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31 January 2024

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE DEBTS SETTLEMENT AGREEMENTS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Debt Settlement Agreements, details of which are set out in the letter from the Board ("**Letter from the Board**") of the circular of the Company dated 31 January 2024 (the "**Circular**"), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 22 December 2023 (after trading hour), Chengdu Desun, a wholly owned subsidiary of the Company, entered into the Debts Settlement Agreements with the respective Debtors and Vendors, pursuant to which the Company agreed to acquire, and the Vendors agreed to sell the Settlement Properties at an aggregate consideration of RMB51,640,000 which shall be offset against the Receivables on a dollar-for-dollar basis.

As the Debt Settlement Agreements are the repayment arrangement in respect of the debts owed by the connected persons to the Group, accordingly, the transactions contemplated under the Debts Settlement Agreements constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the transactions contemplated under the Debt Settlement Agreements, when aggregated, are more than 5%, the transactions contemplated under the Debt Settlement Agreements constitute connected transactions of the Company subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.



The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Fang Liqiang, Mr. Chen Di and Mr. Yan Hong, has been established to advise the Independent Shareholders in respect of the Debts Settlement Agreements. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated with the Company, each of the Debtors and Vendors or their respective core connected persons or associates. In the past two years prior to this appointment, saved for our engagement as the independent financial adviser to the independent board committee and the independent shareholders of the Company regarding (i) major and connected transactions in relation to the Yujing Lease Agreements as defined and disclosed in the circular of the Company dated 3 March 2023 and (ii) continuing connected transaction in relation to the Property Services Framework Agreement as defined and disclosed in the circular of the Company dated 4 January 2024, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, each of the Debtors and Vendors or their respective core connected persons or associates. Accordingly, we are considered eligible to give independent advice on the Debts Settlement Agreements.

In formulating our opinion and advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company, which we have assumed to be true, accurate and complete in all material aspects. We have reviewed the information of the Company, among other things, (i) the annual reports of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”) and 2022 (the “**2022 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2023 (the “**2023 Interim Report**”); (ii) the Announcement of the Company dated 26 December 2023 in relation to, among others, the discloseable and connected transaction in relation to the Debt Settlement Agreements; (iii) the Debts Settlement Agreements; and (iv) other information contained in the Circular. We have also discussed with Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the “**Valuer**”), an independent valuer, the bases and assumptions for their valuation report of the market value regarding the Settlement Properties (the “**Valuation Report**”) details of which are set out in Appendix II of the Circular.

We also have sought and received confirmation from the Company that no material facts have been omitted from the information supplied and opinions expressed to us were not misleading in any material aspects. We consider that the information we have received is sufficient for us to reach our opinion and give our advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Company, each of the Debtors and Vendors or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all



representations contained or referred to in the Circular were true at the time they were made and at the date of the Circular and will continue to be true up to the time of the EGM, and Shareholders will be informed of any material change as soon as possible.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Information of the parties

1.1. Information of the Group and Chengdu Desun

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

Chengdu Desun, formerly known as Chengdu Desun Investment Management Co., Ltd. (成都德商投資管理有限公司) at the time of establishment, is a company incorporated in the PRC on 12 March 2010 and an indirect wholly owned subsidiary of the Company. Chengdu Desun is principally engaged in, among other things, property management, real estate brokerage, real estate appraisal, real estate consulting and information consulting services.

Set out below is the summary of the financial information of the Group for the years ended 31 December 2021 and 2022 and the six months ended 30 June 2022 and 2023 as extracted from the 2022 Annual Report and the 2023 Interim Report:

	For the six months ended		For the year ended	
	30 June		31 December	
	2023	2022	2022	2021
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Revenue	148,750	126,008	267,270	253,296
Gross profit	45,186	44,382	94,671	103,430
Profit for the year/ period attributable to owners of the parent	17,860	25,796	33,596	33,440

For the two years ended 31 December 2021 and 2022

For the years ended 31 December 2021 and 2022, the Group recorded a revenue of approximately RMB253.3 million and RMB267.3 million respectively, representing an increase of approximately 5.5%, mainly attributable to the increase of property management services in residential properties, with the increase in the total GFA under property management as a result of business expansion from approximately 2.5 million square meters as at 31 December 2021 to approximately 4.9 million square meters as at 31 December 2022.



The Group's gross profit for the year ended 31 December 2021 and 2022 amounted to approximately RMB103.4 million and RMB94.7 million respectively, representing a decrease of approximately 8.4%. As disclosed in the 2022 Annual Report, the gross margin in 2022 was approximately 35.4%, down by about 5.4 percentage point from 2021, mainly due to the increase of subcontracting costs and material procurement costs in property management services and value-added services.

