元庫證券有限公司
SILVERBRICKS SECURITIES CO., LTD.

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Sheung Wan, Hong Kong

22 March 2024

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 100% OF THE EQUITY INTEREST IN THE TARGET COMPANY

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the independent board committee and the independent shareholders of Lushang Life Services Co., Ltd (the "**Company**") in relation to the proposed disposal of 100% equity interest in Shandong HuiBangDa Furbishing Engineering Co., Ltd.* (山東省匯邦達裝飾工程有限公司), (the "**Disposal**"). Details of the Disposal are set out in the "Letter from the Board" (the "**Board Letter**") contained in the circular of the Company to the shareholders dated 22 March 2024 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

On 27 February 2024, the Company entered into the Equity Transfer Agreement with the Purchaser and the Target Company, pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Interest.

With further deliberations and with reference to the Disposal Announcement, the Company would like to clarify that even though the Acquisition and the Disposal are both transactions entered into by the Company as a party to the Equity Transfer Agreement and the EITA respectively, they are not to be aggregated under the Listing Rules and the Disposal shall, on a standalone basis, be subject to the relevant requirements pursuant to Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal exceeds 5% but all of them are less than 25%, the Disposal pursuant to the Equity Transfer Agreement (whether on a standalone basis or when aggregated with the Acquisition) constitutes a disclosable transaction of the Company and is therefore subject to notification and announcement requirements under Chapter 14 of the Listing Rules.

Furthermore, with one or more of the applicable percentage ratios in respect of the Disposal exceeds 5% and the total consideration of the Disposal being more than HK$10,000,000.00, the Disposal pursuant to the Equity Transfer Agreement (whether on a standalone basis or when aggregated with the Acquisition) constitutes a connected transaction of the Company which is subject to reporting, announcement, circular, independent financial advice and the Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all independent non-executive Directors, namely Ms. Leung Bik San, Ms. Chen Xiaojing and Mr. Ma Tao, has been established to make a recommendation to the Independent Shareholders in relation to the Equity Transfer Agreement and the Disposal. We, Silverbricks Securities Company Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard (the "**Engagement**").

OUR INDEPENDENCE

As at the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates or connected persons and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and did not have any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We are not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Engagement. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we had received or will receive any fee or benefit from the Group and its associates. During the past two years, there was no engagement between the Group and us. Also, we are not aware of the existence of or change in any circumstances that could affect our independence. Accordingly, we consider ourselves independent and eligible to give independent advice in respect of the Disposal.

BASIS OF OUR OPINION

In formulating our opinion with regard to the Equity Transfer Agreement, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (the "**Management**") (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 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 Group, 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 Company, the Purchaser, 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 Disposal. 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, revise or reaffirm this opinion to take into account events occurring after the Latest Practicable Date. 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 conducted any independent evaluation or appraisal of the Target Company, and we have not been furnished with any such evaluation or appraisal save for the valuation report of the net assets of the Target Company (the "**Valuation Report**") prepared by an Independent Valuer. Since we are not experts in the valuation of assets, land and properties, we have relied solely upon the Valuation Report for the appraised asset value of the entire equity interest in Target Company as at the Valuation Benchmark Date (the "**Valuation**").

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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with respect to the Disposal, we have taken into account the principal factors and reasons set out below:

1. Information of the Company and the Group

The Company (being the Vendor to the Equity Transfer Agreement), is an investment holding, joint stock limited company incorporated in the PRC with limited liability, whose H Shares are listed on the main board of the Stock Exchange (stock code: 2376).

The Group is principally engaged in the provision of (i) property management services for property developers, property owners, residents and tenants with a wide range of property management services; (ii) wide spectrum of value-added services to non-property owners covering various stages of the property development and delivery process; and (iii) community value-added services with the aim to improve property owners' and residents' quality of life.

