

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this circular or as to the action you should take, you should consult an exchange participant or other securities dealer licensed as a licensed person under the Securities and Futures Ordinance, bank manager, solicitor, certified public accountant or other professional adviser.

**If you have sold or transferred all your shares in Hopson Development Holdings Limited** (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, exchange participant or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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合 生 創 展 集 團 有 限 公 司\*

**HOPSON DEVELOPMENT HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 754)**

*website: <http://www.irasia.com/listco/hk/hopson>*

**CONTINUING CONNECTED TRANSACTIONS**

**Independent Financial Adviser  
to the Independent Board Committee and the Independent Shareholders**



**Pelican Financial Limited**

A letter from the Board is set out on pages 5 to 33 of this circular. A letter from the Independent Board Committee is set out on pages 34 to 35 of this circular. A letter from Pelican Financial containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 36 to 87 of this circular.

A notice convening a special general meeting of the Company (the “SGM”) to be held at Gloucester Room, 2/F., Mandarin Oriental, 5 Connaught Road Central, Central, Hong Kong, on Friday, 15 June 2018 at 10:30 a.m. (or immediately after the annual general meeting of the Company to be held on the same day and at the same place at 10:00 a.m. shall have been concluded or adjourned) is set out on pages 92 to 93 of this circular.

A form of proxy for the SGM is enclosed. Whether or not you are able to attend the SGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the principal office of the Company at Suites 3305–3309, 33rd Floor, Jardine House, 1 Connaught Place, Central, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

\* *for identification purposes only*

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## DEFINITIONS

*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

“Annual Caps”	the maximum aggregate annual transaction amount for the Transactions collectively under the 2018 Framework Agreement for each of the three financial years ending 31 December 2020
“associate(s)”	the meaning given to that term in the Listing Rules
“Board”	board of Directors
“Chu’s Controlled Entities”	companies which are associates of either Mr. Y.H. Chu or Mr. W.H. Chu
“Company”	Hopson Development Holdings Limited
“connected person”	the meaning given to that term in the Listing Rules
“controlling shareholder”	the meaning given to that term in the Listing Rules
“Directors”	directors of the Company
“Farrich”	Farrich Investments Limited, a company incorporated in the British Virgin Islands and whose entire issued share capital is owned by Mr. Y.H. Chu, a son of Mr. Chu and a brother of Ms. Chu. It is a holder of 395,246,625 Shares, representing approximately 17.76% of the issued share capital of the Company as at the date of this circular
“Group”	the Company and its subsidiaries
“Guangdong Hanjiang”	廣東韓江工程總承包有限公司 (Guangdong Hanjiang Engineering Construction Limited), one of the Previous Contracting Parties and a member of the Chu’s Controlled Entities
“Hanjiang”	廣東韓江建築安裝工程有限公司 (Guangdong Hanjiang Construction Installation Project Limited), a connected person of the Company as at the date of the 2015 Framework Agreement
“Hanjiang Group”	Hanjiang, its subsidiaries, its associated companies and its associates
“HK\$”	Hong Kong dollars

## DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hopson Education Funds”	Hopson Education Charitable Funds Limited, a company incorporated in Hong Kong and whose entire issued share capital is owned by Mr. Chu. It is a holder of 68,640,000 Shares, representing approximately 3.08% of the issued share capital of the Company, as at the date of this circular
“Independent Board Committee”	an independent committee of the Board comprising Mr. Lee Tsung Hei, David, Mr. Tan Leng Cheng, Aaron and Mr. Ching Yu Lung, all independent non-executive Directors, established to advise the Independent Shareholders in respect of the 2018 Framework Agreement, the Transactions and the Annual Caps
“Independent Shareholders”	Shareholders who are independent of Mr. Y.H. Chu and Mr. W.H. Chu and their respective associates including Sounda, Hopson Education Funds and Farrich
“Independent Third Parties”	persons who are not connected persons of the Company
“Latest Practicable Date”	21 May 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chu”	Mr. Chu Mang Yee, the controlling shareholder of the Company, an executive Director and the Chairman of the Board
“Mr. Y.H. Chu”	Mr. Chu Yat Hong, the son of Mr. Chu and a brother of Ms. Chu
“Mr. W.H. Chu”	Mr. Chu Wai Hong, the son of Mr. Chu and a brother of Ms. Chu
“Ms. Chu”	Ms. Chu Kut Yung, an executive Director, the Deputy Chairman of the Board and daughter of Mr. Chu
“Payable Annual Caps”	the maximum aggregate annual transaction amount payable by the Group for services/leases to be provided/leased by Chu’s Controlled Entities to the Group under the 2018 Framework Agreement for each of the three financial years ending 31 December 2020

## DEFINITIONS

“Pelican Financial”	Pelican Financial Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance, being the independent financial adviser appointed by the Board to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the 2018 Framework Agreement, the Transactions and the Annual Caps
“PRC”	the People’s Republic of China
“Previous Contracting Parties”	members of Hanjiang Group that entered into transactions with the Group under the 2015 Framework Agreement, which have become members of the Chu’s Controlled Entities as a result of the restructuring of Hanjiang
“Receivable Annual Caps”	the maximum aggregate annual transaction amount receivable by the Group for services/leases to be provided/leased to Chu’s Controlled Entities by the Group under the 2018 Framework Agreement for each of the three financial years ending 31 December 2020
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be convened to approve, among other things, the 2018 Framework Agreement, the Transactions and the Annual Caps
“Shareholders”	holders of Shares
“Shares”	the ordinary shares of HK\$0.10 each in the share capital of the Company
“sq.m.”	square metres
“Sounda”	Sounda Properties Limited, a company incorporated in the British Virgin Islands and whose entire issued share capital is owned by Mr. Chu. It is a holder of 1,160,363,809 Shares, representing approximately 52.14% of the issued share capital of the Company as at the date of this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

## DEFINITIONS

“Transactions”	the Transaction 1 to the Transaction 11 as described in the section headed “B. The Transactions” of this circular proposed to be entered into between the Group and the Chu’s Controlled Entities pursuant to the 2018 Framework Agreement
“2015 Framework Agreement”	the conditional framework agreement dated 22 April 2015 entered into between the Company and Hanjiang in relation to certain recurrent transactions which expired on 31 December 2017
“2018 Framework Agreement”	the conditional framework agreement dated 26 April 2018 entered into between the Company, Mr. Y.H. Chu and Mr. W.H. Chu in relation to the Transactions

*In this circular, the conversion of RMB into HK\$ has been made at the rate of RMB1.00: HK\$1.25. Such conversion rate is included in this circular for indicative purpose only and should not be construed as a representation that any amount has been, could have been or may be, exchanged at this or any other rate.*



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**HOPSON DEVELOPMENT HOLDINGS LIMITED**

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*website: <http://www.irasia.com/listco/hk/hopson>*

*Executive Directors:*

CHU Mang Yee (*Chairman*)

CHU Kut Yung (*Deputy Chairman*)

AU Wai Kin

XIE Bao Xin

BAO Wenge

*Principal Office:*

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1 Connaught Place

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*Independent Non-executive Directors:*

LEE Tsung Hei, David

TAN Leng Cheng, Aaron

CHING Yu Lung

*Registered Office:*

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2 Church Street

Hamilton HM 11

Bermuda

28 May 2018

*To the Shareholders*

Dear Sir or Madam,

**A. INTRODUCTION**

Reference is made to the announcement of the Company dated 26 April 2018 relating to, among other things, the 2018 Framework Agreement and the Transactions contemplated thereunder which constituted continuing connected transactions of the Company under the Listing Rules.

The 2015 Framework Agreement expired on 31 December 2017. Since the Group expects to continue certain recurring transactions contemplated under the 2015 Framework Agreement and to enter into certain new recurring transactions with Chu's Controlled Entities (including the Previous Contracting Parties) in the three financial years ending 31 December 2020, the Company entered into the 2018 Framework Agreement with Mr. Y.H. Chu and Mr. W.H. Chu to govern the Transactions on 26 April 2018.

\* *for identification purposes only*

## LETTER FROM THE BOARD

As at the Latest Practicable Date, Mr. Y.H. Chu indirectly owned approximately 17.76% of the shares of the Company. Both Mr. Y.H. Chu and Mr. W.H. Chu are the sons of Mr. Chu and the brothers of Ms. Chu. Accordingly, both Mr. Y.H. Chu and Mr. W.H. Chu are connected persons of the Company under the Listing Rules and the 2018 Framework Agreement and the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) as defined under Rule 14.07 of the Listing Rules of the Payable Annual Caps for the year ending 31 December 2020 (being the largest among the Annual Caps) exceed 5%, the 2018 Framework Agreement and the Transactions constitute non-exempt continuing connected transactions of the Company and are subject to reporting, announcement, circular, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

Accordingly, the Company proposes to seek the Independent Shareholders' approval of the 2018 Framework Agreement, the Transactions and the Annual Caps for the three financial years ending 31 December 2020 at the SGM. Each of Sounda, Hopson Education Funds and Farrich will abstain from voting at the SGM and votes of the Independent Shareholders at the SGM will be taken by poll. Such Shareholders collectively had 1,624,250,434 Shares, representing approximately 72.98% of the issued share capital of the Company, as at the Latest Practicable Date.

The Independent Board Committee has been formed to advise the Independent Shareholders and Pelican Financial has been appointed as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the 2018 Framework Agreement, the Transactions and the Annual Caps.

The purpose of this circular is to provide you with information on the 2018 Framework Agreement, the Transactions and the Annual Caps, the letter from the Independent Board Committee, the letter of advice from Pelican Financial and the notice to convene the SGM.

### **B. THE TRANSACTIONS**

#### **1. Services to be provided/premises to be leased by Chu's Controlled Entities to the Group pursuant to the 2018 Framework Agreement:**

##### ***Construction:***

The appointment of Chu's Controlled Entities by the Group to carry out construction work for certain property development projects of the Group in Guangzhou, Beijing and other Eastern areas of the PRC ("**Transaction 1**").



## LETTER FROM THE BOARD

***Electrical installation, low voltage system and intelligent building system installation and consultancy service on cost control for construction work:***

The appointment of Chu's Controlled Entities by the Group to carry out electrical installation and low voltage system and intelligent building system installation for certain property development projects of the Group in Guangzhou, Beijing, Shanghai, Tianjin and other Eastern areas of the PRC and to provide the Group with consultancy service on cost control for its construction work in Guangzhou, Beijing, Shanghai, Tianjin and other Eastern areas of the PRC ("**Transaction 2**").

***Office lease:***

The lease of certain commercial premises in Guangzhou and Shanghai by Chu's Controlled Entities to the Group for office use ("**Transaction 3**").

***Information technology related services:***

The appointment of Chu's Controlled Entities by the Group to provide services in connection with the maintenance of the intranet and servers of the Group, and to supply information technology or computer system related products and facilities to the Group ("**Transaction 4**").

***Marketing services:***

The appointment of Chu's Controlled Entities by the Group to provide property sales service, sales agency service and marketing service for the Group. ("**Transaction 5**").

**2. Services to be provided/premises to be leased by the Group to Chu's Controlled Entities pursuant to the 2018 Framework Agreement:**

***Building design:***

The appointment of the Group by Chu's Controlled Entities to carry out construction and building design works for certain property development projects of the Chu's Controlled Entities in Beijing, Tianjin and Shanghai ("**Transaction 6**").

***Management of vacant properties and delivery of sold property units to purchasers:***

The appointment of the Group by Chu's Controlled Entities to manage certain vacant properties developed by Chu's Controlled Entities and to handle the delivery of sold property units of Chu's Controlled Entities in Guangdong Province, Beijing, Xi'an and Shanghai to purchasers ("**Transaction 7**").

## LETTER FROM THE BOARD

### *Heating service:*

The appointment of the Group by Chu's Controlled Entities to provide heating service to certain properties of the Chu's Controlled Entities in Beijing ("**Transaction 8**").

### *Hotel management:*

The appointment of the Group by Chu's Controlled Entities to provide hotel management service for certain hotels of the Chu's Controlled Entities located in various cities across the PRC, including but not limited to Guangzhou, Beijing, Shanghai, Shenzhen and Chengdu ("**Transaction 9**").

### *Shop and office lease:*

The lease of certain shops and office premises in Guangzhou, Beijing and Shanghai by the Group to the Chu's Controlled Entities ("**Transaction 10**").

### *Commercial real estate management:*

The appointment of the Group by Chu's Controlled Entities to provide commercial real estate management service for certain commercial real estate projects of the Chu's Controlled Entities ("**Transaction 11**").

## C. PRINCIPAL TERMS OF THE 2018 FRAMEWORK AGREEMENT

On 26 April 2018, the Company, Mr. Y.H. Chu and Mr. W.H. Chu entered into the 2018 Framework Agreement, which set out, among other things, the principal terms of the Transactions as follows:

- |                    |  |
|--------------------|--|
| Date:              | 26 April 2018  |
| Parties:           | (1) the Company<br>(2) Mr. Y.H. Chu<br>(3) Mr. W.H. Chu  |
| Scope of services: | 1. Mr. Y.H. Chu and Mr. W.H. Chu shall procure the relevant member(s) of Chu's Controlled Entities or their respective sub-contractors to perform the services (other than office lease) set out in paragraph 1 of Section B of this circular and shall procure the relevant member(s) of Chu's Controlled Entities to lease certain office premises to the Group. |

## LETTER FROM THE BOARD

2. The Company shall procure the relevant member(s) of the Group or their respective sub-contractors to perform the services (other than shop and office lease) set out in paragraph 2 of Section B of this circular and shall procure the relevant member(s) of the Group to lease certain shop and office premises to Chu's Controlled Entities.

Term: For a term commencing from the date when it becomes unconditional and ending on 31 December 2020.

Condition precedent: The 2018 Framework Agreement is conditional upon the Company having obtained the approval of the Independent Shareholders at a general meeting of the Company.

Specific terms for the Transactions: Each of the Company, Mr. Y.H. Chu and Mr. W.H. Chu will procure the relevant members of the Group and Chu's Controlled Entities to enter into a separate sales contract or agreement for each of the engagements/orders/leases in respect of each of the Transactions. The sales contracts or agreements will contain specific terms of the engagements/orders/leases which are consistent with the terms and principles set forth in the 2018 Framework Agreement. In general, the terms of the engagements/orders/leases in respect of the Transactions must be fair and reasonable so far as the Group is concerned and each individual sales contract or agreement that the Group and Chu's Controlled Entities will enter into must pass through the Group's internal approval procedures in order to ensure that each of the engagements/orders/leases in respect of each of the Transactions will be conducted on normal commercial terms offered by Independent Third Parties or better so far as the Group is concerned.

### D. DETAILS OF THE TRANSACTIONS

Set out below are particulars of the Transactions and the relevant pricing bases set out in the 2018 Framework Agreement:

#### 1. Transaction 1 — Construction

Scope: The Group agrees to appoint Chu's Controlled Entities to carry out construction work for certain property development projects of the Group in Guangzhou, Beijing and other Eastern areas of the PRC.

## LETTER FROM THE BOARD

Bases for determining price and other terms:

The construction fees payable by the Group to Chu's Controlled Entities and the other terms for carrying out construction work of the property development projects of the Group in the PRC shall be determined by the parties with reference to the terms offered by Independent Third Parties for providing similar services and the latest stipulated standards and guidelines prescribed by 建設委員會 (Construction Committee) of where the project is located, such as 北京市建設工程計價依據—預算定額 (Costing Basis of Construction and Installation Works, Beijing Municipal — Base Price Budgeting) published by 北京市建設委員會 (Construction Committee of Beijing Municipal) in 2012 for property projects in Beijing, 廣東省建設工程計價依據 (2010年) (Costing Basis of Construction and Installation Works, Guangdong Province (2010)) published by 廣東省建設廳 (Construction Department of Guangdong Province) in 2010 for property projects in Guangzhou.

The above mentioned standards and guidelines provide the respective bases for calculating, among others, the material price and fees payable to workers. The total payable material price shall be calculated by including, among other things, the respective price for the raw materials consumed, supporting materials and component parts used during the construction process. The total payable material price shall also be calculated with reference to the prevailing market price of the materials and accounts for the costs incurred in its transportation and storage. The total fees payable to workers shall be calculated to take into account, factors including, among other things, the position, experience and performance. The final fees payable by the Group to Chu's controlled Entities shall be calculated based on the applicable bases under the applicable standards and guidelines, and which shall be no less favourable than the terms charged by Independent Third Parties for providing similar services to the Group.

## LETTER FROM THE BOARD

The Company had engaged an independent engineering project cost consulting firm in the PRC to carry out an independent assessment of the estimated average unit construction fee payable by the Group to Chu's Controlled Entities under Transaction 1. In the assessment, the independent engineering project cost consulting firm compared the estimated average unit construction fee payable by the Group to Chu's Controlled Entities under Transaction 1 with the prevailing market price. The independent engineering project cost consulting firm was of the view that the estimated average unit construction fee payable by the Group to Chu's Controlled Entities under Transaction 1 is in line with the prevailing market rate.

**2. Transaction 2 — Electrical installation, low voltage system and intelligent building system installation and consultancy service on cost control for construction work:**

Scope:

The Group agrees to appoint Chu's Controlled Entities to carry out electrical installation, low voltage system and intelligent building system installation work for certain property development projects of the Group in Guangzhou, Beijing, Shanghai, Tianjin and other Eastern areas of the PRC and to provide the Group with consultancy service on cost control for its construction work in Guangzhou, Beijing, Shanghai, Tianjin and other Eastern areas of the PRC.

Low voltage system and intelligent building system installation works include installation of visual walkie-talkie system, CCTV system, music broadcast system, security system, car park automatic management system, telephone system, mobile signal coverage system, internet system and television antenna system and procurement and installation of the related facilities.

Consultancy service on cost control for construction work include the preparation of project settlement based on completion data such as built drawings, and to issue completion accounts.

## LETTER FROM THE BOARD

Bases for determining price and other terms:

The fees payable by the Group to Chu's Controlled Entities and the other terms for carrying out electrical installation works for the property development projects of the Group will be determined with reference to the terms offered by Independent Third Parties for providing similar services and the latest standards and guidelines prescribed by the relevant governmental authorities of where the project is located, such as 廣東省建設工程計價依據 (2010年) (Costing Basis of Construction and Installation Works, Guangdong Province (2010)) published by 廣東省建設廳 (Construction Department of Guangdong Province) in 2010.

The above mentioned standard and guideline provides the respective bases for calculating, among others, the material price and fees payable to workers. The total payable material price shall be calculated by including, among other things, the respective price for the raw materials consumed, supporting materials and component parts used during the construction process. The total payable material price shall also be calculated with reference to the prevailing market price of the materials and accounts for the costs incurred in its transportation and storage. The total fees payable to workers shall be calculated to take into account, factors including, among other things, the position, experience and performance. The final fees payable by the Group to Chu's controlled Entities shall be calculated based on the applicable bases under the applicable standards and guidelines, and which shall be no less favourable than the terms charged by Independent Third Parties for providing similar services to the Group.

## LETTER FROM THE BOARD

The fees payable by the Group to Chu's Controlled Entities and the other terms for carrying out low voltage system and intelligent building system installation works for the property development projects of the Group in the PRC will be determined with reference to the terms offered by Independent Third Parties for providing similar services and the latest standards and guidelines prescribed by the relevant governmental authorities of where the project is located, such as 北京市建設工程計價依據—預算定額 (Costing Basis of Construction and Installation Works, Beijing Municipal — Base Price Budgeting) and 通信建設工程預算定額 (2008年) (Basis for Fee Calculation for Communication Construction Project (2008)) published by 北京市建設委員會 (Construction Committee of Beijing Municipal) in 2012 and 2008, respectively, for projects in Beijing, and 廣東省建設工程計價依據 (2010年) (Costing Basis of Construction and Installation Works, Guangdong Province (2010) and 廣州地區建設工程常用材料綜合價格 (2014年) (Comprehensive Pricing for Commonly Used Materials for Construction Projects in Guangzhou (2014)) published by 廣東省建設廳 (Construction Department of Guangdong Province) in 2010 and 2014, respectively, for projects in Guangdong Province.

The above mentioned standards and guidelines provide the respective bases for calculating, among others, the material price and fees payable to workers. The total payable material price shall be calculated by including, among other things, the respective price for the raw materials consumed, supporting materials and component parts used during the construction process. The total payable material price shall also be calculated with reference to the prevailing market price of the materials and accounts for the costs incurred in its transportation and storage. The total fees payable to workers shall be calculated to take into account, factors including, among other things, the position, experience and performance. The final fees payable by the Group to Chu's controlled Entities shall be calculated in accordance based on the applicable bases under the applicable standards and guidelines, and which shall be no less favourable than the terms charged by Independent Third Parties for providing similar services to the Group.

## LETTER FROM THE BOARD

For procurement of equipment for the low voltage system and intelligent building system, a mark-up of 1%–3% on the price of the equipment procured will be charged. The basis for adopting such mark-up is based on the prevailing marketing practice. To the best of the Company's knowledge, information and belief, a mark-up of 1%–3% on the price of the equipment procured is the prevailing market practice adopted by Independent Third Parties who provide similar service. The Directors are of the view that such pricing basis, which is in line with the prevailing market practice, is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The fees payable by the Group to Chu's Controlled Entities for the consultancy service on cost control for construction work will be determined with reference to the latest standards and guidelines prescribed by the relevant governmental authorities of where the project is located, such as 關於調整我省建設工程造價諮詢服務收費的覆函 (Letter Relating to Adjustment to Service Fee for the Provision of Consultation Service in Relation to Construction and Installation Costs in this Province) issued by the 廣東省物價局 (Price Control Administrative Bureau of Guangdong Provincial).

The above mentioned standard and guideline provides the factors that may be taken into consideration when charging a fee for the provision of consultancy service on cost control for construction work and stipulates the maximum percentage of fee chargeable based on the cost of the construction project which consultancy service is provided. Depending on the specific scope of work to be provided in relation to the consultancy service, different standards, such as a sliding scale of prescribed percentage based on the cost of the construction project, or other bases, are provided for the calculation of the fee chargeable. The final fees payable by the Group to Chu's controlled Entities for consultancy service on cost control for construction work shall be calculated in accordance with the factors and the percentage threshold as prescribed under the applicable standards and guidelines, and which shall be no less favourable than the terms charged by the Independent Third Parties for providing similar services to the Group.



## LETTER FROM THE BOARD

### 3. Transaction 3 — Office lease

Scope: Chu's Controlled Entities agrees to lease certain commercial premises in Guangzhou and Shanghai to the Group for office use.

