DONGXING SECURITIES (HONG KONG) COMPANY LIMITED
Room 7503B–7504
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

25 June 2024

To: The Independent Board Committee and the Shareholders of Joy City Property Limited

Dear Sirs,

MAJOR TRANSACTION
DEEMED DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF THE CONSUMER INFRASTRUCTURE REIT ON THE SHENZHEN STOCK EXCHANGE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Proposed Spin-off, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 25 June 2024 issued by the Company to the Shareholders (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.

Reference is made to the announcement issued by the Company dated 24 May 2024 (the "**Announcement**") in respect of the Proposed Spin-off. CAMC and CITIC submitted, among other things, the application materials on the registration and listing of the Consumer Infrastructure REIT to the CSRC and Shenzhen Stock Exchange.

The Proposed Spin-off involves, among other things, the transfer of the entire equity interest in the New Project Company, which holds the Project, by the Project Company, an indirect wholly-owned subsidiary of the Company, to the Consumer Infrastructure REIT and the subscription for 40% of the total Units of the Consumer Infrastructure REIT by the Project Company. The Project comprises of the shopping centre and carpark spaces located on Dayue Road, Wuhou District, Chengdu, the PRC and its entire interest is held by the New Project Company as of the Latest Practicable Date. Upon completion of the Proposed Spin-off, the Consumer Infrastructure REIT will indirectly hold the entire interest in the Project and the Company, through the Project Company, will indirectly hold 40% of the total Units of the Consumer Infrastructure REIT, and the Company's indirect interest in the Project will be reduced to 40%. Therefore, the financial results of the Project will cease to be consolidated in the Group's financial statements upon completion of the Proposed Spin-off.

The Proposed Spin-off on the Shenzhen Stock Exchange constitutes a spin-off under PN15 of the Listing Rules. The Company has submitted the PN15 Application in relation to the Proposed Spin-off to the Stock Exchange and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off.

As at the Latest Practicable Date, the Group indirectly holds the entire interest in the Project. Upon completion of the Proposed Spin-off, the Company's indirect interest in the Project will be reduced to 40%. As such, the Proposed Spin-off, if materialised, will constitute a deemed disposal under Chapter 14 of the Listing Rules. As the highest applicable percentage ratio in respect of the Proposed Spin-off exceeds 25% but is less than 75%, the Proposed Spin-off constitutes a major transaction of the Company, and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 and PN15 of the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, Shareholders' approval may be obtained by written Shareholders' approval in lieu of convening a general meeting if (a) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Proposed Spin-off and the transactions contemplated thereunder; and (b) the written approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the issued share capital of the Company giving the right to attend and vote at the general meeting to approve the Proposed Spin-off and the transactions contemplated thereunder.

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the Shareholders have any material interest in the Proposed Spin-off and the transactions contemplated thereunder, and therefore no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Proposed Spin-off and the transactions contemplated thereunder.

As at the Latest Practicable Date, Grandjoy Holdings Group holds 9,133,667,644 Shares (representing approximately 64.18% of the issued Shares). As the Company has obtained the Written Approval from Grandjoy Holdings Group, no special general meeting will be convened by the Company for the purpose of approving the Proposed Spin-off and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Lau Hon Chuen, Ambrose, *GBS, JP*, Mr. Lam Kin Ming, Lawrence and Mr. Chan Fan Shing, has been established to advise the Shareholders on (i) whether the terms of the Proposed Spin-off are fair and reasonable; and (ii) whether the Proposed Spin-off are in the interests of the Company and the Shareholders as a whole.

We, Dongxing Securities (Hong Kong) Company Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in the same regard. We are not associated with the Company, the Operation Manager, the REIT Manager, the Scheme Manager, the New Project Company or their respective core connected persons, close associates or associates and accordingly are considered eligible to give independent advice on the above matters. During the last two years, we were engaged as an independent financial adviser to the Company in respect of a discloseable and connected transaction (details of which are set out in the circular of the Company dated 22 December 2022) and a major transaction and continuing connected transactions relating to the 2023 financial services agreements (details of which are set out in the circular of the Company dated 16 May 2023) (the "**Previous Engagements**"). Under the Previous Engagements, we were required to express our opinion on and give recommendation to the Independent Board Committee and the Independent Shareholders in respect of the relevant transaction. Apart from normal professional fees payable to us in connection with this appointment and the Previous Engagements, no arrangement exists whereby we will receive any fees or benefits from the Company, the Operation Manager, the REIT Manager, the Scheme Manager, the New Project Company or their respective core connected persons, close associates or associates.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group and have assumed that they are true, accurate and complete. We have also assumed that all statements of belief, opinion and intention made by the Directors and the management of the Company in the Circular were reasonably made after due enquiry. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group or their respective subsidiaries or associates, nor have we carried out any independent verification of the information supplied. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into account the principal factors and reasons set out below.

A. Background of the Proposed Spin-off

Information of the Group

The Company is an investment holding company incorporated in Bermuda. The Group is principally engaged in development, operation, sales, leasing and management of mixed-use complexes and commercial properties in the PRC. The Group develops, holds and operates various property projects in the PRC and Hong Kong.

As disclosed in the annual report of the Company published on 23 April 2024, gross revenue of the Group amounted to approximately RMB13,272,094,000 for the year ended 31 December 2023, representing a decrease of approximately 36.29% compared to approximately RMB20,831,357,000 for the year ended 31 December 2022. Gross profit and net profit of the Group amounted to approximately RMB5,641,491,000 and approximately RMB1,419,626,000 respectively for the year ended 31 December 2023, representing a decrease of approximately 11.94% and an increase of approximately 28.99% respectively compared to approximately RMB6,406,358,000 and approximately RMB1,100,578,000, respectively, for the year ended 31 December 2022. For further details, please refer to the annual report of the Company for the year ended 31 December 2023.

