28 March 2023

*To the Independent Board Committee and*
*the Independent Shareholders of*
*China New City Commercial Development Limited*

Dear Sirs,

# MAJOR AND CONNECTED TRANSACTION IN RELATION TO MORTGAGE ARRANGEMENT FRAMEWORK AGREEMENT AND PROVISION OF FINANCIAL ASSISTANCE

## INTRODUCTION

We refer to our engagement by the Company as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Mortgage Arrangement Framework Agreement and the transactions contemplated thereunder (the "**Transaction**"), the particulars of which have been set out in the "Letter from the Board" (the "**Board Letter**") in a circular to the Shareholders dated 28 March 2023 (the "**Circular**") and in which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter shall have the same meanings as those defined in the Circular.

As announced in the Announcement, a wholly-owned subsidiary of the Proposed Issuer, Zhong An Cayman, proposes to apply for registration of Medium-term Notes and is a bond of not more than three years.

The Medium-term Notes are proposed to be guaranteed by the Guarantor, with unconditional and irrevocably joint and several liability, and certain properties of the Group will be pledged in favour of the Guarantor as counter-security.

The aggregate principal amount of the Medium-term Notes shall be up to RMB1,900,000,000. It is expected that (a) 70% of the proceeds raised therefrom, being up to RMB1.33 billion, shall be used for construction of various property projects of Zhong An Group; and (b) 30% of which, being up to RMB570 million, shall be used as general working capital of the Zhong An Group.

On 27 February 2023 (after trading hours), the Company (for itself and on behalf of the Group) entered into the Mortgage Arrangement Framework Agreement with Zhong An Cayman (for itself and on behalf of the Zhong An Group), pursuant to which CNC Subsidiary (1) and CNC Subsidiary (2) will make available the Mortgaged Property (1) and the Mortgaged Property (2), respectively, for the purpose of pledging with the Guarantor to assist the issue of the Medium-term Notes.

It is expected that specific agreements would be entered into in relation to the property pledge at or around the issuance of the Medium-term Notes and the term of such pledge will be the same as that of the Medium-term Notes, which is expected to be not more than three years.

As at the Latest Practicable Date, since Zhong An Cayman has been 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 pursuant to Rule 14A.07(1) of the Listing Rules. As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Mortgage Arrangement Framework Agreement exceeds 5%, the Agreement and the transactions contemplated thereunder constitute a non-exempted connected transaction for the Company under Chapter 14A of the Listing Rules. Therefore, the Mortgage Arrangement Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further, the Mortgage Arrangement Framework Agreement and the transactions contemplated thereunder constitute provision of financial assistance under Chapter 14 of the Listing Rules. As one or more the applicable percentage ratios (as defined under the Listing Rules) in respect of the Mortgage Arrangement Framework Agreement exceeds 25%, the Mortgage Arrangement Framework Agreement and the transactions contemplated thereunder constitute a major transaction for the Company and are therefore subject to reporting, announcement and independent shareholders' approval requirements pursuant to Chapter 14 of the Listing Rules.

## OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company or any of its respective substantial Shareholders, Directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Transaction.

In the past two years, we have not acted in any financial adviser role to the Company.

With regards to our independence from the Company, it is noted that (i) apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries or their respective controlling Shareholders that could reasonably be regarded as relevant to our independence; and (ii) the aggregate professional fees paid or to be paid to us do not make up a significant portion of our revenue during the relevant period which would affect our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Transaction pursuant to Rule 13.84 of the Listing Rules.

## BASIS OF ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the Company's announcement of annual results for the year ended 31 December 2022 (the "**2022 Annual Results Announcement**"); (iii) Zhong An Cayman's announcement of annual results for the year ended 31 December 2022 (the "**Zhong An 2022 Annual Results Announcement**"); (iv) the property valuation reports on the Mortgaged Properties (the "**Valuation Reports**") as prepared by 深圳市世聯土地房地產評估有限公司 (Worldunion Appraisal Co., Ltd.) (the "**Valuer**"), an independent professional valuer; (v) other information provided by the Directors and the management of the Company (the "**Management**"); and (vi) the opinions expressed by and the representations of the Management. We have assumed that all information and representations that have been provided by the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also 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 advisers, the Directors and/or the Management (where applicable), which have been provided to us.

The Circular, for which the Directors 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 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 consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Chapters 13 and 14A of the Listing Rules.

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. 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, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company and its respective subsidiaries or associates (if applicable) or any of the other parties involved in the Transaction, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transaction. The Company has been separately advised by its own professional advisers with respect to the Transaction and the preparation of the Circular (other than this letter).

We have assumed that the Transaction will be consummated in accordance with the terms and conditions set forth in the Circular without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all necessary consents, authorizations and approvals in respect of the Transaction, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Transaction. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

## PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion and recommendation, we have taken into consideration the following factors:

### 1. Background information on the Group

The Company is an investment holding company. The Group is principally engaged in the commercial property development, leasing and hotel operations.

Each of (i) CNC Subsidiary (1) and (ii) CNC Subsidiary (2) is owned as to 93% and 90% by the Company respectively, and is each principally engaged in property development.

The remaining 7% of CNC Subsidiary (1) and 10% of CNC Subsidiary (2) are being held by Hangzhou Yunzhongxia Decoration Company Limited (杭州雲中霞裝飾有限公司), which is a limited company established in the PRC, and is being owned by Qi Xiaomin as to 60% and Chen Junmin as to 40%.