Bases for determining rental and other terms: The rent payable by the Group to Chu's Controlled Entities and the other terms will be determined with reference to the prevailing market rents paid by and the other terms available to lessees who are Independent Third Parties for leasing the premises in the same building (or in the event that no such lease is available in the same building, reference should be made to the lease of comparable sizes and types and comparable grading in the same region).

### 4. Transaction 4 — Information technology related services

Scope: The Group agrees to appoint Chu's Controlled Entities to maintain the intranet and servers of the Group, and to supply information technology or computer system related products and facilities to the Group.

Bases for determining price and other terms: The fees payable by the Group to Chu's Controlled Entities for the maintenance of the intranet and servers of the Group, and provision of information technology or computer systems related products and facilities to the Group and the other terms will be determined with reference to the terms offered by Independent Third Parties for providing similar services/products.

### 5. Transaction 5 — Marketing services

Scope: The Group agrees to appoint Chu's Controlled Entities to provide sales service, sales agency service and marketing service for the Group.

Bases for determining price and other terms: The fees payable by the Group to Chu's Controlled Entities for the provision of sales service, sales agency service and marketing service for the Group and the other terms will be determined with reference to the terms offered by Independent Third Parties for providing similar services.

## LETTER FROM THE BOARD

### **6. Transaction 6 — Building design**

Scope: Chu's Controlled Entities agrees to appoint the Group to provide construction and building design service for certain property development projects of Chu's Controlled Entities in Beijing, Tianjin and Shanghai.

Bases for determining price and other terms: The fees payable by Chu's Controlled Entities to the Group and the other terms will be determined by the parties with reference to the terms offered by Independent Third Parties for undertaking similar design projects. As at the date of this circular, the Group was not aware of any applicable standards and guidelines prescribed by the relevant local authority on the fees and other terms for providing construction and building design service.

### **7. Transaction 7 — Management of vacant properties and delivery of sold property units to purchasers**

Scope: Chu's Controlled Entities agrees to appoint the Group to manage certain vacant properties developed by Chu's Controlled Entities and to handle the delivery of sold property units of Chu's Controlled Entities in Guangdong Province, Beijing, Xi'an and Shanghai to purchasers.

## LETTER FROM THE BOARD

Bases for determining price and other terms:

The management fees payable by Chu's Controlled Entities to the Group and the other terms will be determined by the parties with reference to related costs of the Group, the prevailing market rates charged and the other terms offered by Independent Third Parties for providing similar services for properties of similar grading in the same region and the latest standards on property management and the property pricing guidelines prescribed by the local government of where the particular property is located, such as 關於物業服務收費管理辦法 (Measures on the Administration of Property Service Charges) issued by the 廣東省物價局 (Price Control Administrative Bureau of Guangdong Provincial) and 廣東省住房城鄉建設廳 (Department of Housing and Urban-rural Development of Guangdong Province) in 2010, 北京市物業服務收費管理辦法 (Measures on the Administration of Property Service Charges, Beijing Municipal) issued by 發展和改革委員會 (Development and Reform Commission) in 2005, 陝西省住宅小區物業服務指導標準 (Guiding Standard for Property Services in Small Residential Communities, Shaanxi Province) issued by 陝西省住房和城鄉建設廳 (Department of Housing and Urban-rural Development of Shaanxi Province) in 2011, 陝西省物業服務收費管理辦法 (Measures on the Administration of Property Service Charges, Shaanxi Province) jointly issued by 陝西省物價局 (Price Control Administration Bureau of Shaanxi Province) and 陝西省住房和城鄉建設廳 (Department of Housing and Urban-rural Development of Shaanxi Province) in 2011, 上海市住宅物業服務分等收費標準 (Charging Standard by Grades for Residential Property Service Charges, Shanghai Municipal) and 上海市住宅物業服務分等收費管理暫行辦法 (Temporary Measures on the Administration of Residential Property Service Charges by Grading, Shanghai Municipal) jointly issued by 上海市物價局 (Price Control Administrative Bureau of Shanghai Municipal) and 上海市房屋土地資源管理局 (Land Resources & Housing Administrative Bureau of Shanghai Municipal) in 2005.

## LETTER FROM THE BOARD

The above mentioned standard and guidelines outline the services that should be provided (such as, among other things, cleaning of public areas and maintaining public facilities) in relation to property management and provide pricing guidelines which vary depending on the location of the particular property. The final fees payable by Chu's controlled Entities to the Group in relation to property management services shall be calculated in accordance with the pricing guidelines stipulated under the applicable standards and guidelines, and which shall be not more favourable than the terms the Group charge to Independent Third Parties for providing similar services.

### 8. Transaction 8 — Heating services

Scope:	Chu's Controlled Entities agrees to appoint the Group to provide low temperature heating service to certain properties of Chu's Controlled Entities in Beijing.
Bases for determining price and other terms:	The fee payable by Chu's Controlled Entities to the Group and the other terms will be determined by the parties with reference to the terms offered by Independent Third Parties for providing similar services and the latest standards and guidelines prescribed by the relevant local authority on the fees and other terms for providing similar services such as the 關於調整民用供熱價格和熱電廠熱力出廠價格的通知 (Notice Relating to Adjustment to Pricing on Heating Services for Civilian Use and Pricing on Heating Supply by Power Plants) issued by 北京市物價局 (Price Control Administration Bureau of Beijing) in 2001 and 關於調整本市非居民供熱價格的通知 (Notice Relating to Adjustment to Pricing on Non-residential use of Heating Supply) issued by 北京市發展和改革委員會 (Beijing Municipal Commission of Development & Reform) in 2015.

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The above mentioned standards and guidelines provide the standard fee chargeable for providing heating service, namely RMB30 per sq.m. for residential properties and RMB82 per sq.m. for non-residential properties with a floor to floor height of over 4 metres. and the minimum room temperature that should be maintained for such heating service. As Chu's controlled Entities will only provide low temperature heating to the Group that is below the stipulated minimum room temperature, Chu's controlled Entities will only charge the Group 60% of the standard fee prescribed by the above mentioned standards and guidelines. To the best of the Company's knowledge information and belief, such pricing basis is in line with the prevailing market price for providing low temperature heating.

### **9. Transaction 9 — Hotel management**

Scope:	Chu's Controlled Entities agrees to appoint the Group to provide hotel management service for certain hotels of Chu's Controlled Entities located in various cities across the PRC, including but not limited to Guangzhou, Beijing, Shanghai, Shenzhen and Chengdu.
Bases for determining price and other terms:	The hotel management services payable by Chu's Controlled Entities to the Group and the other terms will be determined by the parties with reference to the terms offered by Independent Third Parties for providing similar services.

### **10. Transaction 10 — Shop and office lease**

Scope:	The Group agrees to lease certain premises located in Guangzhou, Beijing and Shanghai to Chu's Controlled Entities for use as shops and offices.
Bases for determining rental and other terms:	The rent payable by Chu's Controlled Entities to the Group and the other terms will be determined with reference to the market rents charged and the other terms offered by the Group to lessees who are Independent Third Parties for leasing premises in the same building (or in the event that no such lease is available in the same building, reference should be made to the lease of premises of comparable sizes and types and comparable grading in the same region).

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### 11. Transaction 11 — Commercial real estate management

Scope:	Chu's Controlled Entities agrees to appoint the Group to provide commercial real estate management service for certain commercial real estate projects of Chu's Controlled Entities.
Bases for determining price and other terms:	The office and shop management services fee payable by Chu's Controlled Entities to the Group and the other terms will be determined by the parties with reference to the terms offered by Independent Third Parties for providing similar services.

### E. INTERNAL CONTROL MEASURES

The fees payable to/by Chu's Controlled Entities by/to the Group and the other terms under each of the Transactions will be determined with reference to, among others, the terms offered by/to Independent Third Parties. To ensure that the fees and other terms of the individual sales contract or agreement in respect of the Transactions proposed to be entered into by the Group are fair and reasonable, in line with the terms offered to/by Independent Third Parties, and are normal commercial terms or better so far as the Group is concerned, the cost centre of the Group will, before the Group enters into any individual sales contract or agreement in respect of the Transactions with Chu's Controlled Entities, first obtain quotations and terms for providing goods/services/leases of similar level and types from at least two Independent Third Parties for reference. The relevant operational team of the Group will then compare the quotations and terms obtained with the terms of existing sales contracts or agreements entered into by the Group with Independent Third Parties (if any) for similar services. When comparing the quotations and terms obtained against the terms of such existing sales contracts or agreements, the relevant operational team will also take into account the Group's own judgment based on its experience and knowledge of current market conditions and practices and the prevailing market terms. The Group when comparing the quotations and terms obtained from Independent Third Parties will also take into consideration the reputation, and scale of operation of and the qualifications possessed by the Independent Third Parties, to ensure that such Independent Third Parties are comparable to the relevant Chu's Controlled Entities in the provision of the relevant service or lease (as the case may be). Once the operational team is satisfied that the quotation and terms obtained from the aforesaid two Independent Third Parties are at prevailing market price and terms, the relevant operational team of the Group will then review and evaluate the price and terms proposed to be offered by/to Chu's Controlled Entities to/by our Group and compare such price and terms with that obtained from the Independent Third Parties. The head of such operational team will be responsible for approving the individual sales contract or agreement in respect of the Transactions that the Group enters into with Chu's Controlled Entities in order to ensure that the price and terms of each of the engagements/orders/leases in respect of each of the Transactions are on normal commercial terms or better through the above mentioned process.

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In addition, the cost centre of the Group will regularly collect and keep the relevant operational team informed of the latest standards and guidelines published by the relevant governmental authorities in the PRC that are relevant to the Transactions. The cost centre of the Group will request the relevant operational teams of the Group to report the actual transaction amounts incurred for each of the relevant Transactions on a regular basis. The cost centre of the Group will monitor the aggregate transaction amounts incurred on a regular basis to ensure that the Annual Caps in respect of each of the Transactions are not exceeded. If and when the cost centre of the Group becomes aware of the actual aggregate transaction amount of any Transaction will soon exceed its annual cap for the relevant financial year, the cost centre will be required to inform the management of the Company and the relevant operational team promptly to ensure that no further transactions in respect of that particular Transaction shall be carried out for the remainder of that financial year.

The independent non-executive Directors will conduct an annual review of the Transactions and confirm in the Company's annual report in accordance with Rule 14A.55 of the Listing Rules. The auditors of the Group will also conduct an annual review and report on the Transactions in accordance with Rule 14A.56 of the Listing Rules.

The Directors are of the view that the internal approval procedure and internal control measures adopted by the Group set out in the above are effective in ensuring that the Annual caps will not be exceeded and the Transactions will be conducted on normal commercial terms or better which are fair and reasonable to the Company and the Shareholders as a whole.

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### F. PROPOSED ANNUAL CAPS

(I) Set out below are the Annual Caps proposed by the Directors for each of the three financial years ending 31 December 2020 in respect of the Transactions and the relevant breakdowns:

A. *Services to be provided/premises to be leased by Chu's Controlled Entities to the Group pursuant to the 2018 Framework Agreement:*

Transactions	2018 Annual Cap	2019 Annual Cap	2020 Annual Cap
1. Transaction 1 — Construction	RMB483,493,000 (equivalent to approximately HK\$604,366,000)	RMB422,388,000 (equivalent to approximately HK\$527,985,000)	RMB449,632,000 (equivalent to approximately HK\$562,040,000)
2. Transaction 2 — Electrical installation, low voltage system and intelligent building system installation and consultancy service on cost control for construction work	RMB83,077,000 (equivalent to approximately HK\$103,846,000)	RMB72,471,000 (equivalent to approximately HK\$90,589,000)	RMB79,114,000 (equivalent to approximately HK\$98,893,000)
3. Transaction 3 — Office lease	RMB8,860,000 (equivalent to approximately HK\$11,075,000)	RMB8,964,000 (equivalent to approximately HK\$11,205,000)	RMB9,153,000 (equivalent to approximately HK\$11,441,000)
4. Transaction 4 — Information technology related services	RMB57,345,000 (equivalent to approximately HK\$71,681,000)	RMB60,645,000 (equivalent to approximately HK\$75,806,000)	RMB65,645,000 (equivalent to approximately HK\$82,056,000)
5. Transaction 5 — Marketing services	RMB200,440,000 (equivalent to approximately HK\$250,550,000)	RMB250,065,000 (equivalent to approximately HK\$312,581,000)	RMB300,213,000 (equivalent to approximately HK\$375,266,000)
<b>Total (“Payable Annual Caps”):</b>	<b>RMB833,215,000</b> (equivalent to approximately <b>HK\$1,041,519,000</b> )	<b>RMB814,533,000</b> (equivalent to approximately <b>HK\$1,018,166,000</b> )	<b>RMB903,757,000</b> (equivalent to approximately <b>HK\$1,129,696,000</b> )



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### **B. Services to be provided/premises to be leased by the Group to Chu's Controlled Entities pursuant to the 2018 Framework Agreement:**

Transactions	2018 Annual Cap	2019 Annual Cap	2020 Annual Cap
1. Transaction 6 — Building design	RMB40,820,000 (equivalent to approximately HK\$51,025,000)	RMB39,715,000 (equivalent to approximately HK\$49,644,000)	RMB14,017,000 (equivalent to approximately HK\$17,521,000)
2. Transaction 7 — Management of vacant properties and delivery of sold property units	RMB29,113,000 (equivalent to approximately HK\$36,391,000)	RMB32,024,000 (equivalent to approximately HK\$40,030,000)	RMB35,227,000 (equivalent to approximately HK\$44,034,000)
3. Transaction 8 — Heating services	RMB0 (equivalent to approximately HK\$0)	RMB2,710,000 (equivalent to approximately HK\$3,388,000)	RMB2,540,000 (equivalent to approximately HK\$3,175,000)
4. Transaction 9 — Hotel management	RMB7,039,000 (equivalent to approximately HK\$8,799,000)	RMB7,048,000 (equivalent to approximately HK\$8,810,000)	RMB8,519,000 (equivalent to approximately HK\$10,649,000)
5. Transaction 10 — Shop and office lease	RMB35,675,000 (equivalent to approximately HK\$44,594,000)	RMB37,058,000 (equivalent to approximately HK\$46,323,000)	RMB37,746,000 (equivalent to approximately HK\$47,183,000)
6. Transaction 11 — Commercial real estate management	RMB153,901,000 (equivalent to approximately HK\$192,376,000)	RMB205,433,000 (equivalent to approximately HK\$256,791,000)	RMB228,791,000 (equivalent to approximately HK\$285,989,000)
<b>Total (“Receivable Annual Caps”):</b>	<u>RMB266,548,000</u> (equivalent to approximately <u>HK\$333,185,000</u> )	<u>RMB323,988,000</u> (equivalent to approximately <u>HK\$404,985,000</u> )	<u>RMB326,840,000</u> (equivalent to approximately <u>HK\$408,550,000</u> )

*Note:* The 2018 annual cap for Transaction 8 is RMB0 as the relevant properties which heating services are to be provided to are expected to be completed in 2019.

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- (II) The management determined the proposed Annual Caps based on the estimated annual transaction amounts for each of the three financial years ending 31 December 2020 in respect of each of the Transactions. Set out below are the bases upon which such annual transaction amounts are estimated:**

***Transaction 1 — Construction***

The relevant estimated transaction amounts were assessed based on (i) the relevant pricing basis under the 2018 Framework Agreement; (ii) the Directors' estimation of the aggregate gross floor area of the property units in Guangzhou, Beijing and other Eastern areas of the PRC, the construction of which are expected to be carried out by Chu's Controlled Entities for the relevant years (approximately 269,000 sq.m. in 2018, 235,000 sq.m. in 2019 and 250,000 sq.m. in 2020); and (iii) the historical construction fees paid by the Group to the Previous Contracting Parties during the three years ended 31 December 2017 for carrying out construction work for the Group. The proposed annual caps for Transaction 1 for the three years ending 31 December 2020 have increased significantly compared to the historical transaction amount for the year ended 31 December 2017 as the construction work of the Group for the year ended 31 December 2017 were mostly carried out by Independent Third Parties. The fluctuation in the proposed annual caps for Transaction 1 for the three years ending 31 December 2020 is largely due to the differences in the estimated aggregate gross floor area to be completed for each financial year.

***Transaction 2 — Electrical installation, low voltage system and intelligent building system installation and consultancy service on cost control for construction work***

The relevant estimated transaction amounts, which combine the aggregate estimated fees payable for the electrical installation, low voltage system and intelligent building system installation and the consultancy service on cost control for the Group's construction work, were assessed based on (i) the relevant pricing bases under the 2018 Framework Agreement; (ii) the Directors' estimated aggregate gross floor area of the property development projects in Guangzhou, Beijing, Shanghai, Tianjin, and other Eastern areas of the PRC that the Group expects to complete and for which the Group proposes to appoint the Chu's Controlled Entities to carry out the electrical installation (approximately 269,000 sq.m. in 2018, 260,000 sq.m. in 2019 and 250,000 sq.m. in 2020) and intelligent building system installation work (approximately 166,000 sq.m. in 2018, 124,000 sq.m. in 2019 and 124,000 sq.m. in 2020) and to provide consultancy service on cost control for construction work (approximately 3,000,000 sq.m. in 2018, 2,500,000 sq.m. in 2019 and 2,990,000 sq.m. in 2020) for the relevant year; and (iii) the historical fees paid by the Group to the Previous Contracting Parties for (a) electrical installation; (b) low voltage system and intelligent building system installation; and (c) consultancy service on cost control for construction work. The proposed annual caps for Transaction 2 for the three years ending 31 December 2020 have increased significantly compared to the historical transaction amount for the year ended 31 December 2017 as

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the electrical installation work and intelligent building system installation work that were originally planned to be carried out during the year ended 31 December 2017 will be carried out in the three years ending 31 December 2020 due to a change in the development timetable of the relevant property projects of the Group. The fluctuation in the proposed annual caps for Transaction 2 for the three years ending 31 December 2020 is largely due to the differences in the estimated aggregate gross floor area to be completed for each financial year.

### *Transaction 3 — Office lease*

The relevant estimated transaction amounts were assessed based on i) the proposed leased premises identified and the aggregate size thereof; and (ii) the relevant pricing basis under the 2018 Framework Agreement and (iii) the latest prevailing market rents of the proposed leased premises identified or other comparable premises. The proposed annual caps for Transaction 3 are relatively stable for the three years ending 31 December 2020. Slight upward adjustment has been made to the annual cap for each of the three years ending 31 December 2020 to reflect the expected rental increment.

### *Transaction 4 — Information technology related services*

The relevant estimated transaction amounts were assessed based on (i) the relevant pricing basis under the 2018 Framework Agreement; (ii) the scope and extent of services, products and facilities to be provided by Chu's Controlled Entities to the Group based on the Group's business plans; (iii) the historical fees paid by the Group to the Previous Contracting Parties during the three years ended 31 December 2017 for the provision of information technology related services to the Group; and (iv) a ratio of turnover to expenses on information technology to be adopted by the Group based on the Group's knowledge of such ratio generally adopted within the property development industry in the PRC. The proposed annual caps for Transaction 4 for the three years ending 31 December 2020 have increased significantly compared to the historical transaction amount for the year ended 31 December 2017 as the Group expects to carry out a system upgrade of its information technology infrastructure to cater for the expected business growth of the Group. The increase in the proposed annual cap for Transaction 4 for each of the three years ending 31 December 2020 accounts for the Group's estimated increase in the Group's demand for information technology support based on its business development plan.

### *Transaction 5 — Marketing services*

The relevant estimated transaction amounts were assessed based on (i) the relevant pricing basis under the 2018 Framework Agreement; and (ii) the scope and extent of services required by the Group based on the Group's business plan; and (iii) the latest market price and terms offered by Independent Third Parties for providing similar services of similar scope and scale. The increase in the proposed annual cap for

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Transaction 5 for each of the three years ending 31 December 2020 accounts for the Group estimated increase in property projects that require the relevant marketing services based on its business development plan.

### ***Transaction 6 — Building design***

The relevant estimated transaction amounts were assessed based on (i) the relevant pricing basis under the 2018 Framework Agreement; (ii) the Directors' estimation of the aggregate sizes and types of the building projects of Chu's Controlled Entities for which the design work is proposed to be assigned to the Group in the relevant year (approximately 722,000 sq.m. in 2018, 722,000 sq.m. in 2019 and 255,000 sq.m. in 2020); and (iii) the historical building design fees received by the Group from the Previous Contracting Parties during the three years ended 31 December 2017 for carrying out design works for the Previous Contracting Parties. The proposed annual caps for Transaction 6 for the two years ending 31 December 2019 have increased significantly compared to the historical transaction amount for the year ended 31 December 2017 as the Group expects to undertake the construction and building design works for three commercial real estate projects of Chu's Controlled Entities for the two years ending 31 December 2019 whereas the Group had not undertaken any commercial real estate design project for Chu's Controlled Entities for the year ended 31 December 2017. The proposed annual cap for Transaction 6 for the year ending 31 December 2020 is lower than that of the two years ending 31 December 2017 to account for the expected decrease in building design projects of the Group for the year ending 31 December 2020 as the Group expects that the demand for the construction and building design works for the aforesaid three commercial real estate projects will decrease for the year ending 31 December 2020.

### ***Transaction 7 — Management of vacant properties and delivery of the sold property units to purchasers***

The relevant estimated transaction amounts were assessed based on (i) the relevant pricing basis under the 2018 Framework Agreement; (ii) the Directors' estimation of the aggregate gross floor area of the property development projects of Chu's Controlled Entities for which Chu's Controlled Entities proposes to engage the Group to provide the management service and the number property units available for sale in the relevant year (approximately 970,000 sq.m. in 2018, 1,067,000 sq.m. in 2019 and 1,174,000 sq.m. in 2020); and (iii) the historical management fees received by the Group from the Previous Contracting Parties during the three years ended 31 December 2017 for provision of management service to the Previous Contracting Parties in relation to its vacant properties and handling delivery of sold property units of the Previous Contracting Parties. The proposed annual caps for Transaction 7 for the three years ending 31 December 2020 have increased significantly compared to the historical transaction amount for the year ended 31 December 2017 as the Group expects there will be an increase in vacant properties that require the Group's management services due to an

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expected increase in completed property development projects of Chu's Controlled Entities. The increase in the proposed annual cap for Transaction 7 for each of the three years ending 31 December 2020 is largely due to the increase in the estimated gross floor area of the vacant properties of Chu's Controlled Entities which the Group will provide management services to.

