30 May 2025

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO CAPITAL INCREASE AND DEEMED DISPOSAL OF EQUITY INTEREST IN A SUBSIDIARY

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 Capital Increase. Details of the Capital Increase are set out in the "Letter from the Board" (the "**Board Letter**") contained in the circular of the Company to the shareholders dated 30 May 2025 (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 March 21, 2025 (after trading hours of the Stock Exchange), the Company entered into the Capital Increase Agreement with the Investor and the Target Company, pursuant to which the Investor has conditionally agreed to inject capital in the amount of RMB36,320,000.00 (equivalent to approximately HK$39,053,763.00) into the Target Company in the form of registered capital and capital reserves, of which RMB20,820,000.00 (equivalent to approximately HK$22,387,097.00) and RMB15,500,000.00 (equivalent to approximately HK$16,666,666.00) shall be recognised as the registered share capital and the capital reserves of Target Company, respectively.

As at the date of the Capital Increase Agreement, the Investor is an indirect wholly-owned subsidiary of Shandong Commercial, which is the controlling Shareholder of the Company. Shandong Commercial, together with its associates, hold and/or are entitled to exercise control over 100,000,000 Domestic Shares, which represent approximately 75.00% of the Company's entire issued share capital. Therefore, being an associate of Shandong Commercial, the Investor is a connected person of the Company pursuant to Chapter 14A of the Listing Rules, and the Capital Increase pursuant to the Capital Increase Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

Upon Completion, the Target Company will cease to be a subsidiary of the Company. Thus, the Capital Increase pursuant to the Capital Increase Agreement constitutes a deemed disposal of the Target Company by the Company under Rule 14.29 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 Capital Increase exceeds 5% but all of them are less than 25%, the Capital Increase pursuant to the Capital Increase Agreement 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 Capital Increase exceeds 5% and the total consideration of the Capital Increase being more than HK$10,000,000.00, the Capital Increase pursuant to the Capital Increase Agreement 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 Capital Increase Agreement and the Capital Increase. 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 shareholder 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, we were engaged as an independent financial adviser to the Company in respect of the discloseable and connected transaction in relation to the disposal of 100% equity interest Shandong HuiBangDa Furbishing Engineering Co., Ltd (details can be referred to in the announcement of the Company dated February 27, 2024 and the circular of the Company dated March 22, 2024, under which we were required to express our opinion on and to give recommendations to the independent non-executive directors of the Company in respect of the relevant transaction. 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 Capital Increase.

BASIS OF OUR OPINION

In formulating our opinion with regard to the Capital Increase 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 Investor, 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 Capital Increase. 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 Capital Increase, we have taken into account the principal factors and reasons set out below:

1. Information of the Company and the Group

The Company 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 three years ended December 31, 2024 as extracted from the Company's annual results announcement for the year ended December 31, 2024 (the "**2024 Annual Results**") and annual report for the year ended December 31, 2023 (the "**2023 Annual Report**"), respectively:

Financial results

	For the year ended December 31,		
	2024	**2023**	**2022**
	(audited)	*(audited)*	*(audited)*
	RMB'000	*RMB'000*	*RMB'000*
Revenue			
– *Property management services*	333,688	317,290	294,099
– *Value-added services to non-property owners*	129,795	167,941	187,908
– *Community value-added services*	145,435	135,790	145,727
– *Real estate*	–	310,932	–
– *Leasing*	–	24,650	–
Profit for the year/period	45,125	45,907	78,432

According to the 2024 Annual Results and 2023 Annual Report, the Group derived its revenue from (i) property management services; (ii) value-added services to non-property owners; (iii) community value-added services; (iv) real estate; and (v) leasing.

The completion of the sale and purchase of 100% of the total equity interest in Daantong (Shandong) Mechanical and Electrical Equipment Engineering Co., Ltd.* (達安通(山東)機電設備工程有限責任公司) ("**Daantong**") (the "**Acquisition**") took place on March 4, 2024 whereby the Company acquired 100% of the total equity interest in Daantong. After the Acquisition, Daantong's original real estate and leasing business is no longer in operation.

Revenue from Property Management Services

The revenue of the property management services increased by 5.2% from approximately RMB317.3 million for the year ended December 31, 2023 to approximately RMB333.7 million for the year ended December 31, 2024, primarily due to the optimization of the project portfolio and strategic expansion of commercial property business during the corresponding year.