Set out below is a summary of the consolidated financial information on the Group for the six months ended 30 June 2022 and 2023 and the two years ended 31 December 2022 as extracted from the Company's interim report for the six months ended 30 June 2023 (the "**2023 Interim Report**") and annual report for the year ended 31 December 2022 (the "**2022 Annual Report**"), respectively:

Financial results

	For the six months ended 30 June		**For the year ended 31 December**	
	2023	**2022**	**2022**	**2021**
	(unaudited)	*(unaudited)*	*(audited)*	*(audited)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
– *Property management services*	164,858	150,146	294,099	255,485
– *Value-added services to non-property owners*	88,782	118,169	187,908	204,816
– *Community value-added services*	60,374	56,047	145,727	122,502
Profit for the year/period	30,796	40,814	78,297	77,017

According to the 2022 Annual Report and 2023 Interim Report, the Group derived its revenue from (i) property management services; (ii) value-added services to non-property owners; and (iii) community value-added services.

Revenue from Property Management Services

The revenue of the property management services increased by 15.1% from RMB255.5 million for the year ended 31 December 2021 to RMB294.1 million for the year ended 31 December 2022, primarily due to the optimization of the project portfolio and strategic expansion of city services during 2022. The revenue of the property management services increased by 9.8% from RMB150.1 million for the six months ended 30 June 2022 to RMB164.9 million for the six months ended 30 June 2023, primarily due to the total GFA under management increased from approximately 23.5 million sq.m. as at 30 June 2022 to approximately 23.8 million sq.m. as at 30 June 2023, and the continuous expansion of urban sanitation projects (which were not included in the area under management in accordance with industry practice).

Revenue from Value-added Services to Non-property Owners

The revenue from value-added services to non-property owners decreased by 8.3% from RMB204.8 million for the year ended 31 December 2021 to RMB187.9 million for the year ended 31 December 2022, primarily due to the decrease in the number of projects delivered by property developers during 2022 resulting from the downturn of the real estate market, which led to the decrease in the revenue from preliminary property management services and pre-delivery services. The revenue of our value-added services to non-property owners decreased by 24.9% from RMB118.2 million for the six months ended 30 June 2022 to RMB88.8 million for the six months ended 30 June 2023, primarily due to the decrease in the number of projects delivered by property developers as a result of the downturn of the real estate market in the PRC, resulting in a decrease in revenue from preliminary property management services, pre-delivery services, design services and landscaping services.

Revenue from Community Value-added Services

The revenue of the community value-added services increased by 19.0% from RMB122.5 million for the year ended 31 December 2021 to RMB145.7 million for the year ended 31 December 2022, primarily due to the increase in gross floor area under management for residential properties and commercial properties. The revenue of our community value-added services increased by 7.7% from RMB56.0 million for the six months ended 30 June 2022 to RMB60.4 million for the six months ended 30 June 2023, primarily due to the increase in the number of users as a result of the increase in the GFA under management in respect of residential properties, and diversification of service portfolio provided to customers.

As depicted by the above table, the net profit of the Group for the year ended 31 December 2022 remains relatively stable as compared to the year ended 31 December 2021. The net profit of the Group for the six months ended 30 June 2023 has decreased approximately 32.5 % as compared to the six months ended 30 June 2022, primary to the decrease in revenue and gross profits from Value-added Services to Non-property Owners segment.

	For the six months ended June 30,		**For the year ended December 31,**	
	2023	**2022**	**2022**	**2021**
	(unaudited)	*(unaudited)*	*(audited)*	*(audited)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	909,007	859,122	856,625	634,396
– Current Assets	843,409	793,067	790,570	565,575
– Non-current assets	65,598	66,055	66,055	68,821
Total liabilities	374,823	355,891	353,395	333,952
– Current liabilities	373,109	354,081	351,585	331,512
– Non-current liabilities	1,714	1,810	1810	2,440
Net Assets	534,184	503,231	503,230	300,444

The Group had total assets, total liabilities and net assets attributable to parent company of approximately RMB909 million, RMB347.8 million and RMB5.34 million as at 30 June 2023 respectively.

2. **Information of Purchaser**

With reference to the Board Letter, the Purchaser, Shandong Urban and Rural Development Group Co., Ltd.* (山東省城鄉發展集團有限公司) is an investment holding company established in the PRC with limited liability. It is also a wholly-owned subsidiary of Shandong Commercial, a controlling Shareholder which indirectly holds 100,000,000 Domestic Shares, representing approximately 75.00% of the Company's entire issued share capital. Amongst the shareholding of Domestic Shares contemplated above, Green Development, a wholly-owned subsidiary of the Purchaser, holds 4,900,000 Domestic Shares, representing approximately 3.67% of the Company's entire issued share capital.

