東興證券(香港)
DONGXING SECURITIES (HONG KONG)

DONGXING SECURITIES
(HONG KONG) COMPANY LIMITED
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Hong Kong

21 December 2022

To: The Independent Board Committee and the Independent Shareholders of Financial Street Property Co., Limited

Dear Sirs,

RENEWAL OF MAJOR AND CONTINUING CONNECTED TRANSACTIONS:
(1) 2023 LEASING FRAMEWORK AGREEMENT;
(2) 2023 PROPERTY MANAGEMENT SERVICES FRAMEWORK AGREEMENT;
AND
(3) 2023 DEPOSIT SERVICE FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the (i) 2023 Leasing Framework Agreement; (ii) 2023 Property Management Services Framework Agreement; and (iii) 2023 Deposit Service Framework Agreement (collectively referred to as the "**Renewal of Connected Transactions Framework Agreements**") and the related caps, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 21 December 2022 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As at the Latest Practicable Date, Financial Street Group was interested in an aggregate of 34.35% of the total issued share capital of the Company, hence Financial Street Group is a controlling shareholder and thus a connected person of the Company. FS Finance is a wholly-owned subsidiary of Financial Street Group, and is therefore a connected person of the Company. Accordingly, the transactions contemplated under the 2023 Leasing Framework Agreement, the 2023 Property Management Services Framework Agreement and the 2023 Deposit Service Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of: (i) the Lease Annual Caps (for both rights-of-use assets and other payments); (ii) the Property Management Services Annual Caps and (iii) the Deposit Service Annual Caps exceed 5%, the transactions contemplated under the 2023 Leasing Framework Agreement, the 2023 Property Management Services Framework Agreement and the 2023 Deposit Service Framework Agreement constitute continuing connected transactions of the Company which are subject to announcement, reporting, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of Lease Annual Caps (for both right of use assets and other payments) exceed 5% but less than 25%, the transactions contemplated under the 2023 Leasing Framework Agreement also constitute discloseable transactions of the Company which are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As one or more of the applicable percentage ratio in respect of Deposit Service Annual Caps exceed 25%, the transactions contemplated under the 2023 Deposit Service Framework Agreement also constitute major transactions of the Company which are subject to announcement, reporting and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Independent Board Committee, comprising all independent non-executive Directors, has been established to consider and advise the Independent Shareholders in relation to the Renewal of Connected Transactions Framework Agreements and as to whether the related annual caps are fair and reasonable and are in the interests of the Company and its Shareholders as a whole. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Renewal of Connected Transactions Framework Agreements and the related annual caps.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. Save for this appointment as the Independent Financial Adviser in relation to this transaction, there were no other engagements between us and the Group in the past two years. Apart from normal professional fees paid or payable to us in connection with this transaction, no other arrangement exists whereby we had received or would receive any fees or benefits from the Company or any parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider ourselves independent in accordance with Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied upon the accuracy of the information and representations contained in the Circular and information provided to us by the Company and the management of the Company (the "**Management**"). We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company and the Management, for which they are solely and wholly responsible, were true, accurate and complete at the time they were made and continue to be true as at the Latest Practicable Date.

Our review and analysis were based upon, among other things, (i) 2023 Leasing Framework Agreement; (ii) 2023 Property Management Services Framework Agreement; and (iii) 2023 Deposit Service Framework Agreement; (iv) the Leasing Framework Agreement; (v) the supplemental agreement of the Property Management Services Framework Agreement dated 10 June 2020; (vi) the Property Management Services Framework Agreement; (vii) the Deposit Service Framework Agreement; (viii) the contract list setting out the information of leasing contracts entered into between the Group and its landlords for the six months ended 30 June 2022; (ix) the full contract list setting out the information of property management services contracts entered into between the Group and its customers for the financial year 2020, 2021 and for the six months ended 30 June 2022; (x) summary of property management services project list for financial year 2023 to 2025; (xi) the existing list of deposits setting out the information of all the deposit status within the financial year 2022 between the Group and FS Finance; and the Group and independent commercial banks; (xii) the historical transaction amounts under the Leasing Framework Agreement, the Property Management Framework Agreement and the Deposit Service Framework Agreement; (xiii) the internal control policy for continuing connected transactions of the Group; (xiv) 2022 interim report published on 20 August 2022 by Financial Street Holdings; (xv) the 2022 Company interim report; and (xvi) this Circular.

We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. The Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM.

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 that, to the best of their knowledge and belief, there are no omission of other facts that would make any statements in 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. 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 no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any omission of any material facts that would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and/or the Management.

This letter is issued to the Independent Board Committee and the Independent Shareholders, solely in connection for their consideration of the Renewal of Connected Transactions Framework Agreements and the related annual caps, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Renewal of Connected Transactions Framework Agreements and the related annual caps and in giving our recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into consideration of the following principal factors and reasons.

1. Information on the Company and the Group background information of the parties to the Renewal of Connected Transactions Framework Agreements

(i) Information on the Group

The Company is a joint stock company established under the laws of the PRC with limited liability, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange. The Group is principally engaged in providing property management and related services to properties located at financial management centres at all levels nationwide.

(ii) Information on Financial Street Group

Financial Street Group and its subsidiaries mainly operate in real estate development, investment holding, finance, education and medical and wellness. The head office of Financial Street Group is located in Beijing, and its operating properties include office buildings, hotels, apartments, commercial properties, residential properties and parking lots, etc..

(iii) Information on FS Finance

FS Finance, a company incorporated in the PRC with limited liability on 30 June 2015, is a wholly-owned subsidiary of Financial Street Group. FS Finance is a non-bank financial institution (非銀行金融機構) which provides Deposit Services to Financial Street Group and its subsidiaries. FS Finance is subject to a number of regulatory requirements and guidelines issued by regulatory authorities in the PRC.

As at the Latest Practicable Date, Financial Street Group was interested in an aggregate of 34.35% of the total issued share capital of the Company, hence Financial Street Group is a controlling shareholder and thus a connected person of the Company. FS Finance is a wholly-owned subsidiary of Financial Street Group, and is therefore a connected person of the Company. Accordingly, the transactions contemplated under the Renewal of Connected Transactions Framework Agreements will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

2. Reasons for and benefits of the Renewal of Connected Transactions Framework Agreements

(i) In relation to the 2023 Leasing Framework Agreement

In view of the long term relationship with Financial Street Group for the provision of office and business premises, the entering into the 2023 Leasing Framework Agreement can reduce the Company's search cost of suitable premise, avoid incurrence of relocation cost and so to ensure the stability of the working environment of the Group. Further, the renting of premises from Financial Street Group can fulfill the business development needs of the Group, which enables the Group to further expand its business scale and development and the revenue generated from the value-added services (including catering services and car park operations, etc.).

(ii) In relation to the 2023 Property Management Services Framework Agreement

The Board is of the view that the entering of the 2023 Property Management Services Framework Agreement is crucial to the business development and is beneficial to the Company as the Company may secure a stable source of revenue after considering that (i) the Company, as a subsidiary of Financial Street Group, has developed synergistically and maintained a long-term and stable relationship with Financial Street Group and its associates in real estate, investment, insurance and education business segments; and (ii) the steady development of each business segment of Financial Street Group will bring new business opportunities of the property management services provided by the Group, which is an important component of the Group's revenue from property management services.

(iii) In relation to the 2023 Deposit Service Framework Agreement

FS Finance has been providing the Deposit Services to the Group prior to the listing of the H Shares on the Stock Exchange, and has developed a solid understanding of the business operation and cash management model of the Group, and is capable of providing the Group with Deposit Services in a stable, suitable, efficient, convenient, and flexible manner. In addition, depositing funds with FS Finance is consistent with the Group's relevant requirements on treasury centralisation and overall management.