The revenue of the property management services increased by 7.9% from approximately RMB294.1 million for the year ended December 31, 2022 to approximately RMB317.3 million for the year ended December 31, 2023, primarily due to the optimization of our project portfolio and strategic expansion of our city services during the corresponding year.

Revenue from Value-added Services to Non-property Owners

The revenue from value-added services to non-property owners decreased by 22.7% from approximately RMB167.9 million for the year ended December 31, 2023 to approximately RMB129.8 million for the year ended December 31, 2024, primarily due to (i) the decrease in the number of projects delivered by property developers during the year ended December 31, 2024 resulting from the downturn of the real estate market, which led to the decrease in the revenue from pre-delivery services; (ii) the decrease in the revenue from landscaping services resulting from the disposal of subsidiary. The revenue from value-added services to non-property owners decreased by 10.6% from approximately RMB187.9 million for the year ended December 31, 2022 to approximately RMB167.9 million for the year ended December 31, 2023, primarily due to the decrease in the number of projects delivered by property developers during the year ended December 31, 2023 resulting from the downturn of the real estate market, which led to the decrease in the revenue from design services and pre-delivery services.

Revenue from Community Value-added Services

The revenue of the community value-added services increased by 7.1% from approximately RMB135.8 million for the year ended December 31, 2023 to approximately RMB145.4 million for the year ended December 31, 2024, primarily due to the increase in the scale of the community sales and community group meals businesses. The revenue of the community value-added services decreased by 6.8% from approximately RMB145.7 million for the year ended December 31, 2022 to approximately RMB135.8 million for the year ended December 31, 2023, primarily due to the decrease in the community sales business.

As depicted by the above table, the net profit of the Group for the year ended December 31, 2024 decreased by 1.7% from approximately RMB45.9 for the year ended December 31, 2023 to approximately RMB45.1 million for the year ended December 31, 2024, primarily due to the restatement of data after the Acquisition. The net profit of the Group for the year ended December 31, 2024 decreased by approximately 48.7% from approximately RMB78.4 million for the year ended December 31, 2023 to approximately RMB40.3 million, primary to the downturn in the real estate market, which led to a decrease in revenue from design services with higher gross profit margins; and the increase in revenue from landscaping services with lower gross profit margins.

	As at the year ended December 31,		
	2024	**2023**	**2022**
	(audited)	*(audited)*	*(audited)*
	RMB'000	*RMB'000*	*RMB'000*
Total assets	929,093	905,683	859,237
– *Current Assets*	825,296	803,114	793,067
– *Non-current assets*	103,797	102,569	66,171
Total liabilities	360,263	377,099	355,891
– *Current liabilities*	360,263	375,358	353,197
– *Non-current liabilities*	–	1,741	2,693
Net Assets	568,830	528,583	503,347

The Group had total assets, total liabilities and net assets of approximately RMB929.1 million, RMB360.3 million and RMB568.8 million as at December 31, 2024 respectively.

2. Information of the Investor

With reference to the Board Letter, the Investor is a company established in the PRC with limited liability and is principally engaged in property development and construction. It is a direct wholly-owned subsidiary of Shandong Urban and Rural which is an investment holding company established in the PRC with limited liability and a direct 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 Shandong Urban and Rural, 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 direct 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 December 11, 2008 with a registered capital of RMB20,000,000.00.

It is principally engaged in real estate greening projects and garden greening maintenance.

The audited consolidated financial information of Target Company for the three years ended December 31, 2022, 2023 and 2024 and for the period from January 1, 2024 to August 31, 2024 prepared in accordance with the China Accounting Standards for Business Enterprises are as follows:

	For the year ended December 31, 2024	For the period ended August 31, 2024	For the year ended December 31, 2023	2022
	(audited)	*(audited)*	*(audited)*	*(audited)*
	(RMB)	*(RMB)*	*(RMB)*	*(RMB)*
Revenue	56,578,788.19	40,802,445.36	57,804,955.61	78,622,653.91
Profit before tax	1,383,770.95	380,984.15	4,198,907.94	6,363,392.02
Profit after tax	1,007,565.27	262,964.08	3,540,971.58	4,749,287.09

As at August 31, 2024 and December 31, 2024, the audited net asset value of the Target Company was RMB34,866,617.25 (equivalent to approximately HK$37,490,986.00), and RMB35,703,901.27 (equivalent to approximately HK$38,391,292.00), respectively, and according to the Valuation Report, the appraised net asset value of the Target Company was approximately RMB34,887,800.00 (equivalent to approximately HK$37,513,763.00).