The Project Company

The Project Company is a company established in the PRC with limited liability and it is an indirect wholly-owned subsidiary of the Company. The Project Company is principally engaged in holding investments and properties in the PRC.

The SPV

The SPV is a company established in the PRC with limited liability and it is newly incorporated for the purpose of the Reorganisation. As of the Latest Practicable Date, the entire equity interest in the SPV is held by the Project Company and hence the SPV is an indirect wholly-owned subsidiary of the Company. As part of the Reorganisation, among other things, the entire equity interest of the SPV will be transferred to the Scheme under the Consumer Infrastructure REIT and the SPV will be subsequently merged into the New Project Company.

The New Project Company

The New Project Company is a company established in the PRC with limited liability and it is newly incorporated with the purpose of holding the Project under the Consumer Infrastructure REIT. As of the Latest Practicable Date, the entire equity interest in the New Project Company is held by the Project Company and hence the New Project Company is an indirectly wholly-owned subsidiary of the Company. As part of the Reorganisation, among other things, the entire equity interest of the New Project Company will be transferred to the Consumer Infrastructure REIT and upon completion of the Proposed Spin-off, the Consumer Infrastructure REIT, through the Scheme, will hold the entire equity interest in the New Project Company.

The Operation Manager

The Operation Manager is a company established in the PRC with limited liability and it is newly incorporated with the purpose of providing operation management, property management and car park management services to the Project after completion of the Proposed Spin-off. The Operation Manager is an indirect wholly-owned subsidiary of the Company.

The REIT Manager

The REIT Manager, namely CAMC, is a company established in the PRC with limited liability and owned as to approximately 62.2% and 37.8% by CITIC and two other Independent Third Parties, respectively, and none of such other Independent Third Parties on a standalone basis, controls, directly or indirectly, one-third or more of the equity interest of the REIT Manager. The REIT Manager is principally engaged in the sales and raising of funds, asset management and other businesses as approved by the CSRC. The REIT Manager will be responsible for making decisions in respect of the investment and management of the Project, including but not limited to annual budgets, approval of operation plans, etc. The REIT Manager will also implement rules for approving connected transactions and mechanism for handling conflict of interests situation to ensure that the Consumer Infrastructure REIT will operate independently from the Group (excluding the Consumer Infrastructure REIT and the Project).

The Scheme Manager

The Scheme Manager, namely CITIC, is a company established in the PRC with limited liability and whose H shares are listed on the Stock Exchange in Hong Kong (stock code: 6030) and A shares are listed on the Shenzhen Stock Exchange (stock code: 600030). The Scheme Manager will manage the Scheme. The Scheme Manager is principally engaged in investment banking, wealth management, asset management, financial markets and other related financial services.

Information on the Project

The Project comprises the shopping centre consisting of three buildings, an underground structure and car park spaces with a total gross floor area ("**GFA**") of approximately 172,500 square meters and is located on Dayue Road, Wuhou District, Chengdu, the PRC. The Project commenced operations in 2015, and is owned and operated by the Group as of the Latest Practicable Date.

The table below sets out the unaudited pro forma financial information of the Project for the two years ended 31 December 2023 prepared in accordance with generally accepted accounting principles in the PRC (the "**PRC GAAP**"):

	For the year ended 31 December	
	2022	**2023**
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Revenue	239,944	334,963
Profit before taxation	84,339	144,887
Profit after taxation	63,254	108,665

Based on the information available as of the Latest Practicable Date, there were no extraordinary items in the unaudited pro forma financial information of the Project for the two years ended 31 December 2023 prepared in accordance with the PRC GAAP.

The table below sets out the unaudited pro forma financial information of the Project for the two years ended 31 December 2023 prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

	For the year ended 31 December	
	2022	**2023**
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Revenue	239,944	334,963
Profit before taxation	192,474	762,015
Profit after taxation	143,632	571,407

Based on the information available as of the Latest Practicable Date, there were no extraordinary items in the unaudited pro forma financial information of the Project for the two years ended 31 December 2023 prepared in accordance with HKFRSs. The differences in the profit before taxation and profit after taxation prepared in accordance with PRC GAAP and HKFRSs were mainly due to the differences in the accounting treatment and recognition of investment properties at historic costs and fair value and also deferred tax credit/liabilities.

The unaudited pro forma net asset value of the Project as at 31 December 2023 prepared in accordance with PRC GAAP was approximately RMB1,171,586,000. The unaudited net asset value of the Project as at 31 December 2023 prepared in accordance with HKFRSs was approximately RMB2,671,475,000. For details of the property valuation report in respect of the Project, please refer to Appendix II.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the REIT Manager and the Scheme Manager and their respective ultimate beneficial owners are Independent Third Parties.

B. The Proposed Spin-off

1. *Background*

On 24 May 2024, CAMC and CITIC submitted, among other things, the application materials on the registration and listing of the Consumer Infrastructure REIT to the CSRC and Shenzhen Stock Exchange.

The Proposed Spin-off involves, among other things, the transfer of the entire equity interest in the New Project Company, which holds the Project, by the Project Company, an indirect wholly-owned subsidiary of the Company, to the Consumer Infrastructure REIT and the subscription for 40% of the total Units of the Consumer Infrastructure REIT by the Project Company. The Project comprises of the shopping centre and carpark spaces located on Dayue Road, Wuhou District, Chengdu, the PRC and its entire interest is held by the New Project Company as of the Latest Practicable Date. Upon completion of the Proposed Spin-off, the Consumer Infrastructure REIT will indirectly hold the entire interest in the Project and the Company, through the Project Company, will indirectly hold 40% of the total Units of the Consumer Infrastructure REIT, and the Company's indirect interest in the Project will be reduced to 40%. Therefore, the financial results of the Project will cease to be consolidated in the Group's financial statements upon completion of the Proposed Spin-off.

The Proposed Spin-off on the Shenzhen Stock Exchange constitutes a spin-off under PN15 of the Listing Rules. The Company has submitted the PN15 Application in relation to the Proposed Spin-off to the Stock Exchange and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off.