The Group's profit attributable to Shareholders for the year ended 31 December 2021 and 2022 remained relatively stable, amounted to approximately RMB33.4 million and RMB33.6 million respectively. Such increase was mainly attributable to (i) the increase in net gain on exchange differences due to fluctuation of exchange rate of Hong Kong Dollar against RMB during the year; (ii) the decrease of administrative expenses due to decrease in listing expense and equity-settled share option expense; and (iii) the decrease of income tax expenses, and partially offset by the decrease of gross profit and increase of provision for impairment losses on trade receivables.

For the six months ended 30 June 2022 and 2023

For the six months ended 30 June 2022 and 2023, the Group recorded a revenue of approximately RMB126.0 million and RMB148.8 million respectively, representing an increase of approximately 18.1%. As disclosed in the 2023 Interim Report, the increase in revenue is mainly attributable to the (i) launch of the office building and community operation and management business segment, which contributed additional revenue of RMB12.6 million during the six months ended 30 June 2023 and (ii) the increase of revenue contribution from home furnishing and decoration services. The revenue generated from property services remained stable, amounted to RMB100.3 million and RMB104.3 million during the six months ended 30 June 2022 and 2023 respectively. As at 30 June 2023, the Company have contracted to manage 92 properties in the PRC with a total GFA under management of approximately 8.4 million square meters, representing an increase of approximately 35.5% as compared to approximately 6.2 million square meters for the corresponding period in 2022.

The Group's gross profit for the six months ended 30 June 2022 and 2023 amounted to approximately RMB44.4 million and RMB45.2 million respectively, representing an increase of approximately 1.8%. The gross margin in the first half of 2023 was approximately 30.4%, down by about 4.8 percentage point from the same period in 2022, mainly due to (i) the active narrowing down of the coverage of value-added services for non-property owners periodically; (ii) the increasing of costs and expenses in the early stage of operation for office building and community operation and management; and (iii) the increasing of costs for enhancing service quality as disclosed in the 2023 Interim Report.



The Group's profit attributable to Shareholders for the six months ended 30 June 2022 and 2023 amounted to approximately RMB25.8 million and RMB17.9 million respectively, representing a decrease of approximately 30.6%. Such decrease was mainly attributable to (i) the increase of provision for impairment losses on trade receivables as impacted by the overall economic situation and the real estate market downturn; and (ii) the increase of interest expenses due to the increase of lease liabilities during the six months ended 30 June 2023 for carrying out the office building and community operation and management business.

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

	As at	As at 31 December	
	30 June	2022	2021
	2023	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)	(Audited)
Total assets	772,916	450,123	372,886
Total liabilities	484,032	151,476	123,643
Net assets	288,884	298,647	249,243

As at 30 June 2023, the Group's total assets amounted to approximately RMB772.9 million, mainly comprised of (i) investment properties of approximately RMB261.4 million; (ii) cash and cash equivalents of approximately RMB206.5 million; and (iii) trade receivables of approximately RMB147.2 million. As at 30 June 2023, the Group's total liabilities amounted to approximately RMB484.0 million, mainly comprised of (i) lease liabilities of approximately RMB257.6 million; (ii) other payables and accruals of approximately RMB114.2 million; and (iii) contract liabilities of approximately RMB44.1 million. The significant increase of total assets and total liabilities as at 30 June 2023 compared to 31 December 2022 was mainly attributable to the Company has entered into various of lease agreements to commence the office building and community operation and management business segments which resulted in significant increase of investment properties and lease liabilities accordingly.

As at 30 June 2023 and 31 December 2022, the Group's net assets amounted remained relatively stable at approximately RMB288.9 million and RMB298.6 million.

In our view, based on the above analysis, the Group has financed its growth prudently and retained a satisfactory financial position.



