

大悦城控股  
GRANDJOY



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**JOY CITY PROPERTY LIMITED**  
**大悦城地產有限公司**  
(Incorporated in Bermuda with limited liability)  
(Stock Code: 207)

*Executive Director:*

Mr. YAO Changlin

*Non-executive Directors:*

Mr. CHEN Lang (Chairman)

Mr. LIU Yun

Mr. ZHU Laibin

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Mr. LAU Hon Chuen, Ambrose *GBS, JP*

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25 June 2024

*To the Shareholders and holders of the CPS (for information only)*

Dear Sir or Madam,

**MAJOR TRANSACTION**  
**DEEMED DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF AND**  
**SEPARATE LISTING OF THE CONSUMER INFRASTRUCTURE REIT**  
**ON THE SHENZHEN STOCK EXCHANGE**

**I. INTRODUCTION**

Reference is made to the announcement of the Company dated 24 May 2024 in relation to the Proposed Spin-off.

The purpose of this circular is to provide you with, among other things, (a) details of the Proposed Spin-off; (b) the letter of recommendation of the Independent Board Committee to the Shareholders in respect of the Proposed Spin-off; (c) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and Shareholders in respect of the Proposed Spin-off; and (d) such other information as required under the Listing Rules.

## **II. THE PROPOSED SPIN-OFF**

### **1. Background**

The Board is pleased to announce that on 24 May 2024, CAMC and CITIC submitted, among other things, the application materials on the registration and listing of the Consumer Infrastructure REIT to the CSRC and Shenzhen Stock Exchange.

The Proposed Spin-off involves, among other things, the transfer of the entire equity interest in the New Project Company, which holds the Project, by the Project Company, an indirect wholly-owned subsidiary of the Company, to the Consumer Infrastructure REIT and the subscription for 40% of the total Units of the Consumer Infrastructure REIT by the Project Company. The Project comprises of the shopping centre and carpark spaces located on Dayue Road, Wuhou District, Chengdu, the PRC and its entire interest is held by the New Project Company as of the Latest Practicable Date. Upon completion of the Proposed Spin-off, the Consumer Infrastructure REIT will indirectly hold the entire interest in the Project and the Company, through the Project Company, will indirectly hold 40% of the total Units of the Consumer Infrastructure REIT, and the Company's indirect interest in the Project will be reduced to 40%. Therefore, the financial results of the Project will cease to be consolidated in the Group's financial statements upon completion of the Proposed Spin-off.

The Proposed Spin-off on the Shenzhen Stock Exchange constitutes a spin-off under PN15 of the Listing Rules. The Company has submitted the PN15 Application in relation to the Proposed Spin-off to the Stock Exchange and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off.

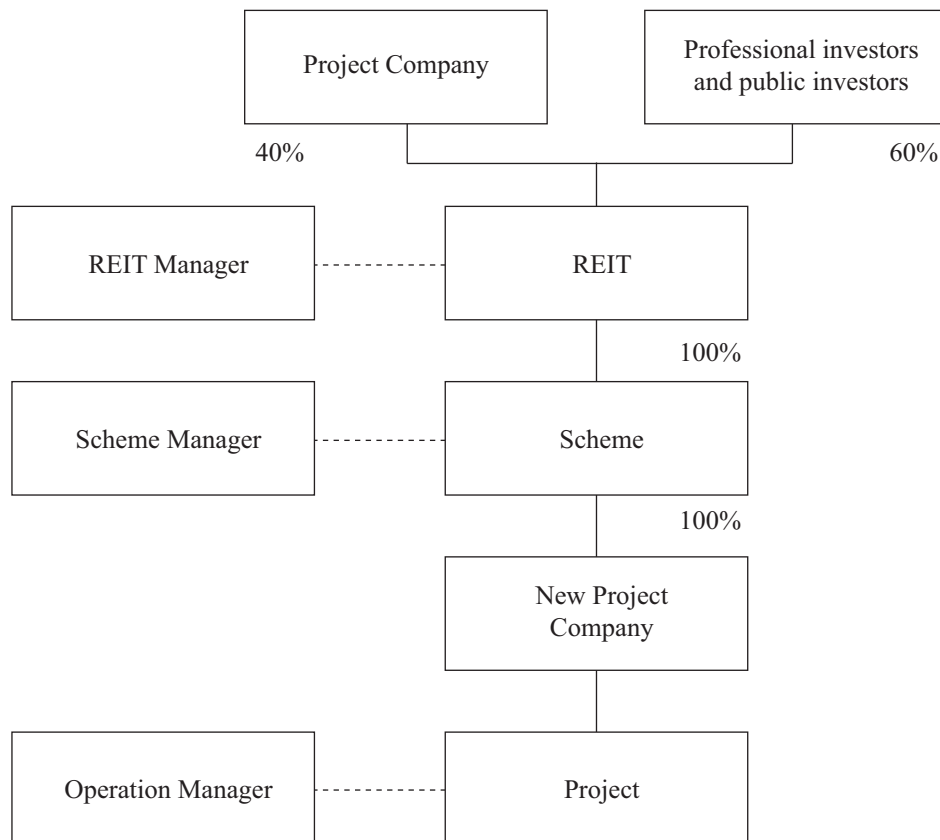
### **2. The structure of the Consumer Infrastructure REIT and the Public Offering**

The Proposed Spin-off will involve the separate listing of the Consumer Infrastructure REIT on the Shenzhen Stock Exchange, which will indirectly hold the entire interest in the Project.

