Giraffe
智富

31 August 2022

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

MAJOR AND CONTINUING CONNECTED TRANSACTIONS IN RELATION TO FINANCIAL ADVANCES FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Financial Advances Framework Agreement, the transactions contemplated thereunder, and the proposed Caps, details of which are set out in the letter from the Board (the "**Letter from the Board**") of the circular issued by the Company dated 31 August 2022 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As set out in the Letter from the Board, on 27 June 2022 (after trading hours), the Company (for itself and on behalf of its subsidiaries) entered into the Financial Advances Framework Agreement with Zhong An Cayman (for itself and on behalf of its subsidiaries but excluding the Group), pursuant to which, among others, the Group will provide recurring Advances to the Zhong An Group.

Giraffe Capital Limited 智富融資有限公司
3/F, 8 Wyndham Street, Central, Hong Kong
香港中環雲咸街8號3樓

Tel +852 3577 8770
Fax +852 3188 3271
www.giraffecap.com

As set out in the Letter from the Board, since Zhong An Cayman is a controlling Shareholder (indirectly interested in approximately 66.02% of the issued share capital of the Company) of the Company, Zhong An Cayman is a connected person of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Advances based on the highest Cap during the term of the Financial Advances Framework Agreement exceeds 5%, the Advances constitute non-exempted continuing connected transactions for the Company under Chapter 14A of the Listing Rules and are therefore subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. In addition, the Company is required to comply with the annual review requirements under the Listing Rules in respect of the Advances. Further, the Advances constitute provision of financial assistance by the Group to the Zhong An Group under Chapter 14 of the Listing Rules. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Advances based on the highest Cap during the term of the Financial Advances Framework Agreement exceeds 25% but all the applicable percentage ratios are less than 100%, the Advances constitute major transactions of the Company and are therefore subject to reporting, announcement and independent shareholders' approval requirements pursuant to Chapter 14 of the Listing Rules. According to the Letter from the Board, as at the Latest Practicable Date, (i) Ideal World (a wholly-owned subsidiary of Zhong An Cayman) was interested in 66.02% of the total issued Shares and (ii) Whole Good was interested in 1.56% of the total issued Shares. Ideal World, Whole Good and their respective associates are required to abstain from voting on the relevant resolutions at the EGM in view of their material interest in the transactions contemplated under the Financial Advances Framework Agreement. Save for Ideal World, Whole Good and their respective associates, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, no other Shareholder is required to abstain from voting for any resolution to be proposed at the EGM in respect of the Financial Advances Framework Agreement and the transactions contemplated thereunder and the proposed Caps.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. Ng Sze Yuen, Terry, Mr. Xu Chengfa, and Mr. Yim Chun Leung, has been formed to consider and advise to the Independent Shareholders as to the terms of the Financial Advances Framework Agreement, the transactions contemplated thereunder, and the proposed Caps. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Group in accordance with Rule 13.84 of the Listing Rules, and accordingly, are qualified to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders. Save for our appointment as the Independent Financial Adviser, there was no engagement between the Group and us in the past two years.

Besides, apart from the advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among others, the announcement of the Company dated 27 April 2022 in relation to past very substantial acquisitions and continuing connected transactions, the supplemental announcement of the Company dated 25 May 2022 in relation to very substantial acquisitions and continuing connected transactions, the Announcement, the supplemental announcement of the Company dated 5 July 2022 in relation to the continuing connected transactions under the Financial Advances Framework Agreement, the Financial Advances Framework Agreement, the annual report of the Company for the year ended 31 December 2021 (the "**Annual Report 2021**"), the annual reports of Zhong An Cayman for the year ended 31 December 2021 (the "**Zhong An Annual Report 2021**") and for the year ended 31 December 2019 (the "**Zhong An Financial Reports**"), the information and facts supplied by the Group, the opinions expressed by and the representations of the Directors and management of the Group (the "**Management**"), and certain relevant public information, and have assumed that all such information and facts provided and any opinions and representations made to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM.

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its Management and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its Management and/or the Directors were true and accurate at the time when they are made and continue to be true up to the Latest Practicable Date. We have no reason to believe that any statements, information, opinions and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent verification and in-depth investigation into the information provided by the Company as well as the business and affairs of the Group, the controlling shareholder of the Group, the Zhong An Group or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders. Our opinion is necessarily based on the financial, economic, market, industry-specific and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information regarding the Group. The Directors, having made all reasonable enquiries and careful consideration, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the Financial Advances Framework Agreement, the transactions contemplated thereunder, and the proposed Caps, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Financial Advances Framework Agreement, the transactions contemplated thereunder, and the proposed Caps, we have taken into consideration the following principal factors and reasons:

1. Information of the Group

1.1 Business of the Group

As disclosed in the Letter from the Board, the Company is an investment holding company. The Group is principally engaged in commercial property development, leasing and hotel operations. According to the Annual Report 2021, the total gross floor area ("**GFA**") of land reserves held for development and/or sale was approximately 4,069,165 square meter ("**sq.m.**") as at 31 December 2021. There are four hotels of the Group namely Holiday Inn Hangzhou Xiaoshan, Qiandao Lake Bright Resort Hotel, Ningbo Bright Hotel, and Huaibei Bright Hotel. The leasing income of the Group mainly comes from Highlong Plaza, International Office Centre and Zhong An Times Square, including office and shopping malls.