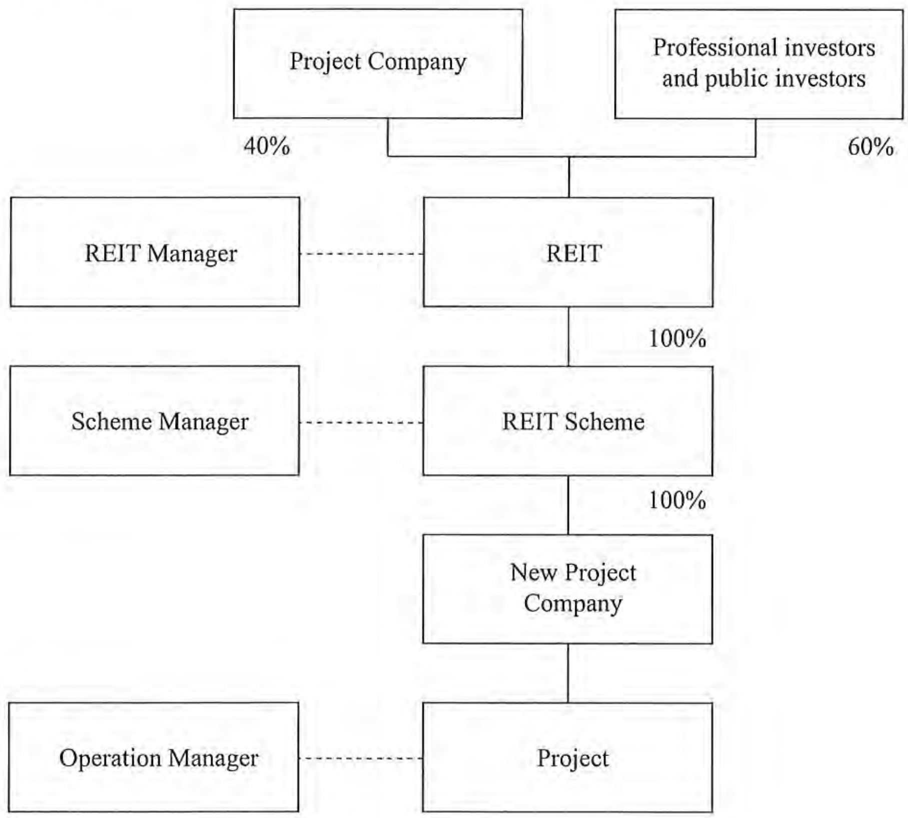
2. *The structure of the Consumer Infrastructure REIT and the Public Offering*

The Proposed Spin-off will involve the separate listing of the Consumer Infrastructure REIT on the Shenzhen Stock Exchange, which will indirectly hold the entire interest in the Project.

Under the proposed offering structure, the REIT Manager will set up the Consumer Infrastructure Fund as a publicly-listed consumer type infrastructure securities investment fund for Public Offering on the Shenzhen Stock Exchange at the expected size of approximately RMB3,348,000,000 (with reference to, and being not less than, the preliminary valuation of the Project and also taking into account of the Company's assessment on the Project based on the information available as of the Latest Practicable Date including, among other things, the income contributed by the Project to the Group, the business prospects of the Project, the financial impact and the potential tax and other related costs involved in the establishment of the Consumer Infrastructure REIT). It is currently expected that 40% of the total Units of the Consumer Infrastructure REIT will be subscribed by the Group through the Project Company at an expected aggregate price of approximately RMB1,339,200,000 and 60% of the total Units of the Consumer Infrastructure REIT will be subscribed by external investors at an expected aggregate price of approximately RMB2,008,800,000. The Consumer Infrastructure REIT will be set up in accordance with the Guidance, the Circular and other applicable laws and regulations in the PRC.

For the purpose of the Proposed Spin-off, the Scheme will be set up by the Scheme Manager. As part of the Reorganisation, prior to the Latest Practicable Date, the Project Company has established the New Project Company and the SPV and in addition, the Project Company has contributed to the registered capital of the New Project Company by way of injection of its entire interest in the Project into the New Project Company. Therefore, as of the Latest Practicable Date, the Project Company holds the entire equity interest in each of the New Project Company, which holds the entire interest in the Project, and the SPV. Upon completion of the Public Offering, further steps of the Reorganisation will take place including, among other things: (a) the Consumer Infrastructure REIT will apply the proceeds from the Public Offering, after deducting costs and taxes relating to the Proposed Spin-off, to subscribe for the entire equity interest in the Scheme; (b) the Scheme will acquire the entire equity interest in the SPV (which is held by the Project Company as at the Latest Practicable Date) from the Project Company at a nominal consideration, and will subsequently inject the net proceeds from the Public Offering into the SPV by way of capital injection into the SPV's registered capital and provision of shareholder's loan; (c) the SPV (which will be wholly-owned by the Scheme by then) will use the net proceeds mentioned in (b) above to acquire the entire equity interest in the New Project Company (which is held by the Project Company as at the Latest Practicable Date) from the Project Company; (d) the SPV will then transfer the entire equity interest in the New Project Company to the Scheme at nominal consideration; and (e) the SPV will be merged into the New Project Company. The relevant parties have entered into definitive agreements to give effect to the Reorganisation as described above.

The structure of the Consumer Infrastructure REIT upon completion of the Proposed Spin-off is set out below:



After the Proposed Spin-off, the Operation Manager, an indirect wholly-owned subsidiary of the Company, will be engaged by the REIT Manager to continue to provide operations management and property management and car park management services to the Project. The purpose of such arrangement is to leverage on the Group's expertise and experience for the daily operation and management of the Project, which will continue to be marketed under the Group's "Joy City" brand, and to minimise the disruption of the daily operations of the Project after the Proposed Spin-off.