Moreover, the interest rate in respect of the Deposit Services provided by FS Finance to the Group will be equal to or higher than the average interest rate offered by independent major PRC state-owned commercial banks for comparable deposits of the same type and term; and its commercial terms in respect of the Deposit Services provided to the Group will be more favourable compared to those offered to Independent Third Parties.

The Board cannot control or predict interest rates that will be offered by commercial banks in the future. In the event interest rates offered by commercial banks become unattractive, or if the gap between the interest rates offered by commercial banks and that of FS Finance becomes significant, the Group must be afforded the option to choose the most beneficial interest rates, including depositing a sizable portion of its cash and cash equivalents with FS Finance if indeed that is the best option.

A. *2023 Leasing Framework Agreement*

i) *Principal terms of the 2023 Leasing Framework Agreement*

The principal terms of the 2023 Leasing Framework Agreement are set out below:

Date:	11 November 2022 (after trading hour)
Parties:	(i) the Company; and (ii) Financial Street Group
Term:	1 January 2023 to 31 December 2025
Subject matter:	Pursuant to the 2023 Leasing Framework Agreement, the Company will lease the real property (currently consisting of office properties, operating properties and carparks) held by Financial Street Group and its associates. The related subsidiaries and associates of both parties shall enter into separate leasing agreements, and such agreements shall contain specific terms and conditions. Under the same condition, the terms of these leasing agreement, shall be equivalent to the terms offered by Financial Street Group to other independent third parties. If the terms of these leasing agreements contravene with the terms of the 2023 Leasing Framework Agreement, the terms of the 2023 Leasing Framework Agreement shall prevail.

Pricing policy: The rent payable by the Group pursuant to the 2023 Leasing Framework Agreement shall be determined after arm's length negotiations taking into account the prevailing market rentals of properties of similar nature located in similar areas with reference to the rent payable by the Independent Third Parties to Financial Street Group.

In order to ensure that the rent payable by the Group are in line with the pricing policy and are fair and reasonable, the business department of the Group will be responsible for liaising the commercial terms, etc. of the leasing agreements with Financial Street Group. Furthermore, it will assess the necessity and fairness of the leasing agreement to be entered into with Financial Street Group. In assessing the fairness of the leasing agreement, the business department of the Group will take into account not less than three rental payment reference quotations (the "**Reference Prices**") obtained from either: (i) the rental information available in the market; (ii) market research conducted by the Company; or (iii) the prevailing market rents of leasing agreements previously entered into between the Group and other third parties of properties of similar nature and quality located in similar areas. The business department of the Group will ensure the rent payable by the Group will not be higher than the average of the Reference Prices obtained by the Company. The Group will not enter into the leasing agreement with Financial Street Group if the business department is of the view that such leasing agreement is not in line with the pricing policy and is not fair and reasonable.

Conditions precedent: The terms of the 2023 Leasing Framework Agreement are subject to the Company having obtained the approval of the Independent Shareholders.

ii) Assessment on the principal terms of the 2023 Leasing Framework Agreement

In order to assess the fairness and reasonableness of the terms of the 2023 Leasing Framework Agreement, we have obtained the 2023 Leasing Framework Agreement, the Leasing Framework Agreement and the contract list setting out the information of leasing contracts entered into between the Group and its landlords for the six months ended 30 June 2022 (the "**Leasing Contract List**"). We have also selected samples of leasing contracts entered into between the Group and its independent third parties landlords (the "**Independent Landlords**") for the financial year 2022 with reference to the Leasing Contract List.

We have selected and reviewed 10 existing contracts between the Group and the Financial Street Group and the contracts between the Group and the Independent Landlords for financial year 2020 to 2022. The sample contracts were selected with services terms which fall into the following criteria: (i) property types covering commercial and business properties and non-commercial properties, which covered all types of properties managed by the Group; and (ii) the comparable contracts of the Independent Landlords are with comparable properties scales and locations of properties being provided by the Group (the "**Leasing Comparable Contracts**"). By comparing the terms of the contracts of Financial Street Group against the terms of the Leasing Comparable Contracts, we noted that the respective proposed rental fees and other major contract terms for each of the (i) commercial and business properties and (ii) non-commercial properties charged by the Financial Street Group and its associates to the Group and the Independent Landlords are consistent with each other.

We have also enquired the Management and understand that the proposed rental agreed under the 2023 Leasing Framework Agreement was determined by making reference to the relevant market prevailing price by taking into account of factors including the class of the properties and the geographic location of the property, etc.. Besides, we have also compared the proposed rental fee of the rental properties of the Financial Street Group with the current market rental fee in the comparable location. We noted that the respective property rental fees charged by the Financial Street Group are comparable with the prevailing market price.

Having considered that the payment terms and arrangement with the Financial Street Group are comparable to those of the Independent Third Parties and the pricing agreed under the 2023 Leasing Framework Agreement was determined by making reference to the relevant market prevailing price, it is considered that the terms of the 2023 Leasing Framework Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

iii) *The Lease Annual Cap revision*

Historical transaction amounts

The following table sets out the original annual caps under the framework agreement for the three years ending 31 December 2022 and the historical total rent for the lease of properties payable by the Group to Financial Street Group and its associates:

	For the year ended 31 December		
	2020	**2021**	**2022**
	(RMB million)	*(RMB million)*	*(RMB million)*
Original annual caps	30	35	42

	For the year ended 31 December		**For the nine months ended 30 September**
	2020	**2021**	**2022**
	(RMB million)	*(RMB million)*	*(RMB million)*
Historical total rent	8.3[1]	11.6[1]	11.3[1,2]

Notes:

1. Pursuant to the Lease Framework Agreement, the annual caps were determined with reference to the total rental value payable by the Company in each year. Therefore, the historical transaction value was calculated based on the total rental value payable by the Company to Financial Street Group and its associates in each year.

2. The figure represents the total rent amount for the nine months ended 30 September 2022, which is based on the management account of the Company.

Proposed lease annual cap and basis of determination

The following table sets out the Lease Annual Cap for the three years ending 31 December 2025 under the 2023 Leasing Framework Agreement:

	For the year ending 31 December		
	2023	**2024**	**2025**
	(RMB million)	*(RMB million)*	*(RMB million)*
Right-of-use assets (for those lease of which the lease term exceeds one year)	69.7	86.7	100.7
Other payments (including rent for those leases of which the lease term is no more than one year)	22.0	34.0	49.7

Note:

Different accounting treatment apply to different components of payments by the Group under the 2023 Leasing Framework Agreement in accordance with the HKFRSs applicable to the Group.

Under HKFRS 16, the Group as the lessee shall recognise leases for a term of more than one year as right-of-use assets and lease liabilities. The right-of-use assets represent its rights to use the underlying leased asset over the lease term and the lease liabilities represent its obligations to make lease payments (i.e. the rental payment). The assets and the liabilities arising from the lease are initially measured on present value basis and calculated by discounting the non-cancellable lease payments under the 2023 Leasing Framework Agreement, using the incremental borrowing rate as the discount rate. Under HKFRS 16 and in the consolidated statement of comprehensive income of the Group, the Group shall recognise (i) depreciation charge over the life of the right-of-use asset, and (ii) interest expenses amortised from the lease liability over the lease term. In accordance with the Listing Rules, the Company is required to set caps on the total value of right-of-use assets relating to the above leases.

Other amounts payable by the Group as lessee (including rent for those leases for a term of no more than one year) will be recorded as expenses by the Company over the remainder of term of the lease and separate caps will be set in accordance with the Listing Rules.

According to Board Letter, it is estimated that there will be 50 leases with a lease term for more than one year. Among which, there will be 39 leases with a lease term not more than three years and 11 leases ("**Long Term Leases**") with a lease term of five years. For the Long Term Leases, they include the leases of head office quarter and commercial properties for catering business.