According to the Annual Report 2021, on 3 February 2021, the Group had entered into an equity transfer agreement with the Zhong An Group to dispose the entire equity interest in Zhejiang Runzhou Property Services Co., Ltd., Yuyao Zhongli Property Management Co., Ltd. and Hangzhou Zhonghong Property Service Co., Ltd., all of which are engaged in commercial property management business at an aggregate of consideration of RMB104.65 million (equivalent to approximately HK$125.58 million) (the "**Transfers**"). The Transfers was fully completed on 13 April 2021. Ever since the completion of the Transfers, the Group is no longer engaged in commercial property management business.

1.2 Financial performance of the Group

Set out below is a summary of the Group's operating results as extracted from the Annual Report 2021:

	For the year ended 31 December	
	2020	**2021**
	RMB'000	*RMB'000*
	(audited)	(audited)
Revenue		
– Commercial property development	248,942	410,180
– Property rental	144,845	122,282
– Hotel operations	182,516	173,177
– Other services	124,067	165,427
	700,370	**871,066**
Gross profit	**170,155**	**216,497**
Gross profit margin	*24.3%*	*24.9%*
Profit/(loss) attributable to owners of the parent	**44,429**	**(295,136)**

For the years ended 31 December 2020 and 2021, the Group mainly generated revenue from four operating segments: (i) the commercial property development segment develops and sells commercial properties in Mainland China and Japan; (ii) the property rental segment leases investment properties in Mainland China; (iii) the hotel operations segment owns and operates hotels; and (iv) other services include property management services business, project management business and other business that the Group is involved in.

Comparison of financial performance between the year ended 31 December 2020 and 2021

Based on the Annual Report 2021, the Group's revenue increased from approximately RMB700.4 million for the year ended 31 December 2020 ("**FY2020**") to approximately RMB871.1 million for the year ended 31 December 2021 ("**FY2021**"), which was mainly attributable to the increase in the revenue from commercial property development. The revenue from commercial property development increased from approximately RMB248.9 million in FY2020 to approximately RMB410.2 million in FY2021, representing a growth of 64.8%, which was mainly due to the increase in property sales in FY2021 as the COVID-19 pandemic had subsided in the Mainland China during 2021.

The Group's gross profit increased from approximately RMB170.2 million in FY2020 to approximately RMB216.5 million in FY2021, which was in line with the increase in the Group's revenue. The Group's gross profit margin remained relatively stable at approximately 24.3% in FY2020 and approximately 24.9% in FY2021.

The Group recorded loss attributable to owners of the parent of approximately RMB295.1 million in FY2021 as compared to a profit of approximately RMB44.4 million in FY2020, primarily due to the fair value gain upon transfer to investment properties of approximately RMB356.8 million in FY2020, which did not recur in FY2021.

1.3 Financial position of the Group

Set out below is a summary of the Group's financial position as extracted from the Annual Report 2021:

	As at 31 December	
	2020	**2021**
	RMB'000	*RMB'000*
	(audited)	(audited)
Assets		
– Investment properties	5,414,600	5,290,500
– Properties under development	2,109,148	2,887,025
– Cash and cash equivalents	994,112	1,603,069
Liabilities		
– Interest-bearing bank and other borrowings	5,468,649	4,635,250
Net current assets	2,112,763	273,778
Total equity	6,077,418	5,733,595
Net gearing ratio *(Note)*	79.4%	55.8%

Note: Net gearing ratio is calculated by dividing net debts by the total equity as at the end of respective year. Net debts include interest-bearing bank and other borrowings as well as lease liabilities net of cash and cash equivalents.

The Group's investment properties remained relatively stable at RMB5,414.6 million and RMB5,290.5 million as at 31 December 2020 and 2021, respectively.

According to the Annual Report 2021, properties under development represent properties which are or are expected to be under construction. Except for one property located in Japan, the Group's properties under development are located in Mainland China. Properties under development increased from approximately RMB2,109.1 million as at 31 December 2020 to approximately RMB2,887.0 million as at 31 December 2021, mainly due to the commencement of construction of the Beigan Project and Cixi New City in FY2021.

The Group's cash and cash equivalents increased from approximately RMB994.1 million as at 31 December 2020 to approximately RMB1,603.1 million as at 31 December 2021, mainly attributable to the significant increase in sales proceeds received from buyers in connection with the Group's pre-sale of properties. The Group generated positive cash flow from both operating activities and investing activities in FY2021.

The Group's interest-bearing bank and other borrowings decreased from approximately RMB5,468.6 million as at 31 December 2020 to approximately RMB4,635.3 million as at 31 December 2021, mainly attributable to the repayment of interest-bearing bank and other borrowings. The interest rates for the Group's borrowings were both floating and fixed, and the average effective interest rate was approximately 6.51% and 6.65% in FY2020 and FY2021, respectively. The Group's bank and other borrowings were secured by the pledges of the assets with carrying amount of approximately RMB5,861.3 million and RMB5,095.3 million as at 31 December 2020 and 2021, respectively.

The Group's net current assets decreased from approximately RMB2,122.8 million as at 31 December 2020 to approximately RMB273.8 million as at 31 December 2021, mainly attributable to (i) the increase in contract liabilities resulting from the increase in advances received from customers; and (ii) the increase in short-term secured bank borrowings as at 31 December 2021.

Calculated based on dividing net debts (interest-bearing bank and other borrowings as well as lease liabilities net of cash and cash equivalents) by the total equity, the Group's net gearing ratio decreased from approximately 79.4% as at 31 December 2020 to approximately 55.8% as at 31 December 2021, which was mainly attributable to the decrease in interest-bearing bank and other borrowings as at 31 December 2021.

