

25 June 2024

*To: the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

**VERY SUBSTANTIAL DISPOSAL AND  
CONNECTED TRANSACTION  
IN RELATION TO DISPOSAL OF EQUITY INTERESTS AND  
CREDITOR'S RIGHTS IN THE TARGET COMPANY**

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the entering into of the Sale and Purchase Agreement and the Purchaser 2 Agreement (together “**the Disposal Agreements**”) with the Purchasers, pursuant to which (among others) Purchaser 1, Purchaser 2 (Equity) and Purchaser 2 (Debt) (as the case maybe) have conditionally agreed to acquire (i) an aggregate of 64.79% equity interests in the Target Company; (ii) the Target Creditor's Rights in the aggregate sum of approximately RMB124.8 million; and (iii) waiver of the right of first refusal of Purchaser 2 (Equity) (being an existing shareholder of the Target Company) in relation to the disposal of 49.895% equity interests in the Target Company to Purchaser 1 under the Disposal.

Details of the Disposal Agreements and the Disposal are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 25 June 2024 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalized terms used in this letter shall have the same meaning as those defined in the Circular.

As at the Latest Practicable Date, Purchaser 1 is a limited partnership whose limited partnership interest is held as to approximately 99.99% by China Life Insurance, a substantial Shareholder which holds approximately 29.59% of the total issued share capital of the Company, and approximately 0.01% by a wholly-owned subsidiary of China Life Insurance (Group) Company, which is the holding company of China Life Insurance. Purchaser 1 is therefore an associate of China Life Insurance and thus a connected person of the Company. As Purchaser 1 is a connected person of the Company, the transactions contemplated under the Disposal Agreements constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios of the Disposal exceeds 75%, as such apart from being a connected transaction, the Disposal also constitutes very substantial disposal transaction of the Company, and the Disposal is therefore also subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under the Listing Rules. China Life Insurance and its associates and any Shareholders who are materially interested in the Disposal Agreements shall abstain from voting in relation to the resolution(s) in approving the Disposal Agreements, the Disposal and the transactions contemplated thereunder.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. HAN Xiaojing, Mr. JIN Qingjun, Mr. LYU Hongbin, Mr. LIU Jingwei and Mr. JIANG Qi has been established to advise the Independent Shareholders as to whether the terms of the Disposal Agreements and the transactions contemplated thereunder (including the Disposal) are fair and reasonable so far as the Independent Shareholders are concerned and is in the interest of the Company and the Independent Shareholders as a whole and how to vote on the relevant resolution in the EGM. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

In the last two years from the date of our appointment, saved as another independent financial adviser engagement, we have no other relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees paid/payable to us in connection with our appointments, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transactions that could reasonably be regarded as relevant to our independence. We are therefore independent under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Disposal.

#### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the information, financial information and facts supplied to us and representations expressed by the Directors and/or the management of the Company and have assumed that all such information, financial information and facts and any representations made to us or referred to in the announcement of the Company dated 7 June 2024 and the Circular, for which they are fully responsible, are true, accurate and complete as at the time they were made and as at the date hereof and made after due and careful inquiry by the Directors and/or management of the Company. We have been advised by the Directors and/or the management of the Company that all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analyses were based upon, among others, the information provided by the Company including the Disposal Agreements and certain published information from the public domain. We have also discussed with the Directors and/or the management of the Company with respect to the terms of and reasons for the transactions contemplated under the Disposal Agreements and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, legal position, financial position or prospects of the Group, the Target Company, the Purchasers, China Life Insurance, Swire Properties, each of their respective associates, and the parties involved in the transactions contemplated under the Disposal Agreements.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our recommendations in respect of the transactions contemplated under the Disposal Agreements, we have considered the following principal factors and reasons:

### **1. Background to and reasons for the entering into of the Disposal Agreements**

The Company is incorporated under the laws of Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange. The principal business of the Company is investment holding.

The Group is a leading large-scale property developer with developments in key economic regions in the PRC, including the Beijing Region, the Bohai Rim Region, the Eastern Region, the Southern Region, the Central Region and the Western Region. The core businesses of the Group include development of residential property, investment property development and operation, property services and whole-industrial chain construction services, with its scope of businesses also covering senior living service, internet data center, logistics real estate and real estate fund, etc., forming a unique advantage in the field of asset-light agent construction.