3. Information of Target Company

With reference to the Board Letter, the Target Company, a wholly-owned subsidiary of the Company as at the Latest Practicable Date and immediately prior to Completion, is a company incorporated in the PRC with limited liability on 16 January 2023 with a registered capital of RMB20,000,000.00.

It is principally engaged in (i) the interior renovation and furbishing for residential flats and apartments; (ii) construction works; (iii) subcontracting of construction projects; and (iv) the design for and the monitoring over construction works.

The audited consolidated financial information of Target Company for the period from its establishment on 16 January 2023 till 31 July 2023 prepared by the Auditor in accordance with China Accounting Standards for Business Enterprises are as follows:

	For the period ended 31 July 2023 *(audited)* *(RMB'000)*
Revenue	23,867.37
Profit/(loss) before tax	1,938.96
Profit/(loss) after tax	1,840.79

As at 31 July 2023, Target Company had an audited net asset value of approximately RMB21.84 million.

4. Reasons for and benefits of the Disposal

As discussed in section headed "1. Information on the Group" of this letter above, the Group is principally engaged in the provision of (i) property management services for property developers, property owners, residents and tenants with a wide range of property management services; (ii) wide spectrum of value-added services to non-property owners covering various stages of the property development and delivery process; and (iii) community value-added services with the aim to improve property owners' and residents' quality of life.

The Board is of the view that the revenue of the Target Company amounted to approximately RMB23.87 million (equivalent to approximately HK$25.95 million), and in view of its gross profit amounted to approximately RMB2.27 million (equivalent to approximately HK$2.47 million), the operational costs of the Target Company amounted to approximately RMB21.60 million (equivalent to approximately HK$23.48 million), which reflected a relatively inefficient operation with a gross profit margin of approximately 9.49%, comparatively the gross profit margin of the segment on the provision of value-added services to non-property owners for the period of six months ended 30 June 2023 was approximately 21.60%. As at 31 December 2023, according to the management account of the Target Company, a revenue amounted to approximately RMB56.55 million (equivalent to approximately HK$61.47 million) was recorded, and in view of its gross profit amounted to approximately RMB3.19 million (equivalent to approximately HK$3.47 million), the operational costs of the Target Company amounted to approximately RMB53.37 million (equivalent to approximately HK$58.01 million), reflecting a further deteriorating gross profit margin of 5.63%. And furbishing and renovation services for residential flats and apartments are labour-intensive in nature and the growing labour costs involved therein has caused the operational efficiency to drop continuously as reflected above. Accordingly, the disposal of such business allows the streamlining of the Group's businesses and the commitment of the financial resources of the Group into its other existing businesses.

As further represented by the management of the Company, we understand that the Disposal will allow the Group to focus on and refine its principally-engaged businesses such as property management services and community value-added services and concentrate resources to enhance those segments of businesses by means of the application of the Group's strategic plans regarding the transformation and enhancement of the Company's businesses with more advanced technologies and the digitalisation of the operation processes. Such development requires substantial capital investment. The proceeds from the Disposal in the amount of approximately RMB21,864,000.00 (equivalent to approximately HK$23,740,000.00) can further supplement the Company's general working capital required for such industrial transformation and development. The promotion of the Group's competitiveness and development capabilities matches with its continuous dedication to maximise value for the Shareholders and proactive attitude to seek fresh opportunities with exploration made for the Group's current business segments to broaden the revenue and profit base of the Group.

In the view that (i) the Disposal will enhance the operational efficiency by selling the business with relatively low gross profit margin, (ii) the Disposal will allow the Group to further focus on and refine its principally-engaged businesses; (iii) the Disposal will concentrate resources to transform and enhance the Company's businesses and (iv) the proceeds from the Disposal will supplement the Company's general working capital, although the Disposal is not in the ordinary and usual course of business of the Group, we concur with the Directors that the Disposal is in the interests of the Company and the Shareholders as a whole.