2. Information of the Zhong An Group

2.1 Business of the Zhong An Group

According to the Letter from the Board, Zhong An Cayman is an investment holding company, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 672). The Zhong An Group is principally engaged in property development, property leasing and hotel operations. As at the Latest Practicable Date, Zhong An Cayman is a controlling Shareholder (indirectly interested in approximately 66.02% of the issued share capital of the Company) of the Company.

2.2 Financial performance of the Zhong An Group

Set out below is a summary of the Zhong An Group's operating results as extracted from the Zhong An Annual Report 2021:

	For the year ended 31 December	
	2020	**2021**
	RMB'000	*RMB'000*
	(audited)	(audited)
Revenue		
– Residential segment	6,738,578	4,097,616
– Commercial segment	700,370	871,066
	7,438,948	**4,968,682**
Gross profit	**2,244,934**	**1,476,136**
Gross profit margin	*30.2%*	*29.7%*
Profit attributable to owners of the parent	**827,874**	**73,132**

For the years ended 31 December 2020 and 2021, the Zhong An Group mainly generated revenue from two operating segments: (i) the residential segment develops and sells residential properties, and provides property management services, project management services and other services to residential properties in Mainland China and Canada; and (ii) the commercial segment develops and sells commercial properties, leases investment properties, owns and operates hotels and provides property management services, project management services and other services to commercial properties in Mainland China, Japan and United Kingdom.

Comparison of financial performance between the year ended 31 December 2020 and 2021

Based on the Zhong An Annual Report 2021, the Zhong An Group's revenue decreased from approximately RMB7,438.9 million in FY2020 to approximately RMB4,968.7 million in FY2021, which was mainly due to the decrease in the total GFA of the properties delivered from approximately 552,737 sq.m. in FY2020 to approximately 227,597 sq.m. in FY2021 as a considerable part of the properties pre-sold by the Zhong An Group in recent years are not due to be delivered.

The Zhong An Group's gross profit decreased from approximately RMB2,244.9 million in FY2020 to approximately RMB1,476.1 million in FY2021, which was in line with the decrease in the Zhong An Group's revenue. The Zhong An Group's gross profit margin remained relatively stable at approximately 30.2% in FY2020 and approximately 29.7% in FY2021.

The Zhong An Group's profit attributable to owners of the parent decreased from approximately RMB827.9 million in FY2020 to approximately RMB73.1 million in FY2021, primarily due to (i) the decrease in gross profit; (ii) the increase in selling and distribution expenses mainly due to the increase in sales commission and marketing expenses along with the increase in contracted sales amount; (iii) the increase in administrative expenses mainly due to the increase in headcounts of administrative staff; (iv) the increase in other expenses mainly due to the increase in impairment of goodwill and property and equipment; and (v) the fair value gain upon transfer to investment properties of approximately RMB356.8 million in FY2020, which did not recur in FY2021.

2.3 Financial position of the Zhong An Group

Set out below is a summary of the Zhong An Group's financial position as extracted from the Zhong An Annual Report 2021:

	As at 31 December	
	2020	**2021**
	RMB'000	*RMB'000*
	(audited)	(audited)
Assets		
– Investment properties	5,414,600	5,290,500
– Properties under development	18,697,873	28,124,612
– Cash and cash equivalents	4,792,545	5,232,657
Liabilities		
– Interest-bearing bank and other borrowings	15,493,429	16,993,861
Net current assets	12,172,280	12,559,932
Total equity	11,413,937	11,930,084
Net gearing ratio *(Note)*	97.1%	100.2%

Note: Net gearing ratio is calculated by dividing net debts by the total equity as at the end of respective year. Net debts include interest-bearing bank and other borrowings as well as lease liabilities net of cash and cash equivalents.

The Zhong An Group's investment properties amounted to approximately RMB5,414.6 million and RMB5,290.5 million as at 31 December 2020 and 2021, respectively. According to the Zhong An Annual Report 2021, the Zhong An Group leases its investment properties consisting of one commercial property in Shanghai, two commercial properties in Yuyao and five commercial properties in Hangzhou under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

According to the Zhong An Annual Report 2021, properties under development represent properties which are or are expected to be under construction. Except for one property located in Canada and one property located in Japan, the Zhong An Group's properties under development are all located in Mainland China. Properties under development increased from approximately RMB18,697.9 million as at 31 December 2020 to approximately RMB28,124.6 million as at 31 December 2021, mainly due to the commencement of construction of a number of projects such as the Cloud Land, Ruiyuan Mansion, Lotus Mansion, Beigan Project and Chaoyue Mansion in FY2021.

The Zhong An Group's cash and cash equivalents increased from approximately RMB4,792.5 million as at 31 December 2020 to approximately RMB5,232.7 million as at 31 December 2021, mainly attributable to the net cash generated from financing activities primarily resulting from the capital injected by non-controlling interests. The Zhong An Group recorded negative cash flow from both operating activities and investing activities in FY2021 and in FY2020.

The Zhong An Group's interest-bearing bank and other borrowings increased from approximately RMB15,493.4 million as at 31 December 2020 to approximately RMB16,993.9 million as at 31 December 2021. The interest rates for the Zhong An Group's borrowings were both floating and fixed, and the average effective interest rate was approximately 6.27% and 6.2% in FY2020 and FY2021, respectively.

The Zhong An Group's net current assets remained relatively stable at approximately RMB12,172.3 million as at 31 December 2020 and approximately RMB12,559.9 million as at 31 December 2021.

Calculated based on dividing net debts (interest-bearing bank and other borrowings as well as lease liabilities net of cash and cash equivalents) by the total equity, the Zhong An Group's net gearing ratio increased from approximately 97.1% as at 31 December 2020 to approximately 100.2% as at 31 December 2021, indicating that the Zhong An Group is highly levered with a larger proportion of debt to equity.

