

Executive Directors:

Ms. Zhou Li (*Chairperson*)

Ms. Fan Wenyi

Mr. Chen Xiang

Mr. Jia Bin

Registered office:

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PO Box 1350

Grand Cayman KY1-1108

Cayman Islands

Independent non-executive Directors:

Mr. Li Yong

Dr. Zhao Guoqing

Prof. Fan Conglai

*Headquarters and principal place of
business in the PRC:*

2/F, No. 1 Building Hampton by Hilton

No. 169 Yu Lin Road

Tianya District Sanya

Hainan Province

PRC

Principal place of business

in the Hong Kong:

Room 1603, 16/F, China Building

29 Queen's Road Central

Central, Hong Kong

12 June 2023

To the Independent Shareholders,

Dear Sir or Madam,

**PROPOSED PRIVATISATION
BY WAY OF
VOLUNTARY CONDITIONAL CASH OFFER BY
YU MING INVESTMENT MANAGEMENT LIMITED
ON BEHALF OF
ZHONG JIA (INTERNATIONAL) INVESTMENT
CONSTRUCTION COMPANY LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
HAILAN HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED AND/OR AGREED
TO BE ACQUIRED BY THE OFFEROR
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

Reference is made to the Joint Announcement pursuant to which the Offeror and the Company jointly announced on 8 May 2023 that the Offeror informed the Board that Yu Ming will, on behalf of the Offeror, make a voluntary conditional cash offer to acquire all the Shares (other than those already owned and/or agreed to be acquired by the Offeror and Offeror Concert Parties).

Subject to the Offer becoming unconditional and satisfaction of the requirements under the Cayman Companies Act and the Takeovers Code, the Offeror informed the Board that it intended to privatise the Company by exercising its right to compulsorily acquire those Offer Shares not already acquired by the Offeror under the Offer.

This letter forms part of this Composite Document and sets out, amongst other things, certain background information of the Group, details of the Offer, the reasons for making the Offer and the intentions of the Offeror in relation to the Group. Further details on the terms of the Offer are set out in the “Letter from Yu Ming” and Appendix I to this Composite Document and in the accompanying Form of Acceptance.

The purpose of this Composite Document is to provide you with, among other things, (i) information relating to the Group and the Offeror; (ii) further details of the Offer; (iii) a letter of recommendation from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the terms of the Offer and as to the acceptance of the Offer; and (iv) a letter of advice from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee in respect of the Offer.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Board has established the Independent Board Committee, comprising Mr. Li Yong, Dr. Zhao Guoqing and Prof. Fan Conglai, being all the independent non-executive Directors, to make a recommendation to the Independent Shareholders as to whether the Offer is fair and reasonable and as to its acceptance. Pursuant to Rule 2.8 of the Takeovers Code, members of the Independent Board Committee are all non-executive Directors who have no direct or indirect interest in the Offer other than their interest in the Shares (if any).

As announced by the Company on 12 May 2023, with the approval of the Independent Board Committee, Pelican Financial Limited has been appointed by the Company as its Independent Financial Adviser to advise the Independent Board Committee on (i) whether the Offer is, or is not, fair and reasonable; and (ii) as to acceptance.

THE OFFER

Yu Ming will, on behalf of the Offeror, make the Offer in compliance with the Takeovers Code on the following basis:

For each Offer Share HK\$3.36 in cash

As at the Latest Practicable Date, the Company had 300,000,000 Shares in issue and there were no outstanding options, warrants, derivatives, convertible securities or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code).

The Offer will be extended to all Shares in issue on the date on which the Offer is made, being the date of despatch of this Composite Document, and to any further Shares which are unconditionally allotted or issued after the date on which the Offer is made and before the date on which the Offer closes, other than those held by the Offeror or Offeror Concert Parties. The Shares to be acquired under the Offer shall be acquired fully-paid and free from all Encumbrances and together with all rights and benefit attaching or accruing to them, including the rights to receive in full all dividends and other distributions, if any, declared, made or paid by reference to a record date on or after the date on which the Offer is made, that is, the date of the posting of this Composite Document. As at the Latest Practicable Date, the Company confirmed that it has not declared any dividend and the Company does not intend to declare, make or pay any dividend or other distributions prior to the Closing Date.

