineering Services, the Group shall be responsible for the following matters, including but not limited to the following:

- (a) garden construction projects, including, among others, the construction of gates (including fire gates), landscape corridors, water features, outdoor furniture, fitness equipment, trash cans, lighting fixtures, children's facilities, landscape walls, garden paths, garden electric wells, rain wells, drainage ditches and other structures and finishes, as well as highly coordinated paving and installation and the secondary adjustment of greening surfaces of all valve wells, rainwater and sewage inspection wells, heat, gas, fire protection, strong and weak electric wells, etc. of the garden, and the supply and installation of surface decorative manhole covers, including the levelling of manhole covers;
- (b) garden landscaping projects, including, among others, the planting soil backfill, soil improvement for meeting planting soil requirements and acquisition of shrubs, trees and seeding transplantation, etc.; and
- (c) water and electricity projects, including the purchase and installation of various types of garden lighting, garden pipelines, wire and cable construction and equipment, purchase and installation of distribution boxes, and the construction of garden water supply, drainage pipes, etc.

In respect of the Property Management Services, the Commercial Properties and Merchants Management Services and the Environmental Sanitation Engineering Services, the Group shall enter into specific agreement in respect of each individual transaction contemplated under the 2024 Framework Agreement, which shall be performed separately under the relevant specific agreement in accordance with the principal terms under the 2024 Framework Agreement. The specific agreement shall set forth the details of the specific services, price and basis of determination for the services, method of payment, and the specific duration of the relevant services.

Service Fees : Property Management Services

The fees payable by the OVPD Group in respect of the Property Management Services are mainly divided into three categories:

- (i) Management services for sales offices, display units, leisure areas and other related areas

The OVPD Group shall pay to the Group for each relevant project a monthly management fee equivalent to a sum determined based on an arm's length basis by reference to (a) the labour costs and other necessary expenses incurred or expected to be incurred in providing the relevant services plus a gross profit margin of not less than 15%; and (b) the market price of services of comparable nature and scale.

- (ii) Management services for commercial and residential units and car parking spaces

The OVPD Group shall pay to the Group a monthly management fee equivalent to a sum calculated based on the total gross floor area of the commercial and residential units and the number of car parking spaces (which are unsold or not available for sale) at a unit price determined by reference to (a) the nature of the real estate projects and geographical locations; (b) labour costs and other necessary expenses incurred or expected to be incurred in providing the relevant services; (c) the market price of services of comparable nature and scale; and (d) the indicative prices set by local government authorities (for residential units only).

(iii) Pre-delivery property management and related services

The OVPD Group shall pay to the Group a management fee of RMB11 per square metre as the unit price, which is equivalent to a sum calculated based on the total gross floor area of residential units to be delivered at a unit price determined by reference to (a) the labour costs and other necessary expenses incurred or expected to be incurred in providing the relevant services; and (b) the market price of services of comparable nature and scale. Such fee shall be paid in three months prior to delivery of the residential units.

Commercial Properties and Merchants Management Services

The OVPD Group shall pay to the Group a fixed monthly management fee of RMB3,000,000 (equivalent to approximately HK\$3,240,000), subject to review on a yearly basis, which is determined by reference to (i) the total gross floor area and geographical locations of four commercial properties (all located in Shijiazhuang, Hebei Province, the PRC with a total gross floor area of 106,504 square metres); (ii) labour costs and other necessary expenses incurred or expected to be incurred in providing the relevant services; and (iii) the market price of services of comparable nature and scale.

Environmental Sanitation Engineering Services

The fees to be charged for the provision of the Environmental Sanitation Engineering Services will be determined after arm's length negotiations and taking into consideration (i) the anticipated costs for the total number of relevant projects (including labour and material costs required); (ii) the size and location, with reference to the total gross floor areas, of the projects; and (iii) the nature of the services to be provided and the market price of services of comparable nature and scale.

In assessing whether the terms of the 2024 Framework Agreement are fair and reasonable, we have randomly selected and reviewed (i) ten sample property management agreements entered into between the Group and OVPD Group which were effective in 2022 and 2023; (ii) five sample property management agreements entered into between the Group and independent third parties in 2022 and 2023; and (iii) three commercial properties and merchants management agreements entered into between the Group and OVPD Group in 2022 and 2023. As advised by the management of the Group, the Group didn't enter into other commercial properties and merchants management agreements with OVPD Group or independent third parties in 2022 and 2023. The review period of 2022 and 2023 represents the term of the 2021 Framework Agreement, which we consider to be fair and representative.