As per the 2022 Annual Results Announcement, the operating segments of the Company include (i) the commercial property development segment which 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) the "others" segment comprises the Group's project management business and other business that the Group is involved in. Set out below is the key consolidated financial information of the Group for the years ended 31 December 2021 and 2022 as extracted from the 2022 Annual Results Announcement.

| | **For the year ended 31 December** | |
|---|---|---|
| | **2022** | **2021** |
| | *RMB'000* | *RMB'000* |
| | (audited) | (audited) |
| Revenue | 591,783 | 871,066 |
| Gross profit | 117,373 | 216,497 |
| Loss attributable to owners of the parent | (432,523) | (295,136) |

Revenue of the Group amounted to approximately RMB591,783,000 for the year ended 31 December 2022 which represents a decline of approximately RMB279,283,000, or approximately 32.1%, from approximately RMB871,066,000 for the year ended 31 December 2021. As per the 2022 Annual Results Announcement, the Group's diversified revenue mainly includes revenue from property sales, revenue from property rental and other services, and revenue from hotel operations. The 2022 Annual Results Announcement carries on to explain that (i) the decline in revenue from property sales was mainly due to the delay of the new projects of the commercial segment as a result of the epidemic; (ii) the decline in revenue from property rental and other services was mainly due to unstable epidemic, as well as the upgrades, renovation and alteration of the Highlong Plaza involving the rental reductions, clearances, relocations and stores closure, leading to a mild improvement in the average occupancy rate of leasing properties; and (iii) the increase in revenue from hotel operations was mainly due to the improvement of the hotel occupancy rate.

Gross profit of the Group amounted to approximately RMB117,373,000 for the year ended 31 December 2022 which represents a decline of approximately RMB99,124,000, or approximately 45.8%, from approximately RMB216,497,000 for the year ended 31 December 2021. The gross profit margin for the year ended 31 December 2022 was approximately 19.8%, representing a decline of approximately 5.1%, from approximately 24.9% for the year ended 31 December 2021. The decline in gross profit was mainly due to the rising of construction costs and the outbreak of the epidemic in Zhejiang Province which had an all-round impact on the Group.

Loss attributable to owners of the parent amounted to approximately RMB432,523,000 for the year ended 31 December 2022, representing an increase of approximately RMB137,387,000 or approximately 46.6% as compared to the loss attributable to owners of the parent of approximately RMB295,136,000 recorded for the year ended 31 December 2021. Such increase in loss attributable to owners of the parent was mainly attributable to the combined effects of (i) the significant decrease in gross profit as discussed above; (ii) a significant decrease in other income; (iii) the gain on disposal of subsidiaries was absent from the year ended 31 December 2022, as compared to RMB56,515,000 for the year ended 31 December 2021; (iv) a significant decrease in fair value of investment properties; and (v) a significant decrease in interest income.

Apart from the above, we also note from the 2022 Annual Results Announcement that the Group remains positive in the future outlook of real estate market, and actively carried out the development of four notable projects in Hangzhou, Zhejiang Province, namely Fashion Color City, International Office Centre ("**IOC**"), Long Ying Hui Jin Zuo and Cixi New City. Fashion Color City is an integrated commercial complex, consisting of hardcover loft apartments, large apartments and shops, with a total floor area of approximately 26,087 sq.m. and a total gross floor area ("**GFA**") of approximately 78,261 sq.m. IOC is a large-scale integrated commercial complex, comprising serviced apartments, shopping malls and offices The total site area of Plot A is 92,610 sq.m. and planned total GFA is 798,795 sq.m. The project is constructed in three phases, consists of Plots A1, A2 and A3. Among which, Plot A3 was completed in 2015, comprising serviced apartments, shops and underground car parking spaces with a total GFA of approximately 327,996 sq.m. Long Ying Hui Jin Zuo commenced construction in the fourth quarter of 2021 and consists of large flats and shops, with a total floor area of approximately 12,819 sq.m., and a total GFA of approximately 44,867 sq.m. Cixi New City is a residential property project. The construction of Commercial Phase 1, with a total GFA of about 28,158 sq.m., was commenced in July 2019. The pre-sale was started in the third quarter of 2020, and it was completed in 2021. The construction of Commercial Phase II, with a total GFA of about 72,000 sq.m., was commenced in the second quarter of 2021, and it is expected to be completed in 2023.

Set out below are certain key consolidated financial information of the Group as extracted from the consolidated balance sheet set out in the 2022 Annual Results Announcement.

| | As at | |
|---|---|---|
| | **31 December 2022** | **31 December 2021** |
| | *RMB'000* | *RMB'000* |
| | (audited) | (audited) |
| Total assets | 15,179,776 | 15,504,840 |
| Investment properties (non-current portion) | 5,202,000 | 5,245,954 |
| Properties under development (non-current portion) | 966,859 | 1,065,488 |
| Completed properties held for sale | 919,543 | 1,087,065 |
| Properties under development (current portion) | 2,911,714 | 1,821,537 |
| Investment properties classified as held for sale | 74,900 | 44,546 |
| Total liabilities | 9,871,867 | 9,771,245 |
| Equity attributable to owners of the parent | 5,103,573 | 5,500,142 |
| Cash and cash equivalents | 948,087 | 1,603,069 |

The total assets of the Group amounted to approximately RMB15,179,776,000 as at 31 December 2022, representing a decline of approximately RMB325,064,000 or approximately 2.1%, as compared to RMB15,504,840,000 as at 31 December 2021. The Group's property-related assets in aggregate amounted to approximately RMB10,075,016,000 as at 31 December 2022, which mainly consists of (i) investment properties (non-current portion) of approximately RMB5,202,000,000; (ii) properties under development (non-current portion) of approximately RMB966,859,000; (iii) completed properties held for sale of approximately RMB919,543,000; (iv) properties under development (current portion) of approximately RMB2,911,714,000; and (v) investment properties classified as held for sale of approximately RMB74,900,000.

