瓏盛資本有限公司
Draco Capital Limited

Draco Capital Limited
4/F Connaught Harbourfront House
35 Connaught Road West,
Sheung Wan , Hong Kong

+852 3619 2588

22 July 2025

To the Independent Board Committee and the Independent Shareholders of
China South City Holdings Limited

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS
PROVISION OF PROPERTY MANAGEMENT SERVICES

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 entering into of the Property Management Services Framework Agreement, the transaction contemplated thereunder and the proposed annual caps, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 22 July 2025 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.

Reference is made to the announcement of the Company dated 16 May 2025 regarding, among other things, the Property Management Services Framework Agreement and the transaction contemplated thereunder.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, SZCDG holds approximately 29.28% of the Shares in issue, and hence is a substantial shareholder and connected person of the Company. As First Asia Pacific is an associate of SZCDG, First Asia Pacific is a connected person of the Company. Therefore, the transaction contemplated under the Property Management Services Framework Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the annual caps for the Property Management Services exceed 5%, the Property Management Services are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, consisting of Mr. Leung Kwan Yuen Andrew, Mr. Li Wai Keung, Mr. Hui Chiu Chung and Dr. Li Xu, all being independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Property Management Services Framework Agreement, transactions contemplated thereunder and the proposed annual caps. Pursuant to Rule 13.39(6) of the Listing Rules, we, Draco Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Property Management Services Framework Agreement, the transactions contemplated thereunder and the proposed annual caps.

OUR INDEPENDENCE

During the past two years immediately preceding the IFA Obligation Commencement Time (as defined under Rule 13.84 of the Listing Rule), there was no engagement between the Company or SZCDG and us. Apart from normal professional fee payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group or the Directors, chief executive and substantial Shareholders or SZCDG or any of its subsidiaries or their respective associates, and any parties acting in concert with them. As at the Latest Practicable Date, there were no relationships or interests between (a) the Group, SZCDG and their respective subsidiaries and associates; and (b) us that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser. Therefore, we consider ourselves eligible to act as the Independent Financial Adviser to the Company under the requirements of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group (the "**Management**"); and (iv) our review of the relevant public information.

We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon and continue to be so up to the date of the EGM. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and continue to be so up to the date of the EGM and all such statements of belief, opinions and intentions of the Directors and the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the Management. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the Management are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the EGM. Independent Shareholders will be informed of any material change of information and the representations made or referred to in the Circular as soon as possible up to the date of the EGM.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. In formulating our recommendation in relation to the Property Management Services Framework Agreement and pursuant to Rule 13.80(2), we have obtained and reviewed the relevant information in relation to the Property Management Services Framework Agreement and the transactions contemplated thereunder, among others, (i) the Property Management Services Framework Agreement; (ii) the annual report for the year ended 31 December 2024 of the Company (the "**2024 Annual Report**"); (iii) the recent announcements of the Company during the period from 1 January 2023 to the date of the Property Management Services Framework Agreement; and (iv) the information set out in the Circular.

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 reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, or any of its respective substantial shareholders, subsidiaries or associates.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Property Management Services Framework Agreement and the transactions contemplated thereunder (including the proposed 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 purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations to the Independent Shareholders, we have taken into consideration the following principal factors and reasons. Our conclusions are based on the results of all analyses taken as a whole.

1 Background Information of the Parties to the Property Management Services Framework Agreement

1.1 Information on the Group

The Group is engaged in development and operation of large-scale integrated logistics and trade centres in China. It provides professional integrated logistics and trading platforms with comprehensive value-added ancillary services and facilities, including but not limited to logistics and warehousing services, property management, outlet operations, e-commerce services, convention and exhibition services – to assist small-to-medium enterprises in modernising the way they conduct business. On property leasing and management, the Group manages residential, shopping malls, wholesale market, and conference and exhibition facilities, and is capable of managing both trade centre premises and residential properties. Additional sources of income are available from projects, including from advertising and exhibitions, temporary space leasing, and parking charges. The Group also focuses on investment, development and construction of project sites, and has developed various types of commercial complexes in a number of projects, including multi-purpose commercial properties and auxiliary facilities in Shenzhen, Nanning, Nanchang, Xi'an (via an associated company of the Company), Harbin, Zhengzhou, Hefei and Chongqing. Additionally, the Group provides comprehensive supply chain integrated logistics solutions and intelligent hardware infrastructure to realize data and internet-based management of project sites.