Under the proposed offering structure, the REIT Manager will set up the Consumer Infrastructure REIT as a publicly-listed consumer type infrastructure securities investment fund for Public Offering on the Shenzhen Stock Exchange at the expected size of approximately RMB3,348,000,000 (with reference to, and being not less than, the preliminary valuation of the Project and also taking into account of the Company's assessment of the Project based on the information available as at the Latest Practicable Date including, among other things, the income contributed by the Project to the Group, the business prospects of the Project, the financial impact and the potential tax and other related costs involved in the establishment of the Consumer Infrastructure REIT). It is currently expected that 40% of the total Units of the Consumer Infrastructure REIT will be subscribed by the Group through the Project Company at an expected aggregate price of approximately RMB1,339,200,000 and 60% of the total Units of the Consumer Infrastructure REIT will be subscribed by external investors at an expected aggregate price of approximately RMB2,008,800,000. The Consumer Infrastructure REIT will be set up in accordance with the Guidance, the Circular and other applicable laws and regulations in the PRC.

For the purpose of the Proposed Spin-off, the Scheme will be set up by the Scheme Manager. As part of the Reorganisation, prior to the Latest Practicable Date, the Project Company has established the New Project Company and the SPV and in addition, the Project Company has contributed to the registered capital of the New Project Company by way of injection of its entire interest in the Project into the New Project Company. Therefore, as of the Latest Practicable Date, the Project Company holds the entire equity interest in each of the New Project Company, which holds the entire interest in the Project, and the SPV. Upon completion of the Public Offering, further steps of the Reorganisation will take place including, among other things: (a) the Consumer Infrastructure REIT will apply the proceeds from the Public Offering, after deducting costs and taxes relating to the Proposed Spin-off, to subscribe for the entire equity interest in the Scheme; (b) the Scheme will acquire the entire equity interest in the SPV (which is held by the Project Company as at the Latest Practicable Date) from the Project Company at a nominal consideration, and will subsequently inject the net proceeds from the Public Offering into the SPV by way of capital injection into the SPV's registered capital and provision of shareholder's loan; (c) the SPV (which will be wholly-owned by the Scheme by then) will use the net proceeds mentioned in (b) above to acquire the entire equity interest in the New Project Company (which is held by the Project Company as at the Latest Practicable Date) from the Project Company; (d) the SPV will then transfer the entire equity interest in the New Project Company to the Scheme at nominal consideration; and (e) the SPV will be merged into the New Project Company. The relevant parties have entered into definitive agreements to give effect to the Reorganisation as described above.

The structure of the Consumer Infrastructure REIT upon completion of the Proposed Spin-off is set out below:



After the Proposed Spin-off, the Operation Manager, an indirect wholly-owned subsidiary of the Company, will be engaged by the REIT Manager to continue to provide operations management, property management and car park management services to the Project. The purpose of such arrangement is to leverage on the Group's expertise and experience for the daily operation and management of the Project, which will continue to be marketed under the Group's "Joy City" brand, and to minimise the disruption of the daily operations of the Project after the Proposed Spin-off.

The Proposed Spin-off including the relevant definitive agreements and the terms of the Public Offering, such as the size and price range of the offering and the timetable of the Public Offering, is subject to, among other things, the approval of the CSRC and the Shenzhen Stock Exchange and therefore may be amended.

### **3. Conditions precedent to the Proposed Spin-off**

The Proposed Spin-off is conditional upon, among other things, the following conditions:

- (a) the respective approvals of the CSRC, the Shenzhen Stock Exchange and the Stock Exchange in relation to the Proposed Spin-off having been obtained;
- (b) the approval of the Shareholders in relation to the Proposed Spin-off having been obtained;
- (c) the total amount of units offered by the Consumer Infrastructure REIT reaches 80% of the approved registration scale;
- (d) the offering size should be at least RMB200 million and there are at least 1,000 investors participating in the offering;
- (e) the original holder of the interest of the Project (being the Project Company) has subscribed in the strategic tranche;
- (f) other than the portion placed with strategic investors, not less than 70% of the remaining Units of the Consumer Infrastructure REIT shall be offered to offline investors; and
- (g) there is no other circumstance leading to the failure of the Public Offering.

As of the Latest Practicable Date, save for item (b) above, none of the conditions precedent above have been fulfilled and/or waived (as the case may be). The Company has submitted the PN15 Application to the Stock Exchange, and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off.

### III. FINANCIAL EFFECT OF THE PROPOSED SPIN-OFF

Upon completion of the Proposed Spin-off, the Consumer Infrastructure REIT will indirectly hold the entire interest in the Project and it is anticipated that the Company, through the Project Company, will hold 40% of the total Units of the Consumer Infrastructure REIT. Therefore, the Proposed Spin-off will result in the reduction of the Company's indirect interest in the Project from 100% to 40% and the financial results of the Project will cease to be consolidated in the Group's financial statements upon completion of the Proposed Spin-off. Further, the Consumer Infrastructure REIT will be recognised as an associate on the Group's consolidated financial statements after completion of the Proposed Spin-off.