### *Transaction 8 — Heating services*

The relevant estimated transaction amounts were assessed based on (i) the relevant pricing basis under the 2018 Framework Agreement and (ii) the Director's estimation of the number and aggregate gross floor area of the properties of Chu's Controlled Entities which require the Group's services (nil in 2018, approximately 71,000 sq.m. in 2019 and 62,000 sq.m. in 2020); and (iii) the market price and terms charged by the Independent Third Parties for providing similar services of similar scope and scale. The fluctuation in the proposed annual caps for Transaction 8 for the three years ending 31 December 2020 is largely due to the differences in the estimated aggregate gross floor area to which the Group will provide heating services to.

### *Transaction 9 — Hotel management*

The relevant estimated transaction amounts were assessed based on (i) the relevant pricing basis under the 2018 Framework Agreement; and (ii) the Directors' estimation of the number of the hotels of Chu's Controlled Entities which require the Group's services (7 hotels in 2018, 9 hotels in 2019, 10 hotels in 2020) and the revenue to be generated by Chu's Controlled Entities from such hotels (approximately RMB124,500,000 in 2018, RMB189,170,000 in 2019 and RMB258,880,000 in 2020). The increase in the proposed annual cap for Transaction 9 for each of the three years ending 31 December 2020 accounts for the increase in the number of hotels that require the Group's management service and the expected increase in the revenue to be generated by Chu's Controlled Entities from the hotels managed by the Group.

### *Transaction 10 — Shop and office lease*

The relevant estimated transaction amounts were assessed based on (i) the proposed leased premises identified and the aggregate size thereof; and (ii) the relevant pricing basis under the 2018 Framework Agreement; and (iii) the latest prevailing market rents charged by the Group for the proposed leased premises identified or other comparable premises. The proposed annual caps for Transaction 10 for the three years ending 31 December 2020 have increased significantly compared to the historical transaction amount for the year ended 31 December 2017 as the Group expects to lease an additional aggregate area of approximately 1,250 sq.m. of office space and an additional aggregate area of approximately 10,000 sq.m. of shop area to Chu's Controlled Entities for the three years ending 31 December 2020. The proposed annual caps for Transaction 10 are

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relatively stable for the three years ending 31 December 2020. Slight upward adjustment has been made to the annual cap for each of the three years ending 31 December 2020 to reflect the expected rental increment.

### *Transaction 11 — Commercial real estate management*

The relevant estimated transaction amounts were assessed based on (i) the relevant pricing basis under the 2018 Framework Agreement; and (ii) the Directors' estimation of the number of the commercial real estate projects of Chu's Controlled Entities which require the Group's services (14 projects in 2018, 15 projects in 2019 and 20 projects in 2020) and the revenue to be generated by Chu's Controlled Entities from such commercial real estate projects (approximately RMB979,550,000 in 2018, RMB1,112,575,000 in 2019 and RMB2,593,930,000 in 2020). The increase in the proposed annual caps for Transaction 11 for each of the three years ending 31 December 2020 accounts for the increase in the commercial real estate projects which require the Group's management service and the expected increase in the revenue to be generated by Chu's Controlled Entities from the commercial real estate properties managed by the Group.

### *Transactions 1–11*

The principal assumption of the Directors in determining the Annual Caps is that, for the duration of the three years ending 31 December 2020, the property market in the PRC will enjoy steady growth and there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the business of the Group. Having considered the bases upon which the Annual Caps are estimated and the principal assumption adopted as discussed above, the Directors are of the view that the Annual Caps under the 2018 Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **G. HISTORICAL TRANSACTION AMOUNTS OF THE TRANSACTIONS**

Set out below are the annual caps and the actual transaction amounts of the transactions which were also carried out between the Group and Hanjiang Group under the 2015 Framework Agreement for the three financial years ended 31 December 2017:

Transactions	Year ended 31 December 2015		Year ended 31 December 2016		Year ended 31 December 2017	
	Annual caps	Approximate transaction amount	Annual caps	Approximate transaction amount	Annual caps	Approximate transaction amount
1. Construction (i.e. Transaction 1)	RMB424,027,000 (equivalent to approximately HK\$530,034,000)	RMB75,353,000 (equivalent to approximately HK\$94,191,000)	RMB430,017,000 (equivalent to approximately HK\$537,521,000)	RMB343,616,000 (equivalent to approximately HK\$429,520,000)	RMB415,985,000 (equivalent to approximately HK\$519,981,000)	RMB78,136,000 (equivalent to approximately HK\$97,670,000)

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Transactions	Year ended 31 December 2015		Year ended 31 December 2016		Year ended 31 December 2017	
	Annual caps	Approximate transaction amount	Annual caps	Approximate transaction amount	Annual caps	Approximate transaction amount
2. Electricity installation, low voltage system and intelligent building system installation, consultancy service for budgeting and cost control in for construction work (i.e. Transaction 2)	RMB179,950,000 (equivalent to approximately HK\$224,938,000)	RMB38,075,000 (equivalent to approximately HK\$47,594,000)	RMB125,068,000 (equivalent to approximately HK\$156,335,000)	RMB31,872,000 (equivalent to approximately HK\$39,840,000)	RMB114,296,000 (equivalent to approximately HK\$142,870,000)	RMB5,486,000 (equivalent to approximately HK\$6,858,000)
3. Office lease (i.e. Transaction 3)	RMB9,296,000 (equivalent to approximately HK\$11,620,000)	RMB8,070,000 (equivalent to approximately HK\$10,088,000)	RMB9,296,000 (equivalent to approximately HK\$11,620,000)	RMB6,677,000 (equivalent to approximately HK\$8,346,000)	RMB10,052,000 (equivalent to approximately HK\$12,565,000)	RMB5,732,000 (equivalent to approximately HK\$7,165,000)
4. Informatization or computerization related services (i.e. Transaction 4)	RMB60,402,000 (equivalent to approximately HK\$75,503,000)	RMB10,475,000 (equivalent to approximately HK\$13,094,000)	RMB63,422,000 (equivalent to approximately HK\$79,278,000)	RMB1,625,000 (equivalent to approximately HK\$2,031,000)	RMB66,592,000 (equivalent to approximately HK\$83,240,000)	RMB34,924,000 (equivalent to approximately HK\$43,655,000)
5. Building design (i.e. Transaction 6)	RMB8,852,000 (equivalent to approximately HK\$11,065,000)	RMB751,000 (equivalent to approximately HK\$939,000)	RMB7,009,000 (equivalent to approximately HK\$8,761,000)	RMB86,000 (equivalent to approximately HK\$108,000)	RMB6,742,000 (equivalent to approximately HK\$8,428,000)	RMB110,000 (equivalent to approximately HK\$138,000)
6. Management of vacant properties and delivery of the sold properties to purchasers (i.e. Transaction 7)	RMB18,910,000 (equivalent to approximately HK\$23,638,000)	RMB4,632,000 (equivalent to approximately HK\$5,790,000)	RMB18,310,000 (equivalent to approximately HK\$22,888,000)	RMB5,029,000 (equivalent to approximately HK\$6,286,000)	RMB17,710,000 (equivalent to approximately HK\$22,138,000)	RMB17,090,000 (equivalent to approximately HK\$21,363,000)
7. Shop and office lease (i.e. Transaction 10)	RMB2,606,000 (equivalent to approximately HK\$3,258,000)	RMB1,163,000 (equivalent to approximately HK\$1,454,000)	RMB2,443,000 (equivalent to approximately HK\$3,054,000)	RMB1,649,000 (equivalent to approximately HK\$2,061,000)	RMB2,524,000 (equivalent to approximately HK\$3,155,000)	RMB1,732,000 (equivalent to approximately HK\$2,165,000)

### H. INFORMATION OF THE GROUP AND CHU'S CONTROLLED ENTITIES

The Group is principally engaged in the development of residential properties in the mainland China. The Group is also involved in property investment, hotel operations and property management. The Transactions will be carried out in the Group's ordinary and usual course of business.

Chu's Controlled Entities are engaged in the construction of properties, public utilities and power transmission and transformation in the PRC. Chu's Controlled Entities invest in various projects including infrastructure, land, energy and resources, electronics and telecommunications. They are also engaged in the sale and purchase of equipment for metallurgy, forging, mining and hydropower and the sale and purchase of other minerals, metals and construction materials.

A member of Chu's Controlled Entities, namely, Guangdong Hanjiang, is classified as 房屋建築工程總承包壹級 (Property Construction First Class Main Contractor) by the relevant government authority in the PRC. First class main contractors is qualified to undertake larger scale projects than



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non-first class contractors. Guangdong Hanjiang offers a comprehensive range of services, employing over 350 industry experts, of which 100 are mid to senior level. Guangdong Hanjiang has also obtained the ISO 9000 certification for its quality management systems, using top grade quality in its safety, construction, cost management and controls. Guangdong Hanjiang is a reputable contractor in the industry, has a proven track record and possesses the relevant technical capabilities and expertise in handling large scale construction projects including numerous highly rated commercial buildings in the PRC. The Group has conducted market research and is of the view that the pricing offered by Chu's Controlled Entities are highly competitive.

### **I. REASONS FOR, AND BENEFITS OF, ENTERING INTO THE 2018 FRAMEWORK AGREEMENT**

The purpose of entering into the 2018 Framework Agreement is to regulate the Transactions which are recurrent, regular and continuing in nature between the Group and the Chu's Controlled Entities (including the Previous Contracting Parties). The Group has been transacting with the Previous Contracting Parties since 2003. Over the years, the Group and the Previous Contracting Parties have built up a close and good working relationship. Given the Previous Contracting Parties' proven track record, qualification, expertise, reputation, experience and highly competitive pricing, the Group is of the view that the continued appointment of Chu's Controlled Entities for the provision of services under Transaction 1, Transaction 2 and Transaction 4, the continued leasing of office premises from Chu's Controlled Entities under Transaction 3 and the new appointment of the Chu's Controlled Entities for the provision of services under Transaction 5 are in the interests of the Company and the Shareholders as a whole.

In view of the long-term and good working relationship between the Group and the Previous Contracting Parties and the good payment records of the Previous Contracting Parties, the Group considers that the provision of services under Transaction 6 to Transaction 9 and Transaction 11 and the leasing of shop and office premises under Transaction 10 to the Chu's Controlled Entities on normal commercial terms or better would generate a steady income source to the Group and are in the interests of the Company and the Shareholders as a whole.

The entering into of the 2018 Framework Agreement will provide a single basis on which the Company will comply with the reporting, announcement, circular and independent shareholders' approval requirements under the Listing Rules, thereby reducing the Company's administrative burden and costs for complying with such requirements in relation to the execution of separate sales contract or agreement for each of the engagements/orders/leases under each of the Transactions. The long-term relation between the Group and the Chu's Controlled Entities also create synergies between the parties such as more effective communication and higher work efficiency. Neither the appointment of Chu's Controlled Entities by the Group nor the appointment of the Group by the Chu's Controlled Entities under the 2018 Framework Agreement is of exclusive nature. The Group will only engage Chu's Controlled Entities to provide the relevant services or to lease the premise under the 2018 Framework Agreement when the terms offered to the Group are on normal commercial terms and no less favourable than the prevailing market rates. Similarly, the Group will only provide the relevant services or lease the premises to Chu's Controlled Entities under the 2018



## **LETTER FROM THE BOARD**

Framework Agreement on terms not more favourable than those offered by the Group to Independent Third Parties. The Directors are therefore of view that there are no disadvantages to the Group in entering into the 2018 Framework Agreement and the Transactions contemplated thereunder.

The Directors consider that the Transactions will be carried out in the ordinary and usual course of business of the Group and on normal commercial terms or better so far as the Group is concerned. The Directors, having considered the bases and principles for determining the pricing and other terms of the individual contracts or agreements for the Transactions, consider the terms of the 2018 Framework Agreement, the Transactions and the Annual Caps to be fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

### **J. LISTING RULES IMPLICATIONS**

Both Mr. Y.H. Chu and Mr. W.H. Chu are the sons of Mr. Chu and the brothers of Ms. Chu. In addition, Mr. Y.H. Chu also indirectly owned approximately 17.76% of the shares of the Company as at the Latest Practicable Date. Accordingly, both Mr. Y.H. Chu and Mr. W.H. Chu are connected persons of the Company under the Listing Rules and the 2018 Framework Agreement and the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) as defined under Rule 14.07 of the Listing Rules of the Payable Annual Caps for the year ending 31 December 2020 (being the largest among the Annual Caps) exceed 5%, the 2018 Framework Agreement and the Transactions constitute non-exempt continuing connected transactions of the Company and are subject to reporting, announcement, circular, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

The Company proposes to seek the Independent Shareholders' approval of the 2018 Framework Agreement, the Transactions and the Annual Caps for the three financial years ending 31 December 2020 at the SGM. Each of Sounda, Hopson Education Funds and Farrich will abstain from voting at the SGM.

Since the 2018 Framework Agreement and the Transactions constitute continuing connected transactions for the Company due to the connection between Mr. Y.H. Chu and Mr. W.H. Chu and each of Mr. Chu and Ms. Chu, each of Mr. Chu and Ms. Chu abstained from voting on the resolutions of the Board approving the 2018 Framework Agreement, the Transactions and the Annual Caps.

### **K. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on 2018 Framework Agreement, the Transactions and the Annual Caps.

## **LETTER FROM THE BOARD**

Pelican Financial, an independent financial adviser, has been appointed to advise the Independent Board Committee and the Independent Shareholders regarding the Transactions and the Annual Caps.

Your attention is drawn to the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders set out on pages 34 to 35 of this circular and the advice letter from Pelican Financial to the Independent Board Committee and the Independent Shareholders set out on pages 36 to 87 of this circular.

### **L. SGM**

A notice convening the SGM is set out in Appendix II to this circular. At the SGM, a resolution will be proposed to the Independent Shareholders to consider and, if thought fit, approve the 2018 Framework Agreement, the Transactions and the Annual Caps.

A form of proxy for the SGM for use by the Shareholders is enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the principal office of the Company at Suites 3305–3309, 33rd Floor, Jardine House, 1 Connaught Place, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

### **M. RECOMMENDATION**

The Directors consider that the 2018 Framework Agreement and the Transactions are on normal commercial terms or better so far as the Group is concerned and terms thereof are fair and reasonable and in the interest of the Company and the Shareholders as a whole; and the Annual Caps are also fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolution at the SGM. Your attention is drawn to the letter from the Independent Board Committee set out on pages 34 to 35 of this circular and the letter from Pelican Financial set out on pages 36 to 87 of this circular.

**LETTER FROM THE BOARD**

**N. GENERAL INFORMATION**

Your attention is drawn to the general information set out in Appendix I to this circular.

By Order of the Board  
**Hopson Development Holdings Limited**  
**Chu Mang Yee**  
*Chairman*



合 生 創 展 集 團 有 限 公 司\*

**HOPSON DEVELOPMENT HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 754)**

*website: <http://www.irasia.com/listco/hk/hopson>*

*To the Independent Shareholders*

28 May 2018

Dear Sir or Madam,

## **CONTINUING CONNECTED TRANSACTIONS**

### **INTRODUCTION**

We refer to the circular dated 28 May 2018 issued by the Company (“**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings defined in the Circular unless the context requires otherwise.

The Independent Board Committee comprising Mr. Lee Tsung Hei, David, Mr. Tan Leng Cheng, Aaron and Mr. Ching Yu Lung has been established to advise you in respect of the 2018 Framework Agreement, the Transactions and the Annual Caps, details of which are set out in the Circular. Pelican Financial has been appointed to advise the Independent Board Committee and the Independent Shareholders regarding the 2018 Framework Agreement, the Transactions and the Annual Caps.

### **RECOMMENDATION**

We wish to draw your attention to the Letter from the Board as set out on pages 5 to 33 of the Circular and the letter from Pelican Financial which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the 2018 Framework Agreement, the Transactions and the Annual Caps as set out on pages 36 to 87 of the Circular.

\* *for identification purposes only*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

Having taken into account the advice of Pelican Financial and the principal factors and reasons considered by Pelican Financial, we consider that the 2018 Framework Agreement and the Transactions are on normal commercial terms or better so far as the Group is concerned and are in the ordinary and usual course of business of the Group and the 2018 Framework Agreement, the Transactions and the Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution proposed at the SGM to approve the 2018 Framework Agreement, the Transactions and the Annual Caps.

Yours faithfully,  
For and on behalf of  
the Independent Board Committee

**Lee Tsung Hei, David**  
*Independent non-executive*  
*Director*

**Tan Leng Cheng, Aaron**  
*Independent non-executive*  
*Director*

**Ching Yu Lung**  
*Independent non-executive*  
*Director*

## LETTER FROM PELICAN FINANCIAL

*The following is the letter of advice from Pelican Financial to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purposes of inclusion in this circular.*



### PELICAN FINANCIAL LIMITED

14th Floor, Shanghai Industrial Investment Building, 48 Hennessy Road, Wanchai, Hong Kong

28 May 2018

*To the Independent Board Committee and the Independent Shareholders of  
Hopson Development Holdings Limited*

Dear Sirs,

## CONTINUING CONNECTED TRANSACTIONS

### INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2018 Framework Agreement, the Transactions and the Annual Caps, details of which are set out in the letter from the Board contained in the circular of the Company dated 28 May 2018 (the “**Circular**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

The 2015 Framework Agreement expired on 31 December 2017. Since the Group expects to continue certain recurring transactions contemplated under the 2015 Framework Agreement and to enter into certain new recurring transactions with the Chu’s Controlled Entities (including the Previous Contracting Parties) in the three financial years ending 31 December 2020, the Company entered into the 2018 Framework Agreement with Mr. Y.H. Chu and Mr. W.H. Chu to govern the Transactions on 26 April 2018.

Both Mr. Y.H. Chu and Mr. W.H. Chu are the sons of Mr. Chu and the brothers of Ms. Chu. In addition, Mr. Y.H. Chu also indirectly owned approximately 17.76% of the shares of the Company. Accordingly, both Mr. Y.H. Chu and Mr. W.H. Chu are connected persons of the Company under the Listing Rules and the 2018 Framework Agreement and the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

## LETTER FROM PELICAN FINANCIAL

Furthermore, as one or more of the applicable percentage ratios (other than the profits ratio) as defined under Rule 14.07 of the Listing Rules of the Payable Annual Caps for the year ending 31 December 2020 (being the largest among the Annual Caps) exceed 5%, the 2018 Framework Agreement and the Transactions constitute non-exempt continuing connected transactions of the Company and are subject to reporting, announcement, circular, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules. Accordingly, the Company proposes to seek the Independent Shareholders' approval of the 2018 Framework Agreement, the Transactions and the Annual Caps for the three years ending 31 December 2020 at the SGM.

The Board currently comprises five executive Directors and three independent non-executive Directors. The Independent Board Committee, which currently comprises all the independent non-executive Directors, Mr. Lee Tsung Hei, David, Mr. Tan Leng Cheng, Aaron, and Mr. Ching Yu Lung, has been established to advise the Independent Shareholders regarding the 2018 Framework Agreement, the Transactions and the Annual Caps. We have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect and such appointment has been approved by the Independent Board Committee.

We are not connected with the directors, chief executive or substantial shareholders of the Company or any of their respective associates and also there is no relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence to act as independent financial adviser to the Company and therefore we considered that we are suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. In the last two years, there was no engagement between the Company and us. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive or substantial shareholders of the Company or any of their respective associates.

Our role is to provide you with our independent opinion and recommendation as to (i) whether the 2018 Framework Agreement is carried out in the ordinary and usual course of business of the Group and is on normal commercial terms; (ii) whether the terms of the 2018 Framework Agreement, the Transactions and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and whether they are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the 2018 Framework Agreement, the Transactions and the Annual Caps.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have performed relevant procedures and those steps which we deemed necessary in forming our opinions which include, among other things, review of relevant agreements, documents as well as information provided by the Company and verified them, to an extent, to the relevant public information, statistics and market data, the relevant industry guidelines and rules

## LETTER FROM PELICAN FINANCIAL

and regulations as well as information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group (including those related to the Chu's Controlled Entities). The documents reviewed include the 2018 Framework Agreement (together with the relevant announcement of the Company dated 26 April 2018), the 2015 Framework Agreement (together with the relevant announcement and circular of the Company dated 22 April 2015 and 12 May 2015 respectively), the annual report of the Company for the financial year ended 31 December 2017 (the "**Annual Report**"), the Circular. We have assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Group.

### **PRINCIPAL FACTORS TAKEN INTO CONSIDERATION**

In formulating our opinion in respect of the terms of the 2018 Framework Agreement, the Transactions and the Annual Caps, we have considered the following principal factors and reasons:

#### **1. Background of the 2018 Framework Agreement**

As the 2015 Framework Agreement expired on 31 December 2017 and the Group expects to continue certain recurring transactions contemplated under the 2015 Framework Agreement and to enter into certain new recurring transactions with the Chu's Controlled Entities (including the Previous Contracting Parties) in the three years ending 31 December 2020, the Company entered into the 2018 Framework Agreement with Mr. Y.H. Chu and Mr. W.H. Chu to govern the Transactions on 26 April 2018.

Set out below is a summary description of the Transactions pursuant to the 2018 Framework Agreement.



## LETTER FROM PELICAN FINANCIAL

**(a) *Services to be provided/premises to be leased by the Chu's Controlled Entities to the Group pursuant to the 2018 Framework Agreement:***

*Transaction 1 — Construction (“Transaction 1”)*

The appointment of the Chu's Controlled Entities by the Group to carry out construction work for certain property development projects of the Group in Guangzhou, Beijing and other Eastern areas of the PRC.

*Transaction 2 — Electrical installation, low voltage system and intelligent building system installation and consultancy service on cost control for construction work (“Transaction 2”)*

The appointment of the Chu's Controlled Entities by the Group to carry out electrical installation and low voltage system and intelligent building system installation for certain property development projects of the Group in Guangzhou, Beijing, Shanghai, Tianjin and other Eastern areas of the PRC and to provide the Group with consultancy service on cost control for its construction work in Guangzhou, Beijing, Shanghai, Tianjin and other Eastern areas of the PRC.

*Transaction 3 — Office lease (“Transaction 3”)*

The lease of certain commercial premises in Guangzhou and Shanghai by the Chu's Controlled Entities to the Group for office use.

*Transaction 4 — Information technology related services (“Transaction 4”)*

The appointment of the Chu's Controlled Entities by the Group to provide services in connection with the maintenance of the intranet and servers of the Group, and to supply information technology or computer system related products and facilities to the Group.