As advised by the Management, it is not uncommon for the developed company to rent the head office for more than three year such as five years given that there is relocation cost incurred. The Management also advised that there is no plan for relocating head office in five years and the current capacity of the head office would be able to fulfill the five years plan of the Company. The Group has been leased the head office from the Financial Street Group since 2019. The five years lease terms of the head office under 2023 Leasing Framework Agreement can stabilize the business operation of the Company and eliminate the potential cost of relocation. We conducted the researches on the five peers ("**the peers**") about the addresses of their head offices in past five years from their respective annual reports at Stock Exchange. We noted the addresses of the head offices of the peers did not change in the past five years. As such, the five years lease period of head office with Financial Street Group under the 2023 Leasing Framework Agreement is considered as common, fair and reasonable.

We have selected and reviewed the lease contract of head office signed on 2019 between the Group and the Financial Street Group and compare with the contracts between the Group and the Independent Landlords. By comparing the terms of the contract against the terms of the comparable contract, we noted that the major contract terms are consistent with each other.

Given the potential costs incurred for relocation, it would be more cost effective to secure a lease period of the head quarter with longer period and it can avoid the possibility of interruptions to the operations of the Group.

As advised by the Management, it is not uncommon for the Company to rent the commercial properties for catering for more than three year given that there is large initial cost including but not limited to the renovation cost and capital injection for catering business. In considering whether it is a normal business practice for the lease of the commercial properties of catering business under the 2023 Leasing Framework Agreement to have a duration longer than three years, we conducted research on lease arrangements of catering business groups listed on the Stock Exchange and noted that their leasing of properties for catering business were entered with duration ranging from one to twenty years. The following table sets out the samples on leases period of catering business groups listed on the Stock Exchange:

Company Name	**Stock code**	**Lease period**
Haidilao International Holding Ltd.	6862.HK	One to twenty years (restaurants and headquarters)
Jiumaojiu International Holdings Limited	9922.HK	Two to eleven years (restaurants)
Ajisen (China) Holdings Limited	538.HK	Two to eight years (office and chain stores)

As such, the five years lease period of commercial properties for catering business is under the 2023 Leasing Framework Agreement, is considered as common, fair and reasonable.

We have selected and reviewed six lease contracts of catering business between the Group and the Financial Street Group and compare with the contracts between the Group and the Independent Landlords. By comparing the terms and lease period of the contracts against the terms and lease periods of the comparable contracts, we noted that the major contract terms and lease periods are consistent with each other.

Given the high initial capital costs incurred, it would be common to secure a lease period of the commercial properties of catering business with longer period in order to prevent loss of the initial investment and avoid the possibility of interruptions to the catering operations of the Group.

The Lease Annual Cap has been determined with reference to, among other things, the following factors:

(i) the historical value of the Group's right to use the leased assets during the term of the Leasing Framework Agreement which was initially measured on present value basis and calculated by discounting the expected lease payments, using the incremental borrowing rate as the discount rate. Due to macroeconomic factors such as the effect of COVID-19 pandemic, there was a decrease and delay in the number of properties to be leased as compared to the original plan of the Company for the two years ended 31 December 2021 and nine months ended 30 September 2022 and resulted in a low utilisation rate of the existing annual caps of the Leasing Framework Agreement. However, with the continued implementation of pandemic control measures, it is expected that the effect of COVID-19 pandemic will be reduced and the Company will be able to resume its original plan for leasing of properties and increase the number of leased properties in the future. As a result, it is expected that all existing leasing agreements entered into with Financial Street Group and its associates will be renewed with the existing terms and rental payment remain unchanged. It is expected that approximately 25 leases will be renewed by the Group for the three years ending 31 December 2025, representing a right-of-use asset value of approximately RMB36.8 million, RMB62.1 million and RMB40.6 million for the year ending 31 December 2023, 2024 and 2025, respectively;

(ii) the expected increase in the right-of-use assets as a result of 4 long-term leases in relation to commercial properties, depending on the business needs of the leasing operations of the Group, to be entered into between the Group and Financial Street Group and its associates in 2023 and 2024, resulting in an estimated increase in the right-of-use assets of approximately RMB8.9 million, RMB10.9 million and RMB7.6 million for the three years ending 31 December 2023, 2024 and 2025, respectively;

(iii) the expected increase in the right-of-use assets as a result of long-term carpark leases for approximately 21 properties under management (more than one year) to be entered into between the Group and Financial Street Group and its associates for the three years ending 31 December 2025, resulting in an increase in right-of-use assets of approximately RMB23.9 million, RMB13.7 million and RMB52.4 million for the three years ending 31 December 2025, respectively; and

(iv) the expected increase in the rental payment as a result of short-term carpark leases for approximately 21 properties under management (no more than one year) to be entered into between the Group and Financial Street Group and its associates for the three years ending 31 December 2025, resulting in an increase in the rental payment of approximately RMB22.0 million, RMB34.0 million and RMB49.7 million for the three years ending 31 December 2025, respectively.

Our view on the Lease Annual Cap

In assessing the reasonableness and fairness of the Lease Annual Cap, we have discussed with the Management and note that the Lease Annual Cap for the three years ending 31 December 2025 are determined with reference to the following basis.

i) the historical transaction amount and the anticipated annual growth

Set out below are the original annual caps under the framework agreement for the three years ending 31 December 2022 and the historical transaction amount relating to the total rent for lease of properties payable by the Group to Financial Street Group and its associates:

	For the year ended 31 December		
	2020	**2021**	**2022**
	RMB million	*RMB million*	*RMB million*
Original annual caps	30.0	35.0	42.0

	For the year ended 31 December		**For the nine months ended 30 September**
	2020	**2021**	**2022**
	RMB million	*RMB million*	*RMB million* (unaudited)
Historical transaction amounts	8.3	11.6	11.3
Utilisation rate of the original annual caps	27.7%	33.1%	26.9%

Note: Pursuant to the Lease Framework Agreement, the annual caps were determined with reference to the total rental value payable by the Company in each year. Therefore, the historical transaction value was calculated based on the total rental value payable by the Company to Financial Street Group and its associates in each year.

Based on our discussion with the Management, we were advised that the low utilisation rate for the year ended 31 December 2021 mainly due to the effect of COVID-19 pandemic, there was a decrease and delay in the number of properties to be leased as compared to the original plan of the Company for the two years ended 31 December 2021 and nine months ended 30 September 2022.

In assessing the fairness and reasonableness of the Lease Annual Cap, we reviewed and discussed with the Management to understand the current business expansion plan of the Group including but not limited to the expansion of the catering business and carpark management business. Also, we reviewed the list of commercial properties and parking spaces for catering business provided by the Company and we have no reason to suspect the execution of the business expansion plan assuming the effect of the COVID-19 pandemic will be reduced due to the continued implementation of pandemic control measures. As advised by the Management of the Company, the Company will be able to resume its original plan for leasing of properties and increase the number of leased properties in the future. As a result, it is expected that all existing leasing agreements entered into with Financial Street Group and its associates will be renewed with the existing terms and and new lease contracts will be engaged between the Group and the Financial Street Group and its associates for expansion purpose.

Based on the information provided by the Company, the total amount of rent paid by Group to the Financial Street Group and its associates amounted to approximately RMB8.3 million RMB11.6 million, RMB11.3 million for the years ended 31 December 2020, 2021 and the nine months ended 30 September 2022 respectively. It showed that the Leasing Framework Agreement transaction amount has increased at approximately 39.8% for the year ended 31 December 2021 due to the expansion and development on the value-added services (including catering services and car park operations, etc.). With the anticipation of stable business growth between the Group and Financial Street Group and its associates, it is considered that the total rent paid by the Group to the Financial Street Group and its associates will increase gradually for the year ended 31 December 2022 and for the next three years. Based on the information provided by the Company, the total amount of right-of-use assets to be recognised by the Group to the Financial Street Group and its associates will be amounted to approximately RMB69.7 million, RMB86.7 million and RMB100.7 million for the three years ended 31 December 2025 respectively. Approximately 52.9%, 71.6% and 40.4% of the Lease Annual Cap were contributed by the existing leasing agreements entered into with Financial Street Group and its associates assuming they will be renewed with the existing terms remain unchanged.

ii) the potential expansion of the business of the Group (including carpark management business and catering business, etc.)