4. Reasons for and benefits of the Capital Increase

As discussed in section headed "1. Information on the Group" of this letter above, the Group is principally engaged in the provision of (i) a wide range of property management services for property developers, property owners, residents and tenants; (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.

Meanwhile, the Target Company is principally engaged in real estate greening projects and garden greening maintenance.

As extracted from the Board Letter, with the national policy emphasizing on green development, the landscape industry is shifting from "scale expansion" to "quality improvement" and the profitability of traditional greening projects decline as a result of the decrease in the incremental volume of real estate. There is a mismatch between the existing business structure (relying on traditional real estate and landscape projects) of the Target Company and the long-term trend, resulting in the urgent demand for the Target Company to transform its businesses through asset restructuring.

Further, as extracted from the Board Letter, the Investor was established in September 1992 with a registered capital of RMB50,000,000, which was wholly owned by Shandong Urban and Rural. As of December 31, 2023, its assets, liabilities and net assets amounted to RMB113,548,100, RMB95,958,800 and RMB17,589,300, respectively. The Investor has a forward-looking construction management service team. In 2012, it spearheaded its construction business in the province, which was the leader of construction business in the province. It has created numerous premium cases for the government and platform companies in terms of property construction and operation services, such as schools, hospitals, commercial complexes, office buildings, stadiums and residential buildings, with the accumulated construction management area amounting to approximately 2,900,000 square meters, thereby accumulating extensive experience in full-process project management services.

As the Investor invests in the Target Company as a result of the Capital Increase, it is estimated that, save and except for the relevant transaction costs and expenses estimated at approximately RMB190,500.00 (equivalent to approximately HK$204,839.00), save as disclosed below, the Capital Increase will not result in any profit or loss to the Group. The balance of the investment in associate for the Target Company to be recognised by the Company following the Capital Increase is estimated at approximately RMB34,881,400.00 (equivalent to approximately HK$37,506,882.00).

The Capital Increase will result in a 51% decrease in the Company's interest in the Target Company. As the Investor invests in the Target Company as a result of the Capital Increase, it is expected that the Capital Increase will give rise to an unaudited gain of approximately RMB15,098,400.00 (equivalent to approximately HK$16,234,890.00) (before deduction of the abovementioned transaction costs and expenses) to the Company. Such estimated unaudited gain is calculated based on the following two items:

(a) the difference between (i) the Group's share of the increment of net assets in the Target Company by the new shareholding percentage after the Target Company's new share issuance upon the Capital Increase and (ii) the pro-rata portion of original carrying amount of long term equity investment for the Group's decreased shareholding percentage in the Target Company; and

(b) the remaining equity interest shall be accounted for by the equity method, recognising the Company's proportionate share of changes in the carrying amount of the Target Company's net assets from the date of initial investment to the date of partial disposal.

It should be noted that the actual gain recognised in the Group's consolidated financial statements will be recalculated based on the net asset value of the Company as at the date of Completion, and therefore it may differ from the amount stated above. The actual financial effect shall be further audited by the Auditor.

The proceeds from the Capital Increase are expected to be used to increase the registered capital and enlarge the capital reserve of the Target Company.

As understood from the management of the Company, pursuant to the Company's ongoing business plans and the mismatch of business structures between the Company and the Target Company, in particular the declining profitability identified in relation to the Target Company's greening projects, the Company has considered, among seeking for other investors, (i) a proposed fundraising by way of open offer, rights issue and bank borrowing to fund the general working capital of the Target Company; and (ii) the proposed winding up of the Target Company so as to allow the Group to focus its internal resources on its more profitable businesses.

Furthermore, in light of the current circumstances of the Target Company and the ongoing needs of funding for its general working capital, we understood that the Company had considered that it would not be in the best interest of the Group to obtain any bank borrowing and accumulate unnecessary finance costs and bearing a high interest burden pursuant to continuing a business model with declining profitability in the long run. While the Company had also considered other various fundraising such as open offer and rights issue, we understood that the Company was unable to identify willing placing agents or underwriters with favourable terms that would allow the Company to initiate such fundraising without resulting in unnecessary professional expenses incurred and unnecessary dilution impact to existing shareholders. Pursuant to the Company's consideration in the proposed winding up of the Target Company, the Company estimates that the potential contingent liabilities of not less than approximately RMB$5.0 million are based on the estimated amount to be incurred as a result of procedures following a proposed winding up of the Target Company, which are estimated to comprise of, among other things, (i) the severance fee for the existing staff under the Target Group of not less than approximately RMB$4.2 million; and (ii) other professional fees incurred following the winding up petition.