### ***Property Management Services***

Based on our review of the sample property management agreements, we noted that (i) the service fee charged to OVPD Group for sales offices, display units, leisure areas and other related areas was charged based on the labour costs and other necessary expenses incurred or expected to be incurred in providing the relevant services plus a gross profit margin of 15%, which is no less favourable than the service fee charged by the Group to independent third parties which ranged from gross loss margin of approximately 11% to gross profit margin of approximately 5%; (ii) the service fee charged to OVPD Group for unsold commercial units, residential units and car parking spaces was the same as the service fee charged by the Group to other residents or businesses in the community; and (iii) the service fee charged to OVPD Group for pre-delivery property management and related services was RMB11 per sq.m., which is within the range of the market prices for the comparable services independently searched by us which ranged from RMB1 per sq.m. to RMB14.5 per sq.m. The payment term for OVPD Group and independent third parties are generally same for the same type of service.

### ***Commercial Properties and Merchants Management Services***

Based on our review of the commercial properties and merchants management agreements, the annual management service fee charged to OVPD Group is RMB36 million and the gross floor area under management is approximately 106,504 sq.m., representing a management service fee of approximately RMB0.94 per sq.m. per day. The management service fee shall be settled monthly.

In accessing the service fee for provision of commercial properties and merchants management services to OVPD Group, we have searched the service fee for commercial properties charged by other property management companies listed on the Stock Exchange for their respective latest financial years, which is an exhaustive list. The details are set out below:

<b>Company name (stock code)</b>	<b>Revenue generated from commercial properties management services</b>	<b>Gross floor area of commercial properties under management</b>	<b>Average service fee per day</b>
	<i>(RMB'000)</i>	<i>(sq.m.)</i>	<i>(RMB per sq.m.)</i>
SCE Intelligent Commercial Management Holdings Limited (606.HK)	395,812	1,701	0.65
China Resources Mixc Lifestyle Services Limited (1209.HK)	126,563	1,766	0.20
Financial Street Property Co., Limited (1502.HK)	836,761	8,931	0.26
Landsea Green Life Service Co., Limited (1965.HK)	66,955	1,491	0.12
Redsun Services Group Limited (1971.HK)	212,137	3,763	0.16

Company name (stock code)	Revenue generated from commercial properties management services  (RMB'000)	Gross floor area of commercial properties under management  (sq.m.)	Average service fee per day (RMB per sq.m.)
Suxin Joyful Life Services Co., Ltd. (2152.HK)	184,562	2,113	0.24
Ling Yue Services Group Limited (2165.HK)	86,001	729	0.33
Desun Real Estate Investment Services Group Co., Ltd. (2270.HK)	50,215	1,613	0.09
Lushang Life Services Co., Ltd. (2376.HK)	75,965	2,555	0.08
Poly Property Services Co., Limited (6049.HK)	1,280,321	20,460	0.17
Yuexiu Services Group Limited (6626.HK)	545,100	4,100	0.37
Sino-Ocean Service Holding Limited (6677.HK)	529,100	6,700	0.22
Zhenro Services Group Limited (6958.HK)	104,789	1,700	0.17
Excellence Commercial Property & Facilities Management Group Limited (6989.HK)	2,166,727	24,479	0.25
Jinke Smart Services Group Co., Limited (9666.HK)	81,033	2,673	0.08
		<b>Maximum</b>	0.65
		<b>Minimum</b>	0.08
		<b>Average</b>	0.23
The Company	36,000	106,504	0.94

*Source: annual reports for FY2022 of the relevant property management companies*

As noted from the above table, the service fee charged by the Group for the provision of commercial properties and merchants management services to OVPD Group was higher than the service fee charged by all other listed property management companies for commercial properties.

### ***Environmental Sanitation Engineering Services***

The fees to be charged for the provision of the Environmental Sanitation Engineering Services will be determined after arm's length negotiations and taking into consideration (i) the anticipated costs for the total number of relevant projects (including labour and material costs required) and the average service fees for each project; (ii) the size and location, with reference to the total gross floor areas, of the projects; and (iii) the nature of the services to be provided and the market price of services of comparable nature and scale. Regarding our analysis on the estimated service fee for Environmental Sanitation Engineering Services under the 2024 Framework Agreement, please refer to section headed "5. Assessment of the proposed annual caps – (iii) Environmental Sanitation Engineering Services" for details.