To quantify the Group's risk exposure arising out of the Transaction, we have examined the ratios of (i) approximately 22.3% (calculated by dividing the aggregate fair value of the Mortgaged Properties of RMB2,244,570,000 with the aforementioned aggregate amount of the Group's property-related assets), and (ii) approximately 14.8% (calculated by dividing the aggregate fair value of the Mortgaged Properties of RMB2,244,570,000 with the Group's total assets). We are of the view that, given the above, the Group's risk exposure arising out of the Transaction is manageable.

The Group's equity attributable to owners of the parent decreased from approximately RMB5,500,142,000 as at 31 December 2021 to approximately RMB5,103,573,000 as at 31 December 2022, representing a decrease of approximately RMB396,569,000 or approximately 7.2%. The 2022 Annual Results Announcement attributes the decrease in the Group's equity to the net loss during the period. The cash and cash equivalents of the Group (excluding restricted cash) amounted to approximately RMB948,087,000 as at 31 December 2022, representing a decrease of approximately RMB654,982,000 or 40.9% as compared to approximately RMB1,603,069,000 as at 31 December 2021.

## 2. Information on the Zhong An Group

Zhong An Cayman is a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 672). Zhong An Cayman is a controlling shareholder of the Company.

As stated in the Board Letter, the principal activity of Zhong An Cayman is investment holding. The Zhong An Group is principally engaged in property development, property leasing and hotel operations.

Set out below are certain key consolidated financial information of the Zhong An Group (excluding the Group) as extracted and arrived from the consolidated balance sheet set out in the 2022 Annual Results Announcement and the Zhong An 2022 Annual Results Announcement:

| | As at | | | | | |
|---|---|---|---|---|---|---|
| | 31 December 2022 | | | 31 December 2021 | | |
| | *RMB'000* (audited) The Zhong Ann Group | *RMB'000* (audited) The Group | *RMB'000* (audited) The Zhong Ann Group (excluding the Group) | *RMB'000* (audited) The Zhong Ann Group | *RMB'000* (audited) The Group | *RMB'000* (audited) The Zhong Ann Group (excluding the Group) |
| Total assets | 59,096,852 | 15,179,776 | 43,917,076 | 57,240,309 | 15,504,840 | 41,735,469 |
| Total liabilities | 46,763,688 | 9,871,867 | 36,891,821 | 45,310,225 | 9,771,245 | 35,538,980 |
| Equity attributable to owners of the parent | 9,476,703 | 5,103,573 | 4,373,130 | 9,244,718 | 5,500,142 | 3,744,576 |
| Cash and cash equivalents | 3,001,572 | 948,087 | 2,053,485 | 5,232,657 | 1,603,069 | 3,629,588 |
| Net current (liabilities)/assets | 9,142,494 | (439,574) | 9,582,068 | 12,559,932 | 273,778 | 12,286,154 |

As disclosed in the Zhong An 2022 Annual Results Announcement, the investment properties of the Zhong An Group as at 31 December 2022 amounted to approximately RMB5,202,000,000, which is identical to the consolidated value of the Group's investment properties as at 31 December 2022 as disclosed in the 2022 Annual Results Announcement. As noted from the above and confirmed by the Management, (i) the principal business of the Zhong An Group (excluding that of the Group) is the residential segment which develops and sells residential properties, and provides property management services, project management services to residential properties in Mainland China and Canada; and (ii) it is the Zhong An Group's strategy to hold all investment properties to generate rental income through the Group.

As also disclosed in the Zhong An 2022 Annual Results Announcement, the cash balance (excluding restricted cash) of the Zhong An Group amounted to approximately RMB3,001,572,000 as at 31 December 2022. The current assets and current liabilities of the Zhong An Group amounted to approximately RMB45,640,183,000 and RMB36,497,689,000 respectively as at 31 December 2022, resulting in a net current assets position of approximately RMB9,142,494,000 and a current ratio of approximately 1.25.

The total assets of the Zhong An Group (excluding the Group) as at 31 December 2022 amounted to approximately RMB43,917,076,000 (being RMB59,096,852,000 subtracted by RMB15,179,776,000). The equity attributable to owners of the parent of the Zhong An Group (excluding the Group) as at 31 December 2022 amounted to approximately RMB4,373,130,000 (being RMB9,476,703,000 subtracted by RMB5,103,573,000). The cash balance (excluding restricted cash) of the Zhong An Group (excluding the Group) as at 31 December 2022 amounted to approximately RMB2,053,485,000 (being RMB3,001,572,000 subtracted by RMB948,087,000). The net current assets position of the Zhong An Group (excluding the Group) as at 31 December 2022 amounted to approximately RMB9,582,068,000 (being RMB9,142,494,000 subtracted by the Group's net current liability position of RMB439,574,000).

Based on the above, the overall financial position of the Zhong An Group (excluding the Group) is more than sufficient to cover the aggregate principal amount of the Medium-term Note of up to RMB1,900 million even without considering the future cash inflow arising out of the proposed issue of the Medium-term Notes.

## 3. Information on the Mortgaged Properties

### *3.1 The Mortgaged Properties*

As per the Board Letter, the Mortgaged Property (1) includes a parcel of land and building located at No. 177 Xin Jian North Road, Yu Yao Shi Cheng, Zhejiang Province, the PRC* (中國浙江省余姚市城區新建北路177號等) and is owned by CNC Subsidiary (1). The Mortgaged Property (1) has a gross floor area of approximately 72,138.52 m$^2$ and is currently used by the Group as hotel.