1.2. Information of the Debtors and Vendors

Each of the Debtors and Vendors, namely Yong Hong Real Estate, Rong He Real Estate, Gao Xin Real Estate, Jia Tai Real Estate, DJXY, Ding Chuang Real Estate, Bo Lang Real Estate, Dekunda Real Estate and De Qian Real Estate, and Desun Da is a limited liability company established in the PRC and is principally engaged in real estate development. As at the Latest Practicable Date, except for Desun Da, each of the Vendors and the Debtors is ultimately controlled by Mr. Zou Kang (a non-executive Director and a controlling shareholder of the Company) through a number of intermediates. As at the date of this announcement, Desun Da is owned as to 50% by Mr. Ni Guofang (倪國舫先生) and 50% by Mr. Gao Baiyi (高柏義先生). To the best knowledge, information and belief of the Directors, having made all reasonable enquires, Mr. Ni Guofang (倪國舫先生) and Mr. Gao Baiyi (高柏義先生) are third parties independent of the Company and connected persons of the Company (as defined in the Listing Rules). Desun Da was disposed of by Chengdu Desun Real Estate Co. Ltd.* (成都德商置業有限公司) (a connected person of the Company) to Mr. Ni Guofang and Mr. Gao Baiyi in August 2022.

2. Reasons for and benefits of entering into the Debts Settlement Agreements

As mentioned in the Letter from the Board, the Group has been providing, among others, property management services and onsite services to the Debtors and/or their respective subsidiaries. In order to mitigate the risk caused by the possible liquidity issues faced by the Debtors, the Debtors made debts settlement proposals to its creditors including the Group, according to which the Debtors proposed to sell the Settlement Properties to Chengdu Desun and the consideration of the Acquisition shall be offset against the Receivables on a dollar-for-dollar basis. Before entering into the Debts Settlement Agreements, Chengdu Desun conducted financial due diligence and valuation on the Settlement Properties. With continuous efforts, the Company had finally reached agreements with the Debtors and/or their respective subsidiaries to enter into the Debts Settlement Agreements for the relevant debt offset and settlement arrangement. Upon completion of the Debts Settlement Agreements, the Group will gradually sell the Settlement Properties either to the owners or tenants of the Group's properties under management or by identifying suitable third parties in the open market. With the rising number of automobile ownership volume in the PRC while relatively low ratio of parking spaces to cars, there is a development potential in the parking space market in the PRC, and the launching of measures such as the adjustment by various local governments in the PRC of the restriction policy on sales and loans in the property market, it is expected to bring favourable factors to the sales of parking spaces. In respect of the owners and tenants of the Group's properties under its management, the Group is able to utilise its information, service and technological advantages to prioritize and effectively access to the customers, and is able to promote the sales of parking spaces to the owners and tenants of the properties under its management in a more effective manner as compared to other third parties. For third parties in the open market, the Group intends to sell the parking spaces through the existing real estate brokerage agency business unit, and leverage on the Group's sales team to continuously expand its clientele and promote the sales of the Settlement Properties. Upon the completion of Acquisition, the Group will formulate feasible and



effective sales strategies and sales plans, and carry out the sales of the Settlement Properties through the team and sales channels of its existing real estate brokerage agency business unit to generate cash proceeds. The entering into the Debts Settlement Agreements would allow Chengdu Desun to recover the Receivables, and that Settlement Properties were valued by an independent valuer with the valuation amount of RMB137,259,000, which is more than the debt settlement amount of RMB51,640,000 under the Debts Settlement Agreements. The transactions contemplated under the Debts Settlement Agreement would enable the Group to sell out the Settlement Properties in future which will bring cashflow to the Group. This is conducive to resolving the Group's receivables risk and is in the interests of the Shareholders.

Based on our discussion with the management of the Company, as a result of the recent liquidity risks faced by property developers in the PRC, the collection of trade receivables from customers of the Company, including the Debtors, has been slowing down. The following table sets forth the ageing analysis of the Group's trade receivables as at 31 December 2022 and 30 June 2023 as extracted from the 2023 Interim Report:

	As at 30 June 2023		As at 31 December 2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Within 1 year	104,207	70.8	73,834	64.8
1 to 2 years	37,984	25.8	38,324	33.6
2 to 3 years	4,142	2.8	1,395	1.2
Over 3 years	<u>872</u>	<u>0.6</u>	<u>347</u>	<u>0.3</u>
Total	<u>147,205</u>	<u>100.0</u>	<u>113,900</u>	<u>100.0</u>

As illustrated above, the Group's trade receivables due over two years increased from approximately 1.5% of the total trade receivables as at 31 December 2022 to approximately 3.4% of the total trade receivables as at 30 June 2023. As set out in the 2023 Interim Report, as at 30 June 2023, approximately RMB98.1 million of trade receivables were due from related parties. Furthermore, as at 30 June 2023, the provision for impairment loss in the amount of approximately RMB33.4 million in aggregate has been made for trade receivables in accordance with the accounting policies of the Group. As such, we concur with the management of the Company that the settlement of the Receivables pursuant to the Debt Settlement Agreements will reduce the Group's exposure to credit risks associated with the outstanding receivables from the Debtors.