Given the service fee charged by the Group to OVPG Group for each of Property Management Services, Commercial Properties and Merchants Management Services, Environmental Sanitation Engineering Services was no less favourable than the service fee charged by the Group to independent third parties or charged by other independent service providers, we consider the terms of 2024 Framework Agreement to be fair and reasonable.

#### **4. Internal control measures of the Group**

To ensure that the transactions contemplated under the 2024 Framework Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole, the Company has adopted the followings:

- (i) in order to ensure that the terms of the specific agreements for the Property Management Services and the Environmental Sanitation Engineering Services are fair and reasonable and on normal commercial terms or better than those available from independent third parties, the business department of the Company (or its subsidiaries) shall be responsible for conducting research on the range of management fee and service fee for the similar projects in the vicinity or, where there is no such similar projects, other districts (for the Property Management Services and the Environmental Sanitation Engineering Services), and a minimum of three (3) projects will be researched on, prior to entering into any specific agreement;
- (ii) after entering into any specific agreement, the senior management of the Company (or its subsidiaries) shall be responsible for monitoring the specific agreements. The property management manager (for the Property Management Services and the Commercial Properties and Merchants Management Services) of the Company (or its subsidiaries), as the case maybe, will review the specific agreement every three months to ensure the transactions have been carried out in compliance with the terms of such agreement and if there is any non-compliance or potential non-compliance, the responsible personnel will report the matter to the senior management of the Company for consideration who will then find ways to resolve the matter. Further, the property management manager (for the Property Management Services and the Commercial Properties and Merchants Management Services) of the Company (or its subsidiaries) or the project manager (for the Environmental Sanitation Engineering Services), as the case may be, will report to the senior management of the Company every six months on the financial performance of individual events;

- (iii) the finance department of the Group is responsible for monitoring the service fees receivable by the Group to ensure that they are conducted in accordance with the terms of the 2024 Framework Agreement and the Proposed Annual Caps are not exceeded. In addition, the finance department will also conduct overall review on a monthly basis. Where the finance department is aware of any potential non-compliance with the pricing policies or that the Proposed Annual Caps will be exceeded, the finance department will escalate the matter to the senior management of the Company who will then co-ordinate at the Group level to take remedial actions and ensure the basis of the Proposed Annual Caps are followed and are not exceeded;
- (iv) the senior management or designated personnel of the Company will review the draft specific agreements and will escalate the matter via the senior management to the independent non-executive Directors if the senior management or designated personnel is of the opinion that there is any non-compliance issue. The independent non-executive Directors would further review the draft specific agreements and take appropriate actions to ensure that such transactions are conducted within the 2024 Framework Agreement, on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole. Upon approval of the respective specific agreements by the executive Director or director of subsidiaries of the Company after taking into account the steps taken by the independent non-executive Directors (where necessary), the property management manager (for the Property Management Services and the Commercial Properties and Merchants Management Services) or the project manager (for the Environmental Sanitation Engineering Services) of the Company (or its subsidiaries), as the case maybe, will be responsible for monitoring the specific agreements, reviewing and approving any decision required for the operation of the events, which is expected to take around one to two weeks;
- (v) the independent non-executive Directors will conduct annual reviews with respect to the transactions contemplated under the 2024 Framework Agreement and the specific agreements and make confirmation in the annual report, whether such continuing connected transactions have been entered into in the ordinary and usual course of business of the Group, are on normal commercial terms, and in accordance with under the 2024 Framework Agreement and the specific agreements on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole; and
- (vi) the external auditors of the Company will conduct annual review on the transactions contemplated under the 2024 Framework Agreement and the specific agreements in accordance with the Listing Rules.

In assessing whether the above internal control measures are put in place and effectively implemented, we have obtained and reviewed the Group's internal control reports for Property Management Services and Commercial Properties and Merchants Management Services for 6M2022, FY2022 and 6M2023. We noted the transaction amount had been monitored and the annual caps were not exceeded.

In addition, as discussed in the section headed “3. Principal terms of the 2024 Framework Agreement” above, based on our review of the sample agreements and our independent research, the service fee charged by the Group to OVPG Group for each of Property Management Services, Commercial Properties and Merchants Management Services, Environmental Sanitation Engineering Services was no less favourable than the service fee charged by the Group to independent third parties or charged by other independent service providers.