Capitalising on the Group's unique and flexible business model, proven operational capabilities and extensive experience in co-operating with local governments to support urbanization and industrial upgrade throughout China, the Group has developed an extensive network with eight projects in different provincial capitals and municipalities across the nation, including Shenzhen, Nanning, Nanchang, Xi'an (via an associated company of the Company), Harbin, Zhengzhou, Hefei and Chongqing.

1.2 Financial Performance on the Group

With reference to the annual report of the Company for the year ended 31 December 2024 ("**FY2024**"), changed its financial year end date from 31 March to 31 December at the end of 2023. Accordingly, the preceding financial period covered the nine months ended 31 December 2023 ("**FY2023**") whereas the current financial year covered the twelve months ended 31 December 2024. Therefore, the relevant figures shown are not directly comparable.

The main objective of the Group's financial management is to pursue long-run sustainable growth while maintaining financial health through a strong and stable capital base.

The Group actively manages its financing structure through various financing channels, from onshore and offshore bank loans to different interbank and capital market instruments, in order to achieve an optimal capital structure and maturity profile. As at 31 December 2024, the total interest-bearing debts of the Group were HK$30,220.4 million (31 December 2023: HK$31,752.3 million). The gearing ratio was 110.9% (31 December 2023: 84.0%). Furthermore, as at 31 December 2024, cash and bank balances were HK$717.7 million (31 December 2023: HK$1,143.6 million).

Comparing with the last fiscal year, the revenue of the Group increased by 16.4% to HK$4,083.4 million (FY2023: HK$3,508.9 million). Net loss attributable to owners of the parent was HK$8,975.8 million (FY2023: HK$4,317.5 million) and the basic loss per share was HK78.45 cents (FY2023: HK37.73 cents). The net loss attributable to owners of the parent and loss per share are mainly due to (i) increase in the provision for inventory impairment; (ii) reversal of deferred tax assets; (iii) increase in finance cost due to reduce of interest capitalised on properties under development; and (iv) fair value losses on investment properties.

Revenue for FY2024 increased by 16.4% to HK$4,083.4 million (FY2023: HK$3,508.9 million) comparing with last fiscal year, which was mainly attributable to both increase in sales of properties and recurring income during FY2024.

Revenue from sale of properties increased by 18.7% to HK$2,995.1 million (FY2023: HK$2,522.7 million). The increase was mainly due to the fact that during FY2024, more properties that had completed contract sales in previous periods were delivered during FY2024. Due to the very weak overall property market, property contract sales during FY2024 recorded a deep adjustment compared to the same period last year.

The Group intends to retain certain of trade centre units for self-use or rental purposes. Meanwhile, the Group also provide property management services for its trade centres, shops and residential properties delivered and in use. Given the diversity of its property types and industries in the Group's projects, the Group's business management division continued to provide diversified leasing and property management services, to cater the needs of different property types and industries across respective projects during FY2024. Property leasing income will become an important component of the recurring income of the Group in the long run. CSC Shenzhen, being the more mature project in the Group's portfolio, contributed a substantial part of the property leasing income. During FY2024, due to decline of leasing demand, the Group's property rental income was HK$543.1 million, an annualized decrease of 10.9% compared with last financial period (FY2023: HK$456.9 million).

Other recurring revenue increased by 3.0% to HK$545.2 million (FY2023: HK$529.4 million). Revenue from logistics and warehousing services decreased to HK$123.5 million (FY2023: HK$179.0 million) due to the decrease in the third party logistic services income for FY2024, and the revenue from outlet operations increased to HK$326.8 million (FY2023: HK$261.5 million), mainly attributable to boost-up promotion in order to attract customers during FY2024.

Gross profit decreased by 5.3% to HK$765.9 million (FY2023: HK$808.7 million). During FY2024, gross profit margin decreased to 18.8% (FY2023: 23.0%), which was mainly due to the relatively low in average selling price of properties previous sold.