The Proposed Spin-off including the relevant definitive agreements and the terms of the Public Offering, such as the size and price range of the offering and the timetable of the Public Offering, is subject to, among other things, the approval of the CSRC and the Shenzhen Stock Exchange and therefore may be amended.

3. Conditions precedent to the Proposed Spin-off

The Proposed Spin-off is conditional upon, among other things, the following conditions:

(a) the respective approvals of the CSRC, the Shenzhen Stock Exchange and the Stock Exchange in relation to the Proposed Spin-off having been obtained;

(b) the approval of the Shareholders in relation to the Proposed Spin-off having been obtained;

(c) the total amount of units offered by the Consumer Infrastructure Fund reaches 80% of the approved registration scale;

(d) the offering size should be at least RMB200 million and there are at least 1,000 investors participating in the offering;

(e) the original holder of the interest of the Project (being the Project Company) has subscribed in the strategic tranche;

(f) other than the portion placed with strategic investors, not less than 70% of the remaining Units of the Consumer Infrastructure REIT shall be offered to offline investors; and

(g) there is no other circumstance leading to the failure of the Public Offering.

As of the Latest Practicable Date, save for item (b) above, none of the conditions precedent above have been fulfilled and/or waived (as the case may be). The Company has submitted the PN15 Application to the Stock Exchange, and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off.

C. **Reasons and benefits for the Proposed Spin-off**

With reference to the Letter of the Board, the main reasons for and benefits of the Proposed Spin-off are as follows:

(i) the Proposed Spin-off provides an alternative equity-based financing method for the Company, which will diversify the fundraising methods and platforms of the Group. Through the Proposed Spin-off, the Company will have the opportunity to realise the market value of properties that are in the mature and developed stage and enhance the Company's rolling investment capability and sustainable operation of the Project, which will be beneficial to the Company's long-term performance;

(ii) the estimated gross proceeds from the listing of the Consumer Infrastructure REIT, (with reference to, and being not less than, the preliminary valuation of the Project and also taking into account of the Company's assessment on the Project based on the information available as at the Latest Practicable Date including, among other things, the income contributed by the Project to the Group, the business prospects of the Project, the financial impact and the potential tax and other related costs involved in the establishment of the Consumer Infrastructure REIT), is expected to be approximately RMB3,348,000,000. Based on such estimated gross proceeds, and excluding the subscription amount by the Group for 40% of the total Units and related costs and taxes, the estimated net proceeds to be received by the Group from the Proposed Spin-off will be approximately RMB1,670,000,000. The use of the net proceeds from the Proposed Spin-off by the Remaining Group will be subject to the applicable PRC laws and regulations and the approval of the relevant PRC authorities and, as of the Latest Practicable Date, the Remaining Group plans to apply, within three years after the completion of the Public Offering, not less than 90% of the net proceeds received from the Proposed Spin-off in the development (including, among other things, the acquisition of land and construction) and operation of shopping mall(s) in the PRC, which the Remaining Group is exploring the suitable opportunity with potential business prospects, and the remaining balance of not more than 10% will be used as working capital for the Group.

(iii) as the Company, through the Project Company, will subscribe 40% of the total Units of the Consumer Infrastructure REIT, the Company will continue to benefit from the business prospects and financial results of the Consumer Infrastructure REIT in the long term, through stable return that it will receive in the form of distribution as a holder of the Units of the Consumer Infrastructure REIT and the fee in relation to the services provided by the Operation Manger.

(iv) the Proposed Spin-off provides an opportunity for the Group to improve the Group's profile, strengthen the influence of its brand and thereby enhance its ability to attract strategic investors; and

(v) the Proposed Spin-off will provide the Consumer Infrastructure REIT with a separate listing platform in the PRC for its business development and expansion, which will enable it to have direct access to the PRC capital market.

As of the Latest Practicable Date, other than the Project, the Group holds 19 investments properties and the Group will continue its operations relating to the investment properties business segment after the Proposed Spin-off.

We have discussed with the Management in relation to the reasons for the Proposed Spin-off and we understood that the Proposed Spin-off will allow the Company to open up a different channel and a separate listing platform to raise fund. We are also given to know that, the Project is a mature property with a high occupancy rate hence a stable cash inflow to the Group, which is considered to be a suitable project in the Consumer Infrastructure REIT and to realise its market value. Although the Project will cease to be consolidated in the financial statements of the Group upon the completion of the Proposed Spin-off, the Group will continue to indirectly hold 40% of the total Units of the Consumer Infrastructure REIT and hence enjoying the future distribution, and as the Operation Manager of the Project is an indirectly wholly owned subsidiary of the Company, the Company will be able to continue to manage and market the Project under the Group's brand "Joy City", generate return for the unit holders including itself as well as receiving the fee in relation to the services provided by the Operation Manager.

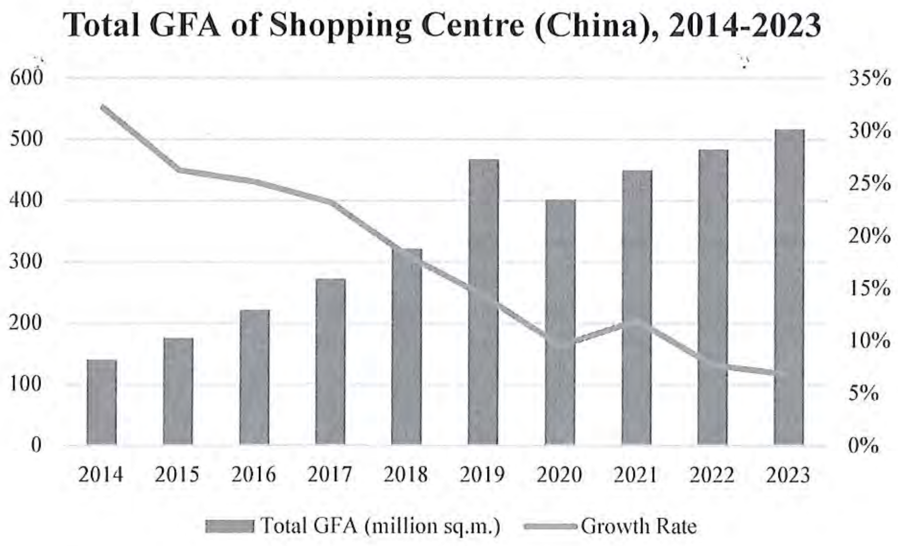
In addition, we have discussed with the Management in relation to the use of the net proceeds of RMB1,670,000,000 received from the Proposed Spin-off and we understood the Remaining Group plans to apply not less than 90% of the net proceeds (i.e. RMB1,503,000,000) in the development (including, among other things, the acquisition of the land and construction) and operation of shopping mall(s) in the PRC, which is in line with the Group's business and will further strengthen its portfolio and presence in the PRC.