5. **Principal terms of the Disposal**

(i) The Equity Transfer Agreement

Set out below are the principal terms and conditions of the Disposal, details of which are set out in the section headed "THE EQUITY TRANSFER AGREEMENT" of the Board Letter:

Date

27 February 2024 (after trading hours of the Stock Exchange)

Parties to the Equity Transfer Agreement

(i) The Company, as the Vendor;

(ii) Shandong Urban and Rural Development Group Co., Ltd.* (山東省城鄉發展集團有限公司), as the Purchaser; and

(iii) Shandong HuiBangDa Furbishing Engineering Co., Ltd.* (山東省匯邦達裝飾工程有限公司), the Target Company.

Subject Matter:

Pursuant to the Equity Transfer Agreement, the Company, as the Vendor, has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Interest, representing 100% of the equity interest in the Target Company, at the Consideration of RMB21,864,000.00 (equivalent to approximately HK$23,740,000.00) in cash.

Upon Completion, the Target Company will be owned by the Purchaser as to 100% of its equity interest, and following the Disposal, the Company will cease to have any interest in the Target Company and, accordingly, the financial results of the Target Company will no longer be consolidated in the Group's accounts.

Consideration and Payment Terms

As extracted from the Letter from the Board, the Consideration was determined after arm's length negotiation with reference to the (i) Valuation as at the Valuation Benchmark Date as set forth in the Valuation Report, (ii) the track record of the Target Company, and (iii) other benefits to be derived by the Group from the Disposal as stipulated in the section headed "Reasons for and benefits of the Disposal" of the Board Letter.

The Consideration shall be RMB21,864,000.00 (equivalent to approximately HK$23,740,000.00), which shall be payable in cash by the Purchaser to the Company within fifteen (15) days upon the taking effect of the Equity Transfer Agreement.

Effective Date

The Equity Transfer Agreement shall take effect upon execution by the parties thereto, subject to the fulfilment of all the following Effective Conditions:

(A) the passing of all resolution(s) by the Independent Shareholders at the EGM to be convened, approving the Disposal, the entry into of the Equity Transfer Agreement and the transactions contemplated thereunder;

(B) the approval to the Equity Transfer Agreement, the Disposal and the transactions contemplated thereunder having been obtained from the board of directors of Lushang Freda;

(C) the shareholders and the board of directors of the Purchaser having respectively passed such effective resolutions in accordance with the applicable laws and regulations of the PRC and the articles of association of the Purchaser (where applicable) to approve the Equity Transfer Agreement, the Disposal and the transactions contemplated thereunder; and

(D) the shareholders and the board of directors of the Target Company having respectively passed such effective resolutions in accordance with the applicable laws and regulations of the PRC and the articles of association of the Target Company (where applicable) to approve the Equity Transfer Agreement, the Disposal and the transactions contemplated thereunder.

As at the Latest Practicable Date, save and except for the condition precedent set out under sub-paragraph (A) above, all other Effective Conditions have been fulfilled.

Conditions for Completion

Within ten (10) days after the payment of the Consideration in full, the Company and the Purchaser shall complete and fulfill all Registration of Change.

Completion shall take place upon completion of the Registration of Change. Furthermore, with reference to the EITA and the Acquisition, the completion of the Disposal is not inter-conditional to that of the Acquisition, and the Equity Transfer Agreement are not in any way connected with the EITA (save and except that the Company is a party to both the Equity Transfer Agreement and the EITA).

Arrangements during the Transitional Period

During the Transitional Period, any profit or loss of the Target Company shall be enjoyed or borne (as the case may be) by the Purchaser as if Completion has been taken place.

6. Evaluation of the Consideration

The Valuation

With reference to the Board Letter, the consideration was determined after arm's length negotiations between the Company and Purchaser with reference to the appraised asset value of the entire equity interest in Target Company as at the Valuation Benchmark Date as appraised by the Independent Valuer (i.e. the Valuation).