As mentioned above, the Group intends to gradually sell the Settlement Properties upon completion of the Debts Settlement Agreements. According to the website of the China Real Estate Association (中國房地產業協會), in 2023, the property market continued to bottom out amid the relaxing of the restrictive measures in the property market in various cities of the PRC. Looking forward to 2024, supportive policies are expected to be enacted including the financial supports for construction and to the supply side, and the lowering of housing transaction taxes and fees. According to the China Association of Automobile Manufacturers, as at the end of September 2023, the number of motor vehicles in the PRC reaches 430 million. For the first three quarters in 2023, approximately 18.2



million cars were newly registered nationwide, representing a year-on-year increase of approximately 4.4%. In terms of car parking spaces, based on the report published in July 2023 by Zhiyan Consulting (智研諮詢), a PRC research house established in 2008, the number of car parking spaces in the PRC has grown rapidly in recent years reaching approximately 180.6 million in 2022. The Company expects the relatively low ratio of parking spaces to number of vehicles will lead to potential upside in the resale value of the Settlement Properties. As discussed with the management of the Company, taking into account (i) the recent stimulating government policies in the property market; (ii) the rising number of automobile ownership volume in the PRC with relatively low ratio of parking spaces to cars; and (iii) the discount of the consideration to the appraised market value of the Settlement Properties, the Company considers that selling instead of leasing the Settlement Properties would maximise the Group's return.

Based on the above, although the entering into of the Debt Settlement Agreements is not conducted in the ordinary and usual course of business of the Group, taking into account the above and the fact that (i) the principal terms of the Debts Settlement Agreements are on normal commercial terms (as discussed in the section headed "3. *Principal terms of the Debts Settlement Agreements*" below); (ii) the Valuation Report is an appropriate reference in determining the consideration to be offset against the Receivables on a dollar-for-dollar basis (as discussed in the section headed "4. *The valuation of the Settlement Properties*" below); (iii) the reduction of the Group's exposure to credit risks associated with the outstanding receivables from the Debtors; and (iv) the fact that the consideration represents a significant discount to the market value of the Settlement Properties as appraised by the Valuer, we concur with the Directors that the Debt Settlement Agreements are in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Debts Settlement Agreements

The following table sets forth the principal terms of the Debts Settlement Agreements. Detailed terms of the Debts Settlement Agreements are set out in the section headed "2. *DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE DEBTS SETTLEMENT AGREEMENTS*" in the Letter from the Board.



The Debt Settlement Agreement I The Debt Settlement Agreement II The Debt Settlement Agreement III The Debt Settlement Agreement IV The Debt Settlement Agreement V The Debt Settlement Agreement VI The Debt Settlement Agreement VII The Debt Settlement Agreement VIII The Debt Settlement Agreement IX The Debt Settlement Agreement X

Date: 22 December 2023

Purchaser: Chengdu Desun

Vendor: Yong Hong Real Estate Yong Hong Real Estate Jia Tai Real Estate Jia Tai Real Estate Jia Tai Real Estate Jia Tai Real Estate Dekunda Real Estate Dekunda Real Estate Desun Da Desun Da

Debtor: Rong He Real Estate Gao Xin Real Estate DJXY Ding Chuang Real Estate Bo Lang Real Estate Bo Lang Real Estate Bo Lang Real Estate De Qian Real Estate Dekunda Real Estate Desun Da

Subject matter: Chengdu Desun agreed to acquire, and the respective Vendors agreed to sell the respective Settlement Properties.

The acquisition of the respective Settlement Properties pursuant to the respective Debt Settlement Agreement will be carried out by way of direct transfer of the property ownership right.

Following the three working days after signing of the Debts Settlement Agreements, the respective Vendors and Chengdu Desun shall enter into respective sales and purchase agreement and relevant ancillary documents for the purpose of, among other things, transferring the property ownership rights of the respective Settlement Properties to Chengdu Desun.