The Group finances its development and operations primarily through internally generated funds, bank and other borrowings, and the issuance of different types of bonds and notes on the onshore and offshore market, which includes but not limited to senior notes, short-term notes, medium-term notes, corporate bonds and domestic company bonds. The Group will continue to explore different financing means and to extend its financing channels.

As at 31 December 2024, the Group had HK$717.7 million cash and bank balances (31 December 2023: HK$1,143.6 million), of which HK$676.6 million were restricted cash (31 December 2023: HK$913.6 million). The Group's cash and bank balances were primarily denominated in Renminbi, HK dollars and US dollars.

1.3 Information on First Asia Pacific

First Asia Pacific is a limited liability company established in the PRC. It is principally engaged in the provision of property management services. As at the Latest Practicable Date, SZCDG and First Asia Pacific Group Company Limited (an indirect wholly-owned subsidiary of the Company) each held 50% equity interest in First Asia Pacific.

2 Principal Terms of the Property Management Services Framework Agreement

On 16 May 2025 (after trading hours), the Company and First Asia Pacific (an associate of SZCDG) entered into the Property Management Services Framework Agreement for the provision of Property Management Services by the First Asia Pacific Group to the Group for the period from 1 April 2025 to 31 December 2027.

Date

16 May 2025 (after trading hours of the Stock Exchange)

Parties

1. the Company; and

2. First Asia Pacific.

Term and Subject Matter of the Property Management Services Framework Agreement

Effective from 1 April 2025 to 31 December 2027 (both days inclusive), subject to termination as agreed by both parties.

Property management services from the First Asia Pacific Group to the Group, including security, cleaning service, customer service, maintenance of order, parking management, equipment and facility maintenance, pre-delivery consultancy services, sales office coordination, gardening and road maintenance and polishing services.

Pricing and other terms

The parties to the Property Management Services Framework Agreement have agreed that each transaction contemplated under the Property Management Services Framework Agreement will be negotiated on an arm's length basis to ensure the relevant pricing terms are on normal commercial terms and no less favourable than those being agreed with the Independent Third Parties for comparable transactions.

In particular:

(a) the property management fee for each property used or leased by the Group will be the multiple of the area of the relevant property (in sq. m.) and the property management fee of the relevant property project per sq. m.;

(b) the property management fee per sq. m. for each property project shall be determined based on (a) reasonable costs of the First Asia Pacific Group, which mainly comprise of (x) labour costs with reference to the size of the relevant property projects and (y) other costs such as utility expenses, subcontracting costs, maintenance expenses, administrative cost, daily operational cost, fee for professional services and (b) standard unit rates per sq. m. ranging from RMB1/month to RMB20/month (which vary primarily based on the types of property, size of the relevant property, the geographical location of the relevant property, the expectation of service quality and expected operational costs in the area), and also determined by reference to (x) the market price of similar services for similar property types within the same location and (y) the impact of inflation and fluctuation in costs (there being a positive correlation between, on the one hand, the exact standard unit rate for each property and, on the other hand, the prevailing inflation rate or fluctuation in costs), in accordance with usual commercial terms;

(c) for ancillary services such as advertising, public venue and various management services, lighting, road maintenance, professional fire crew, a gross profit margin of around 10% above cost will be charged, which is with reference to the prevailing market prices for similar ancillary services (such as maintenance and management of common areas, security services, pre-delivery consultancy services and sales office coordination) in the PRC based on at least three recent comparable transactions considered by the Company; and

(d) the property management fee for vacant units will be calculated based on the Specific Agreements.

During the term of the Property Management Services Framework Agreement, the Company will as an internal control measure, make reference to the fees and terms in relation to the provision of management services of similar nature and of similar terms by Independent Third Parties (if any) on a regular basis and compare them with the fees and terms for the provision of services by the First Asia Pacific Group to the Group to ensure that the fees payable by the Group to the First Asia Pacific Group will be no less favourable than the fees payable to Independent Third Parties for the provision of services of similar nature and of similar terms, and are based on normal commercial terms and fair and reasonable. Given that the Property Management Services are common services in the industry, the Company is of the view that quotes from Independent Third Parties will be readily available and will typically obtain quotes from three services providers for comparison. However, in the event that no quotes are available from Independent Third Parties, the Company will refer to property management fee levels charged in neighbouring properties and will also request the First Asia Pacific Group to provide evidence to support that the fees to be charged to the Group is comparable to fees that the First Asia Pacific Group charges other external customers.