According to the annual report of the Group for the year ended 31 December 2023, despite the PRC government having introduced a series of favourable policy measures which had a stabilising effect in the overall property market, during FY2023, the GFA of commodity housing sold reduced by 8.5% year on year and the capital inflow for property enterprises were also 13.6% less compared to the previous financial year. Property enterprises faced tremendous risks due to reduced cash collection from sales, difficulty in asset disposal and re-financing and the industry continues to undergo consolidation. The Group foresees that the constraints will still persist in the PRC real estate market in the short term and demand may continue to drop, and it will take time for the market to regain confidence and for property enterprises to recuperate.

In the first half of 2023, the Group sold some of its core investment properties to repay debts timely in the open market. In the second half of the year, the Group continued to face harsh market conditions and financing and liquidity pressure. To improve the Group's liquidity position and to implement the subsequent debt repayment arrangement, the Company had sought extension for debts in the domestic and off-shore open markets and announced holistic debt management for offshore debts during the year, and has increased efforts in sales, asset disposal and stringent cost control. Considering such adverse market conditions, the Group believes that the strategy should be able to secure cash flow to ensure the steady progress of the Group's operations and on-time repayment of debts.

As at 31 December 2023, the Group's net gearing ratio (i.e. total borrowings less total cash resources divided by total equity) increased substantially to approximately 438% compared to 196% (restated) as at 31 December 2022. The increase in net gearing ratio was a result of the combined impact of multiple extreme factors including continued market downturn, noticeable decline in overall sales and a very harsh financing environment in 2023 in the PRC. In addition, as set out in the consolidated financial statement of the Group for the year ended 31 December 2023, the auditor of the Company has given a disclaimer of opinion expressing doubt if the Group can continue as a going concern.

As set out in the letter from the Board contained in this Circular, the Group has been facing significant liquidity pressure and difficulty in accessing typical financing channels amid the downturn of the real estate market in the PRC. To improve its liquidity and to obtain funds to meet its financial needs and commitments, the Group has been proactively formulating various plans and measures, including seeking potential purchasers in respect of its assets on terms which are in the best interests of the Company and its stakeholders taken as a whole. INDIGO II is one of the property assets that is of a meaningful size and is considered suitable for realisation.

As disclosed in the circular of the Company dated 24 February 2021 in relation to, among other things, the investment in the Target Company, the total investment amount in the Target Company by its shareholders shall be RMB23 billion, of which the Group has already contributed approximately RMB6.3 billion (representing both Target Equity Interests and Target Creditor's Rights) as of 30 April 2024 as a 64.79% shareholder. As such, for as long as the Group remains as a shareholder of the Target Company, it is expected that a substantial amount of the total investment amount remains to be contributed by the Group in respect of INDIGO II in its capacity as a 64.79% shareholder given that the project is only at its construction stage. In view of its current liquidity position, the Group encounters extreme difficulties in funding the

Target Company in relation to the INDIGO II project development according to the schedule as planned. The basement and superstructure work of INDIGO II are currently in progress, and are expected to be completed between 2025 and 2026, such that no near-term cash return to the Group is expected from INDIGO II. Unlike residential property projects where completed units are usually sold to property buyers and thus able to recoup a significant portion or all of the original investment within a shorter time frame, the INDIGO II project is an office-led mixed-use development which is expected to be held by the Target Company for long-term investment purpose, such that future cash inflows from the project are expected to be mainly from future rental income from the properties. Considering the project's circumstances, it is imperative to secure funds to support the project's development and construction, as well as subsequent operation. The Disposal will not only enable the Group to realise its investment in the Target Company and recoup immediate cash resources for the repayment of relevant priority indebtedness and necessary payment obligations but also release the Group from future funding obligations to the project, which the Group would have a difficulty to in view of its current financial and liquidity position.

Taking into account the above, the Directors (excluding (i) the independent non-executive Directors; and (ii) the Abstained Directors) consider and we concur that the entering into of the Disposal Agreements and the transactions as contemplated thereunder (including the Disposal) is in the interest of the Company and the Shareholders as a whole.