The Mortgaged Property (2) includes a parcel of land and building located at No. 217 Xin Jian North Road, Yu Yao Shi Cheng, Zhejiang Province, the PRC* (中國浙江省余姚市城區新建北路217號) and is owned by CNC Subsidiary (2). The Mortgaged Property (2) has a gross floor area of approximately 92,489 $m^2$ and is currently used by the Group as shopping mall.

As at 30 June 2022, (a) the book value of the Mortgaged Property (1) was approximately RMB595 million and (b) the market valuation of the Mortgaged Property (2) was approximately RMB1,026 million, respectively. As at 9 February 2023, the market valuation of the Mortgaged Property (1) and the Mortgaged Property (2) were approximately RMB1,056,970,000 and RMB1,187,600,000 respectively according to the valuation by the Valuer.

The Mortgaged Property (1) is subject to a mortgage and the Mortgaged Property (2) is not subject to any mortgage.

### *3.2 The Valuation Reports*

The Valuer has been appointed by the Company as an independent professional valuer to assess the appraised value of the Mortgaged Properties as at 9 February 2023, the details of which are set out in the Valuation Reports. According to the Valuation Reports, the market values of the Mortgaged Property (1) and the Mortgaged Property (2) are RMB1,056,970,000 and RMB1,187,600,000 respectively as at 9 February 2023.

In assessing the fairness and the reasonableness of the Valuation Reports, we have considered the following factors:

*3.2.1 Independence, qualification and scope of work of the Valuer*

We have reviewed and enquired into the qualifications and experience of the Valuer in relation to the preparation of the Valuation Report, and noted that the Valuer (company website: http://www.worldunion.cn/Web/Company) is well-established in the PRC with headquarters in Shenzhen and branch office presences in Guangzhou, Dongguan, Foshan, Xiamen, Wuhan, Chengdu, Chongqing, Shanghai, Hangzhou, Nanjing, Beijing and Qingdao. The Valuer is qualified as, amongst others, "一級房地產評估機構資質" (Grade 1 Real Estate Appraisal Entity Qualification*) by the 中華人民共和國住房和城鄉建設部 (Ministry of Housing and Urban-Rural Development) and "A級資信註冊許可機構" (Grade A Registered and Approved Entity*) of the 中國土地估價師協會 (China Real Estate Valuers Association), and possesses extensive experience in, among others, property valuations since 1993. Based on the information provided by the Valuer, the responsible persons in charge of the Valuation Reports, namely Ms. He Chenhuan (何晨歡) and Mr. Li Jian (李健), are "註冊房地產估價師" (Registered Real Estate Appraiser) with about 9 years and 13 years of experience respectively in property valuation in the PRC.

* *for identification purpose only*

We have also reviewed the Valuer's terms of engagement with the Company in relation to the Valuation Reports and in particular, the scope of work, and noted that it is appropriate to the opinion required to be given and there is no limitation on the scope of work which might adversely impact on the degree of assurance given by the Valuer in the Valuation Reports.

Besides, the Valuer also confirmed that it is independent of and not connected with the Group, the Zhong An Group and their respective associates.

*3.2.2 Valuation approach*

According to our discussion with the Valuer, in conducting the valuation of the Mortgaged Properties, the Valuer has adopted both the income approach and the cost approach to derive the appraised values of each of the Mortgaged Properties, and arrive at the final appraised value of each of the Mortgaged Properties by putting equal weight on the appraised values derived from the income approach and the cost approach and averaging such derived appraised values.

The Valuer considered that as both Mortgaged Properties are real estate in operation with sustainable and predictable future income as well as future risks, income approach is considered a suitable valuation method in arriving the value of each of the Mortgaged Properties. On the other hand, as the development cost structure of similar properties is transparent and clear in the market, the Valuer considered cost approach could be selected as another suitable valuation method for an objective result. Since the real estate transaction of commercial complexes and hotels in the area in which the Mortgaged Properties are located is not active and it is difficult to identify suitable and comparable transactions of similar commercial complexes and hotels in nearby locations at the time of valuation, market approach is not adopted. As both Mortgaged Properties are built in recent years and there is no need for the Mortgaged Properties to be redeveloped in near future, and renovation cost of Mortgaged Property (2) is usually borne by tenants but not the lessor (i.e. the Group), hypothetical development approach is considered not appropriate and not adopted.

We are advised by the Valuer that, as the market approach and the hypothetical development approach are both considered inappropriate, no secondary method has been adopted for cross-checking against the appraised value of the Mortgaged Properties derived by the income approach and the cost approach. Despite the above, we note that the Valuer has already adopted both income approach and cost approach to arrive at the appraised value of the Mortgaged Properties so we consider the lack of cross-checking to be acceptable.

Under the income approach, the land use right of the land where the Mortgaged Property (1) is situated will expire in the year 2051, and thus, the Mortgaged Property (1) is assumed to have about 28 years of remaining life commencing from the year 2023. The Mortgaged Property (1) started operating as a hotel in late 2019 and the business operation of the Mortgaged Property (1) was severely hit in 2020 and 2021 due to the COVID-19 pandemic. The business operation in 2022 gradually resumed and accordingly, the first year financial figures in the income approach model made reference to the Mortgaged Property (1)'s 2022 actual historical figures, including the hotel room rental income and the food and beverage income. The business operation during the year 2023 to the year 2026 is assumed to gradually pick up and resume to normal, and the business operation from the year 2026 onwards is assumed to be stable. The annual growth rate of the rental and food and beverage income has made reference to, among other things, the hotel room historical growth rate and historical occupancy rate of 5-star hotel in Ningbo City, the PRC. The operation cost of the Mortgaged Property (1), which consists of variable costs and fixed costs, has been arrived at based on market precedent cases of similar hotels in the PRC and the Valuer's judgement and experience. The net profit attributable to non-property factor has been subtracted from the net profit derived from the business operation to arrive at net profit to be generated out of the Mortgaged Property (1) only. And the Valuer adopted an income capitalisation rate, making reference to, among other things, the market precedent case of other hotels, and the annualised return of certain investment funds available in the market, to derive the final appraised value under the income approach.