Payment

The time and means of payment shall be agreed by the relevant parties in the Specific Agreements. Property management service fees are mainly settled on a monthly basis, while other services such as advertising, park lighting, park roads and professional fire brigades are settled on a quarterly basis.

Our Assessment

We have discussed with the Management and note that in order to ensure that the terms and the pricing under the transactions contemplated under the Property Management Services Framework Agreement are on normal commercial terms and not less favourable than those of the same (or similar) services supplied by Independent Third Parties at the relevant times, the Management would refer to at least three comparable transactions in determining the pricing of the transactions contemplated under the Property Management Services Framework Agreement.

For our due diligence purpose, we have obtained and reviewed (i) 10 samples of contracts entered into between the Group and First Asia Pacific Group in respect of property management services provided by First Asia Pacific Group for properties used or leased by the Group (the "**Group Property Management Contracts**"); and (ii) 6 samples of contracts entered into between First Asia Pacific Group and Independent Third Parties in respect of the property management services provided by First Asia Pacific Group for properties used or leased by the independent third parties (the "**I3P Property Management Contracts**"). These contracts were entered into on or before 2022 but remained effective during the review period from 15 July 2022 to 31 December 2024, ensuring coverage of the period from 15 July 2022 to 31 December 2024 under consideration. Such (a) 10 samples of contracts between the Group and First Asia Pacific Group; and (b) 6 samples of contracts between First Asia Pacific Group and Independent Third Parties, were selected on a random basis, with all samples are selected for each year within the review period and such contracts are referenced to the same template. It includes all relevant transactions for property management services during the review period, ensuring that the population from which samples were drawn was exhaustive and representative. The random selection was conducted without pre-selection bias, thereby minimizing the risk of cherry-picking or skewed representation. All samples were randomly selected and the records reviewed contained sufficient details regarding services types, services charge calculation, and payment terms.

The selected samples for both the Group Property Management Contracts and the I3P Property Management Contracts related to comparable property management services, as defined under the Property Management Services Framework Agreement. We observed that the I3P Property Management Contracts represent the property management services provided by First Asia Pacific Group to the tenants of the Group. As such the respective property management services provided by First Asia Pacific Group to the Group and the respective independent third parties represent properties at the similar locations. We further observed that the service scope and pricing policy applied in the Group Property Management Contracts was in line with or no less favourable than those under the I3P Property Management Contracts.

Given that (i) the process for the transactions contemplated under the Property Management Services Framework Agreement including the corresponding internal control procedure is consistent throughout the period under our review; (ii) the aforesaid samples are obtained on random basis; and (iii) the samples we obtained are consistent and did not demonstrate any discrepancy to our understandings on the arrangement of the Property Management Services, including the respective internal control procedure, we are of the view that those samples are sufficient for us to assess the arrangement of the Property Management Services, including the respective internal control procedure.

On the basis of our review, we note that (i) the terms of the Property Management Services as reviewed by us were in line with the transaction terms between the Group and other suppliers of similar services which are Independent Third Parties; (ii) the pricing of the Property Management Services are no less favourable than the similar serviced provided by Independent Third Parties; (iii) the payment terms offered by First Asia Pacific Group are no less favourable than those terms offered by Independent Third Parties; (iv) the Property Management Services were on normal commercial terms when compared with those applicable to the similar services supplied by Independent Third Parties; and (v) the Company's respective internal control procedures are structured and well-documented and are effective in ensuring that the pricing of the Property Management Services is on normal commercial terms and no less favourable than those offered by Independent Third Parties. As such, we are of the view that the terms of the Property Management Services Framework Agreement are on normal commercial terms or better and not prejudicial to the interests of the Company and the Independent Shareholders and are fair and reasonable.