In the view that (i) the Capital Increase will enhance the operational efficiency of the Company by allowing the Company to focus its internal resources in its business with a higher profit margin and allowing the Target Company to low gross profit margin; (ii) the Capital Increase will allow the Group to further focus its efforts and internal resources on and refine its principally-engaged businesses; (iii) the Capital Increase will allow the Company to enjoy the benefits of the Target Company largely as an investment without creating any unnecessary financial burden to the Company with respect to alternative fundraising or potential contingent liabilities; and (iv) the proceeds from the Capital Increase will supplement the Target Company's general working capital and its respective growth may continue to be realized by the Group as an valuable investment, although the Capital Increase is not in the ordinary and usual course of business of the Group, we concur with the Directors that the Capital Increase Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

5. Principal terms of the Capital Increase Agreement

As extracted from the Board Letter and pursuant to the Capital Increase Agreement, the main terms of the Capital Increase Agreement are as follows:

Date

March 21, 2025 (after trading hours of the Stock Exchange)

Parties to the Capital Increase Agreement

(i) The Company;

(ii) The Investor; and

(iii) The Target Company.

Subject Matter:

Pursuant to the Capital Increase Agreement, the Investor has conditionally agreed to inject capital in the amount of RMB36,320,000.00 (equivalent to approximately HK$39,053,763.00) into the Target Company in the form of registered capital and capital reserves, of which RMB20,820,000.00 (equivalent to approximately HK$22,387,097.00) and RMB15,500,000.00 (equivalent to approximately HK$16,666,666.00) shall be recognised as the registered share capital and the capital reserves of Target Company, respectively.

Upon Completion, the registered capital of the Target Company will be increased from RMB20,000,000.00 to RMB40,820,000.00 and the Target Company will be owned by the Investor and the Company as to 51% and 49% of its enlarged equity interest, respectively, and following the Capital Increase, the Target Company will cease to be a subsidiary of the Company and, accordingly, the financial results of the Target Company will no longer be consolidated in the Group's accounts. The Target Company will be accounted for an associate of the Company.

Capital Contribution Sum and Payment Terms

The Investor shall pay the Capital Contribution Sum in the amount of RMB36,320,000.00 (equivalent to approximately HK$39,053,763.00) by way of cash contribution to the Target Company within ten (10) Working Days upon fulfillment of the Conditions Precedent.

Basis of the Capital Contribution Sum and Valuation of the Target Company

The Capital Contribution Sum was arrived at after arm's length negotiations among the parties to the Capital Increase Agreement with reference to:

(i) the appraised net asset value of the Target Company as at the Valuation Benchmark Date in the amount of approximately RMB34,887,800.00 (equivalent to approximately HK$37,513,763.00) in the Valuation Report issued by the Independent Valuer; and

(ii) the benefits to be derived by the Group from the Capital Increase as stipulated in the section headed "Reasons for and benefits of the Capital Increase" in the Board Letter.

Conditions Precedent

The completion of the transactions contemplated under the Capital Increase Agreement is conditional upon, among other things, the fulfilment or waiver (as the case may be) of the following conditions following the execution of the Capital Increase Agreement:

A. the Company, the Investor and the Target Company have respectively made valid decisions to approve the execution and the performance of the Capital Increase Agreement, the Capital Increase and the transactions contemplated thereunder and obtained the authorisation document from the relevant state-owned assets supervision and administration department or its authorised bodies;

B. the Company, the Investor and the Target Company have respectively executed and delivered all documents in relation to the Capital Increase, including but not limited to the Capital Increase Agreement, the amended articles of association of the Target Company and resolutions of their respective shareholders;

C. the pre-emptive right, option for purchase, etc. of the Company or any third party in connection with the Capital Increase have been duly waived in writing;

D. the absence of laws, regulations, judgments, rulings, orders or injunctions of the courts or relevant government authorities which would restrict, prohibit or repeal the Capital Increase;

E. the necessary internal and external approval(s) to the Investor 's execution and performance of the Capital Increase Agreement, the Capital Increase and the transactions contemplated thereunder having been obtained, including but not limited to the approvals from Shandong Commercial, the relevant state-owned assets supervision and administration department or its authorised bodies;

F. the approvals to the Capital Increase Agreement, the Capital Increase and the transactions contemplated thereunder from the Independent Shareholders at the EGM to be convened having been obtained from the Independent Shareholders; and

G. all necessary approvals of the Stock Exchange in connection with the transactions contemplated under the Capital Increase Agreement having been obtained.