3. Industry outlook

In 2021, China's government reaffirmed the principle of "housing is for living, not speculation" and imposed stricter financial rules for property development to deleverage the real estate industry, resulting in a cooling property market. According to National Bureau of Statistics, the annual growth of investment in China's property sector decreased from approximately 7.0% in 2020 to approximately 4.4% in 2021. The newly constructed area was relatively robust in the first half of 2021, but eventually decreased by 11.4% at the end of the year, after the strain of regulatory measures started affecting property developers. In 2021, the total land area purchased by property development enterprises was approximately 215.9 million sq.m., representing a decline of approximately 15.5% as compared with that of 2020. The growth rate of total sold area of marketable residential properties decreased from approximately 2.6% in 2020 to approximately 1.9% in 2021. As a result of the tightened financial rules, the total domestic loans granted to property developers decreased by approximately 12.7% from 2020 to 2021.

Looking into 2022, the emergence of new COVID-19 variants such as Omicron and associated measures to contain its spread will pose a risk to the economy this year. However, reforms in the real estate industry are expected to be continued with more policy adjustments. Regulators have taken steps to provide greater access to funds and stabilize property sales. According to the Notice of Strengthening Financial Services for New Urban Residents* (關於加強新市民金融服務工作的通知) jointly published by China Banking and Insurance Regulatory Commission ("**CBIRC**") and the People's Bank of China ("**PBC**"), commercial banks are encouraged to strengthen housing provident fund service channels and reasonably meet citizens' mortgage loan needs. Since March 2022, banks in more than 100 cities in China have lowered mortgage rates by an average of 20 to 60 basis points and imposed smaller down-payments to boost demand. On a broader scale, the regulators have also accelerated mergers and acquisitions among debt-ridden real estate firms to mitigate risks according to the Notice of Promoting M&A Financial Services Dealing with Risky Projects of Key Real Estate Enterprises* (關於做好重點房地產企業風險處置項目併購金融服務的通知) jointly published by CBIRC and PBC. These policies intend to counter the deterioration in the real estate market.

4. Background and reasons of entering into the Financial Advances Framework Agreement

As discussed with the Management, in considering the entering into of the Financial Advances Framework Agreement, they have taken into account the below background and major reasons.

4.1 Rectification of past non-compliance

The Financial Advances Framework Agreement serves as part of the Company's efforts to rectify the non-compliance as described in the Company's announcement dated 27 April 2022 and supplemental announcement dated 25 May 2022 ("**Non-compliance Announcements**"). As disclosed in the Non-compliance Announcements, the Group had entered into certain transactions with the Zhong An Group, which included recurring advances made by the Group to the Zhong An Group from time to time (the "**Historical Transactions**"). The advances constituted provision of financial assistance by the Group to the Zhong An Group under Chapter 14 and continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Directors considered that the failure of the Company to comply with the Listing Rules was due to an oversight and inadvertent misunderstanding of the Listing Rules. The advances mainly represented recurring advances provided by the Group to the Zhong An Group. Similarly, the Zhong An Group also provided financial assistance to the Group. Such allocation of funds between the Zhong An Group and the Group was with an aim to maximise the effective utilisation of their available funds. It was mistakenly considered that such allocation of funds among companies were intra-group transactions falling outside the compliance requirements of the Listing Rules.

4.2 Imminent needs of funds by the Zhong An Group

According to the Letter from the Board, as a property developer, the Zhong An Group is in need of short-term funds from time to time to finance its daily operation.

As set out under sub-section headed "2.3 Financial position of the Zhong An Group", the Zhong An Group has a relatively high net gearing ratio of approximately 97.1% and 100.2% as at 31 December 2020 and 2021, respectively; and the Zhong An Group's interest-bearing bank and other borrowings increased from approximately RMB15,493.4 million as at 31 December 2020 to approximately RMB16,993.9 million as at 31 December 2021. As advised by the Management, it may be difficult for the Zhong An Group to obtain additional external financing given the tightened financial regulations in the PRC. Therefore, the continual provision of the Advances is essential for the Zhong An Group to maintain its existing financial resources to support its daily operation and business development.

Furthermore, we understood from the Management that the Financial Advances Framework Agreement is only to provide framework to the parties for the negotiations of the future Advances from time to time on non-exclusive basis. The Advances are used to finance the general operation and business development of the Zhong An Group.

The Management considers that the provision of the Advances is commercially justifiable and is therefore in the interests of the Company. More importantly, the Management considers that the continual provision of the Advances will enable the Zhong An Group to maintain its existing financial resources for daily operation and business development, while the Group, being a member within the Zhong An Group, would benefit from the stable development of the Zhong An Group by enjoying the synergy brought by its continuous business growth and brand image, which is in the interests of the Company and the Shareholders as a whole.

4.3 Optimal utilisation of idle funds

According to the Letter from the Board, one of the Group's treasury objectives is to seek an optimal utilisation of its funds so as to generate income to the Group. As the Zhong An Group may be in need of funds from time to time, the transactions contemplated under the Financial Advances Framework Agreement would help enhance the efficiency in the use of the Group's available funds or working capital and generate a revenue stream from the expected interest income.