3 Historical Transaction Amounts and Proposed Annual Caps for the Property Management Services Framework Agreement

Historical Amount

The following table sets out the historical annual caps, transaction amounts and utilisation rates for property management services provided by the First Asia Pacific Group to the Group:

	For the period from 15 July 2022(2) to 31 March 2023	For the nine months ended 31 December 2023	For the year ended 31 December 2024
	HK$'000	*HK$'000*	*HK$'000*
Historical annual caps	309,100	299,550	394,825
Historical transaction amounts	84,489	277,505	388,306
Utilization rates	27%	93%	98%

Notes:

(1) The exchange rates of RMB1.00 = HK$1.1395, RMB1.00 = HK$1.1006 and RMB1.00 = HK$1.0956 have been used for illustration of the amounts of historical transaction for each of the three periods referred to in the table above, respectively.

(2) Represents the date of the equity transfer agreement pursuant to which the Group disposed 50% equity interest in First Asia Pacific to SZCDG.

From 1 April 2025 up to the Latest Practicable Date, the transaction amounts for property management services provided by the First Asia Pacific Group to the Group amounted to approximately HK$5.5 million. As one or more of the applicable percentage ratios for such transactions is above 0.1% but are all below 5%, such transactions are only subject to annual review, reporting and announcement (which the Company has complied with on 16 May 2025) requirements as set out in Chapter 14A of the Listing Rules, but are exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements.

Proposed Annual Caps

The following table sets out the annual caps for the continuing connected transactions contemplated under the Property Management Services Framework Agreement:

For the nine months ending 31 December 2025 *HK$'000*	For the year ending 31 December 2026 *HK$'000*	For the year ending 31 December 2027 *HK$'000*
370,000	540,000	610,000

Our View

In assessing the reasonableness and fairness of the proposed annual caps for the continuing connected transactions contemplated under the Property Management Services Framework Agreement (the "**Proposed Annual Caps**"), we have discussed with the Management and note that the Proposed Annual Caps were determined with reference to a number of factors, including, among other things:

(i) the scope of services required as changes in the scope of work will affect costs (such as labour costs) and therefore management fees. Based on our discussion with the Management, the Company does not foresee material changes in the scope of services to be provided under the Property Management Services Framework Agreement;

(ii) the total contracted area under management and chargeable area under management of the property projects (i) owned or developed by the Group and (ii) managed by the First Asia Pacific Group as at the date of the Property Management Services Framework Agreement, which are 23.57 million sq. m. and 18.86 million sq. m., respectively;

(iii) the expected increase in relevant staff costs and the administrative and daily operational costs. Based on our discussion with the Management, the Company expects such costs to remain stable based on current market conditions;

(iv) the possible increase in the services required, depending on the actual circumstances. Based on our discussion with the Management, the Company does not foresee material increases in the property management services to be provided under the Property Management Services Framework Agreement;

(v) the expected delivery of property projects owned and developed by the Group. Based on the Group's expected delivery timetable, the contracted areas will increase by approximately 10% to 15%, which is similar to the increase in the annual caps for the Property Management Services Agreement;

(vi) the estimated vacancy rate of the areas under management, which is expected to remain stable as expressed by the Management;

(vii) the historical transaction amounts paid to the First Asia Pacific Group for provision of property management services to the Group. As stated in the Board Letter, we note that the utilisation rates of the annual caps for the nine months ended 31 December 2023 and for the year ended 31 December 2024 had reached 93% and 98%, respectively;

(viii) the management fees charged by Independent Third Parties for services in similar scope and quality provided to the Group;

(ix) potential inflation rate increases of approximately 2% per annum and currency exchange fluctuation; and

(x) a reasonable buffer for unexpected increase in management fee.

To assess the reasonableness of the Proposed Annual Caps, we reviewed the previous annual caps, which amounted to HK$309,100,000 for the period from 15 July 2022 to 31 March 2023 (approximately 8.5 months, annualized to HK$436,376,471), HK$299,550,000 for the nine months ended 31 December 2023 (annualized to HK$399,400,000), and HK$394,825,000 for the year ended 31 December 2024. The Proposed Annual Cap for the nine months ending 31 December 2025, at HK$370,000,000 for nine months (annualized to approximately HK$493,333,333), represents a moderate increase over the 2024 figure, reflecting anticipated growth in the Company's property portfolio and operational costs. The Proposed Annual Caps for the two years ending 31 December 2026 and 2027, at HK$540,000,000 and HK$610,000,000 respectively, further account for expected portfolio expansion, as detailed in the 2024 Annual Report, which highlights significant gross floor areas across projects such as CSC Shenzhen (2.71 million sq. m.) and CSC Nanning (4.88 million sq. m.), and rising costs.