Information on the Settlement Properties:

The Settlement Properties I	The Settlement Properties II	The Settlement Properties III	The Settlement Properties IV	The Settlement Properties V	The Settlement Properties VI	The Settlement Properties VII	The Settlement Properties VIII	The Settlement Properties IX	The Settlement Properties X
comprise 382 parking spaces located at Wuhou District of Chengdu, Sichuan Province, the PRC.	comprise 78 parking spaces located at Wuhou District of Chengdu, Sichuan Province, the PRC.	comprise 32 parking spaces located at Qingyang District of Chengdu, Sichuan Province, the PRC.	comprise 184 parking spaces located at Qingyang District of Chengdu, Sichuan Province, the PRC.	comprise 24 parking spaces located at Qinyang District of Chengdu, Sichuan Province, the PRC.	comprise 292 parking spaces located at Wenjiang District of Chengdu, Sichuan Province, the PRC.	comprise 79 parking spaces located at Wenjiang District of Chengdu, Sichuan Province, the PRC.	comprise 129 parking spaces located at Wenjiang District of Chengdu, Sichuan Province, the PRC.	comprise 101 parking spaces located at Tianfu New District of Chengdu, Sichuan Province, the PRC.	comprise 211 parking spaces located at Tianfu New District of Chengdu, Sichuan Province, the PRC.

The Settlement Properties were developed by the respective Debtors so that there were no original acquisition costs of the Settlement Properties to the respective Debtors. Based on the total car-parking space area developed, the development costs of the Settlement Properties were estimated at approximately RMB148 million.

Consideration: RMB15,280,000 RMB3,120,000 RMB1,600,000 RMB9,200,000 RMB1,200,000 RMB8,760,000 RMB2,370,000 RMB3,870,000 RMB2,020,000 RMB4,220,000

Basis of determination of the consideration: The consideration for the Acquisition was determined after arm's length negotiations among the parties to the Debts Settlement Agreements with reference to, among other things, the valuation of the Settlement Properties as at 30 November 2023 in the aggregate amount of RMB137,259,000, which was conducted by an independent valuer using direct comparison approach.

Payment terms: It is agreed by the parties to the Debts Settlement Agreements that the consideration for the acquisition of respective Settlement Properties payable by Chengdu Desun shall be offset against the respective Receivables on a dollar-for-dollar basis, and thus no separate cash payment will be made by Chengdu Desun to the respective Vendors.

Effectiveness: The Debts Settlement Agreements shall take effect after being signed and sealed by the parties and the transactions contemplated thereunder are approved by the Independent Shareholders at a general meeting of the Company.

If Chengdu Desun is unable to carry out the registration and ownership transfer procedures in respect of the Settlement Properties due to the respective Vendors, Chengdu Desun is entitled to request the respective Vendors to continue to fulfill the registration and ownership transfer procedures in respect of the Settlement Properties. If the whole or part of the sales and purchase agreement cannot be performed, Chengdu Desun is entitled to choose to terminate the sales and purchase agreement in respect of the Settlement Properties or the Debts Settlement Agreements.



The Receivables offset contemplated under the Debts Settlement Agreements will be implemented correspondingly upon the Shareholders' approval for the transactions contemplated thereunder and the receipt of the invoices issued by Chengdu Desun to the respective Debtors. As of 30 June 2023, the total outstanding receivables due from Mr. Zou Kang and his associates amounted to approximately RMB147.21 million, which consisted of approximately RMB72.45 million due from the Debtors and approximately RMB74.76 million due from Mr. Zou and his associates other than the Debtors. The Debts Settlement Agreements were entered into in order to address receivables due from the Debtors in a total amount of approximately RMB65.42 million. Pursuant to the terms of the Debts Settlement Agreements, a total of RMB51.64 million was offset. Upon the completion of the Debts Settlement Agreements, the remaining receivables due from the Debtors, as a result of the Debts Settlement Agreements, stand at approximately RMB13.78 million. Accordingly, together with the amount of approximately RMB7.03 million due from the Debtors which were not included in the Debts Settlement Agreements, the outstanding receivables due from the Debtors totaled approximately RMB20.81 million upon the completion of the Debts Settlement Agreements. As at the Latest Practicable Date, except for the amount of RMB51.64 million which will be offset under the Debts Settlement Agreements, Mr. Zou Kang and his associates have settled outstanding receivables in the amount of approximately RMB11.20 million by way of cash. Shareholders should note that the actual outstanding receivables due from Mr. Zou Kang and his associates (including the Debtors) as at 31 December 2023 will be reflected in the consolidated financial statements of the Company for the year ended 31 December 2023 and is subject to audit by the auditors of the Company. The Company will actively engage in discussions with the Debtors concerning the outstanding receivables due from the Debtors. This proactive approach reflects the Company's dedication to finding mutually agreeable solutions for the outstanding receivables. Additionally, the Company will persist in negotiating the offset plans, which involves exploring options to offset outstanding receivables with available assets or funds from the Debtors. Simultaneously, the Company will carefully assess the reasonable necessity of initiating legal proceedings. This evaluation is crucial to determining whether legal actions are warranted in situations where negotiations and alternative settlement arrangements have not yielded satisfactory results. This comprehensive approach underscores the Company's commitment to managing and resolving outstanding receivables due from the Debtors in a strategic and judicious manner.