As set out under sub-section headed "1.3 Financial position of the Group", the Group's cash and cash equivalents amounted to approximately RMB994.1 million and RMB1,603.1 million as at 31 December 2020 and 2021, respectively. The Group generated positive cash flow from both operating activities and investing activities in FY2021. The Group's cash position is more than sufficient to support its daily operation. According to the Annual Report 2021, cash and cash equivalents mainly represent cash at banks which yield interests at floating rates based on daily bank deposit rates. We further performed independent search and noted from the website of Bank of China that, at the Latest Practicable Date, the deposit interest rate ranges from 0.3% per annum to 1.35% per annum depending on the period from demand to three months according to the List of Interest Rate for RMB Deposit published on the website. The provision of financial Advances to the Zhong An Group would enable the Group to earn a higher interest yield on its cash balances, as further discussed under section "Principal terms of the Financial Advances Framework Agreement" below.

Considering that (i) the entering into of Financial Advances Framework Agreement serves as part of the Company's efforts to rectify its past non-compliance; (ii) there were imminent needs of funds by the Zhong An Group; (iii) the provision of Advances would assist the Group to optimize its utilization of idle funds given the interest to be earned on the Advances would be higher than the interest earned from the bank deposit, and (iv) the credit risk is relatively lower given Zhong An Cayman is the controlling Shareholder of the Company and settlement records of Historical Transactions as disclosed in the Non-compliance Announcements, we concur with the Directors' view that the entering into of the Financial Advances Framework Agreement is fair and reasonable and in the interests of the Company and its shareholders as a whole.

5. Principal terms of the Financial Advances Framework Agreement

Set out below are the principal terms of the Financial Advances Framework Agreement. For more details, please refer to the section headed "Financial Advances Framework Agreement" of the Letter from the Board.

Date	:	27 June 2022 (after trading hours)
Parties	:	(1) the Company (for itself and on behalf of its subsidiaries); and (2) Zhong An Cayman (for itself and on behalf of its subsidiaries but excluding the Group). The terms "the Company" and "Zhong An Cayman" used in the Financial Advances Framework Agreement will, as the case may be, mean the subsidiaries of the Company and Zhong An Cayman.
Term	:	From 27 June 2022 to 31 December 2024 (both days inclusive), subject to the satisfaction of the conditions precedent referred to below. The term of the Financial Advances Framework Agreement can be extended on a mutually agreed basis, subject to compliance with the relevant requirements of the Listing Rules.

The Group will not make any Advances until the Independent Shareholders, if thought fit, passing resolution(s) approving the Financial Advances Framework Agreement and the transactions contemplated thereunder and the proposed Caps.

Conditions precedent	:	The Financial Advances Framework Agreement is conditional on and subject to the compliance by the Company with the relevant Listing Rules requirements under Chapter 14 and Chapter 14A of the Listing Rules.
The Advances	:	Zhong An Cayman shall utilise the Advances made by the Company pursuant to the Financial Advances Framework Agreement for its daily business operations.

Upon receipt of a written notice from Zhong An Cayman requesting for an Advance, the Company shall decide whether to make an Advance based on, among other things, its liquidity position. If the Company so decides to make an Advance, it shall, within 15 business days after the receipt of a written notice from Zhong An Cayman, make the relevant Advance pursuant to such written notice. If the Company is unable to make an Advance pursuant to a written notice of Zhong An Cayman, or considers necessary to amend the terms of a written notice, it shall reply to Zhong An Cayman within 3 business days after the receipt of such written notice of Zhong An Cayman.

The specific terms of each Advance regarding the amount, the receiving bank account and the repayment date, etc. are to be mutually agreed by the parties, and (if required) stipulated under separate agreements to be entered into by the parties. Each of the Advances shall be repayable on demand in case of any event of default of the specific agreements.

The parties agree that Zhong An Cayman is not required to provide any guarantee for the Advances, unless otherwise negotiated and agreed by the parties.

Interests	:	Interests shall be payable by Zhong An Cayman to the Company for each Advance, the rate of which shall be determined by reference to the benchmark interest rate as then promulgated by the PBC for RMB short-term loan, and comparable to the then normal commercial terms or better.
Caps	:	The Caps for the three years ending 31 December 2024 are as follows: (a) RMB1,200 million for the year ending 31 December 2022 (from the date of commencement of the term aforementioned); (b) RMB1,500 million for the year ending 31 December 2023; and (c) RMB1,800 million for the year ending 31 December 2024, which is determined mainly on the basis of (i) the historical amounts of the advances made by the Group to the Zhong An Group; and (ii) the expected financial needs of the Zhong An Group.

When considering the fairness and reasonableness of the terms of the Financial Advances Framework Agreement, we have taken into account the following factors:

Interest rate

According to the Letter from the Board, the interest rate shall be determined by reference to the benchmark interest rate as then promulgated by the PBC for RMB short-term loan, and comparable to the then normal commercial terms or better. The specific terms of the Advances including but not limited to interest rate are to be mutually agreed by the parties, and (if required) stipulated under separate agreements to be entered into by the parties. For illustrative purpose only, as at the Latest Practicable Date, interest rate of RMB short-term loan with term of one year or lower is 4.35% per annum, while the deposit interest rate ranges from 0.3% per annum to 1.35% per annum depending on the period from demand to three months, according to Bank of China.

Considering that the interest rate would be determined with reference to the benchmark interest rate for RMB short-term loan, which is believed to be higher than the interest rate to be yielded on cash deposited at banks in the PRC, we concur with the Directors' view that the interest rate of the Financial Advances Framework Agreement is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Term

The Financial Advances Framework Agreement is for the term from 27 June 2022 to 31 December 2024 (both days inclusive, the "**Term**"), subject to the satisfaction of the conditions thereunder. In principle, each Advance to be provided under the Financial Advances Framework Agreement during the Term will be valid until the expiry date of the separate agreement to be entered into, subject to the compliance with the Listing Rules. If the term of any of the proposed loan agreements to be entered into by the Group during the Term lasts beyond the Term, if any, the Company will comply with the requirements of the Listing Rules by issuing announcement and obtaining prior approval from Independent Shareholders of the Company, if necessary.