Having considered the above, we are of the view that the internal control measures for monitoring the transactions contemplated under the 2024 Framework Agreement have been effectively implemented, and we concur with the Directors that appropriate and adequate procedures are in place to ensure that the transactions contemplated under the 2024 Framework Agreement will be appropriately monitored and conducted on commercial terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## 5. Assessment of the proposed annual caps

Set out below are the historical annual caps and actual transaction amounts for the transactions contemplated under the 2021 Framework Agreement:

	<b>FY2022</b>	<b>For the ten months ended 31 October 2023</b>
	<b>RMB'000</b>	<b>(“10M2023”) RMB'000</b>
<b>Property Management Services</b>		
Actual transaction amounts	8,569	8,400
Historical annual caps	16,500	23,800
Annualised utilisation rate	51.9%	42.4%
<b>Commercial Properties and Merchants Management Services</b>		
Actual transaction amounts	36,000	30,000
Historical annual caps	36,000	36,000
Annualised utilisation rate	100.0%	100.0%

As shown in the table above, the transaction amount of Property Management Services increased from approximately RMB8.6 million for FY2022 to approximately RMB8.4 million for 10M2023, which would amount to approximately RMB10.1 million when annualised. As advised by the management of the Group, affected by the COVID-19 pandemic in 2022 and the sluggish China real estate market in recent years, the actual sales and delivery progress of OVPD Group’s properties were worse than the estimation when the Group determined the historical annual caps of Property Management Services. As such, OVPD Group’s demand for procurement of Property Management Services decreased, which led to the low utilisation rates for FY2022 and 10M2023.

Regarding the Commercial Properties and Merchants Management Services, the transaction amounts were RMB36 million and RMB30 million for FY2022 and 10M2023, respectively. The annual caps were fully utilised.



The Proposed Annual Caps for the years ending 31 December 2024, 2025 and 2026 (“FY2024”, “FY2025”, and “FY2026”, respectively) are set out below:

	<b>FY2024</b>	<b>FY2025</b>	<b>FY2026</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property Management Services	7,000	4,200	4,200
Commercial Properties and Merchants Management Services	36,000	36,000	36,000
Environmental Sanitation Engineering Services	10,600	13,300	14,100

**(i) Property Management Services**

Based on our discussion with the management of the Group, the Proposed Annual Caps for the Property Management Services were further analysed as follows:

	<b>FY2024</b>	<b>FY2025</b>	<b>FY2026</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Estimated transaction amounts			
– Sales offices, display units, leisure areas and other related areas	5,238	3,498	3,708
– Commercial and residential units and car parking spaces	767	528	489
– Pre-delivery property management and related services	970	97	–
Proposed Annual Caps for the Property Management Services	7,000	4,200	4,200

*Sales offices, display units, leisure areas and other related areas*

In determining the estimated transaction amounts of Property Management Services for sales offices, display units, leisure areas and other related areas, the Group took into account: (a) the estimated size of five projects under management for FY2024 and two project under management for FY2025 and FY2026, respectively; and (b) a buffer calculated based on the year-to-year growth of 6%.

We have discussed the above factors with the management of the Group and reviewed the calculation of the estimated transaction amounts. We understand that the estimated transaction amounts are mainly determined with reference to the Group’s existing projects under management. In this regard, we have obtained and reviewed the list of the existing projects and further obtained five existing property management agreements which are expected to be renewed and the transaction amounts contributed from which are approximately RMB4.1 million, RMB3.1 million and RMB3.1 million for FY2024, FY2025 and FY2026, respectively, representing approximately 78.2%, 89.0% and 84.0% of the estimated transaction amounts for FY2024, FY2025 and FY2026, respectively.

As for the buffer, according to the press released by International Monetary Fund in November 2023, the Chinese economy is projected to grow at 5.4% in 2023 and 4.6% in 2024, primarily reflecting a post-COVID rebound. Taking into account that the Group's revenue generated from property management services increased by approximately 11.9% for 6M2023, we consider the buffer to be fair and reasonable.

Given (a) the estimated monthly service fee is principally determined based on the existing projects under management; (b) the Group's revenue generated from property management services increased by approximately 11.9% for 6M2023; and (c) the Chinese economy is projected by International Monetary Fund to grow at 5.4% in 2023 and 4.6% in 2024, we consider the estimated transaction amounts of Property Management Services for sales offices, display units, leisure areas and other related areas to be fair and reasonable.