According to the Valuation Report, the appraised value of the Sale Interest (representing 100% equity interest in the Target Company) as at the Valuation Benchmark Date in the amount of approximately RMB21,864,000.00 (equivalent to approximately HK$23,765,000.00). In preparing the Valuation Report, the Independent Valuer selected the asset-based approach to conclude the Valuation.

For due diligence purpose, we have reviewed the Valuation, sent out an information request list and held a telephone interview to discuss with the Independent Valuer regarding the methodology adopted for and the basis and assumptions used in arriving at the Valuation.

(a) Scope of work and qualifications of the Independent Valuer

The Independent Valuer was engaged to prepare the Valuation Report which sets out independent valuations on the market value of 100% equity interest in Target Company as at the Valuation benchmark Date. The Valuation Report has been prepared in compliance with the relevant professional standards issued by China Appraisal Society. For our due diligence purpose, we have also reviewed and enquired into (i) the terms of engagement of the Independent Valuer with the Company; (ii) the Independent Valuer's qualification and experience in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Independent Valuer for conducting the Valuation. We have discussed the expertise of the Independent Valuer with its relevant staff members. We understand that the Independent Valuer is certified with the relevant PRC qualifications required to perform this valuation exercise and the signing persons of the Valuation Report have over 11 years' industry experience in conducting valuation exercises. We also noted that the purpose of the Valuation is to provide an opinion of value of Target Company and the Independent Valuer's engagement letter contains standard valuation scopes that are typical of company valuations carried out by Independent Valuers.

From the engagement letter and other relevant information provided by the Independent Valuer and based on our interview with them, we are satisfied with the terms of engagement of the Independent Valuer as well as their qualification and experience for preparation of the Valuation Report. The Independent Valuer have further confirmed that they are independent to the Group, Dongfang Electric and their respective associates.

(b) Valuation methodologies

As mentioned above, the Valuation was concluded based on the asset-based approach. We noted from the Valuation Report that the Valuation Report was prepared by the Independent Valuer in accordance with various requirements/standards, including《資產評估基本準則》(Asset Evaluation Standards — Basic Standards*) as issued by Ministry of Finance of the PRC,《中華人民共和國資產評估法》(Asset Appraisal Law of the PRC*) as passed by the National People's Congress of the PRC and other relevant valuation standards published by the PRC government. In particular, Asset Evaluation Standards — Basic Standards* states that, among others, (i) fundamental approaches of assets valuation method include market approach, income approach and asset-based approach; and (ii) valuer should analyse the applicability of the three fundamental valuation approaches and select the valuation method.

Based on our discussion with the Independent Valuer, we understand that the Independent Valuer has considered these three commonly used valuation approaches for valuation of a company, namely the income approach, the market approach and the asset-based approach:

(1) Market approach is a valuation method which determines the prices of assets by comparing such assets with comparable assets transacted in the market, whereby the value of those comparable assets transactions may be adjusted individually based on specific factors. According to the Independent Valuer, market approach has not been adopted because such adoption of the market approach to conduct valuation requires an active and open market with sufficient and accessible statistics in relation to such market in order to provide market comparable cases. There is limited availability of comparable transactions for non-listed companies. It is understandably hard to obtain market comparable as the Target Company is not a listed company and has only been established for a short period of time. Among listed companies, there are few transactions that match the Valuation in terms of business direction, asset size, and scale of operations. As such, the Independent Valuer consider the market approach to be inappropriate in the case of the Valuation.

(2) Income approach is a valuation method which discounts the expected future revenue of the net assets into present value with specific discount rates for the purpose of determining their value. As the Independent Valuer are of the view that the Target Company has a predictable ability to continue operations and profitability in the future period, the income approach is considered applicable.