6. Historical transaction amount and the proposed Caps under the Financial Advances Framework Agreement

According to the Letter from the Board, the proposed Caps for the Advances under the Financial Advances Framework Agreement for the years ending 31 December 2022 (from the date of commencement of the Term, i.e. 27 June 2022), 31 December 2023 and 31 December 2024 are RMB1,200 million, RMB1,500 million and RMB1,800 million respectively, which is determined mainly on the basis of (i) the historical amounts of the recurring advances made by the Group to the Zhong An Group; and (ii) the anticipated financial needs of the Zhong An Group.

6.1 Historical amounts of recurring advances made by the Group to the Zhong An Group from 2014 to 22 April 2022

In assessing the fairness and reasonableness of the proposed Caps, we have compared the proposed Caps with the historical amounts of recurring advances made by the Group to the Zhong An Group. As disclosed in Non-compliance Announcements and the Letter from the Board, the historical amount of advances made by the Group to the Zhong An Group from 2014 to 22 April 2022 is set out in the table below.

For the year ended 31 December	**Highest daily balance** *RMB (million)*
2014	112.4
2015	112.4
2016	80.1
2017	80.1
2018	39.3
2019	1,229.3
2020	1,400.0
2021	2,224.4
1 January 2022 – 22 April 2022	1,317.3

As discussed with the Management, the proposed Caps were determined mainly with reference to the historical amounts of the advances, especially more recent highest daily balances from 1 January 2019 to 22 April 2022. We are of the view that recent historical amounts of advances are more representative of the Zhong An Group's potential funding needs. As shown in the table above, the historical highest daily balance of advances provided by the Group ranged from approximately RMB1,229.3 million to approximately RMB2,224.4 million during the period from 1 January 2019 to 22 April 2022. Furthermore, as disclosed in the supplemental announcement of the Company dated 5 July 2022, the Directors confirmed that no advance was made after 22 April 2022. The proposed Caps for the Advances of RMB1,200 million, RMB1,500 million and RMB1,800 million for the years ending 31 December 2022 (from the date of commencement of the Term, i.e. 27 June 2022), 31 December 2023 and 31 December 2024 are close to the highest daily balance of advances during the period from 1 January 2019 to 22 April 2022. In addition, as advised by the Management, after taking into account the recent property market downturn, the Management expected that a proposed Cap of RMB1,200 million for the period from 27 June 2022 to 31 December 2022, which is lower than the historical highest daily balance for the years ended 31 December 2019 to 2021, would be fair and reasonable on the basis that the Management believes that the liquidity position of the Group would remain sufficient to meet its daily operation needs given there would be cash inflows to be generated from its operating activities, in particular, cash to be received from its contracted sales. Although the highest Cap of RMB1,800 million for the year ending 31 December 2024 is higher than the Group's cash and cash equivalents of approximately RMB1,603 million as at 31 December 2021, considering that (i) such proposed Cap is lower than the highest daily balance of approximately RMB2,224.4 million in 2021; (ii) the proposed Caps only represent the highest possible outstanding balance due from the Zhong An Group under the Financial Advances Framework Agreement, the Company is not obliged to provide the Advances of such amounts and the Company would assess its then cash position and working capital needs before making the Advances; and (iii) the cash position of the Group will fluctuate from time to time in a year, and the balance as at year end only represents the cash position at a particular point of time, the Management considered that the proposed Cap of RMB1,800 million for the year ending 31 December 2024 is fair and reasonable.

Considering (i) the proposed Caps were close to the highest daily balance of advances during the period from 1 January 2019 to 22 April 2022; (ii) the historical amounts of the advances made by the Group to the Zhong An Group increased at a compound annual growth rate of approximately 34.5% from 2019 to 2021; (iii) the Management has taken into account the recent property market downturn in determining the proposed Caps; (iv) the Group recorded contracted sales of approximately RMB2,650.8 million during the year ended 31 December 2021 while the Group recorded contract liabilities of approximately RMB2,063.3 million as at 31 December 2021, which indicated that the Group is expected to record cash inflows of at least RMB587.5 million in the near future; (v) the Group had completed properties held for sale of approximately RMB1,087.1 million as at 31 December 2021; and (vi) as set out in the Letter from the Board, the financial management department of the Company will assess the liquidity and financial resources of the Group to ensure that the liquidity position of the Group remains sufficient to meet its funding requirements from time to time, we concur with the Directors' view that the proposed Caps for the Advances under the Financial Advances Framework Agreement are fair and reasonable.

6.2 Funding needs of the Zhong An Group

To further assess the fairness and reasonableness of the proposed Caps, we have discussed with the Management and understood that in estimating the funding needs up to 31 December 2024, the Zhong An Group has principally considered (i) its operating working capital requirement; (ii) development costs of the existing projects; (iii) capital requirement for its potential new projects; and (iv) the existing loans repayment and renewal schedules. Further, we noted that the Zhong An Group has been developing and implementing a number of property projects in cities and regions within the Yangtze River Delta Region, which have achieved a rapid growth in contracted sales from 2019 to 2021 at a compound annual growth rate of approximately 49.9% based on the contracted sales figures disclosed in the Zhong An Financial Reports. We also performed public search and noted that in spite of a downward trend in the China's real estate market, the Zhong An Group continued to purchase new land in Zhejiang Province in the first half of 2022. According to the Zhong An Annual Report 2021, as at 31 December 2021, the Zhong An Group has a total land bank of approximately 10.48 million sq. m. in the Yangtze Delta, Kunming and Qingdao, which was expected to support its development for the next five year. Accordingly, the Management, together with the Zhong An Group, considered the highest daily balance of the Advances would face an increasing trend from 2022 to 2024 and thus has determined the proposed Caps to be RMB1,200 million, RMB1,500 million and RMB1,800 million for the years ending 31 December 2022 (from the date of commencement of the Term, i.e. 27 June 2022), 31 December 2023 and 31 December 2024, respectively. With the support from the Group, the Zhong An Group will have a higher degree of financial flexibility for its potential property projects while being able to meet its daily operation needs.