*Commercial and residential units and car parking spaces*

In determining the estimated transaction amounts of Property Management Services for commercial and residential units and car parking spaces, the Group took into account: (a) the total gross floor area of 9,383, 9,263 and 9,143 square metres of commercial and residential units and 377, 317 and 257 car parking spaces under management for FY2024, FY2025 and FY2026, respectively, and the corresponding agreed management fees pursuant to the relevant specific agreements under the 2021 Framework Agreement; (b) the estimated size of new commercial and residential units with a total gross floor area of approximately 16,638, 1,564 and nil square metres for FY2024, FY2025 and FY2026, respectively, according to the development plan of real estate projects provided by the OVPD Group and the estimated management fees for such management services; and (c) a buffer calculated based on the year-to-year growth of 6%. We have discussed the above factors with the management of the Group and reviewed the calculation of the estimated transaction amounts.

The transaction amounts contributed by the existing commercial and residential units and car parking spaces under management are approximately RMB484,000, RMB445,000 and RMB410,000 for FY2024, FY2025, and FY2026, respectively. We have obtained and reviewed the list of the existing agreements and further obtained three existing agreements in relation to provision of Property Management Services for commercial and residential units and car parking spaces, of which the transaction amounts are approximately RMB476,000, RMB440,000 and RMB404,000 for FY2024, FY2025, and FY2026, respectively. We noted the amounts under the existing agreements represented almost the entire amount of the estimated monthly service fee for unsold commercial and residential units and car parking spaces.

The transaction amounts contributed by new residential units are expected to be approximately RMB240,000, RMB23,000 and nil for FY2024, FY2025, and FY2026, respectively. As advised by the management of the Group, the OVPD Group expects to delivery approximately 83,191 sq.m. and 7,822 sq.m. of properties for FY2024 and FY2025, respectively, among of which 16,638 sq.m. and 1,564 sq.m. of properties are expected to be sold in the year after delivery, representing approximately 20% of the total gross floor area of properties to be delivered in the respective year. In this regard, we have obtained and reviewed the agreement in relation to provision of pre-delivery property management and related services by the Group to the OVPD Group. The gross floor area under management of the property is approximately 76,564 sq.m., representing approximately 92.0% of the total gross floor area of properties to be delivered in 2024. In addition, based on our review of the calculation of the estimated transaction amounts, we noted the service fee rate for new residential units is consistent with the service fee rate of the existing agreements.

Given (a) the transaction amounts contributed by the existing commercial and residential units and car parking spaces under management are mainly estimated based on the existing agreements; (b) the transaction amounts contributed by the new residential units are mainly estimated based on the existing pre-delivery project; and (c) a buffer calculated based on the year-to-year growth of 6% is fair and reasonable, we consider the estimated transaction amounts of Property Management Services for commercial and residential units and car parking spaces to be fair and reasonable.

#### *Pre-delivery property management and related services*

In determining the estimated transaction amounts for pre-delivery property management and related services, the Group took into account: (a) the total gross floor area of approximately 76,564, nil and nil square metres of residential units to be delivered for FY2024, FY2025 and FY2026, respectively, and the corresponding agreed management fees pursuant to the relevant specific agreements under the 2021 Framework Agreement; (b) the estimated size of new residential units with a total gross floor area of approximately 6,627, 7,822 and nil square metres for FY2024, FY2025 and FY2026, respectively, to be managed by the Group according to the development plan of real estate provided by the OVPD Group and the estimated management fees for such management services; and (c) a buffer calculated based on the year-to-year growth of 6%.

As discussed above, we have obtained and reviewed the agreement in relation to provision of pre-delivery property management and related services by the Group to the OVPD Group. The gross floor area under management of the property is approximately 76,564 sq.m., which is line with the estimated size of new residential units under the Group's calculation of estimated transaction amount. Regarding the service fee for provision of pre-delivery property management and related services, we noted the service fee is charged at RMB11 per sq.m., which is in line with the pricing term of the 2021 Framework Agreement and the 2024 Framework Agreement.

Given (a) the transaction amounts are mainly estimated with reference to the existing agreement; (b) the service fee is in line with the pricing term of the 2024 Framework Agreement, which had remained constant as compared to fee under the 2021 Framework Agreement; and (c) a buffer calculated based on the year-to-year growth of 6% is fair and reasonable, we consider the estimated transaction amounts for pre-delivery property management and related services to be fair and reasonable.

***(ii) Commercial Properties and Merchants Management Services***

The Proposed Annual Caps for Commercial Properties and Merchants Management Services are RMB36 million. As stated in the section headed “3. Principal terms of the 2024 Framework Agreement”, we have obtained and reviewed three commercial properties and merchants management agreements, and we noted the annual service fee charged to OVPD Group is RMB36 million. In accessing the service fee for the Commercial Properties and Merchants Management Services, we have searched the service fee for commercial properties charged by other property management companies listed on the Stock Exchange for their respective latest financial years. For details, please refer to the section headed "3. Principal terms of the 2024 Framework Agreement – Commercial Properties and Merchants Management Services".