As set out in the Letter from the Board, the entering into of the Debts Settlement Agreements was to mitigate the risk caused by the possible liquidity issues faced by the Debtors. We have discussed with the management of the Company and noted that the terms of the Debts Settlement Agreements were arrived at after arm's length negotiation between the Company and the respective Debtors and Vendors.

Taking into account (i) the consideration of the Settlement Properties was determined after arm's length negotiations among the parties to the Debts Settlement Agreements with reference to, among other things, the Valuation Report, being an appropriate reference as discussed in our analysis in the section headed "4. *The valuation of the Settlement Properties*" below; and (ii) in the event the whole or part of the sales and purchase agreement cannot be performed, Chengdu Desun is entitled to choose to terminate the sales and purchase agreement in respect of the Settlement Properties or the Debts Settlement



Agreements, we concur with the Directors' view that the terms of the Debts Settlement Agreements are on normal commercial terms and are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

4. The valuation of the Settlement Properties

Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the “**Valuer**”) has been appointed to appraise the market value of the Settlement Properties as at 30 November 2023. In their opinion, the market value of the Settlement Properties as at 30 November 2023 is RMB137,259,000. The full Valuation Report is contained in Appendix II to the Circular.

4.1. Suitability and qualification of the Valuer

We have reviewed the engagement letter of the Valuer, in particular its scope of work, for the valuation of the Settlement Properties. We are satisfied that the scope of work performed by the Valuer is appropriate to form the opinion on the market value of the Settlement Properties. We are not aware of any limitation on the scope of work which might have a negative impact on the degree of assurance given by the Valuer.

We have also interviewed the Valuer regarding its experience and expertise, and understand that the Valuer is an established independent property valuer certified with the relevant professional qualifications required to perform the valuation of the Settlement Properties with a large number of completed assignments acting for listed Real Estate Investment Trusts (REITs) and property developers in Hong Kong. We also note that Mr. Eddie T. W. Yiu, the valuer-in-charge of the Valuation Report, is a Chartered Surveyor and has 30 years of experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region. The Valuer has confirmed that it is independent from the Company, the counterparties of the Debts Settlement Agreements or their respective connected persons or associates. We also note that the Valuer mainly relied on public information obtained through its own research as well as the information provided by the Company.

In light of the above, we are not aware of any matters that would cause us to question the Valuer's competence and independence and we consider that the Valuer has sufficient expertise to perform the valuation on the market value of the Settlement Properties.

4.2. Valuation bases and assumptions

According to the Valuation Report, the valuation of each of the Settlement Properties represents its market value which in accordance with the HKIS Valuation Standards 2020 issued by the Hong Kong Institute of Surveyors is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.



We have also reviewed the assumptions as set out in the Valuation Report. The valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests. No allowance has been made in our report for any charges, mortgages or amounts owing on the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoing of an onerous nature, which could affect their values. We have enquired with the Valuer on the applicability of the adopted assumptions and understood that the assumptions are generally and consistently adopted in other property valuation exercises and are in line with the market practices. As such, we are of the view that the assumptions adopted in formulating the Valuation Report are reasonable.

4.3. Valuation methodology

As set out in the Valuation Report, the Valuer has adopted the direct comparison approach by assuming sales of the Settlement Properties in their existing state by making reference to comparable sales transactions as available in the relevant market. We understand from the Valuer that the direct comparison approach is a commonly adopted valuation method for property valuation and is in line with the market practice. We also understand that the valuation of the Settlement Properties was carried out in accordance with all requirements contained in Chapter 5 and Practice Note 12 of the Listing Rules; the RICS Valuation — Global Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

As advised by the Valuer, other commonly adopted valuation methodologies include cost approach and income approach. As explained by the Valuer, cost approach is usually adopted for property with specific nature and lack of sales transactions of properties of the same characteristics in the vicinity. As such, cost approach was considered not suitable for the purpose of the valuation of the Settlement Properties as sale transactions of similar properties are available in the market. Income approach is also considered to be not suitable for the purpose of the valuation of the Settlement Properties as it provides an indication of value by converting future cash flow to a single current value. However, as set out in the Letter from the Board, the Group will gradually sell the Settlement Properties upon completion of the Debts Settlement Agreements, the income approach is therefore not considered as an appropriate methodology. While according to the valuation standard, market approach should be applied the subject asset or substantially similar assets are actively publicly traded, and/or there are frequent and/or recent observable transactions in substantially similar assets. As such, market approach is adopted for the valuation of the Settlement Properties.