The valuation methodology on Mortgaged Property (2) by the Valuer under the income approach is similar to that on Mortgaged Property (1) using actual historical figures generated from Mortgaged Property (2) from 2022 in the first year, and made reference to the historical consumer price index and disposable income per capita in Ningbo city, the PRC to determine the annual growth rate of the rental income and the major difference is that, the Mortgaged Property (2) is assumed to have 5 remaining years of business operation and will be disposed of upon the end of the 5$^{th}$ operation year. The income capitalisation rate over the 5 business operation years was determined with reference to, among others, the risk free interest rate, the investment risk compensation rate and the lack of marketability rate obtained by the Valuer in public domain and based on past experience. The disposal value of the Mortgaged Property (2) upon the end of the 5$^{th}$ operation year has made reference to the first year of gross income and the disposal value of market precedent transactions of 3 complexes. The terminal capitalisation rate to discount the disposal value of the Mortgaged Property (2) back to present value made reference to the capitalisation rate of the aforesaid 3 market precedent transactions, adjusted by a risk rate by the Valuer based on professional judgement and past experience.

Under the cost approach, the Valuer obtained 3 recent land transactions to obtain comparable land cost per square meter, and adjusted the land cost based on, among other things, the commercial affluence of the land area, the public facilities around the land area, the accessibility and convenience of public transportation around the land area the shape of the land, and got a weighted average land cost per square meter of each of the Mortgaged Properties by putting equal weight of the 3 adjusted land cost per square meter. Next, the Valuer derived the reconstruction cost per square meter of the Mortgaged Properties by adding up, among others, the unit construction fee, the unit installation fee, the unit elevator and escalator construction fee, management fee, value-added tax and stamp duty with reference to recent construction transactions precedent in the PRC, the Valuer's professional judgement based on past experience and the prevailing tax rates in the PRC. The reconstruction cost of each of the Mortgaged Properties is calculated by the reconstruction cost per square meter being multiplied by the area of each of the Mortgaged Properties. Finally, as each of the Mortgaged Properties has been constructed and in use for a few years, a depreciation amount based on, among others, the physical condition of the structure, renovation and facilities of each of the Mortgaged Properties, has been subtracted from the reconstruction cost of each of the Mortgaged Properties, and arrived at the final appraised value under the cost approach.

Taking into account the factors as discussed above, (i) we are of the view that the bases and assumptions adopted by the Valuer are fair and reasonable; and (ii) we concur with the Valuer that the adoption of the income approach and the cost approach for the valuation of the Mortgaged Properties is appropriate and in line with market practice. Having considered (i) the Valuer is a well-established firm with PRC presence and has 20 years of local property valuation experience; (ii) the bases and assumptions adopted by the Valuer are fair and reasonable; and (iii) the income approach and the cost approach as adopted in the Valuation Reports are fair and reasonable, and in line with market practice, we consider the Valuer's Valuation Reports fair and reasonable representations in assessing the appraised value of the Mortgaged Properties.

*3.2.3 Conclusion on the Valuation Reports*

With regards to the Valuation Reports, we have complied with the requirements under note 1(d) to Rule 13.80 of the Listing Rules and paragraph 5.3 of the Corporate Finance Adviser Code of Conduct by performing, including but not limited to, the following works: (i) discussed with the Valuer regarding the methodology applied and principal bases and assumptions adopted in the Valuation Reports; (ii) assessed the experience and expertise of the persons responsible for the Valuation Reports, namely Ms. He Chenhuan (何晨歡) and Mr. Li Jian (李健), and the Valuer's recent valuation assignments; (iii) enquired on any current or prior relationships with the Company and Zhong An Cayman, and core connected persons of either the Company and Zhong An Cayman and noted that save for the current engagement, no other relationship exists; and (iv) reviewed the terms of engagement in respect of the Valuation Reports.

Based on aforementioned works performed by us, we are of the view that (i) methodology applied and principal bases and assumptions adopted in the Valuation Reports are fair and reasonable; (ii) the scope of services as illustrated in the engagement letter is appropriate; and (iii) the Valuer, Ms. He Chenhuan (何晨歡) and Mr. Li Jian (李健), being the responsible persons of the Valuation Reports, have adequate qualifications, experience and expertise, and hence are competent to issue the Valuation Reports. Nothing has come to our attention that causes us to doubt the fairness and reasonableness of the Valuation Reports.

The valuation of the Mortgaged Properties as set out in the Valuation Reports in aggregate of RMB2,244,570,000 is therefore considered indicative to the Capped Amount of RMB2,236,000,000.

## 4. The Mortgage Arrangement Framework Agreement and the Transaction

### *4.1 Reason for and benefits of entering into the Mortgage Arrangement Framework Agreement*

As per the Board Letter, Zhong An Cayman is a controlling shareholder (indirectly interested in approximately 66.02% of the issued share capital of the Company) of the Company.

It is expected that the current use of the Mortgaged Property (1) and the Mortgaged Property (2) and therefore the overall operation of the Group will not be materially disrupted or affected by the Mortgage Arrangement Framework Agreement and the transactions contemplated thereunder. In addition, taking into account the credibility and repayment ability of the Zhong An Group, it is considered that the Mortgage Arrangement Framework Agreement provides a fee income to the Group. The Directors are of the view that (i) the entry into the Mortgage Arrangement Framework Agreement was on normal commercial terms; and (ii) the terms of the Mortgage Arrangement Framework Agreement are considered to be fair and reasonable and in the interests of the Group and the Shareholders as a whole.