The Conditions Precedent stipulated above cannot be waived, and in the event that any of the Conditions Precedent has not been satisfied on or before the Long Stop Date (subject to the extension of which as agreed in writing by the parties to the Capital Increase Agreement), the Capital Increase Agreement shall cease and determine and thereafter neither party shall have any obligations and liabilities towards each other under the Capital Increase Agreement save and except for rights and remedies available to the non-defaulting party in relation to any breach prior to termination.

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

Completion

Completion shall take place on the Completion Date, which shall be within ten (10) Working Days after the fulfillment of the Conditions Precedent.

Registration of Change

Within ten (10) Working Days after the Completion Date, the Investor shall have the right to request the Target Company to complete and fulfill all Registration of Change.

Arrangement during Transition

Upon the Capital Contribution Sum being paid in full and the Investor being entered into the register of members of the Target Company, any interest in the Target Company, together with any undistributed profits of the Target Company prior to the completion of the Registration of Change, shall be proportionally enjoyed by the Company and the Investor in accordance with their respective shareholding in the Target Company upon Completion.

6. Evaluation of the Capital Contribution Sum and Valuation of the Target Company

The Valuation

With reference to the Board Letter, the Capital Contribution Sum was determined after arm's length negotiations between the Company and Investor with reference to the appraised asset value of the Target Company as at the Valuation Benchmark Date as appraised by the Independent Valuer (the "**Valuation**").

According to the Valuation Report, the appraised net asset value of the Target Company as at the Valuation Benchmark Date in the amount of approximately RMB34,887,800.00 (equivalent to approximately HK$37,513,763.00). In preparing the Valuation Report, the Independent Valuer selected the asset-based approach, which was considered the most appropriate approach for the valuation of the Target Company.

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 the 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 5 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, the Target Company 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 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. It is understandably hard to obtain market comparable as the Target Company is not a listed company. Those listed companies engaging in similar businesses do not have comparable corporate structure, operational risks, financial risks and financial statistics, and there are only a few cases regarding the merger and acquisition of non-listed companies engaging in similar businesses, leading to hardship to receive relevant and reliable comparable cases regarding operations.

(2) Income approach has not been adopted. The adoption of such approach in a valuation is based on the expected income of such asset under appraisal in reflection of the size of the operating capacity (i.e. the profitability) of the target asset. The Target Company is principally engaged in real estate greening projects and garden greening maintenance and its primary income sources stem from the associates of Shandong Commercial, and therefore the revenue and profit will be affected by the Shandong Commercial's coordination on different greening projects; and last but not least, global economy was still struggling from the global trade and political tensions. The above factors reflected that if the income approach was adopted, there will be uncertainty in appraisal.

(3) The adoption of the asset-based approach in 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 income tax assets. The conclusion can relatively accurately reflect the fair market value of the entire equity interest in the Target Company.

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 RMB109.23 million and RMB109.22 million respectively as at the Valuation Benchmark Date.

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 RMB448,400 and RMB483,300 respectively as at the Valuation Benchmark Date.

(iii) Current liabilities

The book value of Target Company's current liabilities was the same as the appraised value, being approximately RMB74.81 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 Capital Contribution Sum: We consider that the trading multiples analysis, comprising the P/E Ratio, the P/S Ratio and the P/B Ratio, are widely used valuation multiples for valuing a company based on its earnings, its revenue streams or its book value respectively. We considered the P/B Ratio to be inappropriate for the trading multiples analysis of the Target Company because book value captures only the tangible assets of a company and having considered that comparable companies which are principally engaged in provision of property management services would be asset-light in general, we consider the P/B Ratio to be inappropriate for the purpose of the trading multiples analysis.