(3) The asset-based approach is a valuation method which reasonably determines the value of assets and liabilities based on their respective value on the financial statements as at the valuation reference date. Both the asset-based approach and the income approach have been adopted in the Valuation Report. After analyzing and comparing the valuation results obtained by the two methods, one of the more appropriate valuation results is used as the valuation conclusion. The Independent Valuer consider that the appraisal results of the asset-based approach can reflect the fair value of the Target Company. The Target Company is primarily engaged in the furbishing and renovation of residential flats and apartments. Although the income approach could, to a certain extent, reflect the Target Company's prospective value, it cannot factor in the uncertainties, financial policies, the impact of the policies of the industry in which the Target Company operates. The result is, to a large extent, subject to the profitability, asset quality, operational performance and operational risks of the Target Company in the future while tax and other policy orientations have a significant impact on the Target Company. Based on the historical data, it is noted that the Target Company has only been incorporated recently on 16 January 2023. It is expected that the global economy was still struggling to recover albeit the end of the COVID-19 pandemic owing to the global trade and political tensions, resulting in greater uncertainty in its future revenue. Therefore, considering that the business and future revenue of the Target Company are affected by the above externalities, its operating results and the operational risks are subject to greater uncertainty, the income approach is unable to reasonably reflect the value of the Target Company.

(4) The asset-based approach reflects the fair market value of the assets from an asset replacement perspective. The valuation takes the replacement cost of assets as the value standard, reflecting the fair market value of the entire equity interest in the Target Company from the perspective of asset replacement, which was determined based on the balance sheet of the Target Company as at the Valuation Benchmark Date by assessing the value of each of the identifiable assets and liabilities including current assets (such as cash and cash equivalents, account receivables and contractual assets) and deferred tax asset. As the Independent Valuer has obtained the assets and liabilities related information from Target Company and the required information for the asset-based approach from external source, the Independent Valuer is able to perform comprehensive verification and assessment on the assets and liabilities of Target Company as at the Valuation Benchmark Date. The Independent Valuer are of the opinion that the valuation result under the asset-based approach can objectively reflect the value of the Target Company. Hence, the valuation result under the asset-based approach was selected by the Independent Valuer as the valuation conclusion.

Having considered (i) that the Valuation Report was prepared by the Independent Valuer in accordance with various requirements/standards; and (ii) the shortcomings of the market approach and income approach as explained by the Independent Valuer, we concur with the Independent Valuer on the adoption of asset-based approach to conclude the Valuation is suitable.

(c) Valuation assumptions

We have reviewed the Valuation Report and discussed with the Independent Valuer in respect of the key assumptions adopted for performing the Valuation. We understand from the Independent Valuer that the assumptions are commonly adopted in other valuations of similar assets and there is no unusual assumption which has been adopted during the Valuation. We also consider the assumptions adopted in the Valuation Report are general in nature and are not aware of any material facts which lead us to doubt the assumptions adopted by the Independent Valuer.

As regards the assumptions adopted for the Valuation, we have studied the valuation reports using asset-based approach published by other listed issuers on the Stock Exchange web-site (www.hkex.com.hk) and noted that the assumptions adopted for the Valuation are largely common in the market.

(d) Details of valuation

In arriving at the Valuation, the Independent Valuer categorised the assets and liabilities of Target Company into different categories. Based on the Valuation Report and our discussion with the Independent Valuer, in determining the valuation of the assets and liabilities of Target Company, the Independent Valuer has considered the applicable valuation methodologies taking into account the nature of the subject assets/liabilities in accordance with the relevant valuation requirements/standards, such as《資產評估執業準則－企業價值》(Practice Standards for Assets Appraisal — Enterprise Value*) which sets out, among others, the factors to be considered when performing asset-based approach valuation.

As confirmed by the Independent Valuer, the appraisal methodologies of assets and liabilities are consistent with normal market practice. We have also enquired the Independent Valuer the details of asset- based approach valuation, including the basis of appraising different categories of assets and liabilities and the reasons for difference between the book value and appraised value. During our discussion with the Independent Valuer, we have not identified any major factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the asset-based approach valuation. The appraisals of the assets and liabilities of Target Company are summarised below:

(i) Current assets

The book value and appraised value of Target Company's current assets were approximately RMB36.77 million and RMB36.79 million respectively as at the Valuation Benchmark Date. The increase in appraised value of current assets as compared to the book value was primarily due to the increase in appraised value of contract assets and accounts receivables as the provision for bad debts of contract assets and accounts receivable, which was accrued as of the evaluation reference date, is appraised as RMB0.