The overall impact on profit or loss that the Company expects to record from the Proposed Spin-off will mainly include the difference between the consideration for the transfer of the entire equity interest in the New Project Company, which holds the Project, by the Project Company to the SPV, which will depend on, among other things, the offer price of the Consumer Infrastructure REIT, and the carrying value of the Project in the consolidated accounts of the Company, and the relevant transaction costs. For illustration purposes only, the expected net size of the Public Offering after fees directly payable in relation to the Public Offering is RMB3,342,000,000 (based on the expected size of the Public Offering of RMB3,348,000,000 with reference to, and being not less than, the preliminary valuation of the Project and also taking into account of the Company's assessment of the Project based on the information available as at the Latest Practicable Date including, among other things, the income contributed by the Project to the Group, the business prospects of the Project, the financial impact and the potential tax and other related costs involved in the establishment of the Consumer Infrastructure REIT) minus the unaudited net asset value of the Project as at 31 December 2023 prepared based on Hong Kong Financial Reporting Standards of approximately RMB2,671,475,000 and related costs of approximately RMB1,672,000, is approximately RMB668,853,000.

Upon completion of the Proposed Spin-off, it is estimated that the retained earnings of the Group will be increased by approximately RMB119,000,000, which is mainly contributed by the net gain on disposal before tax of approximately RMB668,853,000, as deducted by related tax. The total assets of the Group is estimated to decrease by approximately RMB328,000,000, which is mainly due to the net effect of the increase in cash and cash equivalents of approximately RMB1,670,000,000 and investment in associate of approximately RMB1,339,000,000 offset by the decrease in assets relating to the Project of approximately RMB3,337,000,000. The total liabilities of the Group is estimated to decrease by approximately RMB447,000,000, which is mainly due to the net effect of the decrease in liabilities relating to the Project of approximately RMB666,000,000 offset by the increase in deferred tax liabilities of approximately RMB219,000,000. The estimations above are calculated based on the information available as of the Latest Practicable Date, for illustration purposes only.

The actual amount of gain or loss and the impact on the Group's consolidated balance sheet as a result of the Proposed Spin-off will be assessed after its completion and will be subject to the review and final audit by the auditors of the Company and any further adjustments relating to Hong Kong Financial Reporting Standards.

#### IV. INFORMATION ON THE PROJECT

The Project comprises the shopping center consisting of three buildings, an underground structure and car park spaces with a total gross floor area of approximately 172,500 square meters and is located on Dayue Road, Wuhou District, Chengdu, the PRC. The Project commenced operations in 2015, and is owned and operated by the Group as of the Latest Practicable Date.

The table below sets out the unaudited pro forma financial information of the Project for the two years ended 31 December 2023 prepared in accordance with generally accepted accounting principles in the PRC:

	For the year ended 31 December	
	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Revenue	239,944	334,963
Profit before taxation	84,339	144,887
Profit after taxation	63,254	108,665

Based on the information available as of the Latest Practicable Date, there were no extraordinary items in the unaudited pro forma financial information of the Project for the two years ended 31 December 2023 prepared in accordance with generally accepted accounting principles in the PRC.

The table below sets out the unaudited pro forma financial information of the Project for the two years ended 31 December 2023 prepared in accordance with Hong Kong Financial Reporting Standards.

	For the year ended 31 December	
	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Revenue	239,944	334,963
Profit before taxation	192,474	762,015
Profit after taxation	143,632	571,407

Based on the information available as of the Latest Practicable Date, there were no extraordinary items in the unaudited pro forma financial information of the Project for the two years ended 31 December 2023 prepared in accordance with Hong Kong Financial Reporting Standards. The differences in the profit before taxation and profit after taxation prepared in accordance with generally accepted accounting principles in the PRC and the Hong Kong Financial Reporting Standards were mainly due to the differences in the accounting treatment and recognition of investment properties at historic costs and fair value and also deferred tax credit/liabilities.

The unaudited pro forma net asset value of the Project as at 31 December 2023 prepared in accordance with generally accepted accounting principles in the PRC was approximately RMB1,171,586,000. The unaudited pro forma net asset value of the Project as at 31 December 2023 prepared in accordance with Hong Kong Financial Reporting Standards was approximately RMB2,671,475,000. For details of the property valuation report in respect of the Project, please refer to Appendix II.

## V. REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF

The Directors consider that the Proposed Spin-off is commercially beneficial and in the interests of the Shareholders for the following reasons:

- (i) the Proposed Spin-off provides an alternative equity-based financing method for the Company, which will diversify the fundraising methods and platforms of the Group. Through the Proposed Spin-off, the Company will have the opportunity to realise the market value of properties that are in the mature and developed stage and enhance the Company's rolling investment capability and sustainable operation of the Project, which will be beneficial to the Company's long-term performance;
- (ii) the estimated gross proceeds from the listing of the Consumer Infrastructure REIT (with reference to, and being not less than, the preliminary valuation of the Project and also taking into account of the Company's assessment of the Project based on the information available as at the Latest Practicable Date including, among other things, the income contributed by the Project to the Group, the business prospects of the Project, the financial impact and the potential tax and other related costs involved in the establishment of the Consumer Infrastructure REIT), is expected to be approximately RMB3,348,000,000. Based on such estimated gross proceeds, and excluding the subscription amount by the Group for 40% of the total Units and related costs and taxes, the estimated net proceeds to be received by the Group from the Proposed Spin-off will be approximately RMB1,670,000,000. The use of the net proceeds from the Proposed Spin-off by the Remaining Group will be subject to applicable PRC laws and regulations and the approval of the relevant PRC authorities and, as of the Latest Practicable Date, the Remaining Group plans to apply, within three years after the completion of the Public Offering, not less than 90% of the net proceeds received from the Proposed Spin-off in the development (including, among other things, the acquisition of land and construction) and operation of shopping mall(s) in the PRC, which the Remaining Group is exploring the suitable opportunity with potential business prospects, and the remaining balance of not more than 10% will be used as working capital for the Group.
- (iii) as the Company, through the Project Company, will subscribe 40% of the total Units of the Consumer Infrastructure REIT, the Company will continue to benefit from the business prospects and financial results of the Consumer Infrastructure REIT in the long term, through stable return that it will receive in the form of distribution as a holder of the Units of the Consumer Infrastructure REIT and the fees in relation to the services provided by the Operations Manager;
- (iv) the Proposed Spin-off provides an opportunity for the Group to improve the Group's profile, strengthen the influence of its brand and thereby enhance its ability to attract strategic investors; and

- (v) the Proposed Spin-off will provide the Consumer Infrastructure REIT with a separate listing platform in the PRC for its business development and expansion, which will enable it to have direct access to the PRC capital market.

As of the Latest Practicable Date, other than the Project, the Group holds 19 investment properties and the Group will continue its operations relating to the investment properties business segment after the Proposed Spin-off.

In view of the above, the Directors believe that the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

## **VI. CLEAR BUSINESS DELINEATION AND INDEPENDENCE BETWEEN THE REMAINING GROUP AND THE CONSUMER INFRASTRUCTURE REIT**

### **1. Clear business delineation between the Remaining Group and the Consumer Infrastructure REIT**

There is a clear business delineation between the Remaining Group and the Consumer Infrastructure REIT. The Consumer Infrastructure REIT is expected to principally engage in the investment in consumer type infrastructure projects and the management of its investment portfolio. The Consumer Infrastructure REIT will initially invest in the Project, which comprises the shopping center located in Wuhou District of Chengdu and the revenue for the Project is mainly derived from rental income from the retail properties of the Project. On the other hand, after the Proposed Spin-off, the Remaining Group will continue to engage in the development, operation, sales, leasing and management of mixed-use complexes and commercial properties in the PRC, which involves a wider scope of business activities including the main business segments of property investment, property and land development, hotel operations, output management project and other services. Among such business segments, the Remaining Group's largest business segment in terms of external revenue and segment profits in 2023 is the property and land development business segment. In addition, the Remaining Group will continue to invest in and/or operate the remaining 27 'Joy City' branded projects (excluding the Project) in 24 cities in the mainland of the PRC under its property investment and output management project business segments after the Proposed Spin-off, of which there were 17 projects under the Remaining Group's property investment business segment that includes or is planned to include shopping malls or shopping arcades as of 31 December 2023 and amongst them, 12 of such projects under the Remaining Group's property investment business segment that includes shopping malls or shopping arcades are in operation and the remaining projects are under construction.



The Remaining Group's business will continue to have presence in various regions in the PRC, including Chengdu, while the Project's business will only be focused in Wuhou District of Chengdu. Although the Remaining Group has operations in Chengdu, such operations are distinct from the Project as (i) the Remaining Group's operations in Chengdu mainly relate to property development projects and output management and related services provided by the Remaining Group, which are different market segments from the Project; and (ii) Chengdu Tianfu Joy City, the other investment property with a shopping mall of the Group in Chengdu apart from the Project, which has commenced operations as of the Latest Practicable Date, is not expected to compete with the Project. Chengdu Tianfu Joy City mainly comprise of a hotel, offices and shopping mall. The shopping mall has a total gross floor area of approximately 149,000 square meters, which after excluding the common areas, public areas, infrastructure facilities and toilet areas would include a leasable gross floor area of approximately 75,725 square meters. The businesses of the Project and Chengdu Tianfu Joy City are considered to be delineated for the reasons below:

- (i) **Location and Distance:** Chengdu Tianfu Joy City is located in Tianfu New District, which is a district newly established in 2014 that lies in the outlying areas in the south of Chengdu city, and the Project is located in Wuhou District, which is one of the five districts in the south west quarter of the city center of Chengdu. The Project and Chengdu Tianfu Joy City are approximately 30 kilometers apart, and given the lengthy distance and travelling time involved, cross district shopping trends is not common for the local consumers that are targeted by the Project and Chengdu Tianfu Joy City, respectively.
- (ii) **Target Customers:** The consumer expectations and shopping appetite varies based on the distinct characteristics of the targeted local consumers, and therefore the decoration style, layout, shopping experience and marketing campaigns of the Project and Chengdu Tianfu Joy City will be adjusted accordingly.
- (iii) **Market Positioning:** The Project is a large shopping mall in the south west area of Chengdu, with the concept of 'combination of play, rest and casual experience for shopping fashionable, trendy products and park'. The Project is located between the second and third urban ring in south west of Chengdu and at the intersection of the art and literature culture in the west of the city and the international culture in the south of the city. As the consumption patterns of the target consumers of the Project focuses on shopping and dining, the composition of the Project's facilities is mainly focused on retail and dining, and the retail shops of the Project is able to attract traditional and well established cosmetic and clothing brands, and the composition of services and entertainment facilities will be relatively lower, which includes traditional facilities for families such as cinema, ice rink and KTV. Therefore, the market positioning of the Project would be to attract local families and residents to meet their dining and shopping needs.