*Transaction 5 — Marketing services (“Transaction 5”)*

The appointment of the Chu's Controlled Entities by the Group to provide property sales service, sales agency service and marketing service for the Group.

**(b) *Services to be provided/premises to be leased by the Group to the Chu's Controlled Entities pursuant to the 2018 Framework Agreement:***

*Transaction 6 — Building design (“Transaction 6”)*

The appointment of the Group by the Chu's Controlled Entities to carry out construction and building design works for certain property development projects of the Chu's Controlled Entities in Beijing, Tianjin and Shanghai.

## LETTER FROM PELICAN FINANCIAL

*Transaction 7 — Management of vacant properties and delivery of sold property units to purchasers (“Transaction 7”)*

The appointment of the Group by the Chu’s Controlled Entities to manage certain vacant properties developed by the Chu’s Controlled Entities and to handle the delivery of sold property units of the Chu’s Controlled Entities in Guangdong Province, Beijing, Xi’an and Shanghai to purchasers.

*Transaction 8 — Heating service (“Transaction 8”)*

The appointment of the Group by the Chu’s Controlled Entities to provide heating service to certain properties of the Chu’s Controlled Entities in Beijing.

*Transaction 9 — Hotel management (“Transaction 9”)*

The appointment of the Group by the Chu’s Controlled Entities to provide hotel management service for certain hotels of the Chu’s Controlled Entities located in various cities across the PRC, including but not limited to Guangzhou, Beijing, Shanghai, Shenzhen and Chengdu.

*Transaction 10 — Shop and office lease (“Transaction 10”)*

The lease of certain shops and office premises in Guangzhou by the Group to the Chu’s Controlled Entities.

*Transaction 11 — Commercial real estate management (“Transaction 11”)*

The appointment of the Group by the Chu’s Controlled Entities to provide commercial real estate management service for certain commercial real estate projects of the Chu’s Controlled Entities.

## **2. Principal terms of the 2018 Framework Agreement**

As set out in the 2018 Framework Agreement (i) Mr. Y.H. Chu and Mr. W.H. Chu shall procure the relevant member(s) of the Chu’s Controlled Entities or their respective sub-contractors to perform the services (other than office lease) set out in Section 1(a) of this letter above and shall procure the relevant member(s) of the Chu’s Controlled Entities to lease certain office premises to the Group; (ii) the Company shall procure the relevant member(s) of the Group or their respective sub-contractors to perform the services (other than shop and office lease) set out in Section 1(b) of this letter above and shall procure the relevant member(s) of the Group to lease certain shop and office premises to the Chu’s Controlled Entities.

The 2018 Framework Agreement is conditional upon the Company having obtained the approval of the Independent Shareholders at a general meeting of the Company.

## LETTER FROM PELICAN FINANCIAL

In respect of each engagement for each of the Transactions, each of the Company, Mr. Y.H. Chu and Mr. W.H. Chu will procure the relevant members of the Group and the Chu's Controlled Entities to enter into a separate sales contract or agreement for each of the engagements/orders/leases in respect of each of the Transactions. The sales contracts or agreements will contain specific terms of the engagements/orders/leases which are consistent with the terms and principles set forth in the 2018 Framework Agreement. In general, the terms of the engagements/orders/leases in respect of the Transactions must be fair and reasonable so far as the Group is concerned and each individual sales contract or agreement that the Group and the Chu's Controlled Entities will enter into must pass through the Group's internal approval procedures (please refer to the sub-section "Internal Control Measures" below for more details on the Group's internal approval procedures) in order to ensure that each of the engagements/orders/leases in respect of each of the Transactions will be conducted on normal commercial terms offered by Independent Third Parties or better so far as the Group is concerned.

### *Internal Control Measures*

To ensure that the terms of each of the individual sales contracts or agreements in respect of the Transactions proposed to be entered into by the Group are fair and reasonable and are on normal commercial terms so far as the Group is concerned, the Group has adopted the following internal approval measures:

- The cost centre of the Group will, before the Group enters into any individual sales contract or agreement in respect of the Transactions with the Chu's Controlled Entities, first obtain quotations and other key terms for providing goods/services/leases of similar level and types from at least two Independent Third Parties for reference. The relevant operational team of the Group will then compare the quotations and terms obtained with the terms of existing sales contracts or agreements entered into by the Group with Independent Third Parties (if any). The Group will also evaluate the quotations and terms obtained against the terms of such existing sales contracts or agreements and will take into account the Group's own judgment based on its experience and knowledge of current market conditions.
- Once the operational team is satisfied that the quotation and terms obtained from the aforesaid two Independent Third Parties are at prevailing market price and terms, the relevant operational team of the Group will then review and evaluate the price and terms proposed to be offered by/to Chu's Controlled Entities to/by our Group and compare such price and terms with that obtained from the Independent Third Parties.
- The operational team head will be responsible for approving the individual sales contract or agreement in respect of the Transactions to ensure that the price and terms of each of the engagements/orders/leases in respect of each of the Transactions are equal or better than those received from Independent Third Parties through the above mentioned process.

## LETTER FROM PELICAN FINANCIAL

- The cost centre of the Group will also regularly collect and keep the relevant operational team informed of the latest standards and guidelines published by the relevant governmental authorities in the PRC that are relevant to the Transactions.
- The cost centre of the Group will request the relevant operational teams of the Group to report the actual transaction amounts incurred for each of the relevant Transactions on a regular basis. The cost centre of the Group will monitor the aggregate transaction amounts incurred on a regular basis to ensure that the Annual Caps in respect of each of the Transactions are not exceeded. If and when the cost centre of the Group becomes aware of the actual aggregate transaction amount of any Transaction will soon exceed its annual cap for the relevant financial year, the cost centre will be required to inform the management of the Company and the relevant operational team promptly to ensure that no further transactions in respect of that particular Transaction shall be carried out for the remainder of that financial year.

In considering whether the internal control measures which the Group has been adopting as set out above are adequate and effective, we have walkthrough the internal control systems with two transactions under the 2015 Framework Agreement and obtained relevant supporting documents including, amongst others, relevant quotations from Independent Third Parties, the approvals from the operational team head, the relevant standards and guidelines published by the relevant governmental authorities in the PRC and maintained by the cost centre and records of the actual transaction amounts incurred. We noted that the quotations are from sizeable Independent Third Parties. Based on our review of the information and the examination of the internal control system, we are satisfied that the internal control measures has been properly maintained by the Group and that the transactions were conducted on normal commercial terms with price and terms comparable to, or no less favorable than, the market rates.

Further, given that (i) each individual sales contract or agreement in respect of the Transactions (for both payable and receivable contracts/agreements) with the Chu's Controlled Entities will continue to be compared with the price and terms of similar goods/services/leases from Independent Third Parties to ensure that the engagements/orders/leases in respect of each of the Transactions will be conducted on normal commercial terms; (ii) there is appropriate segregation of duties in the approval process in each of the engagements/orders/leases; and (iii) a monitoring system in place to ensure that the Annual Caps are not exceeded from time to time, we are satisfied that the internal control measures adopted by the Group will ensure that the price and terms for the engagement of/by the Chu's Controlled Entities (including the Previous Contracting Parties) will be entered on normal commercial terms and are comparable to, or no less favorable than, the market rates as well as there is an effective system in place to monitor the Annual Caps.

## LETTER FROM PELICAN FINANCIAL

In light of the above, we are of the view that the internal control measures are adequate and effective in ensuring that the Transactions have been and will be conducted on normal commercial terms and that the relevant Annual Caps will not be exceeded and also that the internal control measures adopted by the Group are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### 3. Background information of the Group and the Chu's Controlled Entities and the reasons for, and benefits of, entering into the 2018 Framework Agreement

#### (a) Background information of the Group

The Group is principally engaged in the development of residential properties in the mainland China. The Group is also involved in property investment, hotel operations and property management. Its property development business covers various cities in the PRC including but not limited to Guangzhou, Beijing, Shanghai, Tianjin and Huizhou.

Set out below is a summary of the financial information of the Group for the two years ended 31 December 2017 as extracted from the Annual Report.

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2017</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
<i>Revenue</i>		
— Sales of properties	11,125,122	14,142,282
— Property management income	936,085	843,197
— Income from hotel operations	408,269	247,192
— Rental income		
— Investment properties	1,127,631	837,407
— Others	<u>226,839</u>	<u>185,619</u>
<b>Total Revenue</b>	<u><u>13,823,946</u></u>	<u><u>16,255,697</u></u>
<b>Gross profit</b>	<u><u>5,085,471</u></u>	<u><u>4,479,431</u></u>
<b>Profit for the year</b>	<u><u>5,811,820</u></u>	<u><u>3,842,674</u></u>

Revenue generated from sales of properties for the years ended 31 December 2016 and 2017 amounted to approximately HK\$14,142 million and HK\$11,125 million respectively, which represented approximately 87.0% and 80.5% of the total revenue of the Group. As set out in the Annual Report, the Chinese government in 2017 commenced a new round of regulation and control policies on real estate, which focused on keeping housing price under

## LETTER FROM PELICAN FINANCIAL

control against risks in first-tier cities and popular second-tier cities and reducing real estate inventories in third-tier and fourth-tier cities. Under such circumstances, various regulation and control measures had been adopted in first-tier cities and popular second-tier cities which resulted in a slight dip in the growth of real estate investment and the investment and speculative demand was suppressed. However, demand persisted in the market, and there was healthy development in the real estate market in first-tier cities and popular second-tier cities. In view of the PRC real estate market development in 2017, the Group enlarged the proportion of residential properties targeting at the improved demand in the entire residential segment. Meanwhile, the Group also enhanced the comfort level and satisfaction of property owners by increasing the investment on the ancillary facilities and property management services. For the commercial segment, the Group committed to the opening and development of mega shopping centres, premium office buildings and hotel projects whilst continuously optimised the tenant structure of its investment properties in order to generate sustainable rental income growth.

Properties sold under sale and pre-sale contracts by the Group in 2017 totaled approximately RMB9,228 million as compared with RMB8,089 million in the prior year. The following is a summary of the properties sold under sale and pre-sale contracts in 2017:

- Guangzhou — total GFA sold amounted to 114,144 square metres in 2017 as compared with 107,054 square metres in 2016. The increase in sales was mainly attributable to the newly launched Hopson Xijing Garden.
- Beijing and Tianjin — total GFA sold amounted to 96,615 square metres in 2017 as compared with 171,817 square metres in 2016. The decrease in sales was mainly because the featured product of Hopson Regal Park during the year was car parking spaces but its featured product during last year was residential products.
- Shanghai — total GFA sold amounted to 361,686 square metres in 2017 as compared with 230,789 square metres in 2016. The increase in sales was mainly attributable to the prosper market for The Town of Hangzhou Bay as a result of the shifting of housing demand to Cixi and other regions as affected by the housing policy in Shanghai this year, while having sufficient units for selling.
- Huizhou — total GFA sold amounted to 155,289 square metres in 2017 as compared with 227,334 square metres in 2016. The decrease in sales was mainly attributable to the combined effect of the decrease in sales of Hopson International New City and the increase in sales of Hopson Yujing Bay. The decrease in area sold was because the featured products of Hopson International New City were remaining units and car parking spaces during the year. The increase in transaction volume was due to the active expansion of high-end customers of Hopson Yujing Bay.

Looking forward, it is expected that the Group in 2018 will further reinforce its residential and commercial projects in the three major economic zones in Pearl River Delta, Huanbohai and Yangtze River Delta. Moreover, the Group will also play an active role in

## LETTER FROM PELICAN FINANCIAL

“Urban Renewal and Redevelopment” projects in first-tier cities. In addition, the Group will put more effort into the development projects located at the peripheral cities of the three major economic zones and strategically build up its land bank.

### **(b) *Background information of the Chu’s Controlled Entities***

The Chu’s Controlled Entities are engaged in the construction of properties, public utilities and power transmission and transformation in the PRC. The Chu’s Controlled Entities invest in various projects including infrastructure, land, energy and resources, electronics and telecommunications. They are also engaged in the sale and purchase of equipment for metallurgy, forging, mining and hydropower and the sale and purchase of other minerals, metals and construction materials.

A member of the Chu’s Controlled Entities, namely, 廣東韓江工程總承包有限公司 (Guangdong Hanjiang Engineering Construction Limited), is classified as 房屋建築工程總承包壹級 (Property Construction First Class Main Contractor) by the relevant government authority in the PRC. First class main contractors is qualified to undertake larger scale projects than non-first class contractors. Guangdong Hanjiang offers a comprehensive range of services, employing over 350 industry experts, of which 100 are mid to senior level. Guangdong Hanjiang has also obtained the ISO 9000 certification for its quality management systems, using top grade quality in its safety, construction, cost management and controls. Guangdong Hanjiang is a reputable contractor in the industry, has a proven track record and possesses the relevant technical capabilities and expertise in handling large scale construction projects including numerous highly rated commercial buildings in the PRC.

We understand that the Group has been transacting with the Previous Contracting Parties since 2003 and they have completed various construction and related services for construction projects of the Group and have also maintained good payment records for services provided/leasing of properties by the Group to the Previous Contracting Parties.

### **(c) *The reasons for, and benefits of, entering into the 2018 Framework Agreement***

The 2018 Framework Agreement is to regulate the Transactions which are recurrent, regular and continuing in nature between the Group and the Chu’s Controlled Entities (including the Previous Contracting Parties). The entering into of the 2018 Framework Agreement will provide a single basis on which the Company will comply with the reporting, announcement, circular and independent shareholders’ approval requirements under the Listing Rules, thereby reducing the Company’s administrative burden and costs for complying with such requirements in relation to the execution of separate sales contract or agreement for each of the engagements/orders/leases under each of the Transactions. In addition, having considered that (i) the long-term established business relationship between the Group and the Previous Contracting Parties; (ii) the proven track record the Previous Contracting Parties has in transacting with the Group; (iii) the Previous Contracting Parties has maintained good payment records with the Group; and (iv) Guangdong Hanjiang is a reputable construction contractor in the PRC and has the capability to undertake construction of large scale



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construction projects, we are of the view that the Transactions contemplating under the 2018 Framework Agreement with the Chu's Controlled Entities will provide an efficient and effective mean for the Group to carry out certain of its business activities and hence we are of view that the Transactions will be carried out in the ordinary and usual course of business and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

#### 4. Principal terms of the Transactions and basis for determining the respective Annual Caps

##### (a) *Historical annual caps and historical transaction amounts*

Set out below are the estimated and the actual transaction amounts of the Transactions which were also carried out in the three financial years ended 31 December 2017:

Transactions	Year ended 31 December 2015		Year ended 31 December 2016		Year ended 31 December 2017	
	Annual caps	Approximate transaction amount	Annual caps	Approximate transaction amount	Annual caps	Approximate transaction amount
Previous transaction 1 — Construction	RMB424,027,000 (equivalent to approximately HK\$530,034,000)	RMB75,353,000 (equivalent to approximately HK\$94,191,000)	RMB430,017,000 (equivalent to approximately HK\$537,521,000)	RMB343,616,000 (equivalent to approximately HK\$429,520,000)	RMB415,985,000 (equivalent to approximately HK\$519,981,000)	RMB78,136,000 (equivalent to approximately HK\$97,670,000)
Previous transaction 2 — Construction supervision	RMB12,291,000 (equivalent to approximately HK\$15,364,000)	RMB3,965,000 (equivalent to approximately HK\$4,956,000)	RMB8,005,000 (equivalent to approximately HK\$10,006,000)	RMB438,000 (equivalent to approximately HK\$548,000)	RMB5,341,000 (equivalent to approximately HK\$6,676,000)	RMB1,010,000 (equivalent to approximately HK\$1,263,000)
Previous transaction 3 — Electricity installation, low voltage system and intelligent building system installation, consultancy service for budgeting and cost control in for construction work	RMB179,950,000 (equivalent to approximately HK\$224,938,000)	RMB38,075,000 (equivalent to approximately HK\$47,594,000)	RMB125,068,000 (equivalent to approximately HK\$156,335,000)	RMB31,872,000 (equivalent to approximately HK\$39,840,000)	RMB114,296,000 (equivalent to approximately HK\$142,870,000)	RMB5,486,000 (equivalent to approximately HK\$6,858,000)
Previous transaction 4 — Office lease	RMB9,296,000 (equivalent to approximately HK\$11,620,000)	RMB8,070,000 (equivalent to approximately HK\$10,088,000)	RMB9,296,000 (equivalent to approximately HK\$11,620,000)	RMB6,677,000 (equivalent to approximately HK\$8,346,000)	RMB10,052,000 (equivalent to approximately HK\$12,565,000)	RMB5,732,000 (equivalent to approximately HK\$7,165,000)
Previous transaction 5 — Informatization or computerization related services	RMB60,402,000 (equivalent to approximately HK\$75,503,000)	RMB10,475,000 (equivalent to approximately HK\$13,094,000)	RMB63,422,000 (equivalent to approximately HK\$79,278,000)	RMB1,625,000 (equivalent to approximately HK\$2,031,000)	RMB66,592,000 (equivalent to approximately HK\$83,240,000)	RMB34,924,000 (equivalent to approximately HK\$43,655,000)



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Transactions	Year ended 31 December 2015		Year ended 31 December 2016		Year ended 31 December 2017	
	Annual caps	Approximate transaction amount	Annual caps	Approximate transaction amount	Annual caps	Approximate transaction amount
Previous transaction 6 — Building design	RMB8,852,000 (equivalent to approximately HK\$11,065,000)	RMB751,000 (equivalent to approximately HK\$939,000)	RMB7,009,000 (equivalent to approximately HK\$8,761,000)	RMB86,000 (equivalent to approximately HK\$108,000)	RMB6,742,000 (equivalent to approximately HK\$8,428,000)	RMB110,000 (equivalent to approximately HK\$138,000)
Previous transaction 7 — Management of vacant properties and delivery of the sold properties to purchasers	RMB18,910,000 (equivalent to approximately HK\$23,638,000)	RMB4,632,000 (equivalent to approximately HK\$5,790,000)	RMB18,310,000 (equivalent to approximately HK\$22,888,000)	RMB5,029,000 (equivalent to approximately HK\$6,286,000)	RMB17,710,000 (equivalent to approximately HK\$22,138,000)	RMB17,090,000 (equivalent to approximately HK\$21,363,000)
Previous transaction 8 — Shop and office lease	RMB2,606,000 (equivalent to approximately HK\$3,258,000)	RMB1,163,000 (equivalent to approximately HK\$1,454,000)	RMB2,443,000 (equivalent to approximately HK\$3,054,000)	RMB1,649,000 (equivalent to approximately HK\$2,061,000)	RMB2,524,000 (equivalent to approximately HK\$3,155,000)	RMB1,732,000 (equivalent to approximately HK\$2,165,000)

## (b) *Proposed Annual Caps of the Transactions*

Set out below are the Annual Caps proposed by the Directors for each of the three financial years ending 31 December 2020 in respect of the Transactions and the relevant breakdowns:

### A. *Services to be provided/premises to be leased by Chu's Controlled Entities to the Group pursuant to the 2018 Framework Agreement:*

Transactions	2018 Annual Cap	2019 Annual Cap	2020 Annual Cap
1. Transaction 1 — Construction	RMB483,493,000 (equivalent to approximately HK\$604,366,000)	RMB422,388,000 (equivalent to approximately HK\$527,985,000)	RMB449,632,000 (equivalent to approximately HK\$562,040,000)
2. Transaction 2 — Electrical installation, low voltage system and intelligent building system installation and consultancy service on cost control for construction work	RMB83,077,000 (equivalent to approximately HK\$103,846,000)	RMB72,471,000 (equivalent to approximately HK\$90,589,000)	RMB79,114,000 (equivalent to approximately HK\$98,893,000)

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<b>Transactions</b>	<b>2018 Annual Cap</b>	<b>2019 Annual Cap</b>	<b>2020 Annual Cap</b>
3. Transaction 3 — Office lease	RMB8,860,000 (equivalent to approximately HK\$11,075,000)	RMB8,964,000 (equivalent to approximately HK\$11,205,000)	RMB9,153,000 (equivalent to approximately HK\$11,441,000)
4. Transaction 4 — Information technology related services	RMB57,345,000 (equivalent to approximately HK\$71,681,000)	RMB60,645,000 (equivalent to approximately HK\$75,806,000)	RMB65,645,000 (equivalent to approximately HK\$82,056,000)
5. Transaction 5 — Marketing services	RMB200,440,000 (equivalent to approximately HK\$250,550,000)	RMB250,065,000 (equivalent to approximately HK\$312,581,000)	RMB300,213,000 (equivalent to approximately HK\$375,266,000)
<b>Total: “Payable Annual Caps”</b>	<b>RMB833,215,000</b> (equivalent to approximately <b>HK\$1,041,519,000</b> )	<b>RMB814,533,000</b> (equivalent to approximately <b>HK\$1,018,166,000</b> )	<b>RMB903,757,000</b> (equivalent to approximately <b>HK\$1,129,696,000</b> )

**B. Services to be provided/premises to be leased by the Group to Chu’s Controlled Entities pursuant to the 2018 Framework Agreement:**

<b>Transactions</b>	<b>2018 Annual Cap</b>	<b>2019 Annual Cap</b>	<b>2020 Annual Cap</b>
1. Transaction 6 — Building design	RMB40,820,000 (equivalent to approximately HK\$51,025,000)	RMB39,715,000 (equivalent to approximately HK\$49,644,000)	RMB14,017,000 (equivalent to approximately HK\$17,521,000)
2. Transaction 7 — Management of vacant properties and delivery of sold property units	RMB29,113,000 (equivalent to approximately HK\$36,391,000)	RMB32,024,000 (equivalent to approximately HK\$40,030,000)	RMB35,227,000 (equivalent to approximately HK\$44,034,000)
3. Transaction 8 — Heating services	RMB0 (equivalent to approximately HK\$0)	RMB2,710,000 (equivalent to approximately HK\$3,388,000)	RMB2,540,000 (equivalent to approximately HK\$3,175,000)

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Transactions	2018 Annual Cap	2019 Annual Cap	2020 Annual Cap
4. Transaction 9 — Hotel management	RMB7,039,000 (equivalent to approximately HK\$8,799,000)	RMB7,048,000 (equivalent to approximately HK\$8,810,000)	RMB8,519,000 (equivalent to approximately HK\$10,649,000)
5. Transaction 10 — Shop and office lease	RMB35,675,000 (equivalent to approximately HK\$44,594,000)	RMB37,058,000 (equivalent to approximately HK\$46,323,000)	RMB37,746,000 (equivalent to approximately HK\$47,183,000)
6. Transaction 11 — Commercial real estate management	RMB153,901,000 (equivalent to approximately HK\$192,376,000)	RMB205,433,000 (equivalent to approximately HK\$256,791,000)	RMB228,791,000 (equivalent to approximately HK\$285,989,000)
<b>Total: “Receivable Annual Caps”</b>	<b>RMB266,548,000</b> (equivalent to approximately HK\$333,185,000)	<b>RMB323,988,000</b> (equivalent to approximately HK\$404,985,000)	<b>RMB326,840,000</b> (equivalent to approximately HK\$408,550,000)

(c) *Principal terms of the Transactions and basis for determining the respective Annual Caps*

*Services to be provided/premises to be leased by the Chu’s Controlled Entities to the Group pursuant to the 2018 Framework Agreement*

**Transaction 1 — Construction**

Pursuant to the 2018 Framework Agreement, the Group may, from time to time and subject to the execution of separate agreement setting out the specific terms of each engagement, appoint the Chu’s Controlled Entities to carry out construction works for property projects of the Group.