In view of the above, we are of the view that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

Industry overview

Shopping centre market in the PRC

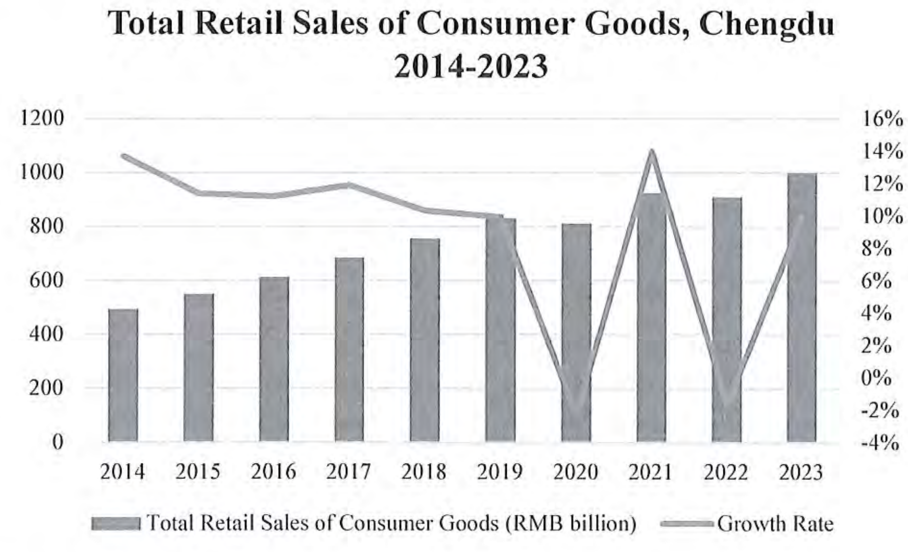
From 2014 to 2023, the total GFA of shopping centre market in the PRC increased from 140 million square metres in 2014 to 517 million square metres in 2023, with a CAGR of 15.6%.



Note: Shopping centres only include malls with GFA of 30,000 square metres or more
Source: Winshang (贏商網)

Total retail sales of consumer goods in Chengdu

From 2014 to 2023, the total retail sales of consumer goods in Chengdu increased from RMB494.44 billion in 2014 to RMB1,000.16 billion in 2023, with a CAGR of 8.1%



Source: Chengdu Municipal Statistics Bureau

In September 2020, the State Council of PRC issued the "Opinions on Accelerating the Development of New Consumption by Leading with New Formats and Models" (State Council Document No. [2020] 32)《關於以新業態新模式引領新型消費加快發展的意見》(國辦發[2020]32號). It emphasized the firm implementation of the strategy to expand domestic demand and accelerate the growth and quality improvement of new consumption by leading with new formats and models. Under relevant policy guidance, shopping centre in PRC has gradually evolved from a simple shopping function to a comprehensive consumption format that integrates consumption, experience, entertainment, socializing, and leisure to meet the diverse demands of residents.

In December 2022, the Central Economic Work Conference pointed out that recovering and expanding consumption industry should be given priority. It emphasized the need to enhance consumption capacity, improve consumption conditions, and innovate consumption scenarios. Under the policy guidance strongly supported by the central government, local governments have also introduced corresponding supportive policies to promote consumption.

In March 2023, the National Development and Reform Commission (the "**NDRC**") issued the "Notice on Standardizing and Efficiently Carrying Out the Declaration and Recommendation Work for Real Estate Investment Trusts (REITs) Projects in the Infrastructure Field" (NDRC Investment [2023] No. 236)《關於規範高效做好基礎設施領域不動產投資信托基金(REITs)項目申報推薦工作的通知》(發改投資[2023]236號). The notice stated that it supports the issuance of infrastructure REITs that enhance consumption capacity, improve consumption conditions, and innovate consumption scenarios. It also prioritizes the issuance of infrastructure REITs for urban and rural commercial network projects such as department stores, shopping centres, and farmers' markets, as well as community commercial projects that ensure basic livelihood.

Having considered the above, we are of the view that the prospect of the PRC's shopping centre market is generally positive.

After taking into account of (i) the reasons and benefits for the Proposed Spin-off; (ii) the background information of each party; (iii) the prospect of the PRC's shopping centre industry; and (iv) the Group will hold 40% of the total Units of the Consumer Infrastructure REIT through the Project Company, which the Company would continue to enjoy the benefits arising from the future business development and growth of the Consumer Infrastructure REIT, we are of the view that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

Trading multiples analysis

As mentioned above, under the proposed offering structure, the REIT Manager will set up the Consumer Infrastructure REIT as a publicly-listed consumer type infrastructure securities investment fund for Public Offering on the Shenzhen Stock Exchange at the expected size of approximately RMB3,348,000,000 (based on the preliminary valuation of the Project and the information available as of the Latest Practicable Date). It is currently expected that 40% of the total Units of the Consumer Infrastructure REIT will be subscribed by the Group through the Project Company at an expected aggregate price of approximately RMB1,339,200,000 and 60% of the total Units of the Consumer Infrastructure REIT will be subscribed by external investors at an expected aggregate price of approximately RMB2,008,800,000.