Further terms of the Offer and the procedures for acceptance are set out in Appendix I to this Composite Document and the accompanying Form of Acceptance.

Condition to the Offer

The Offer to be made by the Offeror is subject to the only Condition that valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date in respect of such number of Offer Shares which would result in the Offeror holding at least 90% of the Offer Shares with the further proviso that, within that holding, the Offeror would also hold at least 90% of the Disinterested Shares.

As at the Latest Practicable Date, the Offer Shares and the Disinterested Shares comprise 75,000,000 Shares in issue.

The Condition is not waivable. If the Condition cannot be fulfilled by the Closing Date, the Offer will lapse.

As at the Latest Practicable Date, the Condition has not been satisfied.

The Offeror will issue an announcement in relation to the revision, extension or lapse of the Offer or the fulfilment of the Condition in accordance with the Takeovers Code and the Listing Rules.

WARNING: Completion of the Offer is subject to the Condition being fulfilled. The issue of this Composite Document does not in any way imply that the Offer will be completed. The Offer may or may not become unconditional and will lapse if it does not become unconditional within the period that complies with the Takeovers Code. Accordingly, Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional adviser.

Comparison of value

The Offer Price of HK\$3.36 per Share represents:

- (i) a premium of approximately 5.00% over the closing price of HK\$3.20 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 5.00% over the average closing price of HK\$3.20 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 5.00% over the average closing price of approximately HK\$3.20 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 5.00% over the average closing price of approximately HK\$3.20 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 6.33% over the closing price of HK\$3.16 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (vi) a discount of approximately 60.19% to the adjusted unaudited net asset value attributable to owners of the Company of approximately HK\$8.44 per Share after taking into account of the property valuation as set out in Appendix III to this Composite Document; and
- (vii) a discount of approximately 3.17% to the audited consolidated net assets attributable to owners of the Company of approximately HK\$3.47 per Share as at 31 December 2022 calculated based on the information as set out in the Company's financial report for the year ended 31 December 2022.

Highest and Lowest Share Prices

During the Relevant Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange was HK\$3.25 per Share on 6 June 2023 and HK\$2.25 per Share from 8 November 2022 to 11 November 2022, respectively.

Further details of the Offer

Further details of the Offer including, among others, the terms and conditions and the procedures for acceptance and settlement are set out in the “Letter from Yu Ming”, Appendix I to this Composite Document and the accompanying Form of Acceptance.

INFORMATION ON AND THE INTENTIONS OF THE OFFEROR

Your attention is drawn to the sections headed the “Information on the Offeror” and “Intentions of the Offeror in relation to the Company” in the “Letter from Yu Ming” in this Composite Document.

As at the Latest Practicable Date, the Board understands that the Offeror intends to maintain the Group’s existing principal businesses, and has no intention to introduce major changes to the Group’s existing business or redeploy any of its fixed assets or discontinue the employment of any employees of the Group. The Offeror will continue to consider how to develop the Group in a manner which best enhances efficiency and shareholder value and, in that regard, will consider reviewing and optimising its assets structure which will be dependent on a number of factors including market conditions, legal and regulatory requirements and its business needs. The Offeror does not intend to relist the Company on any other overseas stock exchanges.

INFORMATION ON THE GROUP

The Company is incorporated in the Cayman Islands with limited liability, Shares of which have been listed on the Main Board of the Stock Exchange since 15 July 2016. The Group is principally engaged in development and sales of properties as well as development and lease of properties in the PRC.

Summary of the audited consolidated financial results of the Company as extracted from the annual reports for the year ended 31 December 2022 and 2021 are set out below:

	For the year ended 31 December		
	2020	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Revenue	720,670	557,571	1,391,710
Profit/(Loss) before income tax	185,424	90,301	(474,894)
Profit/(Loss) for the year	<u>31,956</u>	<u>(41,720)</u>	<u>(627,853)</u>
Profit/(Loss) attributable to:			
Owners of the Company	64,034	15,448	(631,634)
Non-controlling interest	(32,078)	(57,168)	3,781
Basic earnings/(loss) per Share attributable to owners of the Company (expressed in RMB per Share)	0.21	0.05	(2.11)

The audited consolidated net assets of the Group attributable to owners of the Company as at 31 December 2022 were approximately RMB921,199,000 (approximately HK\$1,040,954,870) which was equivalent to approximately HK\$3.47 per Share and the audited consolidated net assets of the Group attributable to owners of the Company as at 31 December 2021 were approximately RMB1,469,614,000 (approximately HK\$1,792,929,080) which was equivalent to approximately HK\$5.98 per Share.