By contrast, Chengdu Tianfu Joy City is a multi complex comprising shopping mall, offices and retail situated in the Tianfu New District, with the concept of ‘interactive living and beautified shopping experience’. Chengdu Tianfu Joy City is located in the South most part of Chengdu city with close proximity to the headquarters of business enterprises and offices of innovation businesses, state-owned enterprises and Fortune 500 enterprises. As the consumption patterns of the target consumers of Chengdu Tianfu Joy City is expected to focus on dining and lifestyle experiences, the composition of the facilities of Chengdu Tianfu Joy City is expected to be mainly focused on dining and entertainment. Further, as the target consumers are expected to pursue dining and entertainment experiences, the composition of retail shops is relatively lower than the Project, which is expected to attract trendy brands for younger generations, and the composition of services and entertainment facilities is relatively higher than the Project, which focuses on lifestyle activities for youths such as yoga facilities, go kart facilities and volleyball courts. Therefore, the market positioning of Chengdu Tianfu Joy City would be to integrate business and leisure experience for employees working in nearby offices and to attract young individuals to meet their lifestyle, social and entertainment needs.

- (iv) **Management:** The Project and Chengdu Tianfu Joy City are managed and operated by independent teams, and the operational objectives, marketing strategies, target customers and internal resources of the teams are independently determined by each of the teams based on the market positioning and behaviour and trends of local consumers of the Project and Chengdu Tianfu Joy City (as the case may be).

In addition, the Consumer Infrastructure REIT is a collective investment vehicle which pools the funds of investors for investment in the Project. The purpose of the Consumer Infrastructure REIT is to enable the Group as the original stakeholder to realise the market value of the Project and increase its liquidity whilst facilitating a wider base of investors, including non-institutional investors, to participate in the investment in the Project. Further, the Consumer Infrastructure REIT was established for the purpose of owning and listing the Project as a close-ended publicly-listed infrastructure securities investment fund on the Shenzhen Stock Exchange, and thus the initial business focus of the Consumer Infrastructure REIT is the investment and operation of the Project. In contrast, the Remaining Group has a broad scope of business ranging from property development to operation of commercial properties and hotels. As a regulated investment product, there is practically no competition between the Consumer Infrastructure REIT and the Remaining Group due to special features of the Consumer Infrastructure REIT in respect of income distribution, acquisition and acquisition financing, which are not applicable to the Remaining Group.

Further, in connection with the listing application to the Shenzhen Stock Exchange, a non-competition undertaking will be issued in favour of the Consumer Infrastructure REIT (the “**Non-competition Undertaking**”). The Non-competition Undertaking arises from the requirements pursuant to the Guidance, which stipulated that in the event of potential competition identified, fair and appropriate measures should be implemented to avoid potential conflicts of interests. As the investment property business segment of the Remaining Group will continue to invest, develop and operate other shopping malls and shopping arcades which may be similar to the Project on one hand and the Remaining Group proposes to indirectly hold 40% of the total number of Units in the Consumer Infrastructure REIT through the Project Company and to continue to provide operation management and property management services to the Project under the Consumer Infrastructure REIT on the other hand, it was considered that potential conflicts of interest in respect of the Remaining Group’s various roles may arise albeit that no competition between the businesses of the Remaining Group and the Consumer Infrastructure REIT had been identified. Accordingly, the Non-competition Undertaking is expected to be issued based on market practice and is considered necessary for complying with the Guidance and the obtaining of regulatory approval for the listing of infrastructure REITs in the PRC.

Based on the Non-competition Undertaking, which is subject to the approval by the CSRC and the Shenzhen Stock Exchange, it will be issued by the originator (namely the Project Company), its controlling shareholder (namely Upper International Limited) and its actual controller (namely COFCO Corporation) (the “**Undertaking Parties**”). The scope of the Non-competition Undertaking in substance is to govern the conduct of the Undertaking Parties to be fair and clarify that they are willing to cooperate with the Consumer Infrastructure REIT to handle any potential conflicts of interests should it actually arise rather than to impose strict obligations or restrictions on the businesses of the Undertaking Parties for business delineation purposes or to curb competition between the Undertaking Parties and the Consumer Infrastructure REIT. Further, the Non-competition Undertaking specifically focuses on competing projects identified with reference to, among other things, the size, classification of the shopping mall, the target consumer groups and the structural layout of the projects, but as the Consumer Infrastructure REIT’s business model is to hold investments in infrastructure assets for generating income to the Consumer Infrastructure REIT, the Consumer Infrastructure REIT’s operations would be in stark contrast with and would not impose restrictions on the Remaining Group’s business including, among others, the Remaining Group’s plan to bid, acquire and develop of land under its property and land development business segment, the management and operation of investment properties including shopping malls, offices, car parks and other properties under its property investment and output management project business segments and the management and operation of hotels under its hotel operations business segment. In particular, based on the scope of competing projects under the Non-competition Undertaking, Chengdu Tianfu Joy City is not considered to fall within such scope.