**Basis for determining price and other terms under Transaction 1**

As set out in the 2018 Framework Agreement, the construction fees payable by the Group to the Chu’s Controlled Entities and the terms thereto for carrying out construction work of the property development projects of the Group in the PRC shall be determined with reference to the prices and terms offered by independent contractors for providing similar services and the latest stipulated standards and guidelines prescribed by 建設委員會 (Construction Committee) of where the project is located, such as 北京市建設工程計價依據—預算定額 (Costing Basis of Construction and Installation Works, Beijing Municipal — Base Price Budgeting) published by 北京市建設委員會 (Construction

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Committee of Beijing Municipal) in 2012 for property projects in Beijing; and 廣東省建設工程計價依據 (2010年) (Costing Basis of Construction and Installation Works, Guangdong Province (2010)) published by 廣東省建設廳 (Construction Department of Guangdong Province) in 2010 for property projects in Guangzhou.

### Basis for determining and discussion of the Annual Caps under Transaction 1

Set out below are the proposed Annual Caps of Transaction 1 for each of the three years ending 31 December 2020:

	<b>Proposed Annual Caps for the year ending 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Transaction 1 — Construction</b>	RMB483,493,000 (equivalent to approximately HK\$604,366,000)	RMB422,388,000 (equivalent to approximately HK\$527,985,000)	RMB449,632,000 (equivalent to approximately HK\$562,040,000)

In determining the Annual Caps for Transaction 1 under the 2018 Framework Agreement, the Group has taken into account (i) the relevant pricing basis under the 2018 Framework Agreement; (ii) the estimation of the aggregate gross floor area of the property units in Guangzhou, Beijing and other Eastern areas of the PRC, the construction of which are expected to be carried out by the Chu's Controlled Entities for the relevant years; and (iii) the historical construction fees paid by the Group to the Previous Contracting Parties during the three years ended 31 December 2017 for carrying out construction work for the Group.

### Documents obtained and reviewed for Transaction 1

In connection with Transaction 1, we have obtained, reviewed and examined (i) a schedule setting out information on the estimated construction fee to be payable by the Group to the Chu's Controlled Entities for the three years ending 31 December 2020; (ii) a schedule setting out information on the breakdown of estimated average unit construction fee; (iii) a certificate issued by an independent engineering project cost consulting firm in the PRC which was hired by the Company for carrying out an independent assessment on the estimated average unit construction fee for the property projects of the Group; (iv) a schedule setting out information on the historical construction fees paid by the Group to the Previous Contracting Parties during the three years ended 31 December 2017; (v) information on the average unit construction cost estimated by an engineering project cost consulting firm in the PRC for the previous construction service annual caps for the three years ended 31 December 2017; (vi) three sample construction contracts, selected on a random sampling basis, entered into between the Group and the Previous Contracting Parties during the three years ended 31

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December 2017; and (vii) reference materials for setting prices in construction works, including the aforementioned standards and guidelines stipulated by the relevant government authorities.

### Our analysis of the pricing basis of Transaction 1

The pricing basis of Transaction 1 is determined by the parties with reference to the terms offered by Independent Third Parties for providing similar services and the latest stipulated standards and guidelines. In this regard, we have reviewed the relevant standards and guidelines and also compared the average unit construction cost for construction work paid by the Group for the three years ended 31 December 2017 with the average unit construction cost for the industry as provided by a qualified engineering project cost consulting firm in the PRC. We have also obtained three sample construction contracts, selected on a random sampling basis, made between the Group and the Previous Contracting Parties during the three years ended 31 December 2017 as well as the average unit construction cost the Group has paid to the Previous Contracting Parties and compared that to the information on the average unit construction cost as calculated and estimated by a qualified engineering project cost consulting firm in the PRC. Based on the review of the documents, we noted that the average unit construction cost paid by the Group was approximately RMB1,800 per sq.m. which was within the range of the average unit construction cost of approximately RMB1,800 to RMB2,000 per sq.m. as provided by an engineering project cost consulting firm in the PRC. As such, the comparison shows that the historical construction fees paid by the Group to the Previous Contracting Parties was in line with such information and that the pricing basis adopted in Transaction 1 is fair and reasonable.

### Our analysis of the proposed Annual Caps for Transaction 1

In deriving the proposed Annual Caps for Transaction 1, the Company has multiplied the estimated the average unit construction fee payable with the estimated aggregate gross floor areas for the property projects of the Group in Guangzhou, Beijing and other Eastern areas of the PRC, the construction of which are probably to be performed by the Chu's Controlled Entities for each of the three years ending 31 December 2020.

### The estimated average unit construction fee payable

As advised by the Company, whilst the estimated unit construction fee for each of the property projects may vary as they are subject to a few factors: (i) the types of construction materials consumed; (ii) the class of the properties; (iii) the scope of the construction works; and (iv) the geographic location of the property sites, the overall effect after averaging them would be very close and hence the Company has estimated average unit construction fee payable to the Chu's Controlled Entities by taking the average of the estimated unit fees for each of the property projects and which we considered to be reasonable. The estimated average unit construction fee payable by the

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Group is approximately RMB1,800 per sq.m. Further, to determine whether the estimated average unit construction fee payable by the Group to the Chu's Controlled Entities for the three years ending 31 December 2020 are on normal commercial terms, the Company has also hired an independent engineering project cost consulting firm ("**Consulting Firm**") in the PRC to carry out independent assessment in regard to the estimated average unit construction fee payable under Transaction 1. For our due diligence purpose, we have discussed with the Consulting Firm on the works they have performed. We have also enquired its qualifications, expertise and independence to the Group and have reviewed its engagement, including its scope of work. We were not aware of any irregularities during our interview with the Consulting Firm or in our review of the work. In particular, we note that the Consulting Firm has business license to carry out construction cost assessment business in the PRC and it also possesses grade A qualification to carry out project costing consultation in the PRC with 工程造價諮詢企業甲級資質證書 (Engineering Project Cost Consultancy Grade A Qualification Certificate). The Consulting Firm has reviewed the estimated average unit construction fee of the Group under the Transaction 1 and performed other works as deemed necessary, and after its examination, confirmed that the estimated average unit construction fee used by the Group are in line with the market price. As such, we are satisfied with its view that these estimated average unit fee is in line with the market price.

In addition, as the estimated average unit construction fee for various property projects of the Group would also need to conform to the government standards aforementioned, which are the latest available standards prescribed by the relevant construction committees of where the property projects are located, the Company therefore also advised that before entering into a specific agreement for each engagement under Transaction 1 by the Group and the Chu's Controlled Entities, the relevant fees for construction works shall also be required to be determined by making reference to, among others, the then available relevant standards.

### The estimated aggregate gross floor areas for the property projects of the Group

Furthermore, we have also reviewed the schedule in respect of the estimated aggregate gross floor areas for the property projects of the Group in Guangzhou, Beijing and other Eastern areas of the PRC, the construction of which are expected to be carried out by the Chu's Controlled Entities for the three years ending 31 December 2020. As advised by the Company, the estimated aggregate gross floor areas for the property projects of the Group determined therein are prepared in accordance with the Group's property development schedule in the forth coming years. In our review of the estimated aggregate gross floor areas for the property projects which are expected to be carried out by the Chu's Controlled Entities, we noted that these property projects include four, one and three property development projects in Guangzhou, Beijing and other Eastern areas of the PRC respectively from 2018 to 2020 (which have an aggregate gross floor areas of approximately 269,000 sq.m. in 2018, 235,000 sq.m. in 2019 and 250,000 sq.m. in 2020) and that these property development projects are consistent with the property project

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development plan of the Group as included in the Annual Report. As such, having reviewed the schedule and discussed with the management of the Company basis of the preparation, we are of the view that such estimated aggregate gross floor areas are consistent with the Group's property project development plan requiring the services of the Chu's Controlled Entities from 2018 to 2020. Also, given that the proposed Annual Caps for Transaction 1 is determined based on the expected property development projects to be completed by the Group in accordance with its current development schedule in each of the three years ending 31 December 2020, in our view, it is reasonable that there will be year-on-year fluctuation in the proposed Annual Caps for Transaction 1 as the proposed Annual Caps for Transaction 1 is expected to align with the Group's need for construction services from the Chu's Controlled Entities in each of the three years ending 31 December 2020. In light of the above, we are of the view that the basis and assumptions in formulating the proposed Annual Caps for Transaction 1 are fair and reasonable.

We also noted that the proposed Annual Caps for Transaction 1 represent an increment from the historical transaction amount for the year ended 31 December 2017 of approximately RMB78.1 million. As discussed above, the proposed Annual Caps for Transaction 1 is based on the expected property development projects to be completed by the Group in accordance with its current development schedule in each of the three years ending 31 December 2020. When the aggregate gross floor area of development increase, there shall be a corresponding increase in the construction fees. In addition, as set out in "Background information of the Group and the Chu's Controlled Entities and the reasons for, and benefits of, entering into the 2018 Framework Agreement" in this letter above, the PRC government in 2017 commenced a new round of regulation and control policies on real estate, which resulted in a slight dip in the growth of real estate investment and the investment and speculative demand was suppressed. However, demand persisted in the market, and there was healthy development in the real estate market in first-tier cities and popular second-tier cities and the Group expects to increase property development projects in Guangzhou, Beijing and other Eastern areas of the PRC for the three years ending 31 December 2020. If the property development projects progress as anticipated by the Group, it is reasonable to expect that the Group would require the amounts under the proposed Annual Caps for Transaction 1 for its construction works. In light of the above, we are of the view that the proposed Annual Caps for Transaction 1, being at a significant increment as compared with the historical transaction amount for the year ended 31 December 2017, is fair and reasonable.

Also, as the Group and the Chu's Controlled Entities (namely the Previous Contracting Parties) have established long-term business relationship and the construction services provided by the Previous Contracting Parties have been satisfactory and therefore the continuing appointment of the Chu's Controlled Entities to provide the Group with construction services can further boost the overall operating efficiency and enhance cost effectiveness of the Group as a whole.



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In light of the work above, we are of the view that Transaction 1 and the terms thereto are on normal commercial terms and the fees payable thereunder as well as the proposed Annual Caps for Transaction 1 are properly estimated and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### **Transaction 2 — Electrical installation, low voltage system and intelligent building system installation and consultancy service on cost control for construction work**

Pursuant to the 2018 Framework Agreement, the Group may, from time to time and subject to the execution of separate agreement setting out the specific terms of each engagement, appoint the Chu's Controlled Entities to carry out electrical installation, low voltage system and intelligent building system installation work for certain property development projects of the Group and to provide the Group with consultancy service on cost control for its construction work; low voltage system and intelligent building system installation works include installation of visual walkie-talkie system, CCTV system, music broadcast system, security system, car park automatic management system, telephone system, mobile signal coverage system, internet system and television antenna system and procurement and installation of the related facilities; and consultancy service on cost control for construction work include the preparation of project settlement based on completion data such as built drawings, and to issue completion accounts.

#### **Basis for determining price and other terms under Transaction 2**

As set out in the 2018 Framework Agreement, the fees payable by the Group to the Chu's Controlled Entities and the terms thereto for carrying out electricity installation works for the property development projects of the Group will be determined with reference to the prices and terms offered by Independent Third Parties for providing similar services and the latest standards and guidelines prescribed by the relevant governmental authorities of where the project is located, such as 廣東省建設工程計價依據 (2010年) (Costing Basis of Construction and Installation Works, Guangdong Province (2010)) published by 廣東省建設廳 (Construction Department of Guangdong Province) in 2010.

The fees payable by the Group to the Chu's Controlled Entities and the terms thereto for carrying out low voltage system and intelligent building system installation works for the property development projects of the Group in the PRC will be determined with reference to the prices and terms offered by Independent Third Parties for providing similar services and the latest standards and guidelines prescribed by the relevant governmental authorities of where the project is located, such as 北京市建設工程計價依據—預算定額 (Costing Basis of Construction and Installation Works, Beijing Municipal — Base Price Budgeting) and 通信建設工程預算定額(2008年) (Basis for fee Calculation for Communication Construction Project (2008)) published by 北京市建設委員會 (Construction Committee of Beijing Municipal) in 2012 and 2008, respectively, for projects in Beijing, and 廣東省建設工程計價依據(2010年) (Costing Basis of



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Construction and Installation Works, Guangdong Province (2010) and 廣州地區建設工程常用材料綜合價格(2014年) (Comprehensive Pricing for Commonly Used Materials for Construction Projects in Guangzhou (2014)) published by 廣東省建設廳 (Construction Department of Guangdong Province) in 2010 and 2014, respectively, for projects in the Guangdong Province.

For procurement of equipment for the low voltage system and intelligent building system, a mark-up of 1% — 3% on the price of the equipment procured will be charged.

The fees payable by the Group to the Chu's Controlled Entities for the consultancy service on cost control for construction work will be determined with reference to the latest standards and guidelines prescribed by the relevant governmental authorities of where the project is located, such as 關於調整我省建設工程造價諮詢服務收費的覆函 (Letter Relating to Adjustment to Service Fee for the Provision of Consultation Service in Relation to Construction and Installation Costs in this Province) issued by the 廣東省物價局 (Price Control Administrative Bureau of Guangdong Provincial).

### Basis for determining and discussion of the Annual Caps under Transaction 2

Set out below are the proposed Annual Caps of Transaction 2 for each of the three years ending 31 December 2020:

	<b>Proposed Annual Caps for the year ending 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Transaction 2 —</b>	RMB83,077,000	RMB72,471,000	RMB79,114,000
<b>Electrical installation,</b>	(equivalent to	(equivalent to	(equivalent to
<b>low voltage system and</b>	approximately	approximately	approximately
<b>intelligent building</b>	HK\$103,846,000)	HK\$90,589,000)	HK\$98,893,000)
<b>system installation and</b>			
<b>consultancy service on</b>			
<b>cost control for</b>			
<b>construction work</b>			

In determining the Annual Caps for Transaction 2 under the 2018 Framework Agreement, the Group has taken into account (i) the relevant pricing bases under the 2018 Framework Agreement; (ii) the Directors' estimated aggregate gross floor area of the property development projects in Guangzhou, Beijing, Shanghai, Tianjin, and other Eastern areas of the PRC that the Group expects to complete and for which the Group proposes to appoint the Chu's Controlled Entities to carry out the electrical installation and intelligent building system installation work and to provide consultancy service on cost control for construction work for the relevant year; and (iii) the historical fees paid by the Group to the Previous Contracting Parties for (a) electrical installation; (b) low voltage system and intelligent building system installation; and (c) cost control for construction work.

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### Documents obtained and reviewed for Transaction 2

In connection with Transaction 2, we have obtained, reviewed and examined (i) schedules setting out information on the (a) estimated electricity installation fees payable, (b) estimated low voltage system and intelligent building system installation fees payable, and (c) estimated consultancy service on cost control for construction work fees payable, by the Group to the Chu's Controlled Entities for the three years ending 31 December 2020; (ii) schedules setting out the (a) historical electricity installation fees paid, (b) historical low voltage system and intelligent building system installation fees paid, and (c) historical consultancy service on cost control for construction work fees paid, by the Group to the Previous Contracting Parties during the three years ended 31 December 2017; (iii) information on the prevailing market rates for similar installation and consultancy services and determined with reference to the terms offered by Independent Third Parties; (iv) three sample installation and consultancy contracts, selected on a random sampling basis, entered into between the Group and the Previous Contracting Parties during the three years ended 31 December 2017; and (v) reference materials for setting the pricing basis and fees, including the aforementioned standards stipulated by the relevant government authorities.

### Our analysis of the pricing basis of Transaction 2

The pricing basis of Transaction 2 (i) in carrying out electricity installation works for the property development projects of the Group will be determined with reference to the prices and terms offered by Independent Third Parties for providing similar services and the latest standards and guidelines prescribed by the relevant governmental authorities of where the project is located; (ii) in carrying out low voltage system and intelligent building system installation works for the property development projects of the Group in the PRC is determined with reference to the prices and terms offered by Independent Third Parties for providing similar services and the latest standards and guidelines prescribed by the relevant governmental authorities of where the project is located; and (iii) for the consultancy service on cost control for construction work will be determined with reference to the latest standards and guidelines prescribed by the relevant governmental authorities of where the project is located. In this regard, we have reviewed the relevant standards and guidelines and also compared the installation and consultancy fees paid by the Group for the three years ended 31 December 2017 with the market rates for installation and consultancy fees. We have also obtained three sample installation and consultancy contracts, selected on a random sampling basis, made between the Group and the Previous Contracting Parties during the three years ended 31 December 2017 and compared that to the information on the then market rates for similar installation and consultancy services and made with reference to the terms offered by Independent Third Parties. Based on the review of the documents, we noted that (i) the average unit electrical installation work paid by the Group was approximately RMB170 per sq.m. which was within the market range of approximately RMB110 to RMB200 per sq.m.; (ii) the average unit low voltage system and intelligent building system installation

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work paid by the Group was approximately RMB25 per sq.m. which was within the market range of approximately RMB10 to RMB60 per sq.m.; and (iii) consultancy service paid by the Group was approximately RMB10 to RMB15 per sq.m. which was within the market range of approximately RMB8 to RMB20 per sq.m.. As such, the comparison shows that the historical installation and consultancy fees paid by the Group to the Previous Contracting Parties to be comparable to, or no less favorable than, such market rates and that the pricing basis adopted in Transaction 2 is fair and reasonable.

### Our analysis of the proposed Annual Caps for Transaction 2

In deriving the proposed Annual Caps for Transaction 2, the Company has multiplied the respective estimated average unit fee for electricity installation, low voltage system and intelligent building system installation and consultancy services on cost control for construction work with the estimated aggregate gross floor area of the property development projects in Guangzhou, Beijing, Shanghai, Tianjin, and other Eastern areas of the PRC that the Group expects to complete and which are likely to be performed by the Chu's Controlled Entities for the three years ending 31 December 2020.

### The estimated average unit fee for electricity installation, low voltage system and intelligent building system installation and consultancy services on cost control for construction work

As advised by the Company, whilst the estimated average unit fee of electricity installation and low voltage system and intelligent building system installation may vary as they are subject to a few factors: (i) the type of design; (ii) the type of materials consumed in the installation works; (iii) the class of the properties; and (iv) the reputation of the electricity companies, and the average unit fee for consultancy services on cost control for construction work may vary as they are also subject to a few factors: (i) the form of consultation; (ii) the range of the consultancy services to be delivered; and (iii) the reputation of the consultancy firms, the overall effect after averaging them would be very close and hence the Company has estimated the unit fee of electricity installation, low voltage system and intelligent building system installation and consultancy services on cost control for construction work payable to the Chu's Controlled Entities for the property projects of the Group, which are likely to be performed by the Chu's Controlled Entities for the three years ending 31 December 2020, by taking the average of the estimated unit fee of these items for each of the property projects. The estimated average unit fee for electricity installation, low voltage system and intelligent building system installation and consultancy services on cost control for construction work is approximately RMB170 per sq.m., RMB25 per sq.m. and RMB10 per sq.m. respectively. To determine whether the estimated average unit fee of these items payable by the Group to the Chu's Controlled Entities for the three years ending 31 December 2020 are on normal commercial terms, we have compared with the information on the prevailing market rates for similar installation and consultancy services which are determined with reference to the terms offered by Independent Third Parties to the

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estimated average unit fee of electricity installation, low voltage system and intelligent building system installation and consultancy service on cost control for construction work services payable by the Group to the Chu's Controlled Entities for the three years ending 31 December 2020. Our comparison indicates that the estimated unit fee of these items falls within the market range. In addition, as advised by the Company, as the estimated installation and related fees and the estimated consultancy service on cost control for construction work for various property projects of the Group would also need to be conformed to the latest standards and guidelines prescribed by the relevant governmental authorities of where the project is located, which is the latest available standard published by the central government and generally applied in the PRC, the Company therefore also advised that before entering into a specific agreement for each installation and/or consultancy engagement under Transaction 2 by the Group and the Chu's Controlled Entities, the relevant installation fees and/or consultancy fees shall be determined by making reference to, among others, the then available relevant standards. Having considered the above, we are of the view that the estimated unit fee of electricity installation, low voltage system and intelligent building system installation and consultancy service on cost control for construction work services to be payable by the Group to the Chu's Controlled Entities and used in determining the Annual Caps of Transaction 2 for the three years ending 31 December 2020 are properly estimated.

### The estimated aggregate gross floor area of the property development projects

Furthermore, we have also reviewed schedules in respect of the relevant electricity installation works, low voltage system and intelligent building installation works and consultancy service on cost control for construction work services, which are likely to be performed by the Chu's Controlled Entities for the three years ending 31 December 2020. As advised by the Company, the amount of these works and services are determined in accordance with the Group's property development schedule in the forth coming years. In our review of the relevant electricity installation works, low voltage system and intelligent building installation works and consultancy service on cost control for construction work services which are expected to be carried out by the Chu's Controlled Entities, we noted that these works are to be carried out in various property development projects including Guangzhou, Beijing, Shanghai, Tianjin, and other Eastern areas of the PRC. Also in our review, we noted that the electrical installation to be carried out by the Chu's Controlled Entities is approximately 269,000 sq.m. in 2018, 260,000 sq.m. in 2019 and 250,000 sq.m. in 2020, the intelligent building system installation work to be carried out by the Chu's Controlled Entities is approximately 166,000 sq.m. in 2018, 124,000 sq.m. in 2019 and 124,000 sq.m. in 2020 and the consultancy service on cost control for construction work to be carried out by the Chu's Controlled Entities approximately 3,000,000 sq.m. in 2018, 2,500,000 sq.m. in 2019 and 2,990,000 sq.m. in 2020. We noted that the property projects under Transaction 2 are consistent with the property project development plan of the Group as included in the Annual Report. Having reviewed the schedules and discussed with the management the basis of the preparation, we are of the view that the amount of works and services in installation and consultancy

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are consistent with the Group's expectation of the project development projects requiring the works and services of the Chu's Controlled Entities from 2018 to 2020. Also, given that the proposed Annual Caps for Transaction 2 was determined based on the expected installation works and consultancy service that would be required by the Group for the project development projects in Beijing, Tianjin, Guangzhou, Shanghai and other Eastern areas of China in accordance with the Group's current development schedule in each of the three years ending 31 December 2020, in our view, it is reasonable that there will be year-on-year fluctuation in the proposed Annual Caps for Transaction 2 as the proposed Annual Caps for Transaction 2 is expected to align with the Group's need for the relevant installation works and consultancy service from the Chu's Controlled Entities in each of the three years ending 31 December 2020. In light of the above, we are of the view that the basis and assumptions in formulating the proposed Annual Caps for Transaction 2 are fair and reasonable.