In relation to the trade receivables, the Independent Valuer verified the existence and assessed the recoverability of the receivables, the reasons for overdue payment, in order to arrive at the value of the trade receivables. We understood from the Independent Valuer that the fair value of the trade receivables depends on the likelihood of such balances to be recovered by Target Company and the amount that is expected to be recovered.

(ii) Non-current assets

The book value and appraised value of Target Company's non-current assets were approximately RMB1,200 and RMB0 respectively as at the Valuation Benchmark Date. The decrease in appraised value of non-current assets as compared to the book value was primarily due to the decrease in appraised value of deferred tax asset.

(iii) Current liabilities

The book value of Target Company's current liabilities was the same as the appraised value, being approximately RMB14.93 million as at the Valuation Benchmark Date.

(iv) Non-current liabilities

The book value of Target Company's current liabilities was the same as the appraised value, being RMB0 as at the Valuation Benchmark Date.

(e) Conclusion

After our review of the Valuation, enquiry and 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 usually involves assumptions and thus the Valuation may or may not reflect the value of the net assets of the Target Company accurately.

Trading multiples analysis

We have further endeavoured to apply the trading multiples analysis to assess the fairness and reasonableness of the Consideration: The trading multiples analysis, comprising the price to earnings ratio ("**PER**") and the price to book ratio ("**PBR**"), is a commonly used analysis for pricing. To perform such analysis, we have searched for companies listed on the main board of the Stock Exchange which have reported profits in the recent financial year and are engaged in the same sector as the Target Company, i.e. the fitting-out services business, and derive a majority (i.e. over 80%) of their revenue from such principal business (the "**Criteria**").

To the best of our knowledge and endeavour, we found four companies which meet the Criteria (the "**Comparable Companies**"). We noted that the the operation locations of the Target Company do not precisely match those of the Comparable Companies. Given that (i) the business operations of the Comparable Companies are mainly in PRC area, including Hong Kong and Macau, and (ii) the business operations of the Target Company are engaged in PRC, we consider that the cultural, geographical, and business environmental similarities between these areas do not significantly impact the our analysis. As such, we are of the view that our selection criteria to include the Comparable Companies which operate in Hong Kong, Macau and PRC to be fair and reasonable for the purpose of our analysis. It should be noted that the business operations and prospects of the Target Company are not exactly the same as the Comparable Companies and we have not conducted any in-depth investigation into the business operations and prospects of the Comparable Companies. Set out below are our relevant findings:

Company name (Stock code)	**Principal business**	**Business engaged in**	**PER** *(times)* *(Note 1)*	**PBR** *(times)* *(Note 2)*
Superland Group Holdings Limited (368.HK)	Provision of fitting-out services	Hong Kong	8.98	N/A *(Note 3)*
Sundart Holdings Limited (1568.HK)	Provision of fitting-out works	PRC, Singapore and Hong Kong	3.49	0.31
ISP Holdings Limited, (formerly Synergis Holdings Limited) (2340.HK)	Provision of property and facility management services, in the interior business, and others.	Hong Kong and PRC	0.23	0.51
Space Group Holdings Limited (2448.HK)	Provision of the fitting-out works and provision of financial services	Hong Kong and Macau	2.45	0.08
	Maximum		8.98	0.51
	Minimum		0.23	0.08
	Average		3.79	0.30

Company name (Stock code)	Principal business	Business engaged in	PER *(times)* *(Note 1)*	PBR *(times)* *(Note 2)*
The Target Company	Provision of the interior renovation and furbishing for residential flats and apartments, construction works, subcontracting of construction projects, and the design for and the monitoring over construction works.	PRC	6.35 *(Note 4)*	1.00 *(Note 5)*

Source: the web-site of the Stock Exchange (www.hkex.com.hk)

Notes:

(1) The PER is calculated based on the respective closing price of the shares of the Comparable Companies on the Stock Exchange as at 27 February 2024 (being the date of the Equity Transfer Agreement) and their respective audited net profit for the latest financial year as extracted from their published financial information.

(2) The PBR is calculated based on the respective closing price of the shares of the Comparable Companies on the Stock Exchange as at 27 February 2024 (being the date of the Equity Transfer Agreement) and their respective audited net asset value as extracted from their latest published financial information.