Based on the above, we are not aware of any major factors which would lead us to cast doubt on the fairness and reasonableness of the valuation methodology adopted in arriving at the valuation of the Settlement Properties.

4.4. Comparable selections and adjustment factors

Based on the direct comparison approach, the Valuer has identified three comparable properties for each of the Settlement Properties within the locality of the Settlement Properties with similar characteristics. We have reviewed the list of comparable properties to each of the Settlement Properties and noted that each of the comparable properties are (i) car parking spaces attached to residential properties; (ii) in the vicinity of the respective Settlement Properties; and (iii) sourced from property agents and the Valuer's internal database. As discussed with the Valuer, the comparable properties selected were the comparable properties within the locality as each of the Settlement Properties based on information available. As the Settlement Properties are all car parking spaces attached residential development properties in Chengdu, we consider the selection factors of the comparable properties used by the Valuer appropriate.

We have obtained from the Valuer the underlying workings in deriving the appraised market value of the Settlement Properties, which includes details of the adjustments made to each of the comparable properties and the rationale in adopting different market value for different types of car parking spaces of the Settlement Properties. We understand appropriate adjustments and analysis are considered by the Valuer to the differences in several aspects including transaction date, nature of comparables, location and accessibility, building age and other characters between the comparable properties and the Settlement Properties to arrive at the market value. The general basis of adjustment is that if the comparable property is superior to the property, a downward adjustment is made. Alternatively, if the comparable property is inferior or less desirable than the property, an upward adjustment is made. The adjustment range for each factor is -9% to 10%, positive adjustment factors were applied for comparable properties which have older transaction date, poorer location and accessibility, and older building age while negative adjustment factors were applied for comparable properties which have better location and accessibility, we also noted that a negative 3% adjustment factor was applied for each of the comparable properties to adjust the relatively higher potential market price and the Valuer summed up the adjustment factors to reach the total adjustment, which ranged from -9% to 9%. The Valuer has then adopted different market price for different types of carparking spaces of the Settlement Properties based on its characteristics including (i) size, (ii) availability of charging pile, and (iii) floor, which were made by reference to the car parking pricing systems of the comparable properties and empirical data from real estate marketers and agents as consulted by the Valuer. From our review of the underlying workings of the Valuer, each adjustment made to the market price of the Settlement Properties represents a downward adjustment of approximately -16.7% to an upward adjustment of approximately 8.3% to the benchmark market price concluded from the comparable properties. Taking into account the view of the Valuer that such adjustment range for different types of car parking spaces is common



in the area where the Settlement Properties are located, we consider such range of adjustment reasonable. As discussed with the Valuer, the aforementioned adjustments were made in accordance with relevant valuation standards and requirement and are common market practice in conducting valuation of car parking spaces. Based on the aforementioned, we consider the adjustments made appropriate.

4.5. Our view

Based on the above and having considered that (i) the Valuer is independent, qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Valuation Report competently; and (ii) the bases, assumptions and methodologies applied in the Valuation are fair and reasonable, we concur with the view of the management of the Company that the Valuation Report is an appropriate reference in determining the consideration of the Settlement Properties under the Debts Settlement Agreements.

5. Consideration of the Settlement Properties

The aggregate consideration of the Settlement Properties of RMB51,640,000, arrived on the basis of arm's length negotiations after taking into account the Valuation Report, represents an approximately 62.4% discount to the appraised market value, the following table sets forth the consideration and the appraised market value of each Settlement Properties:

	Appraised market value as at 30 November 2023 (RMB'000)	Consideration (RMB'000)	Discounts to market value (%)
The Settlement Properties I	45,876	15,280	66.7
The Settlement Properties II	8,990	3,120	65.3
The Settlement Properties III	4,800	1,600	66.7
The Settlement Properties IV	26,784	9,200	65.7
The Settlement Properties V	3,380	1,200	64.5
The Settlement Properties VI	17,745	8,760	50.6
The Settlement Properties VII	4,845	2,370	51.1
The Settlement Properties VIII	7,744	3,870	50.0
The Settlement Properties IX	5,775	2,020	65.0
The Settlement Properties X	11,320	4,220	62.7
Total	137,259	51,640	62.4