We also noted that the proposed Annual Caps for Transaction 2 represent an increment from the historical transaction amount for the year ended 31 December 2017 of approximately RMB5.5 million. As discussed above, the proposed Annual Caps for Transaction 2 is based on the expected installation works and consultancy service to be required by the Group for the project development projects in Guangzhou, Beijing, Shanghai, Tianjin, and other Eastern areas of the PRC in each of the three years ending 31 December 2020. If the property development projects progress as anticipated by the Group, it is reasonable to expect the Group would require the amounts under the proposed Annual Caps for Transaction 2 for installation works and consultancy service. Further, whilst the historical transaction amount for the year ended 31 December 2017 being only approximately RMB5.5 million, it should also be noted that the historical transaction amount for the year ended 31 December 2015 and 2016 was approximately RMB38.1 million and RMB31.9 million respectively. In light of the above, we are of the view that the proposed Annual Caps for Transaction 2, being at a significant increment as compared with the historical transaction amount for the year ended 31 December 2017, is fair and reasonable.

Also, as the Group and the Chu's Controlled Entities (namely the Previous Contracting Parties) have established long-term business relationship and the installation and related works and budgeting and consultancy service on cost control for construction work provided by the Chu's Controlled Entities (namely the Previous Contracting Parties) have been satisfactory and therefore the continuing appointment of the Chu's Controlled Entities to provide the Group with such works and services can further boost the overall operating efficiency and enhance cost effectiveness of the Group as a whole.

In light of the work above, we are of the view that the Transaction 2 and the terms thereto are on normal commercial terms and the fees payable thereunder as well as the proposed Annual Caps for Transaction 2 are properly estimated and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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### **Transaction 3 — Office lease**

Pursuant to the 2018 Framework Agreement, the Chu's Controlled Entities may, from time to time, and subject to the execution of separate agreement setting out the specific terms of each lease arrangement, lease certain commercial premises in Guangzhou and Shanghai to the Group for use as offices.

### **Basis for determining rents and other terms under Transaction 3**

As set out in the 2018 Framework Agreement, the rents payable by the Group to the Chu's Controlled Entities and the terms thereto will be determined with reference to the prevailing market rents paid by and the other terms available to lessees who are Independent Third Parties for leasing the premises in the same building (or in the event that no such lease is available in the same building, reference should be made to the lease of comparable sizes and types and comparable grading in the same region).

### **Basis for determining and discussion of the Annual Caps under Transaction 3**

Set out below are the proposed Annual Caps of Transaction 3 for each of the three years ending 31 December 2020:

	<b>Proposed Annual Caps for the year ending 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Transaction 3 —</b>	RMB8,860,000	RMB8,964,000	RMB9,153,000
<b>Office lease</b>	(equivalent to approximately HK\$11,075,000)	(equivalent to approximately HK\$11,205,000)	(equivalent to approximately HK\$11,441,000)

In determining the Annual Caps for Transaction 3 under the 2018 Framework Agreement, the Group has taken into account (i) the proposed lease premises identified and the aggregate size thereof; (ii) the relevant pricing basis under the 2018 Framework Agreement; and (iii) the latest prevailing market rents of the proposed leased premises identified or other comparable premises.

### **Documents obtained and reviewed for Transaction 3**

In connection with Transaction 3, we have obtained, reviewed and examined (i) a schedule setting out the information on the location and aggregate size of the relevant premises to be leased by the Group from the Chu's Controlled Entities in Guangzhou and Shanghai and the respective estimated rents payable by the Group to the Chu's Controlled Entities for the relevant premises for three years ending 31 December 2020; (ii) a schedule setting out the information on the historical rents paid by the Group to the Previous Contracting Parties for commercial premises leased during the three years ended 31 December 2017; and (iii) three sample rental contracts, selected on a random



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sampling basis, that were made by the Group to the Previous Contracting Parties for commercial premises owned by the Previous Contracting Parties during the three years ended 31 December 2017.

### Our analysis of the pricing basis of Transaction 3

The pricing basis of Transaction 3 is determined with reference to the prevailing market rents paid by and the other terms available to lessees who are Independent Third Parties for leasing the premises in the same building. In this regard, we have reviewed the rental rate paid by the Group for the three years ended 31 December 2017 with the market rates as listed/quoted by PRC property leasing agents of the similar premises in the same building of or similar proximity to the relevant offices. We have also reviewed the terms of the three rental contracts, selected on a random sampling basis, that were made between the Group and the Previous Contracting Parties during the three years ended 31 December 2017 and compared the rental rates in such rental contracts to the market rates or rental rates as listed/quoted by PRC property leasing agents of the similar premises in the same building of or similar proximity to the relevant offices. Our review shows that the per square metre rental rates paid by the Group were within the market rate and therefore the comparison shows that the historical rental rate made by the Group to the Previous Contracting Parties to be comparable to, or no less favorable than, such market rates and that the pricing basis adopted in Transaction 3 is fair and reasonable.

### Our analysis of the proposed Annual Caps for Transaction 3

In deriving the proposed Annual Caps for Transaction 3, the Company has multiplied the area of premises and the respective estimated rents payable per square metre of the relevant premises to be leased by the Group from the Chu's Controlled Entities in Guangzhou and Shanghai for the three years ending 31 December 2020.

### The offices to be leased by the Group

We noted that the Group is expecting to rent offices in four commercial buildings with aggregate gross floor area of approximately 5,000 sq.m. in Guangzhou and Shanghai for the three years ending 31 December 2020. From our review of the offices to be leased by the Group, we noted that save for one additional office to be leased by the Group, all the remaining offices are being leased by the Group currently. Having considered the above, we are of the view that the size of the offices to be lease by the Group in determining the Annual Caps of Transaction 3 for the three years ending 31 December 2020 are properly estimated.

### The estimated rents payable

To determine whether the estimated rents payable by the Group to the Chu's Controlled Entities for leasing office premises for the three years ending 31 December 2020 are on normal commercial terms, we have also conducted research on the prevailing

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market rates and/or rental rates as quoted by property agents in the PRC for other premises in the same building or similar premises in similar proximity to the relevant premises in Guangzhou and Shanghai and compared that against the estimated rents for the relevant premises in Guangzhou and Shanghai which the Chu's Controlled Entities agrees to lease to the Group for use as office. Based on our comparison and also taken into account of factors such as the quality and the floor level of the relevant premises to be leased by the Group and the comparable properties, we note that the rents payable by the Group to the Chu's Controlled Entities are in line with the prevailing market rates. Also, given that the proposed Annual Caps for Transaction 3 was determined based on the offices expected to be leased by the Group from the Chu's Controlled Entities as well as taking into account of the expected rental upward adjustments for certain offices in 2019 and 2020, in our view, it is reasonable that the proposed Annual Caps for Transaction 3 will increase in the region of approximately 1% to 2% in 2019 and 2020 as compared with the prior year. In light of the above, we are of the view that the basis and assumptions in formulating the proposed Annual Caps for Transaction 3 are fair and reasonable.

In light of the work above, we are of the view that Transaction 3 and the terms thereto are on normal commercial terms and the rents payable thereunder as well as the proposed Annual Caps for Transaction 3 are properly estimated and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### **Transaction 4 — Information technology related services**

Pursuant to the 2018 Framework Agreement, the Group may, from time to time, and subject to the execution of separate agreement setting out the specific terms of each engagement, appoint the Chu's Controlled Entities to maintain the intranet and servers of the Group, and to supply information technology or computer system related products and facilities to the Group.

#### **Basis for determining price and other terms under Transaction 4**

As set out in the 2018 Framework Agreement, fees payable by the Group to the Chu's Controlled Entities for the maintenance of the intranet and servers of the Group, and provision of information technology or computer systems related products and facilities to the Group and the other terms will be determined with reference to the terms offered by Independent Third Parties for providing similar services/products.



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### Basis for determining and discussion of the Annual Caps under Transaction 4

Set out below are the proposed Annual Caps of Transaction 4 for each of the three years ending 31 December 2020:

<b>Proposed Annual Caps for the year ending 31 December</b>			
	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Transaction 4 —</b>	RMB57,345,000	RMB60,645,000	RMB65,645,000
<b>Information technology related services</b>	(equivalent to approximately HK\$71,681,000)	(equivalent to approximately HK\$75,806,000)	(equivalent to approximately HK\$82,056,000)

In determining the Annual Caps for Transaction 4 under the 2018 Framework Agreement, the Group has taken into account (i) the relevant pricing basis under the 2018 Framework Agreement; (ii) the scope and extent of services, products and facilities to be provided by the Chu's Controlled Entities to the Group based on the Group's business plans; (iii) the historical fees paid by the Group to the Previous Contracting Parties during the three years ended 31 December 2017 for the provision of information technology related services to the Group; and (iv) a ratio of turnover to expenses on information technology to be adopted by the Group based on the Group's knowledge of such ratio generally adopted within the property development industry in the PRC.

### Documents obtained and reviewed for Transaction 4

In connection with Transaction 4, we have obtained, reviewed and examined (i) a schedule setting out information on the estimated service fees payable by the Group to the Chu's Controlled Entities for information technology related services for the three years ending 31 December 2020; (ii) a schedule setting out information on the historical fees paid by the Group for information technology related services for each project during the three years ended 31 December 2017; (iii) information on the prevailing market rates for similar information technology related services and determined with reference to the terms offered by Independent Third Parties; and (iv) three sample contracts, selected on a random sampling basis, on information technology related services entered into between the Group and the Previous Contracting Parties during the three years ended 31 December 2017.

### Our analysis of the pricing basis of Transaction 4

The pricing basis of Transaction 4 is determined with reference to the terms offered by Independent Third Parties for providing similar services/products. In this regard, we have reviewed the information technology related service fees paid by the Group for the three years ended 31 December 2017 with the various market rates for similar information technology related services. We have obtained three sample contracts, selected on a random sampling basis, on information technology related services made

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between the Group and the Previous Contracting Parties (i.e., containing over ten different products and other services) during the three years ended 31 December 2017 and compared that to the information on the then market rates for similar information technology related services which are determined with reference to the terms offered by Independent Third Parties. Based on the review of the documents, we noted that the various information technology related service fees paid by the Group were within the market rates for similar information technology related services. As such, the comparison shows that the historical fees paid by the Group to the Previous Contracting Parties on information technology related services to be comparable to, or no less favorable than, such market rates and that the pricing basis adopted in Transaction 4 is fair and reasonable.

### *Our analysis of the proposed Annual Caps for Transaction 4*

In deriving the proposed Annual Caps for Transaction 4, the Company has estimated the various service fees payable for information technology related services which are to be required by the Group for the three years ending 31 December 2020 based on its internal estimation.

As advised by the Company, the estimated fees on information technology related services may vary as they are subject to the nature of services and types of products and facilities to be provided by the Chu's Controlled Entities to the Group based on the Group's plans. To determine whether such estimated fees on information technology related services for the three years ending 31 December 2020 are on normal commercial terms, we have compared them to the information on the prevailing market rates for similar information technology related services determined with reference to the terms offered by Independent Third Parties. Our comparison indicates that the estimated service fees payable by the Group to the Chu's Controlled Entities falls within the market range. Having considered the above, we are of the view that the estimated fees on information technology related services used in determining the Annual Caps of Transaction 4 for the three years ending 31 December 2020 are properly estimated.

Furthermore, we have also enquired the nature and description of the relevant information technology related services to be rendered and/or the products or facilities to be leased out by the Chu's Controlled Entities for the three years ending 31 December 2020. As advised by the Company, the relevant information technology related services that are to be carried out by the Chu's Controlled Entities for the three years ending 31 December 2020 are determined in accordance with the Group's expected technology requirements from 2018 to 2020. We have discussed with the management the basis of the preparation and are satisfied with the estimation. We noted that the information technology related services that are to be carried out by the Chu's Controlled Entities for the three years ending 31 December 2020 mainly involves three components, namely internet and broadband services component, hardware related services component and software related services component, and approximately 10%, 20% and 70% respectively

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is allocated to each component respectively. From our review of the Group's historical record in information technology related services provided by the Previous Contracting Parties, we noted that such allocation is consistent with the Group's historical record and as such we are of the view that the technology related services to be rendered and/or the products or facilities to be leased out by the Chu's Controlled Entities are properly estimated. Further, given that the proposed Annual Caps for Transaction 4 was determined based on the expected relevant information technology related services that would be required by the Group in each of the three years ending 31 December 2020 and also taking into account of the annual incremental increase in the cost for software related services component, in our view, it is reasonable that the proposed Annual Caps for Transaction 4 will increase in the region of approximately 5% to 8% in 2019 and 2020 as compared with the prior year. In light of the above, we are of the view that the basis and assumptions in formulating the proposed Annual Caps for Transaction 4 are fair and reasonable.

We also noted that the proposed Annual Caps for Transaction 4 represent an increment from the historical transaction amount for the year ended 31 December 2017 of approximately RMB34.9 million. As set out in "Background information of the Group and the Chu's Controlled Entities and the reasons for, and benefits of, entering into the 2018 Framework Agreement" above, the Group is expected to continue to expand its business by further reinforcing its residential and commercial projects in the three major economic zones in Pearl River Delta, Huanbohai and Yangtze River Delta. Moreover, the Group will also play an active role in "Urban Renewal and Redevelopment" projects in first-tier cities and the Group is expected to put more effort into the development projects located at the peripheral cities of the three major economic zones and strategically build up its land bank. Given the Group's expected expansion in its business development, it reasonable to expect the Group will have higher demand for technology related services to cope with its business expansion. In light of the above, we are of the view that the proposed Annual Caps for Transaction 4, being at an increment as compared with the historical transaction amount for the year ended 31 December 2017, is fair and reasonable.

Also, as the Group and the Chu's Controlled Entities (namely the Previous Contracting Parties) have established long-term business relationship and the information technology related services provided by the Previous Contracting Parties have been satisfactory and therefore the appointment of the Chu's Controlled Entities to provide the Group with information technology related services can further boost the overall operating efficiency and enhance cost effectiveness of the Group as a whole.

In light of the work above, we are of the view that Transaction 4 and the terms thereto are on normal commercial terms and the fees payable thereunder as well as the proposed Annual Caps for Transaction 4 are properly estimated and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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### Transaction 5 — Marketing services

Pursuant to the 2018 Framework Agreement, the Group may, from time to time, and subject to the execution of separate agreement setting out the specific terms of each engagement, appoint the Chu's Controlled Entities to provide sales service, sales agency service and marketing service for the Group.

#### Basis for determining price and other terms under Transaction 5

As set out in the 2018 Framework Agreement, fees payable by the Group to the Chu's Controlled Entities for the provision of sales service, sales agency service and marketing service for the Group and the other terms will be determined with reference to the terms offered by Independent Third Parties for providing similar services.

#### Basis for determining and discussion of the Annual Caps under Transaction 5

Set out below are the proposed Annual Caps of Transaction 5 for each of the three years ending 31 December 2020:

	Proposed Annual Caps for the year ending 31 December		
	2018	2019	2020
<b>Transaction 5 —</b>	RMB200,440,000	RMB250,065,000	RMB300,213,000
<b>Marketing services</b>	(equivalent to approximately HK\$250,550,000)	(equivalent to approximately HK\$312,581,000)	(equivalent to approximately HK\$375,266,000)

In determining the Annual Caps for Transaction 5 under the 2018 Framework Agreement, the Group has taken into account (i) the relevant pricing basis under the 2018 Framework Agreement; and (ii) the scope and extent of services required by the Group based on the Group's business plan; and (iii) the latest market price and terms offered by Independent Third Parties for providing similar services of similar scope and scale.

#### Documents obtained and reviewed for Transaction 5

In connection with Transaction 5, we have obtained, reviewed and examined (i) a schedule setting out information on the estimated marketing service fees payable by the Group to the Chu's Controlled Entities for marketing services for the three years ending 31 December 2020; and (ii) information on the prevailing market rates for similar marketing services and determined with reference to the terms offered by Independent Third Parties.

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### Our analysis of the pricing basis of Transaction 5

The pricing basis of Transaction 5 is determined with reference to the terms offered by Independent Third Parties for providing similar services. In this regard, we noted that the Group has gathered the relevant market marketing service fees, namely, (i) approximately 2% to 4% commission for sale agency service for first-tier cities; (ii) approximately 0.8% to 1.5% commission for sales agency service for second and third tier cities; and (iii) approximately 5% to 10% of total marketing cost for marketing service. As discussed with the Group, it is expected that the relevant marketing services to be payable by the Group will be comparable to, or no less favorable than, such market rates and therefore we are of the view that the pricing basis adopted in Transaction 5 is fair and reasonable.

### Our analysis of the proposed Annual Caps for Transaction 5

In deriving the proposed Annual Caps for Transaction 5, the Company has estimated the marketing service fees budget which are to be required by the Group and payable for the three years ending 31 December 2020 based on its internal estimation.

As advised by the Company, the estimated fees on marketing services may vary as they are subject to the nature of the marketing services to be provided by the Chu's Controlled Entities to the Group based on the Group's plans. It is estimated that the average marketing fees represents a commission in the region of approximately 3.5% to 4% of the sales generated by the sales agency. To determine whether such estimated marketing service fees/commission for the three years ending 31 December 2020 are on normal commercial terms, we have compared the estimated marketing service fees/commission to the information on the prevailing market rates for similar marketing services which are determined with reference to the terms offered by Independent Third Parties. Our comparison indicates that the estimated marketing service fees/commission payable by the Group to the Chu's Controlled Entities falls within the market range. Having considered the above, we are of the view that the estimated fees on marketing services/commission used in determining the Annual Caps of Transaction 5 for the three years ending 31 December 2020 are properly estimated.

Furthermore, we have also enquired the nature and description of the relevant marketing services to be rendered by the Chu's Controlled Entities for the three years ending 31 December 2020. As advised by the Company, the relevant marketing services that are to be carried out by the Chu's Controlled Entities for the three years ending 31 December 2020 are determined in accordance with the Group's expected property projects to be released in the market in the PRC for the forth coming years. In our review of the relevant marketing services which are expected to be rendered by the Chu's Controlled Entities, we noted that these marketing services correspond to the upcoming property development projects in Guangzhou, Shanghai, Tianjin, Northern areas of the PRC (i.e., Beijing) and other Eastern areas of China and that these property development projects are consistent with the property project development plan of the Group as

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included in the Annual Report. Also, we have discussed with the management the basis of the preparation of the proposed Annual Caps for Transaction 5 and are satisfied with the estimation. In addition, given that the proposed Annual Caps for Transaction 5 was determined based on the expected marketing services that would be required by the Group in each of the three years ending 31 December 2020 and also taking into account of the expected increase in the number of property projects to be released in 2019 and 2020, in our view, it is reasonable that the proposed Annual Caps for Transaction 5 will increase in 2019 and 2020 as compared with the prior year as the demand for marketing services from the Group will increase to align with the increase in the number of property projects in the coming years. In light of the above, we are of the view that the basis and assumptions in formulating the proposed Annual Caps for Transaction 5 are fair and reasonable.

Also, as the Group and the Chu's Controlled Entities (namely the Previous Contracting Parties) have established long-term business relationship, the appointment of the Chu's Controlled Entities to provide the Group with marketing services can further boost the overall operating efficiency and enhance cost effectiveness of the Group as a whole. Further, the Chu's Controlled Entities which are to be appointed for the provision of sales service, sales agency service and marketing service for the Group has the relevant experience to provide the relevant marketing services to the Group and was previously engaged in various in sizeable marketing services for real estate projects in the PRC.

In light of the work above, we are of the view that Transaction 5 and the terms thereto are on normal commercial terms and the fees payable thereunder as well as the proposed Annual Caps for Transaction 5 are properly estimated and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

*Services to be provided/premises to be leased by the Group to the Chu's Controlled Entities pursuant to the 2018 Framework Agreement*

### **Transaction 6 — Building design**

Pursuant to the 2018 Framework Agreement, the Chu's Controlled Entities may, from time to time, and subject to the execution of separate agreement setting out the specific terms of each engagement, appoint the Group to carry out construction and building design service for certain property development projects of the Chu's Controlled Entities.

*Basis for determining price and other terms under Transaction 6*

As set out in the 2018 Framework Agreement, the building design fees payable by the Chu's Controlled Entities to the Group and the terms thereto shall be determined by the parties with reference to the prices and terms offered by Independent Third Parties

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for undertaking similar design projects and the latest standards and guidelines prescribed by the relevant local authority on the fees and other terms for providing similar services (if any).

### Basis for determining and discussion of the Annual Caps under Transaction 6

Set out below are the proposed Annual Caps of Transaction 6 for each of the three years ending 31 December 2020:

	<b>Proposed Annual Caps for the year ending 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Transaction 6 —</b>	RMB40,820,000	RMB39,715,000	RMB14,017,000
<b>Building design</b>	(equivalent to approximately HK\$51,025,000)	(equivalent to approximately HK\$49,644,000)	(equivalent to approximately HK\$17,521,000)

In determining the Annual Caps for Transaction 6 under the 2018 Framework Agreement, the Group has taken into account (i) the relevant pricing basis under the 2018 Framework Agreement; (ii) estimation of the aggregate sizes and types of the building projects of the Chu's Controlled Entities for which the design work is proposed to be assigned to the Group in the relevant year; and (iii) the historical building design fees received by the Group from the Previous Contracting Parties during the three years ended 31 December 2017 for carrying out design works for the Previous Contracting Parties.