As advised by the Management, in the view of joint commercial cooperation intention between the Financial Street Group and its associates and the Group, the Financial Street Group and its associates will lease the parking spaces based on the business development needs of the Group for the three years ending 31 December 2025 for potential expansion of the Group.

We have reviewed the list of parking spaces provided by the Company and cross checked with latest 2022 interim report published on 20 August 2022 by Financial Street Holdings (the "**FSH Interim Report**"), we found that the number of parking spaces matches with the list.

We have obtained 10 samples of the land use right certificates of the parking spaces that are expected to lease from Financial Street Group and its associates for the three years ended 31 December 2025 and confirmed that they are currently owned by the Financial Street Group and its associates. Moreover, we conducted researches at the websites of the PRC property such as LouPan.com, Fang.com and 58.com on the monthly rental of the parking spaces and the commercial properties beside and noted that the proposed rental are comparable to those of the parking spaces and commercial properties located in the same geographical area.

In view of i) the long business relationship and joint commercial cooperation intention between the Financial Street Group and the Group; ii) the existing leasing agreements entered into with Financial Street Group and its associates will contribute majority of the Lease Annual Cap; and iii) the parking spaces and the commercial properties are controlled by the Financial Street Group, it is considered that the abovementioned proposal is likely to be executed in the next three years.

Taking into account the above, we are of the view that the 2023 Leasing Framework Agreement and the Lease Annual Cap are fair and reasonable.

B. 2023 Property Management Services Framework Agreement

i) Principal terms of the 2023 Property Management Services Framework Agreement

The principal terms of the 2023 Property Management Services Framework Agreement are set out below:

Date:	11 November 2022 (after trading hour)	
Parties:	(i)	the Company; and
	(ii)	Financial Street Group

Term:	1 January 2023 to 31 December 2025
Subject matter:	Pursuant to the 2023 Property Management Services Framework Agreement, the Company, either directly, or indirectly through subsidiaries, agreed to provide property management services and related services ("**Property Management Services**") to Financial Street Group and its associates with respect to the following types of properties: (i) properties owned by, or with respect to which Financial Street Group and its associates have the right of use; and (ii) properties already developed by Financial Street Group and its associates but unsold, or properties already developed and sold but undelivered by Financial Street Group and its associates. The related subsidiaries and associates of both parties shall enter into separate property management services agreements, and such agreements shall contain specific terms and conditions. Under the same condition, the terms of these property management services agreement shall be equivalent to the terms offered by Financial Street Group to other third parties.
Pricing policy:	The property management fees to be charged pursuant to the 2023 Property Management Services Framework Agreement shall be determined after arm's length negotiations taking into account the location of the projects, the expected operational costs (including, amongst others, labour costs, material costs and administrative costs) with reference to the property management fees for similar services and similar types of projects in the market.

In order to ensure that the property management fees offered to the Group by Financial Street Group are in line with the pricing policy and are fair and reasonable, the business department of the Group will be responsible for liaising the commercial terms, etc. of the property management service agreement with Financial Street Group. Furthermore, it will assess the necessity and fairness of the property management service agreement to be entered into with Financial Street Group. In assessing the fairness of the property management service agreement, the business department of the Group will take into account not less than three property management fees reference prices (the "**Property Management Fee Reference Prices**") obtained from either: (i) property management fees information available in the market; or (ii) the property management fees of property management service agreements previously entered into between the Group and other third parties of properties management service projects of similar nature and quality located in similar areas. The business department of the Group will ensure the property management fees offered by Financial Street Group will not be lower than the cost incurred in the provision of property management services (such as labour and material costs) by the Group and also the average of the Property Management Fee Reference Prices obtained by the Company. The Group will not enter into the property management service agreement with Financial Street Group if the business department is of the view that such property management service agreement is not in line with the pricing policy and is not fair and reasonable.

Condition precedent: The terms of the 2023 Property Management Services Framework Agreement are subject to the Company having obtained the approval of the Independent Shareholders.

ii) Assessment on the principal terms of the 2023 Property Management Services Framework Agreement

In order to assess the fairness and reasonableness of the terms of the 2023 Property Management Services Framework Agreement, we have obtained the 2023 Property Management Services Framework Agreement, the supplemental agreement of the Framework Agreement dated 10 June 2020, the Property Management Services Framework Agreement, and the full contract list setting out the information of property management services contracts entered into between the Group and its customers for the financial year 2020, 2021 and for the six months ended 30 June 2022 (the "**PM Contract List**"). We selected samples of the 2023 Property Management Services Framework Agreement and samples of service contracts entered into between the Group and its independent third parties customers (the "**Independent Customers**") with reference to the PM Contract List.

We have also obtained summary of property management services project list for financial year 2023 to 2025 which comprising (i) the existing contracts that cover the financial year 2023 to 2025; (ii) the existing contracts will be expired during the year 2023 to 2025 and are expected to be renewed with the existing terms; and (iii) the new contracts to be engaged between the Group and the Financial Street Group and its associates.

We have selected and reviewed 10 existing contracts for financial year 2020 to 2022 between the Group and the Financial Street Group and compare with the contracts between the Group and the Independent Customers. The sample contracts were selected with services terms which fall into the following criteria: (i) property types covering commercial and business properties and non-commercial properties, which covered all types of properties managed by the Group; (ii) property management area fall within the most concentrated GFA range, of which transactions are with a sizable contract sums. This includes contracts with property management area between approximately 150,000 sq.m. and approximately 1,200,000 sq.m.; and (iii) each contract of Financial Street Group having a comparable contract of the Independent Customers with comparable project scales, locations of managed properties and property management services being provided by the Group (the "**PM Comparable Contracts**"). By comparing the terms of the contracts against the terms of the PM Comparable Contracts, we noted that the respective property management fee and other major contract terms for each of the (i) commercial and business properties and (ii) non-commercial properties charged by the Group to the respective Financial Street Group and the Independent Customers are consistent with each other.

We have also enquired the Management and understand that the pricing policy agreed under the 2023 Property Management Services Framework Agreement was determined by making reference to the general pricing policy of the Group, that is, adopting the relevant market prevailing price by taking into account factors including the class of the properties, the geographic location of the properties, the scope of the services, and the associated operation cost, etc..

We have further reviewed the details of the contracts signed by the Group with respective Financial Street Group and the Independent Customers for financial year 2022 as compared to the corresponding contracts signed during the financial years 2020 and 2021, including but not limited to, the estimated GFA of the managed properties, the geographical regions of the properties and the detailed classification of property types, so as to make appropriate comparison of the unit price charged by the Group among the comparable contracts. We noted that the general contract terms and property management fee determined by the Group with the Financial Street Group and its associates and the Independent Customers regarding to the same type of managed properties in the financial year 2022 have no material deviation from those recorded for the financial year 2020 and 2021. We have no reason to suspect that the property management fee charged by the Group to Financial Street Group and the Independent Customers is materially deviated from their corresponding historical property management fee level.