We have performed our independent analysis on the expected size of Public Offering ("**the Expected Offering Size**"). We noted that the trading multiples analysis, such as price to earnings ratio (the "**PER**") and price to book ratio (the "**PBR**"), are commonly adopted valuation methods in the market. We searched for REITs listed on the Stock Exchange, the Shenzhen Stock Exchange and the Shanghai Stock Exchange which have similar lines of business as the Project Company (i.e. mainly engaged in investment in commercial properties such as shopping centres, hotels and office spaces for rental income).

To the best of our knowledge and as far as we are aware of, we have identified four REITs listed on the Shenzhen Stock Exchange and the Shanghai Stock Exchange ("**PRC Comparable REITs**") and 10 REITs listed on the Stock Exchange ("**HK Comparable REITs**", together with PRC Comparable REITs, the "**Comparable REITs**") which met the said criteria and they are exhaustive.

PRC Comparable REITs

Company name	**Stock code**	**Principal business**	**PBR** *(Note 1)*	**PER** *(Note 2)*
Harvest Wumart Consumption REIT* (嘉實物美消費REIT)	508011.CH	Investment in a portfolio of commercial properties in Beijing	10.6	35.3
CAMC-Jinmao Shopping Mall REIT* (華夏金茂購物中心REIT)	508017.CH	Investment in a shopping centre in Changsha, Hunan	21.9 *(Note 3)*	88.6 *(Note 3)*
CAMC-China Resources Commercial REIT* (華夏華潤商業REIT)	180601.CH	Investment in a shopping centre in Qingdao, Shandong	3.0	74.9
CICC-SCPG Consumer REIT* (中金印力消費REIT)	180602.CH	Investment in a shopping centre in Hangzhou, Zhejiang	2.9	25.6
		Maximum	**10.6**	**74.9**
		Minimum	**2.9**	**25.6**
		Average	**5.5**	**45.3**
		Median	**3.0**	**35.3**
The Project *(Note 4)*			**2.9**	**30.8**

Source: Bloomberg, as of 19 June 2024, and respective prospectus and related announcements of the PRC Comparable REITs

HK Comparable REITs

Company name	Stock code	Principal business	PBR *(Note 1)*	Adjusted PER *(Note 5)*
Link REIT	823.HK	Investment in non-residential properties such as shopping malls, car parks, and office spaces in Hong Kong for rental income	0.5	22.7
Yuexiu Real Estate Investment Trust	405.HK	Investment in a diversified portfolio of income-generating properties in China, including commercial, office, and retail properties for rental income	0.3	N/A *(Note 6)*
Fortune Real Estate Investment Trust	778.HK	Investment in a portfolio of retail and commercial properties in Hong Kong and China for rental income	0.3	21.3
Prosperity REIT	808.HK	Investment in a portfolio of commercial properties in Hong Kong for rental income	0.3	22.0
Champion REIT	2778.HK	Investment in a diversified portfolio of commercial properties in Hong Kong, including office buildings and retail spaces, for rental income	0.2	12.6

Company name	Stock code	Principal business	PBR *(Note 1)*	Adjusted PER *(Note 5)*
Hui Xian Real Estate Investment Trust	87001.HK	Investment in commercial properties in China, primarily focused on hotel and prime retail properties, for rental income	0.2	69.5
Sunlight Real Estate Investment Trust	435.HK	Investment in a portfolio of retail and commercial properties in Hong Kong for rental income	0.2	11.2
China Merchants Commercial Real Estate Investment Trust	1503.HK	Investment in a variety of commercial properties in China, including office buildings and shopping centres, for rental income	0.3	10.8
Regal Real Estate Investment Trust	1881.HK	Investment in a portfolio of commercial properties in Hong Kong, including hotel and retail spaces, for rental income	0.1	N/A *(Note 6)*
Spring Real Estate Investment Trust	1426.HK	Investment in a portfolio of retail and commercial properties in Hong Kong, China and England for rental income.	0.4	45.5
		Maximum	**0.5**	**69.5**
		Minimum	**0.1**	**10.8**
		Average	**0.3**	**27.0**
		Median	**0.3**	**21.7**
The Project *(Note 7)*			**1.3**	**23.1**

Source: Bloomberg, as of 19 June 2024, and respective latest published annual report/annual results announcement and interim report of the HK Comparable REITs

Notes:

1. The PBRs of the Comparable REITs were calculated based on their respective then latest published net assets value attributable to the shareholders, their respective closing prices as quoted on the Stock Exchange, the Shenzhen Stock Exchange or the Shanghai Stock Exchange and the total issued shares as at the Latest Practicable Date.

2. The PERs of the PRC Comparable REITs were calculated based on their respective then annualised latest published net profit for the period, their respective closing prices as quoted on the Shenzhen Stock Exchange or the Shanghai Stock Exchange and the total issued shares as at the Latest Practicable Date.

3. CAMC-Jinmao Shopping Mall REIT recorded very low net asset value and net profit, resulting in significantly high PBR and PER which we consider as outlier and is excluded from the calculation of range, average and median of the PRC Comparable REITs for comparison purpose.

4. The implied PBR and PER of the Project is based on the Expected Offering Size and the unaudited net asset value as of 31 December 2023 and the profit for the year ended 31 December 2023 of the Project which were prepared in accordance with the PRC GAAP.

5. The adjusted PERs of the HK Comparable REITs were calculated based on their respective then latest published net profit for the year, which the impact caused by the change in fair value of investment properties (net of deferred tax) is adjusted, their respective closing prices as quoted on the Stock Exchange and the total issued shares as at the Latest Practicable Date.

6. The companies are loss-making (after the adjustment of the impact caused by the change in fair value of investment properties and its related deferred tax) for their then latest financial year, the adjusted PERs are not available.