Taking into account (a) the Group expects to continue provide Commercial Properties and Merchants Management Services to the existing commercial properties under management; (b) the historical annual caps for FY2022 and 10M2023 have been fully utilised in accordance with the historical agreements; and (c) the service fee charged by the Group for the Commercial Properties and Merchants Management Services was not less than the service fee charged by all other listed property management companies for commercial properties, we consider the Proposed Annual Caps for Commercial Properties and Merchants Management Services to be fair and reasonable.

***(iii) Environmental Sanitation Engineering Services***

The Proposed Annual Caps for the Environmental Sanitation Engineering Services were determined based on, among other things, (a) the estimated total gross floor area of 31,325, 27,167 and 27,167 square metres for FY2024, FY2025 and FY2026, respectively, subject to the Environmental Sanitation Engineering Services; (b) the estimated works (taking into account the size and location of the projects, the landscaping engineering project’s material quality and specific requirements and the corresponding labour costs) to be undertaken by the Group for the Environmental Sanitation Engineering Services; (c) the prevailing market price of services of comparable nature and scale; and (d) a buffer calculated based on the year-to-year growth of 6%. We have discussed the above factors with the management of the Group and reviewed the calculation of the estimated transaction amounts, which is further analysed as follows:

	<b>FY2024</b>	<b>FY2025</b>	<b>FY2026</b>
Gross floor area ( <i>sq.m.</i> )	31,325	27,167	27,167
Average service fee ( <i>RMB per sq.m.</i> )	317	435	435
Transaction amount ( <i>RMB'000</i> )	9,944	11,807	11,807
Buffer ( <i>RMB'000</i> )	656	1,493	2,293
Proposed Annual Cap ( <i>RMB'000</i> )	10,600	13,300	14,100

We have obtained the design drawings of two projects (“**Project A**” and “**Project B**”) in construction with gross floor area of approximately 31,325 sq.m. and 27,167 sq.m., for which the Group expects to provide Environmental Sanitation Engineering Services in 2024 and 2025, respectively. The Group expects to provide Environmental Sanitation Engineering Services in 2026 for another project to be constructed, whose design drawing has not been finished but is similar to Project B.

In assessing the service fee for Environmental Sanitation Engineering Services, we have (a) obtained two agreements (“**Project C**”) in relation to provision of Environmental Sanitation Engineering Services by independent third parties to OVPD Group in 2022; and (b) independently searched the selling prices of properties located in each project on anjue.com, a real estate brokerage website commonly used in the PRC. The table below sets out the comparison of the service fee:

	<b>Gross floor area</b>	<b>Average service fee</b>	<b>Average selling price</b>	<b>Ratio of service fee to selling price</b>
	<i>(sq.m.)</i>	<i>(RMB per sq.m.)</i>	<i>(RMB per sq.m.)</i>	
Project A	31,325	317	7,200	4.4%
Project B	27,167	435	9,500	4.6%
Project C	45,476	622	20,000	3.1%

Given (a) the service fee for Environmental Sanitation Engineering Services is determined by the size and location of the projects, the landscaping engineering project’s material quality and specific requirements and the corresponding labour costs. It is normal to charge a higher service fee for properties with a higher selling price; and (b) the ratios of service fee to selling price for Project A and B are higher than that charged by independent third parties for Project C, we consider the estimated service fee for Environmental Sanitation Engineering Services is no less favourable than that offered by independent third parties.

Taking into account (a) the gross floor area expected to be subject to the Environmental Sanitation Engineering Services is mainly based on existing design drawings of Project A and Project B; (b) the service fee for Environmental Sanitation Engineering Services is no less favourable than that offered by independent third parties; and (c) a buffer calculated based on the year-to-year growth of 6% is acceptable, we consider the Proposed Annual Caps for Environmental Sanitation Engineering Services to be fair and reasonable.

## OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the entering into the 2024 Framework Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group; and (ii) the terms of the 2024 Framework Agreements (including the Proposed Annual Caps) are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favor of the relevant resolutions to be proposed at the EGM to approve the 2024 Framework Agreement (including the Proposed Annual Caps) and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Rainbow Capital (HK) Limited**



**Larry Choi**  
*Managing Director*

*Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.*