The Proposed Annual Cap for the nine months ending 31 December 2025 of HK$370,000,000 (annualized to HK$493,333,333) represents a 27.0% increase over the actual amount for the year ended 31 December 2024 (i.e. HK$388,306,000), while the Proposed Annual Caps for the two years ending 31 December 2026 and 2027 reflect increases of 39.0% and 57.1%, respectively, over 2024's actual amount. The high utilization rates in 2023 (93%) and 2024 (98%) suggest that the historical caps were well-aligned with actual service demands, and the moderate 2025 increment reflects anticipated growth in service requirements, while the larger increments for 2026 and 2027 align with expected portfolio expansion, as detailed in the 2024 Annual Report, which highlights significant planned gross floor areas.

Meanwhile, we have also reviewed the Company's internal projections and held discussions with the Management to understand the factors driving the buffer size and annual increments. The Management expresses that under the existing properties remain unchanged, the scale of new deliverable properties is considered to increase by 15% each year.

Meanwhile, based on our further independent studies, the property management industry in the PRC is experiencing growth, driven by rapid urbanization and increasing demand for high-quality services. Industry reports indicate a shift towards value-added service models, which supports the need for higher management fees to cover enhanced services and operational complexities (source: "China's property management industry: a major beneficiary from COVID-19", Eastspring Investments, Inc.).

We also cross-referenced with external data, noting that China's inflation rate was 0.2% in 2024 but is projected to reach 1.7% in 2025 (source: "World Economic Outlook Database, April 2025", the International Monetary Fund, April 2025).

Furthermore, according to CEIC Data, an ISI Emerging Markets Group Company, the average property management fee for common residences in 36 Chinese cities was RMB1.23 per square meter per month in January 2025, equating to RMB14.76 annually (source: "China Service Charges: 36 City Avg: Property Management Fee: Common Residence: Monthly Fee", conducted by Price Monitoring Center, National Development and Reform Commission of the PRC, updated January 2025). For the Group's chargeable area of 18.86 million square meters, this translates to an annual cost of approximately RMB278.8 million, or HK$305.3 million at an exchange rate of RMB1.00 = HK$1.0956. Given that the Group's portfolio includes commercial and logistics properties, which typically command higher fees due to their complexity and service requirements, the proposed caps are appropriately set above this residential baseline.

Furthermore, historical data from CEIC Data shows that property management fees for common residences have risen significantly, from RMB0.38 per square meter per month in February 2003 to RMB1.23 per square meter per month in January 2025, representing a compound annual growth rate of approximately 5.57%, reflecting a long-term trend of increasing costs. This industry context supports the Proposed Annual Caps which incorporate a prudent buffer to accommodate potential increases in service demands, such as those arising from new project deliveries or unforeseen operational needs.

Taking into account of the above, we are of the view that the proposed annual caps for the continuing connected transactions contemplated under the Property Management Services Framework Agreement for the Purchase Transactions are fairly determined and are fair and reasonable.

4 Reasons for and Benefit of Entering into the Property Management Services Framework Agreement

Reasons and Benefits

The First Asia Pacific Group has been providing property management services to the Group since 2004. By entering into the Property Management Services Framework Agreement, the Group will continue to have access to quality property management services provided by the First Asia Pacific Group. Moreover, the First Asia Pacific Group has extensive experiences in providing property management services for commercial and logistics parks and trade centres, which is a rare competitive strength in the industry. The Directors believe that it is beneficial to the business of the Group to engage the First Asia Pacific Group for providing property management services to the Group as it is competitive in terms of price, efficiency, quality and reliability in the provision of such services.

Our View

With reference to the circular of the Company dated 25 August 2022, the Company disposed of a 50% equity interest in First Asia Pacific to SZCDG through an equity transfer agreement dated 15 July 2022. Pursuant to the then equity transfer agreement, upon completion of the respective equity transfer, the Company was required to engage First Asia Pacific to manage all existing and future property projects owned by the Group and to use its best endeavours to procure First Asia Pacific's engagement for the property management of both present and future property projects developed by the Group. Building on this established relationship, the Company entered into the Property Management Services Framework Agreement with First Asia Pacific to continue the provision of comprehensive property management services for the Group's projects from 1 April 2025 to 31 December 2027.