Given (i) there is no material deviation between the terms offered to Financial Street Group and to the Independent Customers, and (ii) the general property management fee charged to Financial Street Group are comparable to the Independent Customers for similar properties and services provided, we concur with the Directors that the terms of the 2023 Property Management Services Framework Agreement are on normal commercial terms or with terms no more favourable to Financial Street Group than those offered to its Independent Customers, and it is in the interest of the Company and the Shareholders as a whole to continue to enter into the 2023 Property Management Services Framework Agreement with Financial Street Group so as to secure sustainable income from provision of property management services to Financial Street Group.

iii) The Property Management Services Annual Caps revision

Proposed Property Management Services Annual Caps and basis of determination

The following table sets out the Property Management Services Annual Caps for the three years ending 31 December 2025 under the 2023 Property Management Services Framework Agreement:

For the year ending 31 December		
2023	**2024**	**2025**
(RMB million)	*(RMB million)*	*(RMB million)*
431.8	455.4	505.4

The Property Management Services Annual Caps have been determined with reference to, among other things, the following factors:

(i) the historical transaction amounts based on the existing 91 property management projects with Financial Street Group and its associates during the term of the 2023 Property Management Services Framework Agreement. Due to macroeconomic factors such as the effect of COVID-19 pandemic, the actual demand for property management services for the two years ended 31 December 2021 and nine months ended 30 September 2022 was lower than expected, resulting in a low utilisation rate of the existing annual caps of the Property Management Services Agreement. However, with the continued implementation of pandemic control measures, it is expected that the effect of COVID-19 pandemic will be reduced and there will be increase in demand for property management service projects in the future. As a result, it is expected that all property management services agreements entered into with Financial Street Group and its associates will be renewed upon expiry of the respective terms with the existing terms remain unchanged;

(ii) the estimation of the increase in demand of Financial Street Group and its associates for property management services. Based on the understanding of the Company, the communication between the Company and Financial Street Group and its associates and the scale of the existing properties owned by and the future business development of Financial Street Group and its associates, it is estimated that there will be an increase in property management fee of approximately RMB214.9 million, RMB249 million and RMB302.2 million resulting from an increase in 36, 53 and 62 property management projects for the year ending 31 December 2023, 2024 and 2025, respectively; and

(iii) the volume of property management services that Financial Street Group and its associates require from the Group as a proportion of the total property management services required by Financial Street Group and its associates will remain steady.

Our view on the Property Management Services Annual Caps

In assessing the reasonableness and fairness of the Property Management Services Annual Caps, we have discussed with the Management and note that the Property Management Services Annual Caps for the years ending 31 December 2023, 2024 and 2025 are determined with reference to the following basis.

(i) historical transaction amounts based on existing property management projects with Financial Street Group and its associates during the term of the 2023 Property Management Services Framework Agreement

Review of the historical transaction amount

Set out below are the original annual caps under the framework agreement for the three years ending 31 December 2022 and the historical transaction amount relating to the provision of Property Management Services by the Group to Financial Street Group and its associates:

	For the year ended 31 December		
	2020	**2021**	**2022**
	RMB million	*RMB million*	*RMB million*
Original annual caps	210.0	247.0	290.0

	For the year ended 31 December		**For the nine months ended 30 September**
	2020	**2021**	**2022**
	RMB million	*RMB million*	*RMB million* (unaudited)
Historical transaction amount	201.8	203.3	160.0[1]
Utilisation rate of the original annual caps	96.1%	82.3%	55.2%

Note:

1. The figure represents the fee amount for the nine months ended 30 September 2022, which is based on the management account of the Company.

As illustrated in the table above, we note that the utilisation rate of the original annual caps for the two years ending 31 December 2021 amounted to approximately 96.1% and 82.3% respectively. As advised by the Management, the historical transaction amount with Financial Street Group and its associates for the nine months ended 30 September 2022 amounted approximately RMB160.0 million. The utilization rate of the original annual caps for the year ended 31 December 2022 is estimated to be approximately 73.6% by taking into account the historical transaction amount with Financial Street Group and its associates for the nine months ended 30 September 2022. Based on the latest information available to the Company, the Directors expect that the transaction amount relating to the provision of Property Management Services by the Group to Financial Street Group for the three years ended 31 December 2025 will remain constant or increase gradually as all existing property management service agreements entered into with Financial Street Group and its associates will be renewed with the existing terms remain unchanged and the utilisation rate is expected to maintain at a high level if the Group kept the original annual caps. Therefore, the original annual caps are considered as not sufficient for the Group if there is a potential increase in property management fee due to i) estimated new phases/units of existing projects sourced from Financial Street Group and its associates to be completed and delivered in the coming three years; and ii) estimated new property management projects to be obtained from Financial Street Group and its associates and delivered in the coming three years in addition to the property management fee generated from the existing property management projects. Accordingly, the Management decided to revise the original annual caps to Property Management Services Annual Caps to cope with the future development of the Group.

(ii) *The anticipated annual growth of 14.6% according to the compound annual growth rate calculated by the historical transaction amount*

Based on the actual amount of the connected transactions contemplated under the property management services framework agreements for the years ended 31 December 2017, 2018, 2019, 2020, 2021, and estimated amount of the financial year 2022, the transaction amount of the connected transactions contemplated for each financial years 2017 to 2022 are shown below:

For the year ended 31 December					
2017	**2018**	**2019**	**2020**	**2021**	**2022**
(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*	*(RMB million)*	*(RMB million)*
(actual)	*(actual)*	*(actual)*	*(actual)*	*(actual)*	*(estimated)*
118.3	130.9	166.0	201.8	203.3	213.3*(note)*

Note: the Property Management Services transaction amount for the financial year 2022 is estimated by taking into account the annualised of the unaudited transaction amount in relation to the connected transactions with Financial Street Group for the nine months ended 30 September 2022 amounted to approximately RMB160.0 million.

From 2017 to 2021, the Property Management Services transaction amount has increased at a compound annual growth rate of approximately 14.6% and the Property Management Services transaction amount for 2022 is estimated to increase slightly when compared with that in 2021. With the anticipation of steady business development of Financial Street Group in the foreseeable future, the Directors considered that the transaction amount will increase gradually in the coming years due to more cooperation opportunities in the future.

(iii) The estimate increase in amount of the connected transactions contemplated under the 2023 Property Management Services Framework Agreement

As advised by the Management, the Property Management Services Annual Caps are determined with reference to the (i) historical transaction amounts based on approximately 91 existing property management projects representing a revenue of approximately RMB216.9 million, RMB206.4 million and RMB203.2 million for the year ending 31 December 2023, 2024 and 2025, respectively; with Financial Street Group and its associates during the term of the 2023 Property Management Services Framework Agreement; and (ii) additional revenue to be generated from estimated new phases/units of existing projects and estimated new property management projects to be obtained from Financial Street Group and its associates to be completed and delivered in the coming three years, representing 36, 53 and 62 property management projects for the year ending 31 December 2023, 2024 and 2025 and revenue of approximately RMB214.9 million, RMB249.0 million and RMB302.2 million for the year ending 31 December 2023, 2024 and 2025, respectively, with an anticipated increase in total contracted GFA.

As advised by the Management, the Financial Street Group and its associates will maintain a long-term business relationship with the Group and expect to provide the growth opportunities in the Property Management Services segment to the Group. We have reviewed and sample checked the list of additional investment properties and cross checked with the FSH Interim Report, we noted that the names and locations of the investment properties match with the list. Also, we obtained 10 samples of the construction permit or the land use right certificates of the properties and confirmed that they are currently owned by the Financial Street Group and its associates. Moreover, we conducted researches on the monthly management fee per square meter of the investment properties besides and noted that the proposed management fee per square meter are comparable to those of the investment properties located in the similar geographical area.