The Board had approved the Mortgage Arrangement Framework Agreement. None of the Directors had a material interest in such transactions and was required to abstain from voting in respect of the resolutions approving such transactions.

Having enquired the Management, we understand that the Medium-term Notes are proposed to be guaranteed by the Guarantor (which is a state-owned enterprise and an independent third party of the Group), with unconditional and irrevocably joint and several liability, it is commercially reasonable and not uncommon that Guarantor required Zhong An Cayman to pledge certain properties in favour of the Guarantor as counter-security.

As discussed in the section headed "2. Information on the Zhong An Group" above, (i) the principal business of the Zhong An Group (excluding the Group) is development and sale of residential properties which are not suitable to be used as security in connection with raising debt financing; and (ii) it is the Zhong An Group's strategy to hold all investment properties to generate rental income through the Group. Accordingly, properties suitable for being pledged to the Guarantor by the Zhong An Group are all possessed by the Group.

From the Group's perspective, the Transaction facilitates Zhong An Cayman, i.e. the Group's controlling shareholder to secure additional funding by way of issue of Medium-term Notes for construction of various property projects (which is Zhong An Group's ordinary and usual course of business) and general working capital of Zhong An Group, and provides additional income of up to RMB22.8 million per annum to the Group by way of the Mortgaged Properties which, as confirmed by the Management, the Group itself does not have any need to pledge to lender(s) to raise additional debt financing(s) for its own use pursuant to its existing development plan. Having considered the cash position and liquidity of the Zhong An Group as discussed in the section headed "2. Information on the Zhong An Group" above, the risk of Zhong An Cayman defaulting the Medium-term Notes is believed to be remote, and the additional income of up to RMB22.8 million per annum is favorable to the Company and its Shareholders as a whole in light of the substantial losses of the Group during the year ended 31 December 2022 as discussed in section headed "1. Background information on the Group" above.

### *4.2 Principal terms of the Mortgage Arrangement Framework Agreement*

The principal terms of the Mortgage Arrangement Framework Agreement as extracted from the Board Letter are set out as follows:

| | |
|---|---|
| Date: | 27 February 2023 |
| Parties: | (a) the Company (for itself and on behalf of the Group); and<br><br>(b) Zhong An Cayman (for itself and on behalf of the Zhong An Group) |
| Subject matter: | Pursuant to the Mortgage Arrangement Framework Agreement, CNC Subsidiary (1) and CNC Subsidiary (2) will make available and pledge the Mortgaged Property (1) and the Mortgaged Property (2), respectively, in favour of the Guarantor to assist the issue of the Medium-term Notes by the Zhong An Group.<br><br>The pledge created over the Mortgaged Properties shall be fully discharged upon the earlier of the termination or full release of the Guarantor from its guarantee for the Medium-term Notes. |
| Collateral value: | The maximum total collateral value of the Medium-term Notes issue to be secured by the pledge of the Mortgaged Property (1) and the Mortgaged Property (2) will be not more than the Capped Amount of RMB2,236,000,000. |
| Fees: | In consideration of the Company entering into the Mortgage Arrangement Framework Agreement, the Zhong An Group agreed to pay to the Group an annual fee equals to an amount at 1.2% (the "**Annual Rate**") of the principal amount of the Medium-term Notes issued. |
| Term: | The Mortgage Arrangement Framework Agreement will expire on (i) 31 August 2023; or (ii) the termination date of the issue of the Medium-term Notes (whichever is the earlier). |

| | |
|---|---|
| Conditions precedent: | The Mortgage Arrangement Framework Agreement and the transactions contemplated thereunder is conditional on and subject to the compliance by the Company with the relevant requirements under Chapter 14 and Chapter 14A of the Listing Rules. |
| Counter-guarantee: | Zhong An Cayman agrees to provide a full counter-guarantee in favour of the Company in relation to liabilities of the Company in connection with it making available the Mortgaged Properties. |

In the event of any default of the Medium-term Notes by either the Proposed Issuer and/or the Guarantor, triggering the enforcement of the pledge created over the Mortgaged Properties, or otherwise resulting in any loss being suffered by the Group, Zhong An Cayman shall indemnify the Company in relation to any liabilities of the Company in connection therewith pursuant to the counter-guarantee, including but not limited to any amount of loss suffered by the Company in excess of the Capped Amount.

Accordingly, the maximum possible loss on the part of the Company in case of default of the Medium-term Notes is to be capped at the Capped Amount. Taking into account of the scope of the counter-guarantee being provided, and that it is to be provided by Zhong An Cayman, as opposed to the Proposed Issuer or the Guarantor, the Company is of the view that such arrangement is in the interest of the Company and its Shareholders.

As mentioned in the table above, the Zhong An Group agreed to pay to the Group an annual fee equals to an amount at the Annual Rate of 1.2% of the principal amount of the Medium-term Notes issued. Assuming the maximum principal amount of Medium-term Notes of RMB1,900,000,000 will be issued, the Company will be entitled to an annual fee of RMB22,800,000 (the "**Annual Fee**").

Based on the aggregate fair value of the Mortgaged Properties of RMB2,244,570,000 as extracted from the Valuation Reports, the effective annual rate of return of the Annual Fee to the Group amounts to approximately 1.0% (the "**Effective Annual Rate**").

As discussed in the section headed "2. Information on the Zhong An Group" above, the overall financial position of the Zhong An Group (excluding the Group) is more than sufficient to cover the aggregate principal amount of the Medium-term Notes of up to RMB1,900 million even without considering the future cash inflow arising out of the proposed issue of the Medium-term Notes. The provision of counter-guarantee by Zhong An Cayman in favour of the Company in relation to liabilities of the Company in connection with it making available the Mortgaged Properties is well supported by the financial position and liquidity of the Zhong An Group.