7. The implied PBR and adjusted PER of the Project is based on the Expected Offering Size and the unaudited net asset value as of 31 December 2023 and the net profit, which the impact from the change in fair value of investment properties (net of deferred tax) is adjusted, for the year ended 31 December 2023 of the Project which were prepared in accordance with HKFRSs.

From the tables above, excluding the outlier of CAMC-Jinmao Shopping Mall REIT, which recorded very low net asset value and net profit resulting in significantly high PBR and PER, the PBRs of the PRC Comparable REITs ranged from 2.9 times to 10.6 times, with an average of approximately 5.5 times and a median of approximately 3.0 times, while the PERs of the PRC Comparable REITs ranged from approximately 25.6 times to 74.9 times, with an average of approximately 45.3 times and a median of approximately 35.3 times. The PBRs of the HK Comparable REITs ranged from 0.1 times to 0.5 times, with an average of approximately 0.3 times and a median of approximately 0.3 times, while the adjusted PERs of the HK Comparable REITs ranged from approximately 10.8 times to 69.5 times, with an average of approximately 27.0 times and a median of approximately 21.7 times.

To compare the PRC Comparable REITs, the implied PBR of the Project of 2.9 times is within the range of the PBRs of the PRC Comparable REITS and the implied PER of the Project of 30.8 times is within the range of the PERs of the PRC Comparable REITs. To compare the HK Comparable REITs, the implied PBR of the Project of 1.3 times is higher than the range of the PBRs of the HK Comparable REITS. We note that, most of the HK Comparable REITs has been heavily impacted by the market condition in 2023 and recorded a fair value decrease in investment properties and led to a net loss or small amount of net profit, which the respective PER might not be indicative or meaningful to compare to the Project. As such, we have adjusted the impact caused the change in fair value of investment properties and its related deferred tax with the best information available so that the comparison is more meaningful, focusing on the profits from the operations which we are of the view that the adjustment is fair and reasonable. We note that the adjusted implied PER of the Project is 23.1 times, which is within the range of the adjusted PERs of the HK Comparable REITs. In light of the above comparison as a whole, it indicates that the Expected Offering Size was not undervalued.

D. Assessment of the Expected Offering Size

To assess the fairness and reasonableness of the Expected Offering Size, we have reviewed and considered the property valuation report of the Property (the "**Property Valuation Report**") prepared by the Savills Valuation and Professional Services (China) Limited ("**SVPSCL**" or the "**Valuer**") as contained in the Appendix II to this Circular, which states that the valuation of the Property was approximately RMB3,114,000,000 as at 31 March 2024. We have performed the works as required under Note 1(d) to Rule 13.80 of the Listing Rules and paragraph 5.3 of the Corporate Finance Adviser Code of Conduct in respect of the Property Valuation Report, which included (i) assessment of the Valuer's experience in valuing property similar to the Property; (ii) obtaining information on the Valuer's track records on other property valuations; (iii) inquiry on the Valuer's current and prior relationship with the Group and other parties to the Proposed Spin-off; (iv) review of the terms of the Valuer's engagement, in particular its scope of work, for the assessment of the valuation of the Property; and (v) discussion with the Valuer regarding the bases, methodology and assumptions adopted in the Property Valuation Report.

Valuer

For our due diligence purpose, we have reviewed and enquired into the qualifications and experience of the Valuer in relation to the preparation of the Valuation Report. We understand that Ms. Jennie C.W. Chang ("**Ms. Chang**"), a Senior Associate Director of SVPSCL and a Member of the Hong Kong Institute of Surveyors ("**HKIS**") (General Practice Division) and a Member of the Royal Institution of Charted Surveyors ("**RICS**") with over 16 years' experience in valuation of properties in the PRC and has sufficient knowledge of the relevant market, the skills and understanding to handle the subject valuation exercise competently. As such, we are of the view that the Valuer and Ms. Chang are qualified, experienced and competent in performing property valuations and providing a reliable opinion in respect of the valuation of the Property.

We have also enquired with the Valuer as to their independence from the Group and were given to understand that the Valuer is an independent third party of the Group and its connected persons including other parties to the Proposed Spin-off. The Valuer also confirmed to us that they were not aware of any relationship or interest between themselves and the Group or any other parties that would reasonably be considered to affect their independence to act as the independent valuer for the Company. The Valuer confirmed to us that apart from normal professional fees payable to them in connection with their engagement for the valuation, no arrangements exist whereby they will receive any fee or benefit from the Group and its connected persons including other parties to the Proposed Spin-off.

Furthermore, we noted from the engagement letters entered into between the Company and the Valuer that the scope of work was appropriate for the Valuer to form opinions required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Valuer.

Valuation assumptions

We have reviewed the Property Valuation Report and understand that it was carried out on the assumptions of (i) the legal opinion issued by the Group's PRC legal adviser and prepared the valuation on the basis that transferable land use rights in respect of the property for the Group respective specific terms at nominal annual land use fees have been granted and that any land grant premium payable has already been fully paid; (ii) the owners of the property has good legal title and has free and uninterrupted rights to occupy, use, transfer, lease or assign the property for the whole of the respective unexpired terms as granted; and (iii) the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value. During the course of our discussion with the Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the valuation methodology and the principal basis and assumptions adopted in arriving at the valuation of the Property. Based on our discussion with the Valuer, we are of the view that the adoption of the above basis and key assumptions is reasonable and relevant and they are in line with market practice.

Valuation methodologies

As discussed with the Valuer, we note that direct comparison method is regarded as the most preferable method for property valuation which involves analysis of sales comparable in the market of similar properties compared with the Property. However, due to insufficient recent commercial sales comparable of similar properties in the vicinity of the Property, the Valuer has adopted the income capitalization method, whereby the rental incomes of contractual tenancies for the unexpired term and the reversionary market rents after the expiry of the tenancies of the property are capitalised using the market yield rate, in the valuation of the commercial portion instead given there are sufficient rentals in the letting of similar commercial comparable available for reference. While for car parking portion, as there is sufficient sale comparable in the market of similar properties compared with the Property, the Valuer therefore have adopted the direct comparison method with reference to sale of comparable properties as available in the market assuming sale with the benefit of vacant possession. In view of the above, we agree with the Valuer that income capitalization method is adopted for commercial portion and direct comparison method for car parking portion in the valuation of the Property with the information available in the market for reference.