Also, we have enquired with the Management and noted that owing to the changes in market circumstance caused by the COVID-19 pandemic, the revenue from provision of Property Management Services for unoccupied property units is expected to increase for the coming years. According to the FSH Interim Report and the Company Interim Report, we are noted that (i) the properties managed by the Group which developed by Financial Street Group encompassing an approximate GFA of 18.19 million sq.m., with the number of projects amounting to 121, representing a steady period-on-period increase compared with the corresponding six months ended 30 June 2021; and (ii) the land reserves of the existing property projects of Financial Street Holdings have an aggregated GFA of approximately 15.95 million sq.m. in terms of planned construction area as at 30 June 2022. It demonstrates an increase in demand of Financial Street Group for property management services in the future. Also, we reviewed the list of investment properties provided by the Company and were advised that the Group have approximately 91 existing property management projects with Financial Street Group and its associates that will be renewed upon expiry of the respective terms with the existing terms remain unchanged during the term of the 2023 Property Management Services Framework Agreement and additional 36, 53 and 62 property management projects will be obtained from Financial Street Group and its associates due to new phases/units of existing projects and new properties to be delivered. It is estimated that approximately RMB431.8 million, RMB455.4 million and RMB505.4 million property management income will be generated from the existing and new projects from Financial Street Group and its associates. Therefore, it is considered that the Property Management Services Annual Caps is just sufficient to cope with the demand of Financial Street Group for property management services.

In order to satisfy the increase in demand of Property Management Services from Financial Street Group as a whole, it is expected that the Group needs to increase its provision of corresponding services required by Financial Street Group and its associates for the three years ended 31 December 2025.

Based on the aforesaid, we concur with the Directors that the basis of determining the Property Management Services Annual Caps is reasonable.

Moreover, having considered that (i) the provision of Property Management Services by the Group to Financial Street Group fall within the ordinary business of the Group; (ii) the provision of the Property Management Services by the Group to Financial Street Group is conducted on normal commercial terms pursuant to the 2023 Property Management Services Framework Agreement; (iii) the major contract terms and property management fee in associate with Financial Street Group are comparable to that of the Independent Customers; and (iv) the anticipated increase in demand of due to the Property Management Services from Financial Street Group due to additional revenue to be generated from new phases/units of existing projects and new property management projects assigned by Financial Street Group and its associates to be completed and delivered in the coming three years, we consider that the Property Management Services Annual Caps is reasonable.

C. 2023 Deposit Service Framework Agreement

i) Principal terms of the 2023 Deposit Service Framework Agreement

The principal terms of the 2023 Deposit Service Framework Agreement are set out below:

Date:	11 November 2022 (after trading hours)
Parties:	(i) the Company; and (ii) FS Finance.
Term:	1 January 2023 to 31 December 2025 (upon the effective date of the 2023 Deposit Service Framework Agreement, it will supersede the Deposit Service Framework Agreement for its remaining term)
Subject matter:	Pursuant to the 2023 Deposit Service Framework Agreement, FS Finance shall provide the Deposit Services to the Group. The Deposit Service Framework Agreement does not restrict the Group's use of services provided by other commercial banks or independent financial institutions. The Group may (but is not obliged to) use the Deposit Services provided by FS Finance. There is no restriction or penalty on early withdrawal of the deposits by the Group. The Group can withdraw deposit of less than RMB10 million on the same day when the Group send the withdrawal instruction to FS Finance. To withdraw deposit of more than RMB10 million, the withdrawal instruction shall be sent to FS Finance one business day prior to the withdrawal date.
Pricing policy:	FS Finance undertakes to provide the Deposit Services to the Group according to the following pricing policy: (i) the interest rate in respect of the deposits placed by the Group with FS Finance will be equal to or higher than the average interest rate offered by independent major PRC state-owned commercial banks for comparable deposits of the same type and term; and

(ii) the commercial terms provided by FS Finance in respect of the Deposit Services will be equal to or more favourable compared to those offered to Independent Third Parties.

In order to ensure that the deposit interest rate and commercial terms provided by FS Finance are in line with the pricing policy and are fair and reasonable, the Company's finance department was responsible for liaising the commercial terms, etc. of the deposit service agreement with FS Finance, and has compared deposit services of the same type and term provided by FS Finance with those offered by other independent major PRC state-owned commercial banks (i.e. China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, or Bank of Communications), and also obtain not less than three quotations on deposits via conducting online enquiries. The above steps would ensure the interest rate to be provided by FS Finance to the Group will be equal to or higher than the average interest rate offered by the comparable banks for comparable deposits of the same type and term. Furthermore, the Company's finance department will also quarterly monitor and confirm that the applicable interest rates provided by FS Finance to the Group will not be lower than the interest rates of the above-mentioned five PRC state-owned commercial banks as provided in their quotations.

Condition precedent: The terms of the 2023 Deposit Service Framework Agreement are subject to the Company having obtained the approval of the Independent Shareholders.

ii) Assessment of the terms of the 2023 Deposit Service Framework Agreement

In order to assess the fairness and reasonableness of the terms of the 2023 Deposit Service Framework Agreement, we have obtained and reviewed the Deposit Service Framework Agreement, the 2023 Deposit Service Framework Agreement, the Company's internal control policy and the list of deposits setting out the information of all the deposit status within the financial year 2022 between (i) the Group and FS Finance; and (ii) the Group and independent commercial banks (the "**List of Deposits**"). We have reviewed 10 sample deposit contracts between the Group and FS Finance from the List of Deposits covering each quarter of the financial year 2022, to examine whether the deposit interest rates and other commercial terms provided by FS Finance are in line with the pricing policy specified in the 2023 Deposit Service Framework Agreement.

According to the List of Deposits, we were able to compare the interest rates with respect to each type of Deposit Services including current deposit, fixed deposit and corporate deposit offered by FS Finance against the similar type of Deposit Services with comparable duration and size offered by independent commercial banks for each quarter of the financial year 2022. We noted that the deposit interest rates offered by FS Finance ranged from approximately 0.525% to 2.25% for each type of the Deposit Services; while the corresponding interest rates offered by independent commercial banks ranged from approximately 0.25% to 1.75%. We found that by making comparison between each similar type of Deposit Services with comparable duration and size offered by FS Finance and independent commercial banks which the Group engaged during the same quarter of the financial year 2022, the interest rates offered by FS Finance were more favourable compared to those offered by independent commercial banks, we consider that the deposit interest rates offered by the FS finance are fair and reasonable. For the current deposit, the Group could withdraw the deposit from FS finance and independent major PRC state-owned commercial banks at any time and without any restrictions. For the fixed deposit, there will not be any penalty for early withdrawal from FS finance and independent major PRC state-owned commercial banks by the Group at any time. We also compared the major terms of the contracts such as service fees and the restrictions on deposit withdrawal procedures. It is considered that these arrangements are more favourable to the Group and expected to remain unchanged during the terms of the 2023 Deposit Service Framework Agreement.

We understand that the Company will ensure that the deposit interest rate and commercial terms provided by FS Finance are in line with the pricing policy and are fair and reasonable, the Company's finance department was responsible for liaising the commercial terms, etc. of the deposit service agreement with FS Finance, and has compared deposit services of the same type and term provided by FS Finance with those offered by other independent major PRC state-owned commercial banks (such as China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, or Bank of Communications etc.), and also obtain not less than three quotations on deposits via conducting online enquiries. The pricing policy would ensure the interest rate to be provided by FS Finance to the Group will be equal to or higher than the average interest rate offered by the comparable banks for comparable deposits of the same type and term. Furthermore, the Company's finance department will also quarterly monitor and confirm that the applicable interest rates provided by FS Finance to the Group will not be lower than the interest rates of other major PRC state-owned commercial banks as provided in their quotations. Based on the list of deposits and the samples deposit contracts provided by the Company, we noted that the Group followed the abovementioned pricing policy. Also, in view of the pricing policy can ensure that the interest rates offered by FS Finance to the Group were equal to or higher than the interest rates offered by the comparable banks for comparable deposits of the same type and term and creates a more favorable option to the Group, we consider that the pricing policy is fair and reasonable and on normal commercial terms.