To perform such analysis and ensure similarity between the Target Company and the comparable companies (the "**Comparable Companies**") to the best of our knowledge and endeavour, we have set out the selection criteria being (i) businesses of the Comparable Companies offer not dissimilar nature in property maintenance as the Target Company; and (ii) principal location of main business (largest revenue by location) of the Comparable Companies is operated in the PRC. We have identified 30 Comparable Companies based on the selection criteria, and we are satisfied that the selection criteria is fair and reasonable for the purpose of our analysis and exhaustive based on the research and selection criteria on a best-effort basis. 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:

Stock code	**Company name**	**P/E Ratio** *(Note 1)* *(times)*	**P/S Ratio** *(Note 2)* *(times)*
6958	Zhenro Services Group Ltd	N/A	0.15
2146	Roiserv Lifestyle Services Co Ltd	0.96	0.35
1538	Zhong Ao Home Group Ltd	3.40	0.20
6989	Excellence Commercial Property & Facilities Management Group Ltd	5.61	0.45
2107	First Service Holding Ltd	6.94	0.16

Stock code	Company name	P/E Ratio *(Note 1)* *(times)*	P/S Ratio *(Note 2)* *(times)*
2352	Dowell Service Group Ltd	17.95	0.28
816	Jinmao Property Services Co Ltd	6.85	0.16
1971	Redsun Services Group Ltd	19.76	0.17
6626	Yuexiu Services Group Ltd	10.03	1.11
6093	Hevol Services Group Ltd	9.93	1.00
1895	Xinyuan Property Management Service Cayman Ltd	15.26	0.60
2156	C&D Property Management Group Co Ltd	8.60	1.22
3316	Binjiang Service Group Co Ltd	9.19	1.48
1502	Financial Street Property Co Ltd	1.79	0.52
2210	Beijing Capital Jiaye Property Services Co Ltd	1.25	0.28
2215	Dexin Services Group Ltd	25.25	2.05
2205	Kangqiao Service Group Ltd	12.9	0.52
1965	Landsea Green Life Service Co Ltd	N/A	0.10
606	SCE Intelligent Commercial Management Holdings Ltd	2.02	0.73
3658	New Hope Service Holdings Ltd	5.78	0.68
2165	Ling Yue Services Group Ltd	3.88	0.28
2370	Redco Healthy Living Co Ltd	N/A	0.66
9978	Fineland Living Services Group Ltd	N/A	0.07
1941	Ye Xing Group Holdings Ltd	N/A	0.18
9608	Sundy Service Group Co Ltd	26.1	2.18
265	Gangyu Smart Urban Services Holding Ltd	9.26	1.14
2152	Sunxin Joyful Life Services Co Ltd	2.16	0.90
9916	Xingye Wulian Service Group Co Ltd	6.25	0.51
2270	Desun Real Estate Investment Services Group Co Ltd	17.55	1.86
1417	Riverine China Holdings Ltd	N/A	0.15
	Maximum	26.1	2.18
	Minimum	0.96	0.07
	Average	9.53	0.67

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

	P/E Ratio *(times)*	P/S Ratio *(times)*
Target Company *(Note 3 and 4)*	70.68	1.26

Notes:

1. The P/E Ratios of the Comparable Companies are computed by dividing the market capitalization as at the date of the Capital Increase Agreement by the net profit extracted from their latest published annual reports.

2. The P/S Ratios of the Comparable Companies are computed by dividing the market capitalization as at the date of the Capital Increase Agreement by the total revenue extracted from their latest published annual reports.

3. The implied P/E Ratio of the Target Company is computed based on (a) the Capital Contribution Sum divided by the percentage deemed disposed; and (b) the net profit of approximately RMB1.0 million for the year ended December 31, 2024.

4. The implied P/S Ratio of the Target Company are computed based on (a) the Capital Contribution Sum divided by the percentage deemed disposed; and (b) the revenue of approximately RMB56.6 million for the year ended December 31, 2024.

Based on the above table, the P/E Ratio of the Comparable Companies ranged from approximately 0.96 times to approximately 26.1 times with average P/E Ratio of approximately 9.53 times. Although the P/E Ratio of the Target Company of approximately 70.68 times falls out of range from the same of the Comparable Companies, the higher P/E Ratio of the Target Company in comparison to the Comparable Companies implicates that the Capital Increase is not less favourable to the Company than the alternative market investment opportunities available to the Investor should the Investor consider to invest in alternative real estate opportunities with a higher P/E Ratio.