## 2. Information of the Group

### 2.1 Financial performance of the Group

Set out below is a summary of the consolidated financial information of the Group for the financial years ended 31 December 2021 ("FY2021"), 31 December 2022 ("FY2022") and 31 December 2023 ("FY2023"), as extracted from the 2021 Annual Report, 2022 Annual Report and 2023 Annual Report:

	FY2021	FY2022	FY2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)
		(restated)	
Revenue	64,247,332	46,126,585	46,459,008
Cost of sales	(52,989,257)	(43,749,646)	(45,276,191)
Gross Profit	11,258,075	2,376,939	1,182,817
Profit/(loss) before income tax	9,797,114	(16,130,781)	(19,560,765)
Profit/(loss) for the year	5,091,286	(18,756,180)	(20,984,885)
Profit/(loss) attributable to owners of the Company	2,729,143	(19,036,534)	(21,096,541)

*For FY2021 and FY2022*

Revenue of the Group decreased by approximately 28% to RMB46,127 million for FY2022, from RMB64,247 million in FY2021 due to the decrease in revenue from the property development segment. Property development segment remained the largest contributor, which accounted for about 80% of total revenue and the property development segment alone recorded a 33% decrease due to a drop in deliverance of saleable GFA especially in tier-one cities and the adverse downturn of the economy due to the effects of COVID-19.

Cost of sales on the other hand decreased at a smaller magnitude by 17% from RMB52,989 million in FY2021 to RMB43,750 million in FY2022 as there were less delivered projects located in top tier cities which require a higher construction cost while recording an increase in deliverance of tier-two cities projects which have a relatively lower land cost.

As illustrated above, the gross profit for FY2022 decreased significantly by 79% from RMB11,258 million in FY2021 to RMB2,377 million, and the gross profit margin also decreased to only 5% in FY2022 as compared to 18% in FY2021.

Apart from recording a significant decrease in gross profit, the Group also recorded other losses of RMB2,689 million in FY2022 compared to other gains of RMB76 million in FY2021, primarily due to a net exchange loss of RMB1,178 million compared to a net exchange gain of RMB348 million arising from the depreciation of RMB against USD in FY2022 and fair value losses of financial assets and financial liabilities at a fair value through profit or losses and losses on disposal of subsidiaries. The Group also recorded a larger impairment loss on financial assets of RMB7,850 million (restated) in FY2022 compared to RMB177 million in the FY2021 mainly due to provision made for expected credit losses for trade and other receivables considering the effects of the sluggish economy and resurgence of the pandemic. At the same time, there was a significant increase in the finance costs of the Company from RMB2,239 million to RMB3,066 million as a result of a higher cost of financing and interest expense.

As a result of the combined factors above, the Group recorded a loss attributable to owners of the Company of RMB19,037 million (restated) in FY2022 as compared to a profit attributable to owners of the Company of RMB2,729 million in FY2021.

*For FY2022 and FY2023*

The overall revenue of the Group in FY2023 remained comparable to FY2022. Property development segment continued to remain as the largest contributor, which accounted for about 84% of total revenue. The property development segment alone recorded a 5% increase was mainly due to more projects in tier-one and core tier-two cities being delivered in FY2023. With the increase in revenue from property development segment, cost of sales of the Group also increased by 4% from RMB43,750 million in FY2022 to RMB45,276 million in FY2023 as there were more delivered projects located in tier-one and core tier-two cities in 2023, which have relatively higher land costs. The increase in revenue from property development segment was offset by the decrease in revenue contributed by the other real estate businesses (including whole-industrial chain construction services, internet data center, senior living services, etc.) and resulted in an overall revenue in FY2023 being comparable to that of in FY2022.

The gross profit for FY2023 was RMB1,183 million, compared to RMB2,377 million in FY2022, representing a significant drop of 50% and the gross profit margin decreased to 3% in FY2023 compared to 5% in FY2022. The decrease in gross profit margin was mainly attributable to the overall subdued sentiment of the PRC real estate market during 2023, which included (i) the gross profit margin of the industry did not recover significantly; and (ii) the increase in the Group's provision for inventories.