Also, as the 2023 Deposit Service Framework Agreement is made on a non-commitment basis, the Group has the discretion in deciding whether or not to use the Deposit Services provided by FS Finance. The Group is not obliged to use the Deposit Services provided by FS Finance if it decided not to do so. The Group is free to choose the most beneficial interest rates, including depositing a sizable portion of its cash and cash equivalents with FS Finance if indeed that is the best option.

Having considered that (i) the interest rates offered by FS Finance were more favourable compared to those offered by independent commercial banks to the Group with respect to the similar type of Deposit Services with comparable duration and size under same period of time; (ii) other commercial terms offered by FS Finance were no less favourable than that offered by independent commercial banks to the Group with respect to the similar type of Deposit Service; and (iii) the Group has sole discretion to make its selection according to the relevant conditions and quality of services being delivered by other commercial banks or FS Finance, we concur with the Directors' view that the terms of the Deposit Service Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

iii) The Deposit Service Annual Caps revision

The original annual caps and transaction amounts

The following table sets out the original annual caps and the historical maximum daily deposit balances (including accrued interests) the Group deposited with FS Finance:

	For the year ending 31 December		
	2020	**2021**	**2022**
	(RMB million)	*(RMB million)*	*(RMB million)*
Original annual caps	1,000.0	1,000.0	1,000.0

	For the year ended 31 December		**For the nine months ended 30 September**
	2020	**2021**	**2022**
	(RMB million)	*(RMB million)*	*(RMB million)*
Historical maximum deposit balances (including accrued interests)	375.7	413.8	430.2[1]

Note:

1. The figure represents the maximum deposit balance (including accrued interests) for the nine months ended 30 September 2022, which is based on the management account of the Company.

Proposed Deposit Service Annual Caps and basis of determination

The following table sets out the Deposit Service Annual Caps for the three years ending 31 December 2025 under the 2023 Deposit Service Framework Agreement:

	For the year ending 31 December		
	2023	**2024**	**2025**
	(RMB million)	*(RMB million)*	*(RMB million)*
Maximum daily deposit balance	1,000	1,000	1,000
Maximum interest income	10.4	10.4	10.4

The Deposit Service Annual Caps have been determined with reference to, among other things, the following factors:

In relation to the deposit amount

(i) the historical transaction amounts of the Deposit Services: The maximum daily deposit balances (including accrued interests) placed by the Group with FS Finance for each of the two years ended 31 December 2020 and 2021 and for the nine months ended 30 September 2022 was RMB375.7 million, RMB413.8 million and RMB430.2 million, respectively, and as the Group has adopted a prudent and risk diversification investment approach, it has not utilised the annual cap in the previous years and has deposited its cash in different financial institutions;

(ii) the historical cash position of the Group: the cash and cash equivalents of the Group as at 31 December 2020 and 2021 and 30 June 2022 was RMB1,399.5 million, RMB1,397.6 million and RMB1,361.7 million, respectively;

(iii) the estimated cash and revenue to be generated from the potential target companies to be acquired by the Company using the net proceeds from the listing of H Shares of the Company. The Company intends to pursue strategic acquisition and acquire new subsidiary in the PRC to expand its business coverage. For further details, please refer to the section headed "Future Plans and use of Proceeds" in the Prospectus. The Company is in the process of identifying suitable acquisition target as at the Latest Practicable Date. As at the Latest Practicable Date, the amount of unutilised proceeds for the pursuit of strategic acquisition is RMB376.1 million; and

(iv) the Deposit Services will be obtained by the Group on a voluntary and non-exclusive basis. There is no restriction under the 2023 Deposit Service Framework Agreement on the Group's use of Deposit Services from other commercial banks or independent financial institutions; the Group has sole discretion to make its selection according to the relevant conditions and quality of services being delivered by other commercial banks or independent financial institutions. In general, other than FS Finance, the Group also places cash deposits with other commercial banks and independent financial institutions in the PRC.

Before placing deposits with FS Finance, the Company has carried out several due diligence works on FS Finance, including but not limited to inspection of its business certificates and certificate of incorporation, checking of legal compliance status of FS Finance and inspection of the financial report of FS Finance for the most recent financial year, to ensure FS Finance is entitled to and capable of providing financial services. Considering: (i) FS Finance has obtained all the relevant licences to provide Deposit Services; (ii) there exists no legal non-compliance incident by FS Finance; (iii) FS Finance is a non-bank financial institution subject to supervision of the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會) and shall operate business in accordance with the Measures for the Administration of Finance Companies of Enterprise Groups (《企業集團財務公司管理辦法》) (the "**Administrative Measures**"), which sets forth several rules/measures on supervision, management and risk control with regard to operating finance companies of enterprise groups, including but not limited to maintaining certain financial ratios and reporting to the CBIRC; and (iv) compare to the 2021 Major Supervisory Indicators of Commercial Banking Institutions* (商業銀行主要監管指標情況表(2021)) published on the website of the CBIRC which states that the bad debt ratio, capital adequacy ratio, and current ratio of commercial banks in the PRC in the fourth quarter of 2021 were approximately 1.73%, 15.13% and 60.32%, respectively. Whilst the respective financial ratios of FS Finance is approximately nil, 35.41% and 75.64% as at 31 December 2021, thus FS Finance's financial ratios show a better performance than those of the independent major state-owned commercial banks in the PRC. Also, in view of (i) FS Finance has obtained all the relevant licences to provide Deposit Services; (ii) there exists no legal non-compliance incident by FS Finance; (iii) FS Finance is a non-bank financial institution subject to supervision of CBIRC; (iv) FS Finance's financial ratios show a better performance than those of the independent major state-owned commercial banks in the PRC by comparing the data in website of the CBIRC with the financial data of the FS Finance; and (v) as advised by the Management, the Group did not encounter any recoverability problem with the deposits placed with FS Finance. We concur with the Directors that the credit risk for placing deposits with FS Finance is minimal and the credit risk assessment work performed by the Company in relation to the recoverability of the deposits placed with FS Finance is sufficient.

In relation to the interest amount

(i) the percentage, being approximately 70%, of the total deposits by the Company with FS Finance being kept in current account. Such percentage is derived from the average percentage of the total deposit by the Company with FS Finance being kept in current account as at 31 December 2020 and 2021 and 30 June 2022;

(ii) the percentage, being approximately 30%, of the total deposits by the Company with FS Finance being kept as fixed deposit. Such percentage is derived from the average percentage of the total deposit by the Company with FS Finance being kept as fixed deposit as at 31 December 2020 and 2021 and 30 June 2022; and

(iii) the projected maximum interest rate to be offered by FS Finance of approximately 2.3% for one-year fixed deposits and approximately 0.5% for one-year current deposits during the term of the 2023 Deposit Service Framework Agreement which are determined to be a 50% premium to the PBOC base rates.

Our view on the Deposit Service Annual Caps

In assessing the fairness and reasonableness of the Deposit Service Annual Caps, we reviewed the relevant information provided by the Company and discussed with the Management on the basis and assumptions of determining the Deposit Service Annual Caps and formed our opinion after considering the following factors: As noted from Board Letter, the Deposit Service Annual Caps remains the same as the historical annual caps after the Company has taken into account, including but not limited to:

(i) the historical transaction amounts of the Deposit Services between the Group and FS Finance and the high cash level maintained by the Group all the time.

The Group recorded the historical maximum daily deposit balances (including accrued interests) deposited with FS Finance amounted to approximately RMB375.7 million, RMB413.8 million and RMB430.2 million for the year ended 31 December 2020, 2021 and for the six months ended 30 June 2022 respectively. It represented an increase in historical maximum daily deposit balances by 14.5% from 31 December 2020 to 30 June 2022. As advised by the Management, it is expected that the maximum daily deposit balances will increase in the coming three years due to the high level of idle cash retained by the Group.