Having regard to the above, it is noted that the Remaining Group’s normal business operations will not be affected or be restricted by the Non-competition Undertaking and it is a directive document to govern the normal activity of the Undertaking Parties to avoid conflict of interest. The proposed scope of the Non-competition Undertaking is well defined and is not expected to have actual restrictions on the strategy, future plans or business of the Remaining Group. The Board is therefore of the view that the Non-competition Undertaking is in the interests of the Company and its Shareholders as a whole.

## **2. Operational independence**

The Consumer Infrastructure REIT and the Scheme will be managed by the REIT Manager and Scheme Manager, respectively. Both the REIT Manager and the Scheme Manager are independent of the Company and the Remaining Group. The REIT Manager and the Scheme Manager will operate under their respective operational and organization structure which is comprised of essential functions such as operations department, administration department and finance department, each with dedicated management personnel to manage and supervise the operations of the Consumer Infrastructure REIT and the Scheme (as the case may be) independently of the Remaining Group. The REIT Manager and the Scheme Manager will have their respective offices and employees, and will not share or rely on any facilities or employees of the Remaining Group.

After the Proposed Spin-off, the REIT Manager will engage the Operation Manager, an indirect wholly-owned subsidiary of the Company, to continue to provide operation management, property management and car park management services to the Project after the Proposed Spin-off. For further details, please refer to the paragraph headed “II. THE PROPOSED SPIN-OFF – 2. Structure of the Consumer Infrastructure REIT and the Public Offering” in this Letter from the Board. As (i) the Operation Manager will not participate in the decision-making process of the Consumer Infrastructure REIT and the Scheme, and the REIT Manager can remove the Operation Manager and appoint other service providers in accordance with the regulations of the Consumer Infrastructure REIT and applicable PRC laws and regulations; and (ii) the Consumer Infrastructure REIT is not expected to conduct any transactions with the Remaining Group, other than the provision of operation management, property management and car park management services by the Operation Manager to the Project, the Consumer Infrastructure REIT and the Scheme will operate independently of the Remaining Group and such operational independence will continue subsequent to the Proposed Spin-off.

## **3. Management independence**

The Consumer Infrastructure REIT and the Scheme will be respectively managed by the Consumer Infrastructure REIT Manager and the Scheme Manager, which are both independent of the Company and the Remaining Group. None of the management of the Consumer Infrastructure REIT and the Scheme will hold any position in or owe any responsibility to the Remaining Group upon completion of the Proposed Spin-off. Should there be any overlap of any management personnel of the Consumer Infrastructure REIT and the Scheme with the Remaining Group, such persons will be required to disclose their interests and abstain from management decisions of the Consumer Infrastructure REIT and the Scheme. In any event, the REIT Manager, the Scheme Manager and the Remaining Group will adopt corporate governance measures to manage potential conflicts of interests.

In addition, although the Operation Manager will assist with the daily management and operations of the Project after the Proposed Spin-off, the Operation Manager will not participate in the decision-making process of the Consumer Infrastructure REIT and the Scheme. Further, if the Remaining Group is materially interested in a transaction or matter that will require the approval of the unit holders of the Consumer Infrastructure REIT, the Project Company will abstain from voting on the relevant resolution at the meeting of unit holders of the Consumer Infrastructure REIT in accordance with the applicable regulatory regulations.

Accordingly, the Consumer Infrastructure REIT and the Scheme will have directorship and management independent of the Remaining Group, who would act in the interests of the Consumer Infrastructure REIT and its unit holders and the Scheme (as the case may be) as a whole, and not in the interest of the Company only.

#### **4. Administrative and financial independence**

The REIT Manager and the Scheme Manager will operate independently of the Remaining Group. The Consumer Infrastructure REIT and the Scheme will have their own management reporting, financial budgeting and reporting, and human resources systems which will function independently from those of the Remaining Group.

The Consumer Infrastructure REIT, as a listing platform, will be able to finance its own operations. In addition, the Project, as a standalone asset, does not have any intra-group borrowing or financial assistance with the Remaining Group. As at the Latest Practicable Date, none of the banking facilities relating to the Project is guaranteed by any member of the Remaining Group, nor is the Project pledged in connection with the borrowings by any member of the Remaining Group. It is expected that, after the establishment and listing of the Consumer Infrastructure REIT, all outstanding amounts due to and from the Remaining Group by the Consumer Infrastructure REIT will be normal accounts payable and accounts receivable generated from ordinary and usual course of business, if any. In any event, save for the fees in relation to the operations management, property management and car park management services payable by the Consumer Infrastructure REIT to the Remaining Group, it is currently expected that there will be no other transaction between the Consumer Infrastructure REIT and the Remaining Group after the establishment and listing of the Consumer Infrastructure REIT. Accordingly, the Consumer Infrastructure REIT will also be financially independent of the Remaining Group.