(3) The Comparable Company was in net liabilities position as at the latest financial year.

(4) The implied PER for the Disposal is calculated based on the Consideration and the annualized audited net profit of the Target Company for the period from its establishment on 16 January 2023 till 31 July 2023.

(5) The implied PBR for the Disposal is calculated based on the Consideration and the audited net asset value of the Target Company as at 31 July 2023.

As depicted in the above table, the implied PER for the Disposal of approximately 6.35 times is higher than the average PERs of 3.79 times of the Comparable Companies. As for PBR, one of the Comparable Company was in net liabilities position as at the latest financial year. Given that the average PBRs of the Comparable Companies is approximately 0.30 times, the implied PBR for the Disposal of approximately 1.00 times is also higher than the market average.

Evaluation of the consideration

Taking into account that (i) the Consideration of RMB21,864,000.00 (equivalent to approximately HK$23,740,000.00) representing the same as the Valuation; (ii) both the implied PER and implied PBR for the Disposal are higher than the average of the market ranges; and (iii) as concluded in the section headed "Reasons for the Disposal" of this letter of advice, the Disposal is the interests of the Company and the Shareholders as a whole, we are of the opinion that the Consideration is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

7. Financial effects of the Disposal and use of proceeds

Immediately prior to Completion, the Target Company is a wholly-owned subsidiary of the Company. Upon Completion, the Target Company will be owned by the Purchaser as to 100% of its equity interest, and following the Disposal, the Company will cease to have any interest in the Target Company and, accordingly, the financial results of the Target Company will no longer be consolidated in the Group's accounts.

With reference to the Disposal Announcement, the Company would like to clarify that there is an inadvertent clerical error and instead of an unaudited gain, the Company expects to record an unaudited loss of approximately RMB163,000.00 (equivalent to approximately HK$177,000.00) as a result of the Disposal. Such estimation is calculated with reference to (i) the consideration of the Disposal, which is RMB21,864,000.00 (equivalent to approximately HK$23,765,000.00); (ii) the 100% of audited carrying value of the Target Company of approximately RMB21,841,000.00 (equivalent to approximately HK$23,740,000.00) as at the Valuation Benchmark Date; and (iii) all relevant expenses of approximately RMB186,000.00 (equivalent to approximately HK$202,000.00) incidental to the Disposal. The actual amount will depend on the carrying value of the Group's interest in the Target Company as at completion of the Disposal.

The expected net proceeds (after deducting the relevant expenses incidental to the Disposal) of approximately RMB21,678,000.00 (equivalent to approximately HK$23,563,000.00) to be received from the Disposal will be used to strengthen the general working capital of the Group and actively promote the transformation and development of the Group's businesses, in particular, the transformation and enhancement of the Group's principally engaged businesses on property management by means of the digitalisation and the involvement of more advanced technologies in the process of operations, so as to enhance the Company's core competitiveness and development capabilities.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Disposal.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that (i) the terms of the Equity Transfer Agreement are on normal commercial terms and are fair and reasonable; and (ii) although the Disposal is not in the ordinary and usual course of business of the Group, it is 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 favour of the relevant resolution(s) to be proposed at the EGM to approve the Equity Transfer Agreement.

Yours faithfully
For and on behalf of
Silverbricks Securities Company Limited

Yau Tung Shing
Co-head of Corporate Finance

Yours faithfully
For and on behalf of
Silverbricks Securities Company Limited

Chan Wai Fung
Head of Corporate Finance

Note: Mr. Yau Tung Shing and Mr. Chan Wai Fung are licensed individuals under the SFO, authorized to conduct Type 6 (advising on corporate finance) regulated activities in accordance with the SFO and regarded as responsible officer of Silverbricks Securities Company Limited Mr. Yau Tung Shing and Mr. Chan Wai Fung have over 7 and 5 years of experience in corporate finance industry, respectively.

For the purposes of this letter, unless the context requires otherwise, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of HK$1 to RMB0.92. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Hong Kong dollars or Renminbi have been, could have been or may be converted at such or any other rate or at all.

Certain amounts and percentage figures set out in this letter have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables, the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

* *For identification purpose only*