According to the 2022 Company interim report, the Group maintained cash and cash equivalents amounted approximately RMB1.4 billion as at 30 June 2021 and 2022. In view of the gradual increase in historical maximum daily deposit balances and cash and cash equivalents balance is much larger than the Deposit Service Annual Caps at all time, it is considered that the Deposit Service Annual Caps is reasonable and just sufficient to meet the operation need of the Group if it decides to deposit most of the idle cash in FS Finance.

(ii) The expansion of business operation will fuel the Group's cash flow generated from the operating activities

According to the Company interim report, we noted that the revenue of the Group increased by approximately 6.6% from approximately RMB628.0 million for the six months ended 30 June 2021 to approximately RMB669.6 million for the six months ended 30 June 2022. Such increase was primarily driven by the increase in GFA under management arising from the rapid increase in the projects undertaken by the Group. Further, the Group would continue to pursue its expansion strategy, intensified its corporate reform and boosted its internal forces. Leveraging on the "headquarters + regional" expansion structure, the Group kept exploring market opportunities and pursued three major expansion paths, namely open market bidding, investment, merger and acquisition, and joint venture, and focused on internal and external quality resources to achieve parallel expansion of business regions and service sectors. In the first half of 2022, the Group has established four joint venture companies with business partners respectively, expanding its business scope to Inner Mongolia Autonomous Region and Anhui Province, and further expanding its endeavours in sectors such as office buildings, education and industrial parks. As of 30 June 2022, the Group's operations covered 16 provinces and municipalities in six regions of Northern China, Southwestern China, Eastern China, Southern China, Northeastern China and Central China. The total number of projects under management was 224, representing an increase of 48 compared with the corresponding period in 2021. The total GFA was approximately 34.81 million sq.m., representing an increase of approximately 23.87% as compared with the corresponding period in 2021. As advised by the Management, it is believed that the business expansion will continue in the coming years and it will further boost up the cash level as well as the demand in Deposit Services to be provided by FS Finance. In view of the abovementioned, it is considered that the Deposit Service Annual Caps is reasonable.

Also, we have been advised by the Management that, when determining the interest amount of the Deposit Service Annual Caps, the Company has made reference to the average daily balance deposited in FS Finance amongst current accounts and fixed deposits as at 31 December 2020 and 2021 and 30 June 2022, and noted that approximately 70% of the average daily balance were maintained in current accounts, with the remaining balance was kept as fixed deposits. The management then determined interest amount of the Deposit Service Annual Caps to be the weighted sum of (i) 70% of the Deposit Service Annual Caps with the projected maximum current account interest rate of 0.525%; and (ii) 30% of the Deposit Service Annual Caps with the projected maximum one-year fixed deposit interest rate of 2.25%. We reviewed the calculation provided by the Company and no material deviation was found.

INTERNAL CONTROL MEASURES

In order to ensure that the transactions contemplated under the following internal control measures in relation to the transactions contemplated under the Renewal of Connected Transactions Framework Agreements:

(i) the Group will maintain a database of fees paid to the Group in respect of property management services, which is compiled by property type, geographical location of the property, the scope of property management services to be provided by the Group and the identity of the customer;

(ii) the connected transaction panel (consists of members from the office of the Board, the finance department and the risk and legal center of the Company) of the Company will be responsible for regular monitoring of the continuing connected transactions contemplated under the 2023 Leasing Framework Agreement, 2023 Property Management Services Framework Agreement and 2023 Deposit Service Framework Agreement to ensure that the Lease Annual Caps, Property Management Services Annual Caps and Deposit Service Annual Caps will not be exceeded. When the transaction volume approaches 85% of Lease Annual Caps, Property Management Services Annual Caps and Deposit Service Annual Cap for the respective financial year, the connected transaction panel will report immediately to the management and the Board and the Group will cease to enter into any new transaction;

(iii) prior to entering into any transactions contemplated under the 2023 Leasing Framework Agreement, the 2023 Property Management Services Framework Agreement and the 2023 Deposit Service Framework Agreement, the relevant key management personnel of various business departments of the Group will review and assess the specific terms and conditions of the transactions to ensure their consistency with the 2023 Leasing Framework Agreement, the 2023 Property Management Services Framework Agreement and the 2023 Deposit Service Framework Agreement. The relevant officers will examine, among others, (a) information of the parties; (b) the terms of the agreement and compare it with the terms of similar services offered by Independent Third Parties; (c) the type and scope of services to be provided by the Group thereunder; and (d) whether the contract price is in line with the relevant pricing policies, in order to ensure comments (if any) from various departments of the Group will be properly addressed;

(iv) the Company will engage its auditors to conduct an annual review of the continuing connected transactions to be conducted pursuant to the 2023 Leasing Framework Agreement, the 2023 Property Management Services Framework Agreement and the 2023 Deposit Service Framework Agreement; and

(v) the independent non-executive Directors will review the continuing connected transactions to be conducted pursuant to the 2023 Leasing Framework Agreement, the 2023 Property Management Services Framework Agreement and the 2023 Deposit Service Framework Agreement on an annual basis and confirm whether such continuing connected transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and in accordance with the 2023 Leasing Framework Agreement, the 2023 Property Management Services Framework Agreement and the 2023 Deposit Service Framework Agreement on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Board considers that such internal control procedures on pricing can effectively ensure that the pricing and terms of the transactions contemplated under the Renewal of Connected Transactions Framework Agreements are conducted on normal commercial terms and on terms no less favourable than those terms for similar service by the Group to Independent Third Parties, and in accordance with the pricing policies of the Group.

We have further reviewed the internal control manual regarding the continuing connected transactions and as advised by the Management, we noted that (i) the relevant management personnel from the responsible departments will supervise and monitor the connected transactions contemplated under the Renewal of Connected Transactions Framework Agreements on regular basis to ensure the relevant transactions are conducted on normal commercial terms, in the ordinary course of business and are in the interests of the Company and the Shareholders as a whole; (ii) independent non-executive Directors will review the connected transactions contemplated under the Renewal of Connected Transactions Framework Agreements annually and confirm that the relevant transactions have been conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, and in accordance with the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and (iii) auditor of the Company will review and issue letter containing its findings and conclusions in respect of the Group's continuing connected transactions according to the Listing Rules.

In view of the above, we consider that the terms of reference, if implemented effectively by the Company, are sufficient to safeguard Shareholders' interest in the provision the Renewal of Connected Transactions Framework Agreements. Accordingly, we are of the view that the internal control procedures are in place and in compliance with the internal measures as mentioned above.

OPINION AND RECOMMENDATIONS

Having considered the above principal factors and reasons, we are of the view that the Renewal of Connected Transactions Framework Agreements and the related caps are (i) in the ordinary and usual course of the business of the Group; (ii) on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend Independent Shareholders to vote in favour of the relevant resolution for approving the 2023 Leasing Framework Agreement, the 2023 Property Management Services Framework Agreement and the 2023 Deposit Service Framework Agreement and the related annual caps at the EGM.

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

Jim Lui *CFA, FCPA, FCCA, ACA*	**Jason Wong**
Managing Director	*Vice President*
Investment Banking Department	Investment Banking Department

Mr. Jim Lui is currently a responsible officer of Dongxing Securities (Hong Kong) Company Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Lui has over 18 years of experience in the corporate finance industry, and has participated in the provision of independent financial advisory services for various connected transactions involving companies listed in Hong Kong.

Mr. Jason Wong is currently a responsible officer of Dongxing Securities (Hong Kong) Company Limited to carry out Type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Wong has over 8 years of experience in the corporate finance industry, and has participated in the provision of financial advisory and independent financial advisory services for various connected transactions involving companies listed in Hong Kong.