Based on our discussion with the Management, the Property Management Services Framework Agreement ensures the continuity of high-quality, efficient, and reliable property management services, leveraging First Asia Pacific's extensive experience in managing commercial and logistics parks, in alignment with the Group's operational needs and strategic objectives.

We note that the Group is principally engaged in the development and operation of large-scale integrated logistics and trade centres across the PRC, managing a diverse portfolio of commercial, residential, and logistics properties in eight key cities, including Shenzhen, Nanning, Nanchang, and others. Property management services are integral to the Group's operations, ensuring the maintenance, security, and operational efficiency of its trade centres, commercial complexes, and ancillary facilities, which directly contribute to tenant satisfaction, property value enhancement, and the Group's recurring income from leasing and related services. The Property Management Services Framework Agreement, effective from 1 April 2025 to 31 December 2027, allows the Group to continue leveraging First Asia Pacific's expertise in providing tailored property management services, including security, cleaning, customer service, parking management, equipment maintenance, and pre-delivery consultancy, among others.

First Asia Pacific has been providing property management services to the Group since 2004, establishing a robust and reliable partnership. Over the years, First Asia Pacific has developed a deep understanding of the Group's operational requirements, property types, and strategic objectives, enabling it to deliver high-quality services that align with the Group's focus on modernizing logistics and trade platforms for small-to-medium enterprises. Based on our discussion with the Management, the Company has highlighted First Asia Pacific's competitive strengths in price, efficiency, quality, and reliability, underpinned by its extensive experience in managing commercial and logistics parks, a niche capability within the industry.

As stated in the Annual Report 2024 of the Company, it reflects the challenges faced by the PRC real estate sector. In this context, engaging First Asia Pacific under the Property Management Services Framework Agreement offers several strategic benefits. Firstly, it ensures continuity of professional property management services without the need for the Group to invest in developing in-house capabilities, thereby conserving capital during a period of financial strain. Secondly, First Asia Pacific's familiarity with the Group's projects minimizes operational disruptions and enhances service delivery efficiency, which is critical for maintaining tenant retention and attracting new merchants to the Group's trade centres. Thirdly, the engagement supports the Group's operational strategy of focusing on merchant recruitment and stable park operations, by ensuring well-maintained facilities that enhance the appeal of its properties.

Based on our discussion with the Management, it is expected that the PRC property management industry would grow steadily, driven by urbanization and increasing demand for quality property services. The Group's projects, strategically located in alignment with national initiatives such as the Greater Bay Area and the Belt and Road, are well-positioned to benefit from this growth. By securing First Asia Pacific's services, the Group can enhance the operational quality of its properties, potentially increasing leasing income and supporting its long-term goal of generating stable recurring revenue from property leasing.

Having considered the above factors, we are of the view that the reasons for entering into the Property Management Services Framework Agreement are sound and that the agreement is in the ordinary and usual course of the Group's business. The benefits, including cost efficiency, operational stability, and enhanced property value, are aligned with the Group's strategic objectives and are in the interests of the Company and the Independent Shareholders as a whole.

5 Internal Control Measures for the Property Management Services Framework Agreement

We note that in order to ensure that the transactions contemplated under the Property Management Services Framework Agreement and Specific Agreements are (i) conducted on normal commercial terms, fair and reasonable and no less favourable than those agreed with Independent Third Parties for the provision of services of similar nature and of similar terms; and (ii) comply with the annual caps and pricing policies under the Property Management Services Framework Agreement, the following internal control procedures shall be implemented by the Company:

(a) the Company has adopted and implemented a management system on connected transactions. The Board and various other internal departments of the Company are jointly responsible for evaluating the terms of the transactions contemplated under Property Management Services Framework Agreement and Specific Agreements in particular, the fairness of the pricing policies under each Specific Agreement, the management of the Company also reviews the pricing policies of the Property Management Services Framework Agreement annually. In addition, various other internal departments of the Company monitor the implementation of the Property Management Services Framework Agreement from time to time, and the finance department is responsible for monitoring the transaction amounts of the continuing connected transactions contemplated under the Property Management Services Framework Agreement to ensure that the annual caps under the Property Management Services Framework Agreement are complied with, and that any Specific Agreement shall be entered into by the Company with the prior approval of the finance department. The Group has set up (i) the Operation and Management Division, which is responsible for promoting the delivery and leasing of properties and updating the business operations department and the finance department on the status of properties in a timely manner; (ii) the Recruitment and Operations Division, which is responsible for reviewing leasing plans and conducting market research, and communicating with the First Asia Pacific team on leasing strategies in real time from time to time; (iii) the Internal Audit and Legal Division, which is responsible for reviewing the service agreements between the property management company and us and third-party tenants to ensure the fairness and compliance of the transaction terms; (iv) the Finance and Treasury Division, which is responsible for reviewing rental settlement and quantitative analysis, etc.; and (v) the monthly, quarterly and annual business briefings, in which the above divisions all participate and make key reports to the management;

(b) when considering the fees for property management services and ancillary services to be provided to the Group by the First Asia Pacific Group, the Group will constantly research into prevailing market conditions and practices and make reference to the pricing and terms of, subject to availability, at least three comparable transactions (for similar services for similar property types within the similar geographical area) between the Group and Independent Third Parties, to make sure that the pricing and terms offered by First Asia Pacific Group after arm’s length negotiations, are no less favourable than those offered by Independent Third Parties;

(c) the independent non-executive Directors and auditors of the Company will conduct annual review of the continuing connected transactions under the Property Management Services Framework Agreement and provide annual confirmation to ensure that the Property Management Services are conducted in accordance with the terms of the Property Management Services Framework Agreement (including the relevant pricing policies), on normal commercial terms and in the ordinary and usual course of business of the Group in accordance with Rules 14A.55 and 14A.56 of the Listing Rules; the audit committee of the Company will review the Company's financial controls, risk management and internal control systems; and when considering any renewal or revisions to the Property Management Services Framework Agreement, the Company will then comply with the Listing Rules as applicable; and

(d) the Company has a system in place to monitor the Group's connected transactions and the renewal of continuing connected transactions, which includes maintaining and regularly updating the list of connected persons of the Company, maintaining a list of connected transactions including details in relation to their expiration dates, checking the contracting party in each transaction to confirm whether it is a connected person, monitoring the value of transactions that are identified as connected transactions (on an aggregated basis where applicable) against the thresholds for triggering disclosure and shareholders' approval requirements under the Listing Rules and ensuring that relevant business departments are regularly updated in relation to the renewal of continuing connected transactions.

We have considered and noted that:

(i) the Company has adequate internal control procedures in respect of the Property Management Services Framework Agreement as aforementioned;

(ii) the documents reviewed by us are consistent with the relevant internal control measures as aforementioned;

(iii) We have obtained and reviewed the reports issued by the auditors of the Company for FY2023 and FY2024 and note that the auditors of the Company have concluded that nothing had come to their attention that caused them to believe that: (1) the historical continuing connected transactions of the Group have not been approved by the Board; (2) the historical continuing connected transactions of the Group were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group; (3) the historical continuing connected transactions of the Group were not entered into, in all material respects, in accordance with the relevant agreements governing the historical continuing connected transactions of the Group; and (4) the historical continuing connected transactions of the Group have exceeded the relevant cap amounts during FY2023 and FY2024; and

(iv) the Independent Board Committee comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders of the transactions.

In view of the above, we consider that the internal control procedures of the Group governing the continuing connected transitions of the Group are sufficient and effective to implement the continuing connected transitions of the Group and can be conducted as agreed in the Property Management Services Framework Agreement and in compliance with Chapter 14A of the Listing Rules.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Property Management Services Framework Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. We also consider that the terms of the Property Management Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, that the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Property Management Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps).

Yours faithfully,
For and on behalf of
Draco Capital Limited

Ken Zhao	**Leon Au Yeung**
Director	*Director*

Mr. Ken Zhao and Mr. Leon Au Yeung are licensed persons under the SFO to carry out type 6 (advising on corporate finance) regulated activity under the SFO and regarded as responsible officers of Draco Capital Limited. Mr. Ken Zhao and Mr. Leon Au Yeung have over 11 and 11 years of experience in corporate finance industry, respectively.