Your attention is drawn to Appendices II and V to this Composite Document which contain further financial and general information of the Group.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the completion of the Offer (assuming that the Offer is fully accepted by the Independent Shareholders):

	As at the Latest Practicable Date		Immediately after the completion of the Offer (assuming that the Offer is fully accepted by the Independent Shareholders)	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
The Offeror	224,325,000	74.78%	299,325,000	99.78%
Zhong Ze (International) Investment Limited	<u>675,000</u>	<u>0.22%</u>	<u>675,000</u>	<u>0.22%</u>
The Offeror and Offeror Concert Parties	225,000,000	75.00%	300,000,000	100.00%
Public Shareholders	<u>75,000,000</u>	<u>25.00%</u>	<u>—</u>	<u>—</u>
Total	<u>300,000,000</u>	<u>100.00%</u>	<u>300,000,000</u>	<u>100.00%</u>

Note: Mr. Yeung Man legally and beneficially owns the entire issued shares of the Offeror and Zhong Ze (International) Investment Limited (“**Zhong Ze (International)**”) and is deemed, or taken to be, interested in all the shares held by Offeror and Zhong Ze (International) for the purposes of Part XV of the SFO.

POSSIBLE COMPULSORY ACQUISITION AND WITHDRAWAL OF LISTING OF SHARES

Subject to compliance with the relevant requirements under Section 88 of the Cayman Companies Act, if the Offeror, within four months of the posting of the Composite Document, has received valid acceptances in respect of not less than 90% of the Offer Shares, the Offeror will have the right under Section 88 of the Cayman Companies Act to compulsorily acquire those Offer Shares not already owned or acquired by the Offeror under the Offer on the same terms as the Offer.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatise the Company by means of the Offer and the use of the compulsory acquisition right under the Cayman Companies Act, such right may only be exercised if, in addition to satisfying the aforementioned requirements imposed by the Cayman Companies Act, acceptances of the Offer in respect of the Disinterested Shares and purchases of the Disinterested Shares made by the Offeror pursuant to the Offer during the period of four months after the posting of the Composite Document amount to not less than 90% of the Disinterested Shares.

Subject to satisfaction of requirements under Section 88 of the Cayman Companies Act and Rule 2.11 of the Takeovers Code, the Offeror intends to privatise the Company by exercising its right to compulsorily acquire those Offer Shares not already owned or acquired by the Offeror under the Offer. If the Offeror decides to exercise such right and completes the compulsory acquisition, the Company will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15(1) of the Listing Rules.

If the level of acceptances of the Offer reaches the prescribed level under the Cayman Companies Act required for compulsory acquisition and the requirements of Rule 2.11 of the Takeovers Code are satisfied, dealings in the Shares may be suspended from the Closing Date up to the withdrawal of listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

FURTHER INFORMATION

You are recommended to read this Composite Document and the accompanying Form of Acceptance for information relating to the terms of the Offer and procedures for acceptance and settlement of the Offer.

Your attention is also drawn to the additional information set out in the appendices to this Composite Document.

In considering what action to take in connection with the Offer, you should consider your own tax positions, if any, and, in case of any doubt, consult your professional advisers.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out in this Composite Document, which contains its recommendation to the Independent Shareholders in respect of the Offer. Your attention is also drawn to the letter from the Independent Financial Adviser in this Composite Document, which contains its advice to the Independent Board Committee in respect of the Offer and the principal factors and reasons it has considered before arriving at its advice to the Independent Board Committee. You are also advised to read this Composite Document and the accompanying Form of Acceptance in respect of the acceptance and settlement procedures of the Offer.

Yours faithfully,
By order of the Board of
Hailan Holdings Limited

Jia Bin
Executive Director

Handwritten signature of Jia Bin in black ink, consisting of stylized characters and a surname 'Jia Bin' written in English.