Moreover, we have further discussed with the Valuer on the alternative approach to cross-check the valuation and we are given to understand that the Valuer will select the most appropriate approach for the valuation and the application of cross-checking is determined on case-by-case basis. The Valuer is of the view that the selected valuation approach and comparables are sufficient and representative to derive the valuation. We further note that the Valuer has identified three commercial comparables and three car parking space comparables all located in Wuhou District. We understood that the selected comparables are relevant to the Property in terms of usage (i.e. commercial unit or car parking space, as the case may be) and location (i.e. all located in Wuhou District of Chengdu, which are same as the Property) and we concur with the Valuer's view that the valuation approach is sufficient and the selected comparables are fair and representative samples in the valuation.

In respect of the monthly unit rates, we note that the Valuer has adopted RMB200 per sq.m. for commercial portion and RMB120,000 per lot of parking space, which are consistent with the selected market comparables with adopted adjustments. We have discussed with the Valuer and note that the adjustments are normally made to reflect factors including but not limited to time, location, size, floor level, building age and building quality, which is in line with the market practice. In light of the above, we are of the view that the Valuer has considered the relevant adjusting factors in arriving the monthly unit rates adopted for the valuation while the monthly unit rates are consistent with the selected market comparables and we do not consider them unreasonable.

We note that the Valuer have performed the site visit in April 2024 and inspected exterior and where possible, the interior of the property and did not note any serious defects. We also noted from the Property Valuation Report that the Valuer has no reason to doubt the truth and accuracy of the information provided to them by the Group and they have relied on the Company's confirmation that no material facts have been omitted from the information provided. The Valuer considered that they have been provided with sufficient information for them to reach an informed view.

After taken into account of the above, we consider that the methodology, together with the underlying bases, and assumptions are fair and reasonable and that the Property Valuation Report is an appropriate reference for determining the valuation of the Project.

E. Financial effect of the Proposed Spin-Off

Upon completion of the Proposed Spin-off, the Consumer Infrastructure REIT will indirectly hold the entire interest in the Project and it is anticipated that the Company, through the Project Company, will hold 40% of the total Units of the Consumer Infrastructure REIT. Therefore, the Proposed Spin-off will result in the reduction of the Company's indirect interest in the Project from 100% to 40% and the financial results of the Project will cease to be consolidated in the Group's financial statements upon completion of the Proposed Spin-off. Further, the Consumer Infrastructure REIT will be recognised as an associate on the Group's consolidated financial statements after completion of the Proposed Spin-off.

The overall impact on profit or loss that the Company expects to record from the Proposed Spin-off will mainly include the difference between the consideration for the transfer of the entire equity interest in the New Project Company, which holds the Project, by the Project Company to the SPV, which will depend on, among other things, the offer price of the Consumer Infrastructure REIT, and the carrying value of the Project in the consolidated accounts of the Company, and the relevant transaction costs. For illustration purposes only, the expected net size of the Public Offering after fees directly payable in relation to the Public Offering is RMB3,342,000,000 (based on the expected size of the Public Offering of RMB3,348,000,000 with reference to, and being not less than, the preliminary valuation of the Project and also taking into account of the Company's assessment of the Project based on the information available as at the Latest Practicable Date including, among other things, the income contributed by the Project to the Group, the business prospects of the Project, the financial impact and the potential tax and other related costs involved in the establishment of the Consumer Infrastructure REIT) minus the unaudited net asset value of the Project as at 31 December 2023 prepared based on HKFRSs of approximately RMB2,671,475,000 and related costs of approximately RMB1,672,000, is approximately RMB668,853,000.

Upon completion of the Proposed Spin-off, it is estimated that the retained earnings of the Group will be increased by approximately RMB119,000,000, which is mainly contributed by the net gain on disposal before tax of approximately RMB668,853,000, as deducted by related tax. The total assets of the Group is estimated to decrease by approximately RMB328,000,000, which is mainly due to the net effect of the increase in cash and cash equivalents of approximately RMB1,670,000,000 and investment in associate of approximately RMB1,339,000,000 offset by the decrease in assets relating to the Project of approximately RMB3,337,000,000. The total liabilities of the Group is estimated to decrease by approximately RMB447,000,000, which is mainly due to the net effect of the decrease in liabilities relating to the Project of approximately RMB666,000,000 offset by the increase in deferred tax liabilities of approximately RMB219,000,000. The estimations above are calculated based on the information available as of the Latest Practicable Date, for illustration purposes only.

The actual amount of gain or loss and the impact on the Group's consolidated balance sheet as a result of the Proposed Spin-off will be assessed after its completion and will be subject to the review and final audit by the auditors of the Company and any further adjustments relating to HKFRSs.

OPINION AND RECOMMENDATION

Having taken into account that above factors and reasons, we are of the opinion that (i) the terms of the Proposed Spin-off are fair and reasonable; and (ii) the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Shareholders to vote in favour of the resolution to be proposed at the Proposed Spin-off and the transactions contemplated thereunder if a general meeting were to be convened by the Company.

Yours faithfully,
For and on behalf of
Dongxing Securities (Hong Kong) Company Limited

TSANG Wing Ngai
Executive Director
Investment Banking Department

Mr. TSANG Wing Ngai is a licensed person registered with the Securities and Future Commission since 2008 and is currently a responsible officer of Dongxing Securities (Hong Kong) Company Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Mr. TSANG has over 15 years of experience in the corporate finance industry, and has participated in the provision of independent financial advisory services for various connected transactions involving companies listed in Hong Kong.