#### **5. Future connected transactions between the Remaining Group and the Consumer Infrastructure REIT**

Upon completion of the Proposed Spin-off, it is expected that the Company, through the Project Company, will be interested in 40% of the Consumer Infrastructure REIT, while the public will be interested in 60% of the Consumer Infrastructure REIT. On this basis, the Consumer Infrastructure REIT is not expected to be a connected person of the Company and the Company does not foresee any transaction that would constitute ongoing or future connected transaction between the Remaining Group and the Consumer Infrastructure REIT.

For any transactions between the Consumer Infrastructure REIT and the Remaining Group after the Proposed Spin-off (if any), the terms of such transactions will be arrived at after arm's length negotiations, normal commercial terms and fair and reasonable, and in the interests of the Company and its Shareholders. Relevant procedures will be established to proactively review and monitor the above transactions to ensure compliance with application laws and regulations. If there is any change of circumstances in the future that will change the status of the Project Companies to become a connected subsidiary, the Remaining Group will re-comply with the requirements of Chapter 14A of the Listing Rules for the continuing connected transactions.

## **VII. INFORMATION ON THE PARTIES**

### **The Company**

The Company is an investment holding company incorporated in Bermuda. The Group is principally engaged in development, operation, sales, leasing and management of mixed-use complexes and commercial properties in the PRC. The Group develops, holds and operates various property projects in the PRC and Hong Kong.

### **The Project Company**

The Project Company is a company established in the PRC with limited liability and it is an indirect wholly-owned subsidiary of the Company. The Project Company is principally engaged in holding investments and properties in the PRC.

### **The SPV**

The SPV is a company established in the PRC with limited liability and it is newly incorporated for the purpose of the Reorganisation. As of the Latest Practicable Date, the entire equity interest in the SPV is held by the Project Company and hence the SPV is an indirect wholly-owned subsidiary of the Company. As part of the Reorganisation, among other things, the entire equity interest of the SPV will be transferred to the Scheme under the Consumer Infrastructure REIT and the SPV will be subsequently merged into the New Project Company.

### **The New Project Company**

The New Project Company is a company established in the PRC with limited liability and it is newly incorporated with the purpose of holding the Project under the Consumer Infrastructure REIT. As of the Latest Practicable Date, the entire equity interest in the New Project Company is held by the Project Company and hence the New Project Company is an indirect wholly-owned subsidiary of the Company. As part of the Reorganisation, among other things, the entire equity interest of the New Project Company will be transferred to the Consumer Infrastructure REIT and upon completion of the Proposed Spin-off, the Consumer Infrastructure REIT, through the Scheme, will hold the entire equity interest in the New Project Company.

### **The Operation Manager**

The Operation Manager is a company established in the PRC with limited liability and it is newly incorporated with the purpose of providing operation management, property management and car park management services to the Project after completion of the Proposed Spin-off. The Operation Manager is an indirect wholly-owned subsidiary of the Company.

### **The REIT Manager**

The REIT Manager, namely CAMC, is a company established in the PRC with limited liability and owned as to approximately 62.2% and 37.8% by CITIC and two other Independent Third Parties, respectively, and none of such other Independent Third Parties on a standalone basis, controls, directly or indirectly, one third or more of the equity interest of the REIT Manager. The REIT Manager is principally engaged in the sales and raising of funds, asset management and other businesses as approved by the CSRC. The REIT Manager will be responsible for making decisions in respect of the investment and management of the Project, including but not limited to annual budgets, approval of operation plans, etc. The REIT Manager will also implement rules for approving connected transactions and mechanism for handling conflict of interests situations to ensure that the Consumer Infrastructure REIT will operate independently from the Group (excluding the Consumer Infrastructure REIT and the Project).

### **The Scheme Manager**

The Scheme Manager, namely CITIC, is a company established in the PRC with limited liability and whose H shares are listed on the Stock Exchange in Hong Kong (stock code: 6030) and A shares are listed on the Shenzhen Stock Exchange (stock code: 600030). The Scheme Manager will manage the Scheme. The Scheme Manager is principally engaged in investment banking, wealth management, asset management, financial markets and other related financial services.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the REIT Manager and the Scheme Manager and their respective ultimate beneficial owners are Independent Third Parties.

## VIII. WAIVER FROM STRICT COMPLIANCE WITH PARAGRAPH 3(F) OF PRACTICE NOTE 15 OF THE LISTING RULES

Paragraph 3(f) of PN15 requires a listed company contemplating a spin-off to have due regard to the interests of its existing shareholders by providing them with an assured entitlement to shares in the spun-off entity, either by way of a distribution in specie of existing shares in the spun-off entity or by way of preferred application in any offering of existing or new shares in the spun-off entity.