### Documents obtained and reviewed for Transaction 6

In connection with Transaction 6, we have obtained, reviewed and examined (i) a schedule setting out the information on the estimated building design fees receivable by the Group from the Chu's Controlled Entities for carrying out the building design works for certain property projects of the Chu's Controlled Entities for the three years ending 31 December 2020; (ii) a schedule setting out information on the historical building design fees received by the Group from the Previous Contracting Parties during the three years ended 31 December 2017; (iii) information on the prevailing market rates for similar building design services and determined with reference to the terms offered by Independent Third Parties; and (iv) three sample building design service, selected on a random sampling basis, contracts entered into between the Group and the Previous Contracting Parties during the three years ended 31 December 2017.

### Our analysis of the pricing basis of Transaction 6

The pricing basis of Transaction 6 is determined with reference to the prices and terms offered by Independent Third Parties for undertaking similar design projects and the latest standards and guidelines. In this regard, we have reviewed the building design



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fees received by the Group for the three years ended 31 December 2017 with the market rates for building design. We have also obtained three sample building design service contracts, selected on a random sampling basis, made between the Group and the Previous Contracting Parties during the three years ended 31 December 2017 and compared that to the information on the then market rates for similar building design services and made reference to the terms offered by Independent Third Parties. Based on the review of the documents, we noted that the building design fees paid by the Group (i.e., containing 11 different types of building design work) was in line with the market rates of various types of building design work. As such, the comparison shows that the historical building design fees received by the Group from the Previous Contracting Parties to be comparable to, or no less favorable than, such market rates and that the pricing basis adopted in Transaction 6 is fair and reasonable.

### Our analysis of the proposed Annual Caps for Transaction 6

In deriving the proposed Annual Caps for Transaction 6, the Company has multiplied the estimated average unit building design fees for various building work and the volume of building design work for the Chu's Controlled Entities for the three years ending 31 December 2020.

### The estimated average unit building design fees

To determine whether the various estimated average unit building design fees receivable by the Group from the Chu's Controlled Entities for the three years ending 31 December 2020 are on normal commercial terms, we have compared the information on the prevailing market rates for similar building design services which are determined with reference to the terms offered by Independent Third Parties to the estimated unit building design fees receivable by the Group from the Chu's Controlled Entities for the three years ending 31 December 2020. The various estimated average unit building design fees receivable by the Group is in the region of approximately RMB40 to 55 per sq.m. Our comparison indicates that the various estimated unit building design fees receivable by the Group from the Chu's Controlled Entities falls within the market range. Having considered the above, we are of the view that the various estimated unit building design fees used in determining the Annual Caps of Transaction 6 for the three years ending 31 December 2020 are properly estimated.

### The volume of building design work

Furthermore, we have also reviewed the volume of building design work for the Chu's Controlled Entities that are to be carried out by the Group for the three years ending 31 December 2020. This is estimated based on the Group's anticipation of the demand of the building design works of the Group for the Chu's Controlled Entities. We noted that the anticipated demand for the building design works of the Group from the Chu's Controlled Entities was based on the upcoming projects by the Chu's Controlled Entities which will have an aggregate volume of approximately 722,000 sq.m. in 2018,



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722,000 sq.m. in 2019 and 255,000 sq.m. in 2020 and therefore the demand for the building design works from the Chu's Controlled Entities is overall consistent with the projects in hand by the Chu's Controlled Entities per our discussion with the Company. Also, we have discussed with the management the basis of the preparation and are satisfied with the estimation. In addition, as advised by the Company, the Chu's Controlled Entities has been satisfied with the building design works in the past and has appointed the Group to continue to carry out building design work. Further, given that the proposed Annual Caps for Transaction 6 was determined based on the projects that the Chu's Controlled Entities would require the services of the Group in each of the three years ending 31 December 2020 and also taking into account that the building design works of certain projects to be rendered by the Group is expected to be completed before the year ending 31 December 2020, in our view, it is reasonable that there will be, in particular, a decrease in the proposed Annual Caps for Transaction 6 in 2020 as compared with the prior years. In light of the above, we are of the view that the basis and assumptions in formulating the proposed Annual Caps for Transaction 6 are fair and reasonable.

We also noted that the proposed Annual Caps for Transaction 6 represent a significant increment from the historical transaction amount for the year ended 31 December 2017 of approximately RMB110,000. As discussed above, the proposed Annual Caps for Transaction 6 is based on the expected demand for the building design works from the Chu's Controlled Entities in each of the three years ending 31 December 2020 which has a direct relationship to the amount of gross floor areas in development. Whilst the previous building design works from the Previous Contracting Party was not significant, the Group is expecting that the Chu's Controlled Entities to have new development projects which would require the building design works from the Group. Given the new projects to be commenced by the Chu's Controlled Entities as well as the building design work provided by the Group is a source of revenue to the Group, we are of the view that the proposed Annual Caps for Transaction 6, being at a significant increment as compared with the historical transaction amount for the year ended 31 December 2017, is fair and reasonable.

In light of the work above, we are of the view that Transaction 6 and the terms thereto are on normal commercial terms and the fees thereunder as well as the proposed Annual Caps for Transaction 6 are properly estimated and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### **Transaction 7 — Management of vacant properties and delivery of sold properties to purchasers**

Pursuant to the 2018 Framework Agreement, the Chu's Controlled Entities may, from time to time, and subject to the execution of separate agreement setting out the specific terms of each engagement, appoint the Group to manage vacant properties

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developed by the Chu's Controlled Entities and to handle the delivery of sold property units of the Chu's Controlled Entities in the Guangdong Province, Beijing, Xi'an and Shanghai to purchasers.

### Basis for determining price and other terms under Transaction 7

As set out in the 2018 Framework Agreement, the management fees payable by the Chu's Controlled Entities to the Group and the terms thereto shall be determined with reference to the related costs of the Group, the prevailing market rates charged by and the other terms offered by Independent Third Parties for providing similar services for properties of similar grading in the same region and the latest standards on property management and the property pricing guidelines prescribed by the local government of where the particular property is located. These include 關於物業服務收費管理辦法 (Measures on the Administration of Property Service Charges) jointly issued by 廣東省物價局 (Price Control Administrative Bureau of Guangdong Province) and 廣東省住房城鄉建設廳 (Department of Housing and Urban-rural Development of Guangdong Province) in 2010, 北京市物業服務收費管理辦法 (Measures on the Administration of Property Service Charges, Beijing Municipal) issued by 發展和改革委員會 (Development and Reform Commission) in 2005, 陝西省住宅小區物業服務指導標準 (Guiding Standard for Property Services in Small Residential Communities, Shaanxi Province) issued by 陝西省住房和城鄉建設廳 (Department of Housing and Urban-rural Development of Shaanxi Province) in 2011, 陝西省物業服務收費管理辦法 (Measures on the Administration of Property Service Charges, Shaanxi Province) jointly issued by 陝西省物價局 (Price Control Administration Bureau of Shaanxi Province) and 陝西省住房和城鄉建設廳 (Department of Housing and Urban-rural Development of Shaanxi Province) in 2011, 上海市住宅物業服務分等收費標準 (Charging Standard by Grades for Residential Property Service Charges, Shanghai Municipal) and 上海市住宅物業服務分等收費管理暫行辦法 (Temporary Measures on the Administration of Residential Property Service Charges by Grading, Shanghai Municipal) jointly issued by 上海市物價局 (Price Control Administrative Bureau of Shanghai Municipal) and 上海市房屋土地資源管理局 (Land Resources & Housing Administrative Bureau of Shanghai Municipal) in 2005.

### Basis for determining and discussion of the Annual Caps under Transaction 7

Set out below are the proposed Annual Caps of Transaction 7 for each of the three years ending 31 December 2020:

	<b>Proposed Annual Caps for the year ending 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Transaction 7 —</b>	RMB29,113,000	RMB32,024,000	RMB35,227,000
<b>Management of vacant properties and delivery of sold properties to purchasers</b>	(equivalent to approximately HK\$36,391,000)	(equivalent to approximately HK\$40,030,000)	(equivalent to approximately HK\$44,034,000)

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In determining the Annual Caps for Transaction 7 under the 2018 Framework Agreement, the Group has taken into account (i) the relevant pricing basis under the 2018 Framework Agreement; (ii) estimation of the aggregate gross floor area of the property development projects of Chu's Controlled Entities for which the Chu's Controlled Entities proposes to engage the Group to provide the management service and the number property units available for sale in the relevant year; and (iii) the historical management fees received by the Group from the Previous Contracting Parties during the three years ended 31 December 2017 for provision of management service to the Previous Contracting Parties in relation to its vacant properties and handling delivery of sold property units of the Previous Contracting Parties.

### Documents obtained and reviewed for Transaction 7

In connection with Transaction 7, we have obtained, reviewed and examined (i) a schedule setting out information on the estimated management fees receivable by the Group from the Chu's Controlled Entities for providing management services (including services relating to delivery of sold properties) to vacant properties in Guangdong Province, Beijing, Xi'an and Shanghai for the three years ended 31 December 2020; (ii) a schedule setting out information on the historical management fees received by the Group from the Previous Contracting Parties during the three years ended 31 December 2017; (iii) information on the prevailing market rates for providing similar property management services to vacant properties of similar grades in the vicinity and determined with reference to the terms offered by Independent Third Parties; (iv) vacant property management fee payments and records on three transactions, selected on a random sampling basis, made between the Group and the Previous Contracting Parties during the three years ended 31 December 2017; and (v) reference materials for setting management fees, including the aforementioned standards and guidelines stipulated by the relevant government authorities.

### Our analysis of the pricing basis of Transaction 7

The pricing basis of Transaction 7 is determined with reference to the related costs of the Group, the prevailing market rates charged by and the other terms offered by Independent Third Parties for providing similar services for properties of similar grading in the same region and the latest standards on property management and the property pricing guidelines. In this regard, we have reviewed relevant guidelines and also the unit management fee received by the Group for the three years ended 31 December 2017 with the market rate for management fee. We have also obtained vacant property management fee payments and records on three transactions, selected on a random sampling basis, made between the Group and the Previous Contracting Parties during the three years ended 31 December 2017 and compared that to the information on the then market rates for providing similar management of vacant properties services and made reference to the terms offered by Independent Third Parties. Based on the review of the documents, we noted that the average unit management fee received by the Group was approximately

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RMB30 per sq.m. which was in line with the unit management fee chargeable by other Independent Third Parties of approximately RMB20 to 40 per sq.m. depending on the type, grading and location of the properties. As such, the comparison shows that the historical management fees received by the Group from the Previous Contracting Parties to be comparable to, or no less favorable than, such market rates and that the pricing basis adopted in Transaction 7 is fair and reasonable.

### Our analysis of the proposed Annual Caps for Transaction 7

In deriving the proposed Annual Caps for Transaction 7, the Company has multiplied the estimated average unit management fee receivable and the estimated aggregated gross floor areas of the vacant properties of the Chu's Controlled Entities in Guangdong Province, Beijing, Xi'an and Shanghai, the management services of which are probably to be rendered by the Group for the three years ending 31 December 2020.

### The estimated average unit management fee

To determine whether the estimated average unit management fee receivable by the Group from the Chu's Controlled Entities for the three years ending 31 December 2020 are on normal commercial terms, we have compared such estimates to the information on the prevailing market rates, which are determined with reference to the terms offered by Independent Third Parties, for providing similar property management services to vacant properties of similar grades in the vicinity for the three years ending 31 December 2020. The estimated average unit management fee receivable by the Group is in the region of approximately RMB30 per sq.m. Our comparison indicates that the estimated average unit management fee receivable by the Group falls within the market range. In addition, as advised by the Company, as the estimated unit management fee for various vacant property projects of the Chu's Controlled Entities in the Guangdong Province, Beijing, Xi'an and Shanghai would also need to be conformed to the standards on property management fees and related costs prescribed by the local authorities and the property pricing guidelines given by the relevant government authorities of where the vacant properties are located, which are the latest available relevant standards published by the local governments and/or generally applied in the PRC and the Company therefore also advised that before entering into a specific agreement for each engagement under Transaction 7 by the Group and the Chu's Controlled Entities, the relevant fees for management services shall also be required to be determined by making reference to, among others, the then available relevant standards. Having considered the above, we are of the view that the estimated average unit management fee used in determining the Annual Caps of Transaction 7 for the three years ending 31 December 2020 are properly estimated.

### The estimated aggregated gross floor areas of the vacant properties

Furthermore, we have also reviewed the schedule of the estimated aggregate gross floor areas of the vacant properties of the Chu's Controlled Entities in Guangdong Province, Beijing, Xi'an and Shanghai, the management services of which are likely to

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be rendered by the Group for the three years ending 31 December 2020. This is estimated based on the Group's knowledge of the Chu's Controlled Entities' property development plan for the management of their vacant property works in the forth coming years. In our reviewed of the properties of the Chu's Controlled Entities which is expected to require the property management services, we noted that these properties are located in Guangzhou, Beijing, Xi'an and Shanghai which have an aggregate gross floor area of approximately 970,000 sq.m. in 2018, 1,067,000 sq.m. in 2019 and 1,174,000 sq.m. in 2020. We have reviewed that these projects were developed by the Chu's Controlled Entities based on their project development plan and therefore we are of view that the need of vacant property management services by the Chu's Controlled Entities is reasonably estimated. Further, we have discussed with the management the basis of the preparation and are satisfied with the estimation. Further, as advised by the Company, the Chu's Controlled Entities has been satisfied with the property management services works in the past and has appointed the Group to continue to carry out such work. Also, given that there is an increase in the number of completed property development projects of Chu's Controlled in each of the three years ending 31 December 2020, the proposed Annual Caps for Transaction 7, which was determined based on the expected vacant property management services that would be required by the Chu's Controlled Entities for the properties in Guangzhou, Beijing, Xi'an and Shanghai, is expected to increase. In our view, based on the increase in the number of completed projects of the Chu's Controlled Entities' development projects, it is reasonable that there will be an approximate 10% annual increase in the proposed Annual Caps for Transaction 7 for 2019 and 2020. In light of the above, we are of the view that the basis and assumptions in formulating the proposed Annual Caps for Transaction 7 are fair and reasonable.

We also noted that the proposed Annual Caps for Transaction 7 represent an increment from the historical transaction amount for the year ended 31 December 2017. For the year ended 31 December 2017, the historical transaction amount for the year ended 31 December 2017 was approximately RMB17.1 million representing the utilisation of approximately 96.5% over the annual cap for the year ending 31 December 2017. Further, as discussed above, the proposed Annual Caps for Transaction 7 is based on the expected demand for vacant property management services from the Chu's Controlled Entities in each of the three years ending 31 December 2020. Given that there is a steady increase in demand for vacant property management services from the Chu's Controlled Entities due to an expected increase in completed property development projects of Chu's Controlled Entities, we are of the view that the proposed Annual Caps for Transaction 7, being at an increment as compared with the historical transaction amount for the year ended 31 December 2017, is fair and reasonable.

In light of the work above, we are of the view that Transaction 7 and the terms thereto are on normal commercial terms and the fees receivable thereunder as well as the proposed Annual Caps for Transaction 7 are properly estimated and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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### **Transaction 8 — Heating services**

Pursuant to the 2018 Framework Agreement, the Chu's Controlled Entities may, from time to time, and subject to the execution of separate agreement setting out the specific terms of each engagement, appoint the Group to provide heating service to certain properties of the Chu's Controlled Entities.

#### **Basis for determining price and other terms under Transaction 8**

As set out in the 2018 Framework Agreement, the heating service fees payable by the Chu's Controlled Entities to the Group and the terms thereto shall be determined by the parties with reference to the terms offered by Independent Third Parties for providing similar services and the latest standards and guidelines prescribed by the relevant local authority on the fees and other terms for providing similar services such as the 關於調整民用供熱價格和熱電廠熱力出廠價格的通知 (Notice Relating to Adjustment to Pricing on Heating Services for Civilian Use and Pricing on Heating Supply by Power Plants) issued by 北京市物價局 (Price Control Administration Bureau of Beijing) in 2001 and 關於調整本市非居民供熱價格的通知 (Notice Relating to Adjustment to Pricing on Non-residential use of Heating Supply) issued by 北京市發展和改革委員會 (Beijing Municipal Commission of Development & Reform) in 2015.

#### **Basis for determining and discussion of the Annual Caps under Transaction 8**

Set out below are the proposed Annual Caps of Transaction 8 for each of the three years ending 31 December 2020:

	<b>Proposed Annual Caps for the year ending 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Transaction 8 —</b>	RMB0	RMB2,710,000	RMB2,540,000
<b>Heating services</b>	(equivalent to approximately HK\$0)	(equivalent to approximately HK\$3,388,000)	(equivalent to approximately HK\$3,175,000)

In determining the Annual Caps for Transaction 8 under the 2018 Framework Agreement, the Group has taken into account (i) the relevant pricing basis under the 2018 Framework Agreement; and (ii) estimation of the number and aggregate gross floor area of the properties of Chu's Controlled Entities which require the Group's services; and (iii) the market price and terms charged by the Independent Third Parties for providing similar services of similar scope and scale.



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### Documents obtained and reviewed for Transaction 8

In connection with Transaction 8, we have obtained, reviewed and examined (i) a schedule setting out information on the estimated fees receivable by the Group from the Chu's Controlled Entities for providing heating services including the number and aggregate gross floor area of the properties of the Chu's Controlled Entities which require the Group's services for the three years ended 31 December 2020; (ii) information on the prevailing market rates for providing similar heating services and determined with reference to the terms offered by Independent Third Parties; and (iii) reference materials for setting fees on heating services, including the aforementioned standards and guidelines stipulated by the relevant government authorities.

### Our analysis of the pricing basis of Transaction 8

The pricing basis of Transaction 8 is determined with reference to the terms offered by Independent Third Parties for providing similar services and the latest standards and guidelines prescribed by the relevant local authority on the fees and other terms for providing similar services. In this regard, we noted that the Group has reviewed the latest standards and guidelines prescribed by the relevant local authority on the fees and other terms for providing heating services which the Group expects that the relevant rate chargeable is RMB30 per sq.m. for residential properties and RMB82 per sq.m. for non-residential properties with a floor to floor height of over 4 metres. As discussed with the Group, it is expected that the relevant heating services to be receivable by the Group shall be in compliance with such standards and guidelines and also after having reviewed the relevant standards and guidelines, we are of the view that the pricing basis adopted in Transaction 8 is fair and reasonable.

### Our analysis of the proposed Annual Caps for Transaction 8

In deriving the proposed Annual Caps for Transaction 8, the Company has multiplied the estimated average unit heating service fee receivable and the estimated number and aggregate gross floor area of the properties of Chu's Controlled Entities which are likely to be provided by the Group for the three years ending 31 December 2020.

### The estimated average unit heating service fee

To determine whether the estimated unit heating service fee receivable by the Group from the Chu's Controlled Entities for the three years ending 31 December 2020 are on normal commercial terms, we have compared such estimates to the latest standards and guidelines prescribed by the relevant local authority on the fees and other terms for providing heating services. The estimated unit heating service fee receivable by the Group is in the region of approximately RMB40 per sq.m.. Our comparison indicates that the estimated average unit heating service fee receivable by the Group falls within the range as allowable by the applicable guidelines. In addition, as advised by the Company,

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as the estimated unit heating service fee for various property projects of the Chu's Controlled Entities would also need to conform to the standards as prescribed by the local authorities given by the relevant government authorities, which are the latest available relevant standards published by the local governments and/or generally applied in the PRC and the Company, therefore, the Company also advised that before entering into a specific agreement for each engagement under Transaction 8, the relevant fees for heating services shall also be required to be determined by making reference to, among others, the then available relevant standards. Having considered the above, we are of the view that the estimated average unit heating service fee used in determining the Annual Caps of Transaction 8 for the three years ending 31 December 2020 are properly estimated.

### The estimated number and aggregate gross floor area of the properties

Furthermore, we have also reviewed the schedule of the number and the estimated aggregated gross floor areas of the properties of Chu's Controlled Entities which require the Group's heating services for the three years ending 31 December 2020. This is estimated based on the Group's knowledge of the Chu's Controlled Entities' properties and their need of heating services. We have discussed with the management the basis of the preparation and are satisfied with the estimation. There are five properties which would require heating services by the Chu's Controlled Entities commencing in 2019 and our review of these properties and their locations (i.e., they are located in Beijing area and are also developed by the Chu's Controlled Entities) and we are of view that the need of heating services by the Chu's Controlled Entities is reasonably estimated. The aggregate gross floor area of the properties of Chu's Controlled Entities which require the Group's services is approximately 0 sq.m. in 2018, 71,000 sq.m. in 2019 and 62,000 sq.m. in 2020. Also, given that the proposed Annual Caps for Transaction 8 was determined based on the expected heating services that would be required by the Chu's Controlled Entities and also taking into account that the Chu's Controlled Entities is expected to require heating services for the properties starting in 2019 and that certain properties of the Chu's Controlled Entities would require less heating services in 2020 as compared with 2019 as certain vacant properties will be sold, in our view, it is reasonable that there is no Annual Cap for Transaction 8 set for 2018 and that the proposed Annual Cap for 2019 is approximately RMB2.71 million and to decrease slightly to RMB2.54 million in 2020. In light of the above, we are of the view that the basis and assumptions in formulating the proposed Annual Caps for Transaction 8 are fair and reasonable.

In light of the work above, we are of the view that Transaction 8 and the terms thereto are on normal commercial terms and the fees receivable thereunder as well as the proposed Annual Caps for Transaction 8 are properly estimated and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.



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### **Transaction 9 — Hotel management**

Pursuant to the 2018 Framework Agreement, the Chu's Controlled Entities may, from time to time, and subject to the execution of separate agreement setting out the specific terms of each engagement, appoint the Group to provide hotel management service for certain hotels of Chu's Controlled Entities.

### **Basis for determining price and other terms under Transaction 9**

As set out in the 2018 Framework Agreement, the hotel management service payable by the Chu's Controlled Entities to the Group and the terms thereto shall be determined by the parties with reference to the terms offered by Independent Third Parties for providing similar services.

### **Basis for determining and discussion of the Annual Caps under Transaction 9**

Set out below are the proposed Annual Caps of Transaction 9 for each of the three years ending 31 December 2020:

	<b>Proposed Annual Caps for the year ending 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Transaction 9 —</b>	RMB7,039,000	RMB7,048,000	RMB8,519,000
<b>Hotel management</b>	(equivalent to approximately HK\$8,799,000)	(equivalent to approximately HK\$8,810,000)	(equivalent to approximately HK\$10,649,000)

In determining the Annual Caps for Transaction 9 under the 2018 Framework Agreement, the Group has taken into account (i) the relevant pricing basis under the 2018 Framework Agreement; and (ii) estimation of the number of the hotels of Chu's Controlled Entities which require the Group's services and the revenue to be generated by Chu's Controlled Entities from such hotels.