According to the Zhong An Annual Report 2021, we noted that (i) its cash and cash equivalents as at December 31, 2021 were approximately RMB5,232.7 million, and (ii) the net cash used in operating activities in FY2021 was approximately RMB268.9 million. We also noted that as at 31 December 2021, the total interest-bearing bank and other borrowings of the Zhong An Group amounted to approximately RMB16,993.9 million, of which approximately RMB3,618.9 million were due within one year or on demand. As advised by the Management, although the available cash of the Zhong An Group may be sufficient to repay the existing short-term bank and other borrowings as they fall due, additional funds would be needed for meeting its daily working capital needs and capital requirement for potential new projects as discussed above.

Considering that (i) the Zhong An Group has increasing funding needs for its potential property projects in coming few years as supported by its continuous historical growth in contracted sales and the land bank on hand for future development; (ii) given the current cash balance and the indebtedness position of the Zhong An Group, additional funds would be needed by the Zhong An Group to fulfil its daily operation needs and to capture potential business opportunities, we consider that the proposed Caps for the Advances under the Financial Advances Framework Agreement are fair and reasonable.

Having considered the above, we are of the view that the terms of the Financial Advances Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

7. Internal control measures

As stated in the Letter from the Board, in order to ensure that (i) the terms of the Financial Advances Framework Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable to the Company and its Shareholders taken as a whole; and (ii) the interest charged to the Zhong An Group are no less favourable than those charged to independent third parties by the Company for similar transactions, the Company has adopted the following internal control measures, pursuant to which it conducts regular monitoring and review of the relevant transactions:

(a) prior to requesting for an Advance, Zhong An Cayman shall submit a written notice to the Company requesting for an Advance. Upon which, the relevant personnel of the Company shall prepare a notification form for internal approval by the financial management department of the Group, setting out the details of the request, including the use of Advance proceeds, expected interest rate, expected drawdown date, expected repayment date, and whether such Advance is expected to be secured;

(b) when deciding whether to make an Advance upon a request, the financial management department of the Company will assess the liquidity and financial resources of the Group with reference to the amount of Advance requested and any foreseeable funding needs of the Group to ensure that the liquidity position of the Group remains sufficient to meet its funding requirements from time to time and the Group's total assets and total liabilities are not materially adversely affected if the requested Advance is to be made. We have obtained the template of the internal requisition and approval form, which includes details of (i) proposed advances including but not limited to the amounts, interest rates, expected repayment dates and expected usage of the Advances; (ii) credit assessment of the borrower; and (iii) internal assessment of the Group's liquidity position, for possible Advances in the future;

(c) in addition, the Group shall perform due diligence work on the Zhong An Group before its approval of the relevant Advances, which includes (i) conducting public searches on the good standing of the relevant Zhong An Group companies; (ii) taking into account of the then historical credibility of the Zhong An Group in repaying to the Company; (iii) conducting meetings with the relevant Zhong An Group companies in relation to negotiation of the specific terms of the Advances; (iv) assessing the financial situation of the Zhong An Group by reviewing its audited accounts and management accounts to be submitted to the Group from time to time. Further, as advised by the Management, they will also understand the funding purpose, and assess the viability and feasibility of the projects and their potential to generate sufficient cash flows. After making an Advance, they will continue to (i) monitor the Zhong An Group's financial capability, (ii) keep track of any negative news regarding the Zhong An Group, (iii) regularly follow up with the Zhong An Group regarding the status of the relevant projects, (iv) review settlement amounts regularly and notify the Zhong An Group for any overdue balances, and (v) request immediate repayment from the Zhong An Group if the Group is aware of any potential issues on recoverability or any event of default;

(d) the financial management department of the Company will regularly keep track of the benchmark interest rate promulgated by the PBC for RMB short-term loan and any relevant interest rates adopted by transactions similar to the Advances to ensure that the interest rate to be charged on each Advance will be on normal commercial or better terms; and

(e) lastly, the financial management department of the Company will review and monitor the Advances to ensure that the relevant Cap will not be exceeded. We have obtained the monthly review and monitoring form from April to June 2022 and noted that the required internal control procedures were properly followed.

As stated in the Letter from the Board, based on historical advances provided by the Group to the Zhong An Group for the three years ended 31 December 2021, the Group had always been able to fully recover the amount of advances made in accordance with the terms and conditions of such relevant advances from the Zhong An Group. Although generally the Advances are not to be guaranteed, to secure recoverability, where necessary, the Group may agree with the Zhong An Group to provide guarantee for the Advances. In view of it and the above due diligence work performed by the Group on the Zhong An Group before and after the grant of Advances, we concur with the Management's view that the internal measures are sufficient to ensure the recoverability of the Advances.