As advised by the PRC legal counsel of the Company, according to relevant laws and regulations of the PRC, investors subscribing for units of public funds must have RMB ordinary securities accounts, close-end fund accounts or open-end fund accounts maintained through China Securities Depository and Clearing Corporation Limited (“**CSDC Open-end Fund Accounts**”). RMB ordinary securities accounts and close-end fund accounts can only be opened by (i) qualified PRC investors, including PRC citizens satisfying the age requirements, foreigners with PRC permanent resident status, and ordinary PRC institutional investors; (ii) qualified foreign investors, including residents from Hong Kong, Macau and Taiwan who work and reside in the mainland of the PRC; and (iii) qualified special institutions and products including, among others, qualified foreign institutional investors and RMB qualified foreign institutional investors. CSDC Open-end Fund Accounts can only be opened by (a) individual investors with certain valid identification documents such as identification cards, etc.; and (b) other institutional and individual investors that fulfil the account opening standards of fund sales agencies institutions ((i) to (iii) and (a) to (b) above are collectively referred to as “**Qualified Investors**”). As at the Latest Practicable Date, approximately 35.51% of the total issued shares of the Company were held by its investors through HKSCC Nominees Limited according to the register of members of the Company. The Company is unable to ascertain the identifications of the Shareholders or further assess whether such Shareholders are Qualified Investors. Accordingly, not all, if any, of the existing Shareholders will be qualified to hold the Units following the Proposed Spin-off, and thus compliance with paragraph 3(f) of PN15 in relation to the Public Offering will not be feasible.

Further, the PRC legal counsel also advised that according to the requirements of relevant laws and regulations such as the Law of the PRC on Funds for Investment in Securities (《中華人民共和國證券投資基金法》), the Guidance, and the Shenzhen Stock Exchange’s Guidelines for the Application of the Rules for Public Offering of Infrastructure Securities Investment Funds (REITs) No. 2 – Offering Business (Trial)\*《深圳證券交易所公開募集基礎設施證券投資基金業務指引第2號 – 發售業務(試行)》, unless otherwise prescribed by law, the investors of the Consumer Infrastructure REIT are unable to be provided with a preferential allocation of the units on the ground that all investors shall be treated equally. Except for the strategic placement to the original owners of the Consumer Infrastructure REIT or their related parties under common control and the units offered to offline investors in accordance with the applicable laws and regulations, the relevant laws and regulations do not grant other specific entities the right to subscribe for a specific percentage of the units of public funds on a preferential basis. Pursuant to the applicable PRC laws and regulations, the Company is unable to ascertain the identifications of the Shareholders or further assess whether such Shareholders are qualified to participate in the preferential allocations. Accordingly, the Company is not able to provide Shareholders with assured entitlement by way of preferential allocation of the Units.



In addition, pursuant to relevant requirements of the Guidance, if the original owner of the infrastructure assets holds not less than 20% of the Units, it must hold 20% of such Units for at least 60 months from the listing date of the Consumer Infrastructure REITs, whilst the part of the Units held by such original owner in excess of such 20% must be held by it for at least 36 months from the listing date of the Consumer Infrastructure REITs. Subject to such regulations, it is impractical to transfer or distribute the Units to the Shareholders.

After due and careful consideration of the Proposed Spin-off and having taken into account the advice from the PRC legal counsel on the legal impediments in fulfilling such requirement, the Board considers that it is not feasible for the Company to comply with paragraph 3(f) of PN15 in connection with the Proposed Spin-off. Accordingly, the Board considers that the Proposed Spin-off and the non-provision of the assured entitlement in relation to the Proposed Spin-off are fair and reasonable, and in the interest of the Company and the Shareholders as a whole. The Company has also applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement of paragraph 3(f) of Practice Note 15 of the Listing Rules.

## **IX. LISTING RULES IMPLICATIONS**

As at the Latest Practicable Date, the Group indirectly holds the entire interest in the Project. Upon completion of the Proposed Spin-off, the Company's indirect interest in the Project will be reduced to 40%. As such, the Proposed Spin-off, if materialised, will constitute a deemed disposal under Chapter 14 of the Listing Rules. As the highest applicable percentage ratio in respect of the Proposed Spin-off exceeds 25% but is less than 75%, the Proposed Spin-off constitutes a major transaction of the Company, and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 and PN15 of the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, Shareholders' approval may be obtained by written Shareholders' approval in lieu of convening a general meeting if (a) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Proposed Spin-off and the transactions contemplated thereunder; and (b) the written approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the issued share capital of the Company giving the right to attend and vote at the general meeting to approve the Proposed Spin-off and the transactions contemplated thereunder.

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the Shareholders have any material interest in the Proposed Spin-off and the transactions contemplated thereunder, and therefore no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Proposed Spin-off and the transactions contemplated thereunder.

As at the Latest Practicable Date, Grandjoy Holdings Group holds 9,133,667,644 Shares (representing approximately 64.18% of the issued Shares). As the Company has obtained the Written Approval from Grandjoy Holdings Group, no special general meeting will be convened by the Company for the purpose of approving the Proposed Spin-off and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

**Shareholders and potential investors of the Company should note that the Proposed Spin-off is subject to, among other things, the prevailing market conditions and approvals from relevant authorities, including the CSRC and the Shenzhen Stock Exchange. Accordingly, the Proposed Spin-off may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.**

## **X. RECOMMENDATION**

Based on the information and reasons set out above, the Directors (including the independent non-executive Directors) consider the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Shareholders as a whole. If a general meeting were to be convened by the Company for the approval of the Proposed Spin-off and the transactions contemplated thereunder, the Board would recommend the Shareholders to vote in favour of the resolution to approve the Proposed Spin-off and the transactions contemplated thereunder at such general meeting.

## **XI. ADDITIONAL INFORMATION**

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

By order of the Board  
**Joy City Property Limited**  
**CHEN Lang**  
*Chairman*