### **Documents obtained and reviewed for Transaction 9**

In connection with Transaction 9, we have obtained, reviewed and examined (i) a schedule setting out information on the estimated fees receivable by the Group from the Chu's Controlled Entities for providing hotel management services for the three years ended 31 December 2020; and (ii) information on the prevailing market rates for providing similar hotel management services and determined with reference to the terms offered by Independent Third Parties.

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### Our analysis of the pricing basis of Transaction 9

The pricing basis of Transaction 9 is determined with reference to the terms offered by Independent Third Parties for providing similar services. In this regard, we noted that the Group has gathered the relevant market hotel management service fees, namely 2% of gross operating profit for foreign branded hotels. As discussed with the Group, it is expected that the relevant hotel management service fees to be payable by the Group will be comparable to, or no less favorable than, such market rates and therefore we are of the view that the pricing basis adopted in Transaction 9 is fair and reasonable.

### Our analysis of the proposed Annual Caps for Transaction 9

In deriving the proposed Annual Caps for Transaction 9, the Company has estimated the number of the hotels of Chu's Controlled Entities in operation which would require the Group's services as well as the revenue to be generated by Chu's Controlled Entities from such hotels and the estimated management fee rate chargeable on those hotels managed by the Group.

### The estimated management fee rate

To determine whether the estimated management fee rate chargeable by the Group for the three years ending 31 December 2020 are on normal commercial terms, we have compared such estimates to the information on the prevailing market rates for providing similar hotel management services which are determined with reference to the terms offered by Independent Third Parties. We noted that the estimated management fee rate chargeable is 2% of gross operating profit for foreign branded hotels. Our comparison indicates that the percentage management fee chargeable by the Group falls within the market range. Having considered the above, we are of the view that the percentage management fee chargeable used in determining the Annual Caps of Transaction 9 for the three years ending 31 December 2020 are properly estimated.

### The number of hotels

Furthermore, we have also reviewed the schedule of the number of hotels of the Chu's Controlled Entities in operation which require the Group's services for the three years ending 31 December 2020 and the estimated income to be generated by them. Such schedule is based on the Group's knowledge of the Chu's Controlled Entities' hotels and their size and likely income to be generated. In our reviewed of the hotels of the Chu's Controlled Entities which is expected to require the services of the Group, we noted that there are 7 hotels in 2018, 9 hotels in 2019 and 10 hotels in 2020 that are in operation and which are expected to require the services from the Group. They are expected to generate an aggregate revenue of approximately RMB124,500,000 in 2018, RMB189,170,000 in 2019 and RMB258,880,000 in 2020. We have reviewed that these hotels are owned by the Chu's Controlled Entities and the revenue generated is based on the size of the relevant hotels and the expected revenue generated per room based on

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market rates and therefore we are of view that the revenue generated by these hotels are reasonably estimated. In addition, we have discussed with the management the basis of the preparation of the proposed Annual Caps for Transaction 9 and are satisfied with the estimation. Also, given that the proposed Annual Caps for Transaction 9 was determined based on the number of hotels of the Chu's Controlled Entities that are expected to require the hotel management services of the Group and also taking into account of the expected increase in the revenue to be generated from the hotels of Chu's Controlled Entities which are to be managed by the Group in each of the three years ending 31 December 2020, in our view, it is reasonable that there will be an annual increase up to approximately 16% for 2019 and 2020 in the proposed Annual Caps for Transaction 9. In light of the above, we are of the view that the basis and assumptions in formulating the proposed Annual Caps for Transaction 9 are fair and reasonable.

In light of the work above, we are of the view that Transaction 9 and the terms thereto are on normal commercial terms and the fees receivable thereunder as well as the proposed Annual Caps for Transaction 9 are properly estimated and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### **Transaction 10 — Shop and office lease**

Pursuant to the 2018 Framework Agreement, the Group may, from time to time, and subject to the execution of separate agreement setting out the specific terms of each lease agreement, to lease certain premises located in Guangzhou to the Chu's Controlled Entities for use as shops and offices.

### **Basis for determining rents and other terms under Transaction 10**

As set out in the 2018 Framework Agreement, the rents payable by the Chu's Controlled Entities to the Group and the terms thereto shall be determined with reference to the market rents received and other terms offered by the Group to other lessees who are Independent Third Parties for leasing premises in the same building (or in the event that no such lease is available in the same building, reference should be made to the lease of premises of comparable sizes and types and comparable grading in the same region).

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### Basis for determining and discussion of the Annual Caps under Transaction 10

Set out below are the proposed Annual Caps of Transaction 10 for each of the three years ending 31 December 2020:

	<b>Proposed Annual Caps for the year ending 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Transaction 10 —</b>	RMB35,675,000	RMB37,058,000	RMB37,746,000
<b>Shop and office lease</b>	(equivalent to approximately HK\$44,594,000)	(equivalent to approximately HK\$46,323,000)	(equivalent to approximately HK\$47,183,000)

In determining the Annual Caps for Transaction 10 under the 2018 Framework Agreement, the Group has taken into account (i) the proposed leased premises identified and the aggregate size thereof; and (ii) the relevant pricing basis under the 2018 Framework Agreement; and (iii) the latest prevailing market rents charged by the Group for the proposed leased premises identified or other comparable premises.

### Documents obtained and reviewed for Transaction 10

In connection with Transaction 10, we have obtained, reviewed and examined (i) a schedule setting out the information on the estimated rents receivable by the Group from the Chu's Controlled Entities for leasing the relevant shop and office premises in Guangzhou for the three years ended 31 December 2020; (ii) a schedule setting out the information on the historical rents received by the Group from the Previous Contracting Parties for leasing commercial premises in Guangzhou during the three years ended 31 December 2017; (iii) information on the prevailing market rates or rental rates quoted by property agents for leasing similar shop premises in the vicinity in Guangzhou; and (iv) three sample tenancy agreements, selected on a random sampling basis, entered into between the Group and the Previous Contracting Parties during the three years ended 31 December 2017.

### Our analysis of the pricing basis of Transaction 10

The pricing basis of Transaction 10 is determined with reference to the prevailing market rents paid by and the other terms available to lessees who are Independent Third Parties for leasing the premises in the same building. In this regard, we have reviewed the rentals received by the Group for the three years ended 31 December 2017 with the market rate as listed/quoted by PRC property leasing agents of the similar premises in the same building of or similar proximity to the relevant offices. We have also obtained three sample lease agreements, selected on a random sampling basis, entered into between the Group and the Previous Contracting Parties during the three years ended 31 December 2017 and compared the rental rates in such lease agreements to the market rates or rental rates as listed/quoted by PRC property leasing agents of the same or

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similar premises in similar proximity to the relevant premises. Our review shows that the per square metre rental rates received by the Group were within the market rate of the relevant properties and therefore the comparison shows that the historical rents paid by the Previous Contracting Parties to the Group in this respect to be comparable to, or no less favorable than, such market rental rates and therefore we are of the view that the pricing basis adopted in Transaction 10 is fair and reasonable.

### Our analysis of the proposed Annual Caps for Transaction 10

In deriving the proposed Annual Caps for Transaction 10, the Company has multiplied the area and the respective estimated rents receivable per square metre of the relevant premises to be leased by the Chu's Controlled Entities Group from the Group for three years ending 31 December 2020.

### The offices to be leased by the Chu's Controlled Entities Group

We noted that the Group is expecting the Chu's Controlled Entities to lease shops in Guangzhou with an aggregate area of approximately 10,000 sq.m. and offices in Shanghai and Beijing with an aggregate area of approximately 8,300 sq.m. from the Group for three years ending 31 December 2020. Our review of the shops and offices to be leased by the Chu's Controlled Entities Group, we understand that most of the shops and offices are currently expected to be leased out by the Group to the Chu's Controlled Entities Group. Having considered the above, we are of the view that the offices and shops to be lease by the Chu's Controlled Entities Group from the Group in determining the Annual Caps of Transaction 10 for the three years ending 31 December 2020 are properly estimated.

### The estimated rents receivable

To determine whether the estimated rents payable by the Chu's Controlled Entities to the Group for the relevant shop and office premises in Guangzhou for the three years ending 31 December 2020 are on normal commercial terms, we have compared the prevailing market rates or price quotations obtained from independent property agents in the PRC for other premises in the same building or similar premises in the proximity to the shops and offices to that of the estimated rents for the relevant shop and office premises which the Group plans to lease to the Chu's Controlled Entities. Based on our comparison and also taken into account of factors such as the quality and the location of the relevant premises to be leased by the Chu's Controlled Entities and the comparable properties, we note that the rents payable by the Chu's Controlled Entities to the Group are in line with the prevailing market rates. Also, given that the proposed Annual Caps for Transaction 10 was determined based on the shops and offices expected to be leased by the Chu's Controlled Entities from the Group as well as taking into account of the expected rental upward adjustments for certain shops and offices in 2019 and 2020, in our view, it is reasonable that the proposed Annual Caps for Transaction 10 will increase

## LETTER FROM PELICAN FINANCIAL

in the region of approximately 2% to 4% in 2019 and 2020 as compared with the prior year. In light of the above, we are of the view that the basis and assumptions in formulating the proposed Annual Caps for Transaction 10 are fair and reasonable.

We also noted that the proposed Annual Caps for Transaction 10 represent an increment from the historical transaction amount for the year ended 31 December 2017. As discussed above, the proposed Annual Caps for Transaction 10 is based on the shops and offices expected to be leased by the Chu's Controlled Entities from the Group in each of the three years ending 31 December 2020. We understand that the increase in the proposed Annual Caps for Transaction 10 is mainly due to an additional aggregate area of approximately 1,250 sq.m. of office space and an additional aggregate area of approximately 10,000 sq.m. of shop area planned to be leased to the Chu's Controlled Entities for the three years ending 31 December 2020 as well as rental upward adjustments for certain shops and offices. Given that there was an increase in demand for shops and offices from the Chu's Controlled Entities and increase in rental rate receivable by the Group, we are of the view that the proposed Annual Caps for Transaction 10, being at an increment as compared with the historical transaction amount for the year ended 31 December 2017, is fair and reasonable.

In light of the work above, we are of the view that Transaction 10 and the terms thereto are on normal commercial terms and the rents receivable thereunder as well as the proposed Annual Caps for Transaction 10 are properly estimated and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### **Transaction 11 — Commercial real estate management**

Pursuant to the 2018 Framework Agreement, the Chu's Controlled Entities may, from time to time, and subject to the execution of separate agreement setting out the specific terms of each engagement, appoint the Group to provide commercial real estate management service for certain commercial real estate projects of the Chu's Controlled Entities.

#### **Basis for determining price and other terms under Transaction 11**

As set out in the 2018 Framework Agreement, the commercial real estate management fees payable by the Chu's Controlled Entities to the Group and the terms thereto shall be determined by the parties with reference to the terms offered by Independent Third Parties for providing similar services.

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### Basis for determining and discussion of the Annual Caps under Transaction 11

Set out below are the proposed Annual Caps of Transaction 11 for each of the three years ending 31 December 2020:

	<b>Proposed Annual Caps for the year ending 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Transaction 11 —</b>	RMB153,901,000	RMB205,433,000	RMB228,791,000
<b>Commercial real estate management</b>	(equivalent to approximately HK\$192,376,000)	(equivalent to approximately HK\$256,791,000)	(equivalent to approximately HK\$285,989,000)

In determining the Annual Caps for Transaction 11 under the 2018 Framework Agreement, the Group has taken into account (i) the relevant pricing basis under the 2018 Framework Agreement; and (ii) estimation of the number and size of the commercial real estate projects of the Chu's Controlled Entities which require the Group's services.

### Documents obtained and reviewed for Transaction 11

In connection with Transaction 11, we have obtained, reviewed and examined (i) a schedule setting out information on the estimated fees receivable by the Group from the Chu's Controlled Entities for providing commercial real estate management including the number and size of the commercial real estate projects of the Chu's Controlled Entities which require the Group's services for the three years ended 31 December 2020; and (ii) information on the prevailing market rates for providing similar commercial real estate management and determined with reference to the terms offered by Independent Third Parties.

### Our analysis of the pricing basis of Transaction 11

The pricing basis of Transaction 11 is determined with reference to the terms offered by Independent Third Parties for providing similar services. In this regard, we noted that the Group has gathered the various relevant market commercial real estate management fees, namely 2% of the revenue and earnings before interest, tax, depreciation and amortisation. As discussed with the Group, it is expected that the commercial real estate management fees to be receivable by the Group will be comparable to, or no less favorable than, such market rates and therefore we are of the view that the pricing basis adopted in Transaction 11 is fair and reasonable.

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### Our analysis of the proposed Annual Caps for Transaction 11

In deriving the proposed Annual Caps for Transaction 11, the Company has estimated the number of commercial real estate projects of Chu's Controlled Entities which require the Group's services as well as the revenue to be generated by Chu's Controlled Entities from such projects and the estimated percentage fee chargeable on those projects.

#### The estimated percentage fee chargeable

To determine whether the percentage fee chargeable by the Group for the three years ending 31 December 2020 are on normal commercial terms, we have compared such estimates to the information on the prevailing market rates for providing similar commercial real estate management which are determined with reference to the terms offered by Independent Third Parties. We noted that the management fee chargeable is around 2% of the revenue and earnings before interest, tax, depreciation and amortization of the relevant projects. Our comparison indicates that the percentage fee chargeable by the Group falls within the market range. Having considered the above, we are of the view that the percentage fee chargeable used in determining the Annual Caps of Transaction 11 for the three years ending 31 December 2020 are properly estimated.

#### The number of commercial real estate projects

Furthermore, we have also reviewed the schedule of the number and size of the commercial real estate projects of the Chu's Controlled Entities which require the Group's services for the three years ending 31 December 2020. This is estimated based on the Group's knowledge of the Chu's Controlled Entities' commercial real estate projects. In our reviewed of the commercial real estate projects of the Chu's Controlled Entities which is expected to require the services of the Group, we noted there are 14 projects in 2018, 15 projects in 2019 and 20 projects in 2020 and they are expected to generate an aggregate revenue of approximately RMB979,550,000 in 2018, RMB1,112,575,000 in 2019 and RMB2,593,930,000 in 2020 from the Chu's Controlled Entities. We have reviewed that these projects are developed or operated by the Chu's Controlled Entities and the revenue generated is based on the size of the relevant projects and therefore we are of view that the need of commercial real estate services by the Chu's Controlled Entities is reasonably estimated. In addition, we have discussed with the management the basis of the preparation of the proposed Annual Caps for Transaction 11 and are satisfied with the estimation. Also, given that the proposed Annual Caps for Transaction 11 was determined based on the commercial real estate projects that the Chu's Controlled Entities would require the services of the Group in each of the three years ending 31 December 2020 and also taking into account of the expected increase in the revenue to be generated by Chu's Controlled Entities from the commercial real estate properties to be managed by the Group, in our view, it is reasonable that there will be a steady increase in the proposed Annual Caps for



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Transaction 11 in 2019 and 2020 as compared with the prior year. In light of the above, we are of the view that the basis and assumptions in formulating the proposed Annual Caps for Transaction 11 are fair and reasonable.

In light of the work above, we are of the view that Transaction 11 and the terms thereto are on normal commercial terms and the fees receivable thereunder as well as the proposed Annual Caps for Transaction 11 are properly estimated and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that (i) the 2018 Framework Agreement is carried out in the ordinary and usual course of business of the Group and is on normal commercial terms; and (ii) the terms of the 2018 Framework Agreement, the Transactions and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the resolution(s) to be proposed at the SGM to approve the 2018 Framework Agreement, the Transactions and the Annual Caps.

Yours faithfully,  
For and on behalf of  
**Pelican Financial Limited**  
**Charles Li\***  
*Director*

\* Mr. Charles Li is a responsible person registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for Pelican Financial Limited and he has been licensed since the SFO became effective in 2003. Mr. Charles Li has also provided fairness opinion as independent financial adviser on a number of transactions involving companies listed on the Stock Exchange.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of the Directors and the chief executive of the Company was taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in the Listing Rules were as follows:

### Long position in the Shares

Name of Director	Nature of interest		Approximate percentage of Shares in issue
	Personal	Corporate	
Mr. Chu Mang Yee	—	1,229,003,809 <sup>(1)</sup>	55.22%
Mr. Au Wai Kin	—	34,500,000 <sup>(2)</sup>	1.55%

*Notes:*

1. Mr. Chu Mang Yee held 1,160,363,809 Shares through Sounda and 68,640,000 through Hopson Education Funds.
2. Mr. Au Wai Kin held 34,500,000 shares of the Company through a company wholly-owned and controlled by him.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executives of the Company and their associates had any interests or short positions in any Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which

they were taken or deemed to have under such provisions of the SFO); or which were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Save for the 2018 Framework Agreement, no contract, commitment or agreement of significance in relation to the Company's business, in which any of the Directors had a material interest, subsisted as at the Latest Practicable Date.

None of the Directors had any interest, direct or indirect, in any asset which, since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up, had been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group as at the Latest Practicable Date.

Save for Mr. Chu who is a director of Sounda, none of the Directors was a director or employee of a company which had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as at the Latest Practicable Date.

### 3. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contract with any member of the Group which is not terminable by the employer within one year without payment of compensation (other than statutory compensation).

### 4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up.

### 5. QUALIFICATIONS AND CONSENT OF EXPERT

The following is the qualification of the expert who has given an opinion or advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Pelican Financial	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Pelican Financial did not have any shareholding, direct or indirect, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Pelican Financial did not have any interest, direct or indirect, in any assets which had since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Pelican Financial has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear respectively.

## **6. COMPETING INTERESTS**

Mr. Lee Tsung Hei, David, an independent non-executive Director, is a director of various companies which are engaged in the property development and property investment business.

Save as disclosed above, none of the Directors and his/her respective close associates had an interest in a business apart from the Company's business which competed or was likely to compete, either directly or indirectly, with the Group's business as at the Latest Practicable Date.

## **7. DOCUMENTS AVAILABLE FOR INSPECTION**

Copy of the following documents will be available for inspection at the Company's principal office in Hong Kong at Suites 3305–3309, 33rd Floor, Jardine House, 1 Connaught Place, Central, Hong Kong from 9:30 a.m. to 5:00 p.m. during the period commencing from 28 May 2018 to 11 June 2018 (both dates inclusive):

- (a) the 2015 Framework Agreement; and
- (b) the 2018 Framework Agreement.

## **8. MISCELLANEOUS**

- (a) The registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business in Hong Kong is at Suites 3305–3309, 33rd Floor, Jardine House, 1 Connaught Place, Central, Hong Kong.
- (b) The Hong Kong branch registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited which is situated at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

- (c) For determining the entitlement of Shareholders to attend and vote at the SGM, the register of members of the Company will be closed from Tuesday, 12 June 2018 to Friday, 15 June 2018 (both days inclusive) during which period no transfer of shares will be effected. In order to determine the entitlement to attend and vote at the SGM, all transfer of shares accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 11 June 2018.
- (d) The English text of this circular will prevail over the Chinese text in the event of inconsistency.



合 生 創 展 集 團 有 限 公 司\*

**HOPSON DEVELOPMENT HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 754)**

*website: <http://www.irasia.com/listco/hk/hopson>*

## **NOTICE OF SPECIAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that a special general meeting of Hopson Development Holdings Limited (“**Company**” together with its subsidiaries, the “**Group**”) will be held at Gloucester Room, 2/F., Mandarin Oriental, 5 Connaught Road Central, Central, Hong Kong on Friday, 15 June 2018 at 10:30 a.m. (or immediately after the annual general meeting of the Company to be held on the same day and at the same place at 10:00 a.m. shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution which will be proposed as an ordinary resolution:

### **ORDINARY RESOLUTION**

“**THAT** the framework agreement dated 26 April 2018 entered into between the Company and Mr. Y.H. Chu and Mr. W.H. Chu (together with companies which are associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) of either Mr. Y.H. Chu or Mr. W.H. Chu, the “**Chu’s Controlled Entities**”) (“**2018 Framework Agreement**”), and the transactions to be entered into between the Group and Chu’s Controlled Entities contemplated thereunder (“**Transactions**”) as set out in the circular of the Company dated 28 May 2018 (the “**Circular**”), a copy of which is tabled at the meeting for identification purpose, be and are hereby approved, confirmed and ratified; and that the maximum aggregate annual transaction amount for the Transactions collectively under the 2018 Framework Agreement for each of the three financial years ending 31 December 2020 as set out in the Circular be approved; and any one director of the Company as authorised by its board of directors be and is hereby authorised to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things on behalf of the Company as he may in his discretion consider necessary or desirable for the purposes of or in connection with the implementation of the 2018 Framework Agreement and the Transactions.”

By Order of the Board  
**Hopson Development Holdings Limited**  
**Chu Mang Yee**  
*Chairman*

Hong Kong, 28 May 2018

\* *for identification purposes only*

*Principal Office:*

Suites 3305–3309  
33rd Floor, Jardine house  
1 Connaught Place, Central  
Hong Kong

*Notes:*

- (1) Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint a proxy to attend and vote in his stead. Any such member who is a holder of two or more shares may appoint more than one proxy to attend and vote in his stead. A proxy need not be a member of the Company but must be present in person to represent the member.
- (2) For determining the entitlement of Shareholders to attend and vote at the SGM, the register of members of the Company will be closed from Tuesday, 12 June 2018 to Friday, 15 June 2018 (both days inclusive) during which period no transfer of shares will be effected. In order to determine the entitlement to attend and vote at the SGM, all transfer of shares accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 11 June 2018.
- (3) In order to be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notorially certified copy of that power of attorney or other authority, must be deposited at the principal office of the Company at Suites 3305–3309, 33rd Floor, Jardine House, 1 Connaught Place, Central, Hong Kong not less than 48 hours before the time appointed for holding the said meeting or any adjournment thereof.
- (4) The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

*As at the date of this notice, the Board comprises eight Directors. The Executive Directors are Mr. Chu Mang Yee (Chairman), Ms. Chu Kut Yung (Deputy Chairman), Mr. Au Wai Kin, Mr. Xie Bao Xin and Mr. Bao Wenge; and the independent non-executive Directors are Mr. Lee Tsung Hei, David, Mr. Tan Leng Cheng, Aaron and Mr. Ching Yu Lung.*