We have also obtained samples of internal approval forms of the Historical Transactions covering each quarter of 2018 to 2021 in which advances were made to the Zhong An Group and noted that although the Company failed to comply with the relevant Listing Rules requirements in the past, the Historical Transactions were reviewed and approved by the financial management department and/or the senior management before the Advances were made. With respect to the historical transactions during 2018 to 2021, we also performed additional work done regarding the internal control measures on the interest rates charged. As advised by the Management, when the current account recorded a net balance due from the Zhong An Group during a year, interest with interest rate determined with reference to prevailing market interest rates would be charged. As further advised by the Management, the financial management department regularly monitored the movement of the current account and kept track on the prevailing RMB loan interest rate published by the commercial banks from time to time to ensure the interest rate charged on Historical Transactions to be on normal commercial or better terms. We have obtained from the Management (i) current account between the Group and the Zhong An Group and noted that interests were accrued to the current account of the Zhong An Group at rates of 8% and 10% for the years ended 31 December 2020 and 2021 and the period from 1 January 2022 to 22 April 2022, and (ii) market loan prime rate of commercial banks from 2018 to 2021. We also conducted independent search and noted that according to the website of Bank of China, the interest rate of RMB loan within one year has been 4.35% per annum since 24 October 2015. Therefore, the interest rates charged on historical advances as mentioned above were higher than the prevailing interest rate on short-term RMB loans from commercial banks.

We further understood from the Management that the Company will also provide information and supporting documents to its independent non-executive Directors and auditors in order for them to conduct an annual review of the continuing connected transactions entered into by the Company. In accordance with the requirements under the Listing Rules, the independent non-executive Directors will provide an annual confirmation to the Board as to whether the Financial Advances Framework Agreement has been entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are in accordance with the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and the Company will procure that its auditors will provide confirmation to the Board on an annual basis as to whether anything has come to their attention that causes them to believe that the Financial Advances Framework Agreement has not been approved by the Board, or is not conducted in accordance with the internal control procedures of the Group in all material respects, or is not entered into in accordance with the relevant agreement governing the Financial Advances Framework Agreement in all material respects or have exceeded the Caps applicable to these Advances.

Furthermore, as disclosed in the Company's announcement dated 27 April 2022, we noted that remedial measures and enhanced internal control system have been in place in relation to the past non-compliance with Chapter 14 and Chapter 14A of the Listing Rules, which include but not limited to:-

(i) the sum due from Zhong An Group of RMB585 million as at 31 December 2021 was fully settled on 22 April 2022, and the Company ceased carrying all transactions similar to the advances until full compliance with the Listing Rules, including the entering into framework agreement with the Zhong An Group and obtaining relevant approvals for the estimated annual caps. Furthermore, as disclosed in the supplemental announcement of the Company dated 5 July 2022, the Directors confirmed that (i) all outstanding advances up to 22 April 2022 (being the date on which the advances were ceased) were settled, (ii) no advance was made after 22 April 2022, and (iii) the Group will not make any advances until the Independent Shareholders, if thought fit, pass resolution(s) approving the Financial Advances Framework Agreement and the transactions contemplated thereunder and the proposed Caps. We have obtained the internal records of the current accounts between the Group and the Zhong An Group (與眾安的月度往來賬餘額監控) and noted that the sum due from Zhong An Group was fully settled in April 2022 and no further advances have been provided to the Zhong An Group up to June 2022;

(ii) arranging for a special and in-depth training on Chapter 14 and Chapter 14A of the Listing Rules, in particular in relation to transactions similar to the advances to the executive Directors and the senior management of the Group to strengthen and reinforce their knowledge. We have obtained the notice of training dated 24 May 2022 and training materials distributed to the executive Directors and the senior management of the Group regarding Chapter 14 and Chapter 14A of the Listing Rules;

(iii) updating and providing more detailed guidelines to its staff on notifiable and connected transactions. We have obtained the updated guidelines on connected transactions specifying the detailed procedures including, among others, documenting list of connected persons, identifying the connected transactions, preparing annual plan for connected transactions, monitoring the amount of continuing connected transactions, and delivering quarterly report to the Management;

(iv) continuing to review and monitor the internal control measures of the Group to ensure all current and future transactions shall be in compliance with the applicable requirements of the Listing Rules and other relevant laws and regulations; and

(v) retaining Hong Kong legal adviser for advice on compliance with the Listing Rules. We have obtained the engagement letter of retaining Watson Farley & Williams LLP as Hong Kong legal adviser for advice on compliance with the Listing Rules.

Having considered that (i) the Company has adopted internal control measures which provide that the transactions contemplated under the Financial Advances Framework Agreement shall comply with the applicable requirements under Chapter 14 and Chapter14A of the Listing Rule; (ii) the transactions contemplated under the Financial Advances Framework Agreement will be annually reviewed by the independent non-executive Directors and the external auditors of the Company; and (iii) the effective remedial measures and enhanced internal control system have been in place, we concur with the Directors' view that the above internal control measures adopted by the Company in respect of the transactions under the Financial Advances Framework Agreement are appropriate and that they will give sufficient assurance to the Shareholders that the transactions under the Financial Advances Framework Agreement will be appropriately monitored.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that although the entering into of the Financial Advances Framework Agreement was not in the ordinary and usual course of business of the Group, the terms of the Financial Advances Framework Agreement, the transactions contemplated thereunder, and the proposed Caps are fair and reasonable and on normal commercial terms so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) for approving the Financial Advances Framework Agreement, the transactions contemplated thereunder, and the proposed Caps at the EGM.

Yours faithfully,
For and on behalf of
Giraffe Capital Limited

Johnson Chen
Managing Director

Mr. Johnson Chen is a licensed person registered with the Securities and Futures Commission and a responsible officer of Giraffe Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and to undertake work as a sponsor. He has over 14 years of experience in the field of corporate finance advisory.