### *4.3 Comparative analysis on the Annual Rate*

In order to assess the fairness and reasonableness of the terms of the Transaction, we have identified 8 comparable provisions of guarantee (the "**Comparable Guarantee(s)**") announced by Hong Kong listed companies during the three months ended on the date of the Mortgage Arrangement Framework Agreement (i.e. 27 February 2023) (the "**Review Period**") that involved provision of guarantee by Hong Kong listed companies to secure a borrowing of a third party (including connected person and independent third party) in return for a guarantee fee (if any) (excluding those which involved merely cross guarantee arrangement without any guarantee fee and those which involved guarantee arrangement to facilitate the guarantor's revenue generating exercise, e.g. the guarantor guaranteeing a customer's financing in order for the customer to be able to purchase the guarantor's products/service where the guarantor's incentive of providing the guarantee would be different leading to different basis of determination of the guarantee fee/rate). We consider that the rate of the guarantee fee in provision of guarantee is arrived at after arms' length negotiations of relevant parties, having considered, among other things, the guarantee amount, the respective financial position of the guaranteeing and guaranteed parties and therefore the perceived risk of default and the use of proceeds of the underlying borrowing. We are not aware of any evidence which points out the guaranteed amount is to be singled out as the most important factor affecting the determination of the rate of the guarantee fee in similar transactions. Accordingly, we do not consider that setting a range of guaranteed amount for selection of Comparable Guarantees is necessary for the sake of preparing a more complete and exhaustive analysis for the information of the Independent Shareholders.

In our research, we were unable to identify during the Review Period any publicly disclosed transaction which directly matches the subject matter of the Transaction, i.e. pledge of self-owned asset for the benefit of a third party's procurement of its own debt financing. However, as both pledge of self-owned asset or guarantee in favour of a third party's procurement of its own debt financing expose the provider of pledged asset or guarantee to similar financial risks (i.e. loss of the pledged asset or a financial loss up to the guaranteed amount in the event of default, assuming the value of pledged asset or guarantee is similar), we consider that the Comparable Guarantees are similar enough to the Transaction that we have included them in our analysis below.

Based on our best information, knowledge and belief, the Comparable Guarantees represent an exhaustive list of all suitable comparable companies meeting the aforementioned criteria as identified by us. We consider the length of the Review Period is appropriate because (i) it has generated a reasonable number of samples for our analysis and having a shorter period would result in an inadequate number of samples; and (ii) it would capture the recent market trends while having a longer period may have been too distant in time, and making the samples less relevant in relation to the dynamic financial markets. Shareholders should note that the business, operations and financial performance of the companies offering the Comparable Guarantees are not the same as the Group and we have not conducted any in-depth investigation into the businesses and operations of the companies offering the Comparable Guarantees. However, we consider that the Comparable Guarantees are fair and representative samples that could provide the Independent Shareholders with a general reference on comparable terms of companies listed on the Stock Exchange providing guarantees to secure a borrowing for a third party (including connected person and independent third party).

| No. | Date of announcement | Company name (stock code) | Transaction details | Counter-indemnity (Y/N) | Latest total asset value prior to the date of the Mortgage Arrangement Framework Agreement | Provision of guarantee to connected person (Y/N) | Rate of the guarantee fee as a percentage to the relevant guaranteed amount payable by the guarantee company (per annum) |
|---|---|---|---|---|---|---|---|
| 1 | 2/23/2023 | Petro-King Oilfield Services Limited (2178) | The listed group provided a guarantee for the repayment obligation of an associate for loans in an aggregate amount of RMB17,347,000. | N | HK$604,092,000 | Y *(Note 1)* | 1.0% |
| 2 | 2/22/2023 | Radiance Holdings (Group) Company Limited (9993) | The listed group provided a guarantee for the repayment obligation of a connected person for facility in an aggregate amount of RMB100 million. | Y | RMB175,330,062,000 | Y | 2.0% *(Note 2)* |
| 3 | 2/22/2023 | China International Capital Corporation Limited (3908) | The listed group provided a guarantee for the repayment obligation of a company for notes in an aggregate amount of US$1,250 million. | N | RMB679,994,567,645 | N | 0.0% |
| 4 | 1/3/2023 | Datang Group Holdings Limited (2117) | The listed group provided a guarantee for the repayment obligation of 2 companies for loans in an aggregate amount of RMB1,300 million. | Y | RMB57,359,504,000 | Y | 1.5% |
| 5 | 12/9/2022 | Sinofert Holdings Limited (297) | The listed group provided a guarantee for the repayment obligation of a company for loans in an aggregate amount of up to RMB670 million. | N | RMB18,839,712,000 | N | 1.0% |
| 6 | 12/7/2022 | Guangdong Join-Share Financing Guarantee Investment Co., Ltd. (1543) | The listed group provided a guarantee for the repayment obligation of a company for corporate bonds in an aggregate amount of up to RMB200 million. | Y | RMB3,473,261,000 | N | 2.3% |
| 7 | 12/7/2022 | Fosun Tourism Group (1992) | The listed group provided a guarantee for the repayment obligation of a connected person or loans in an aggregate amount of EUR10 million. | N | RMB36,728,185,000 | Y | 0.0% |

| No. | Date of announcement | Company name (stock code) | Transaction details | Counter-indemnity (Y/N) | Latest total asset value prior to the date of the Mortgage Arrangement Framework Agreement | Provision of guarantee to connected person (Y/N) | Rate of the guarantee fee as a percentage to the relevant guaranteed amount payable by the guarantee company (per annum) |
|---|---|---|---|---|---|---|---|
| 8 | 12/2/2022 | Chi Ho Development Holdings Limited (8423) | The listed group provided a guarantee for the repayment obligation of a company for loans in an aggregate amount of up to HK$154 million. | N | HK$318,045,000 | N | 0.0% |
| | | | | *Minimum* | *0.0%* | | |
| | | | | *Maximum* | *2.3%* | | |
| | | | | *Average* | *1.0%* | | |
| | | | | **Annual Rate:** | **1.2%** | | |
| | | | | **Effective Annual Rate:** | **1.0%** | | |