In assessing the fairness and reasonableness of the consideration of the Settlement Properties, we have conducted research on the website of the Stock Exchange and identified three comparable transactions which (i) involves the settlement of debts by transfer of properties by entities related to companies listed on the Stock Exchange; (ii) the valuation of the properties being transferred are disclosed in the relevant announcements; and (iii) were announced during the period from 1 January 2023 to 22 December 2023 (i.e. the date of the Debts Settlement Agreements) (the “**Comparable Transactions**”). The following table sets forth the details of the Comparable Transactions:

Announcement date	Stock code	Company name	Assets being transferred	Valuation	Consideration	Premium/ discount	Connected transaction
6-Dec-23	9978	Fineland Living Services Group Limited	11 commercial properties	RMB16.1 million	RMB15.8 million	-1.9%	Yes
16-Nov-23	2146	Roiserv Lifestyle Services Co., Ltd.	10,870 parking spaces and 332 residential, office and retail units	Approximately RMB576.2 million	Approximately RMB567.9 million	-1.4%	Yes
21-Jun-23	9978	Fineland Living Services Group Limited	23 first-hand residential properties	RMB20.0 million	RMB20.0 million	0.0%	No

Given the fact that the Comparable Transactions (i) took place within one year prior to the date of the Debts Settlement Agreements; (ii) have similar nature with the Debt Settlement Agreements involving the settlement of debts by transfer of properties; and (iii) involved listed companies which are principally engaged in the provision of property management services, we are of the view that the Comparable Transactions are fair and representative in assessing the fairness and reasonableness of the consideration of the Settlement Properties, in particular to the discount represented by the consideration to the appraised market value of the Settlement Properties.

As illustrated above, the consideration of the assets being transferred for each of the Comparable Transactions represents minimal or no discounts to the respective valuation of such assets. The significant discounts of approximately 50.0% to 66.7% of the consideration of the Settlement Properties to their appraised market value are more favorable to the Group as compared to the Comparable Transactions.

As discussed in the section headed “2. *Reasons for and benefits of entering into the Debts Settlement Agreements*” above, the Group intends to gradually sell the Settlement Properties upon completion of the Debts Settlement Agreements. According to the website of the China Real Estate Association (中國房地產業協會), in 2023, the property market continued to bottom out amid the relaxing of the restrictive measures in the property market in various cities of the PRC. Looking forward to 2024, supportive policies are expected to be enacted including the financial supports for construction and to the supply side, and the lowering of housing transaction taxes and fees. According to the China Association of Automobile Manufacturers, as at the end of September 2023, the number of motor vehicles in the PRC reaches 430 million. For the first three quarters in 2023, approximately 18.2 million cars were newly registered nationwide, representing a year-on-year increase of approximately 4.4%. In terms of car parking spaces, based on



the report published in July 2023 by Zhiyan Consulting (智研諮詢), a PRC research house established in 2008, the number of car parking spaces in the PRC has grown rapidly in recent years reaching approximately 180.6 million in 2022. The Company expects the relatively low ratio of parking spaces to number of vehicles will lead to potential upside in the resale value of the Settlement Properties. Taking into account (i) the recent stimulating government policies in the property market; and (ii) the rising number of automobile ownership volume in the PRC with relatively low ratio of parking spaces to cars, we are of the view that the consideration of the Acquisition, which represents a significant discount to the appraised market value of the Settlement Properties, justified.

6. Possible financial impact on the Group

As set out in the Letter from the Board, the aggregate consideration of the Settlement Properties is RMB51,640,000 which shall be offset against the Receivables on a dollar-for-dollar basis. Upon the offset under the Debts Settlement Agreements, the Receivables will be derecognised and the outstanding receivables due from the Debtors will be amounted to approximately RMB20.81 million. Also, each of the Settlement Properties will be recognised as inventories on the respective completion date and the impact from the subsequent sales of the Settlement Properties will be reflected in the profit or loss in the future. As discussed with the Company, it is expected there will be no material adverse impact on (a) the financial position and earnings, and (b) the business and operation of the Group associated with the transactions pursuant to Debt Settlement Agreements.

OPINION AND RECOMMENDATIONS

Having taken into account the above principal factors and reasons, we are of the view that (i) although the entering into of the Debts Settlement Agreements is not conducted in the ordinary and usual course of business of the Group, the terms of the Debts Settlement Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Debts Settlement Agreements are 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 resolutions in relation to the Debts Settlement Agreements to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Calvin Leung
Director

Mr. Calvin Leung is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over 19 years of experience in the corporate finance industry.