Furthermore, the P/S Ratio of Comparable Companies ranged from approximately 0.07 times to approximately 2.18 times with average P/S Ratio of approximately 0.67 times. The P/S Ratio of the Target Company of 1.26 times is within range of the P/S Ratio of the Comparable Companies and above the average of such ratio of the Comparable Companies.

We believe the variance in the P/E Ratio and the P/S Ratio between the Target Company and Comparable Companies may be attributable to the wider range of business segments offered by the Comparable Companies, and while the Comparable Companies may offer not dissimilar nature in property maintenance as the Target Company, these services may only contribute as one segment of their wider range of services offered. While we understand that the business operations and prospects of the Target Company are not identical to those of the Comparable Companies, we are satisfied that the selection criteria is fair and reasonable for the purpose of our analysis and exhaustive based on the research and selection criteria on a best-effort basis.

Based on the aforementioned above, we consider that the pricing of the Capital Contribution Sum is not less favourable to the Company with the market practice, and is fair and reasonable so far as the Independent Shareholders are concerned.

Evaluation of the Capital Contribution Sum

Taking into account that (i) the Capital Contribution Sum of RMB36,320,000 (equivalent to approximately HK$39,053,763) represents a premium to the Valuation; (ii) both the P/E Ratio and P/S Ratio of the Target Company for the purpose of the Capital Increase are either not less favourable or within range and close to the average of the market ranges; and (iii) as concluded in the section headed "Reasons for the Capital Increase" of this letter of advice, the Capital Increase 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 Capital Increase and use of proceeds

Immediately prior to Completion, the Target Company is a wholly-owned subsidiary of the Company. Upon Completion, the registered capital of the Target Company will be increased form RMB20,000,000 to RMB40,820,000 and the Target Company will be owned by the Investor and the Company as to 51% and 49% of its enlarged equity interest, respectively, and following the capital Increase, the Target Company will cease to be a subsidiary of the Company and, accordingly, the financial results of the Target Company will no longer be consolidated in the Group's accounts. The Target Company will be accounted for an associate of the Company.

The relevant transaction costs and expenses in respect of the Capital Increase is estimated at approximately RMB190,500.00 (equivalent to approximately HK$204,839.00). The balance of the investment in associate for the Target Company to be recognised by the Company following the Capital Increase is estimated at approximately RMB34,881,400.00 (equivalent to approximately HK$37,506,882.00).

The Capital Increase will result in a 51% decrease in the Company's interest in the Target Company. As the Investor invests in the Target Company as a result of the Capital Increase, it is expected that the Capital Increase will give rise to an unaudited gain of approximately RMB15,098,400.00 (equivalent to approximately HK$16,234,890.00) (before deduction of the abovementioned transaction costs and expenses) to the Company. Such estimated unaudited gain is calculated based on the following two items:

(a) the difference between (i) the Group's share of the increment of net assets in the Target Company by the new shareholding percentage after the Target Company's new share issuance upon the Capital Increase and (ii) the pro-rata portion of original carrying amount of long term equity investment for the Group's decreased shareholding percentage in the Target Company; and

(b) the remaining equity interest shall be accounted for by the equity method, recognising the Company's proportionate share of changes in the carrying amount of the Target Company's net assets from the date of initial investment to the date of partial disposal.

It should be noted that the actual gain recognised in the Group's consolidated financial statements will be recalculated based on the net asset value of the Company as at the date of Completion, and therefore it may differ from the amount stated above. The actual financial effect shall be further audited by the Auditor.

The expected net proceeds of approximately RMB36,129,500.00 (equivalent to approximately HK$38,848,925.00) to be received from the Capital Increase will be used to strengthen the general working capital of the Target Company and actively promote the transformation of its businesses into high-growth sectors like municipal engineering, ecological restoration and vertical greening with exploration of synergistic scenarios with the Group's existing businesses without utilizing further resources of the Group to finance the Target Company.

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 Capital Increase.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that (i) the terms of the Capital Increase Agreement are on normal commercial terms and are fair and reasonable; and (ii) although the Capital Increase 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 Capital Increase and the Capital Increase Agreement.

Yours faithfully
For and on behalf of
Silverbricks Securities Company Limited

Yau Tung Shing

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 RMB0.93. 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*