*Notes:*

*(1) The subject guarantee was provided to a connected person of the listed group, but the subject provision of financial assistance was fully exempted from the requirements under Chapter 14A of the Listing Rules (i.e. connected transaction) in accordance with Rule 14A.89 of the Listing Rules.*

*(2) The guarantee fee is payable by way of a one-off service of calculated at 2% of the principal amount of the subject facility of RMB100 million, and the facility drawdown period commenced from 17 February 2023 and end on 16 February 2024, i.e. a full year. Accordingly, the guarantee rate per annum is considered to be 2%.*

We note the annual rate of guarantee fee to the relevant guaranteed amount payable by the guarantee company of the Comparable Guarantees ranges from a low of 0.0% to a high of 2.3%, with the average thereof being approximately 1.0%. The Annual Rate receivable by the Group, which amounts to 1.2%, falls within the range of the Comparable Guarantees and above the average of the Comparable Guarantees, and is considered favorable to the Group.

The Effective Annual Rate receivable by the Group, which amounts to approximately 1.0%, falls within the range of the Comparable Guarantees and equals the average of the Comparable Guarantees, and is considered fair and reasonable to the Group.

### *4.4 Conclusion on the Transaction*

Taking into account of the above principal factors and in particular:

(i) the Group's risk exposure arising out of the Transaction is manageable as represented by the ratios of (i) approximately 22.3% (calculated by dividing the aggregate fair value of the Mortgaged Properties of RMB2,244,570,000 with the aforementioned aggregate amount of the Group's property-related assets), and (ii) approximately 14.8% (calculated by dividing the aggregate fair value of the Mortgaged Properties of RMB2,244,570,000 with the Group's total assets) as discussed in section headed "1. Background information on the Group" above;

(ii) the overall financial position of the Zhong An Group (excluding the Group) is more than sufficient to cover the aggregate principal amount of the Medium-term Note of up to RMB1,900 million even without considering the future cash inflow arising out of the proposed issue of the Medium-term Notes as discussed in section headed "2. Information on the Zhong An Group" above;

(iii) the valuation of the Mortgaged Properties as set out in the Valuation Reports in aggregate of RMB2,244,570,000 is considered indicative to the Capped Amount of RMB2,236,000,000 as discussed in section headed "3.2.3 Conclusion on the Valuation Reports" above;

(iv) having considered the use of proceeds to be received by Zhong An Cayman is for construction of various property projects (which is Zhong An Group's ordinary and usual course of business) and general working capital of Zhong An Group, and the cash position and liquidity of the Zhong An Group as discussed in the section headed "2. Information on the Zhong An Group" above, the risk of Zhong An Cayman defaulting the Medium-term Notes is believed to be remote, and the additional income of up to RMB22.8 million per annum is favorable to the Company and its Shareholders as a whole as discussed in section headed "4.1 Reason for and benefits of entering into the Mortgage Arrangement Framework Agreement" above;

(v) in the event of any default of the Medium-term Notes by either the Zhong An Group and/or the Guarantor, triggering the enforcement of the pledge created over the Mortgaged Properties, or otherwise resulting in any loss being suffered from the Group, Zhong An Cayman shall indemnify the Company in relation to any liabilities of the Company in connection therewith, including but not limited to any amount of loss suffered by the Company in excess of the Capped Amount as discussed in section headed "4.2 Principal terms of the Mortgage Arrangement Framework Agreement" above, which in our opinion can eliminate the hypothetical scenario that the Zhong An Group intentionally elects to default on the Medium-term Notes when it has the full capability to honor its contractual obligations under the Medium-term Notes which may then result in the enforcement of the security on the Mortgaged Properties which would be at the expense and to the detriment of the Independent Shareholders;

(vi) the Annual Rate receivable by the Group, which amounts to 1.2%, falls within the range of the Comparable Guarantees and above the average of the Comparable Guarantees, and is considered favorable to the Group as discussed in section headed "4.3 Comparative analysis on the Annual Rate" above; and

(vii) the Effective Annual Rate receivable by the Group, which amounts to approximately 1.0%, falls within the range of the Comparable Guarantees and equals the average of the Comparable Guarantees, and is considered fair and reasonable to the Group as discussed in section headed "4.3 Comparative analysis on the Annual Rate" above,

we are of the view that the terms of the Transaction (including the Annual Rate and the Effective Annual Rate) are fair and reasonable and are in the interest of the Company and Shareholders as a whole.

## CONCLUSION

Having considered the above principal factors, we are of the opinion that (i) the Transaction is, although not in the ordinary and usual course of business of the Group, on normal commercial terms; and (ii) the terms of the Mortgage Arrangement Framework Agreement (including the Annual Rate and the Effective Annual Rate) are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Therefore, we would recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favor of the ordinary resolution(s) to approve the Mortgage Arrangement Framework Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
**Grand Moore Capital Limited**

**Kevin So**
*Director – Investment Banking Department*

*Note:*

*Mr. Kevin So is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Mr. So has over 20 years of experience in the corporate finance industry in Hong Kong.*