In addition, the Group recorded other losses of RMB672 million in FY2023 compared RMB2,689 million in FY2022, the other losses record in FY2023 was mainly due to operating difficulties in the depressed PRC real estate market. It was mainly attributable to the net gain on disposal of joint ventures and associates during FY2023 offset by the fair value loss on financial assets and financial liabilities at fair value through profit or loss, and the net effect of litigation provisions. The Group also recorded a larger impairment loss on financial assets of RMB11,283 million in FY2023 compared to RMB7,850 million (restated) in the FY2022 mainly due to provision made for expected credit losses on the trade and receivables considering the effects of sluggish macroeconomic and industry environments and tough financing channels during 2023. Meanwhile, there was a significant increase in the finance costs of the Company from RMB3,066 million to RMB3,517 million as a result of a higher interest expense.

As a result of the combined factors above, a loss attributable to owners of the Company of RMB21,097 million in FY2023 was recorded as compared to RMB19,037 million (restated) in FY2022, the loss recorded for 2023 was mainly attributable to (i) the downturn in the overall real estate market in the PRC, resulting in the decrease in gross profit margin, and the increase in the provision for impairment of property projects; and (ii) the decrease in the share of results from joint ventures and associates, for the FY2023.

## 2.2 Financial position of the Group

The table below summarizes the assets and liabilities of the Group for as at 31 December 2021, 2022 and 2023 extracted from the 2023 Annual Report and the 2022 Annual Report:

	As at 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
	(audited)	(audited) (restated)	(audited)
Non-current assets	68,518,823	53,523,900	60,158,570
Current assets	<u>212,733,219</u>	<u>189,442,108</u>	<u>146,013,756</u>
<b>Total assets</b>	<u>281,252,042</u>	<u>242,966,008</u>	<u>206,172,326</u>
Non-current liabilities	76,139,240	60,794,272	30,915,031
Current liabilities	<u>128,665,433</u>	<u>137,392,075</u>	<u>154,465,312</u>
<b>Total liabilities</b>	<u>204,804,673</u>	<u>198,186,347</u>	<u>185,380,343</u>
<b>Net assets</b>	76,447,369	44,779,661	20,791,983
Equity attributable to the owners of the Company	55,073,811	28,641,157	7,028,557
Non-controlling interests	<u>21,373,558</u>	<u>16,138,504</u>	<u>13,763,426</u>
<b>Total equity</b>	<u>76,447,369</u>	<u>44,779,661</u>	<u>20,791,983</u>
Restricted bank deposit	5,423,573	4,763,360	3,033,268
Cash and cash equivalent	<u>21,655,471</u>	<u>4,623,126</u>	<u>1,988,738</u>
<b>Cash and bank balance</b>	<u>27,079,044</u>	<u>9,386,486</u>	<u>5,022,006</u>
<b>Borrowings</b>			
Current borrowings	18,667,628	38,091,736	69,750,588
Non-current borrowings	<u>73,556,834</u>	<u>58,931,713</u>	<u>26,392,734</u>
<b>Total borrowings</b>	<u>92,224,462</u>	<u>97,023,449</u>	<u>96,143,322</u>
<b>Gearing Ratio (note)</b>	<u>85%</u>	<u>196%</u>	<u>438%</u>

*Note:* The gearing ratio of the Group is calculated by the total borrowings less total cash resources including the restricted bank deposits divided by total equity.



*As at 31 December 2022*

#### Total assets

As at 31 December 2022, the total assets of the Group was approximately RMB242,966 million (restated), mainly comprising (i) trade and other receivables and prepayments of RMB89,183 million (restated); (ii) properties under development of RMB73,300 million; (iii) interest in joint ventures of RMB20,464 million; and (iv) completed properties held for sale of RMB20,234 million. The total assets of the Group decreased by approximately 14% from RMB281,252 million as at end of FY2021. The decrease was largely attributable to the decrease in interests in joint venture, properties under development and completed properties held for sale. In addition, the cash and bank balance including the restricted bank deposits of the Group as at the end of FY2022 was RMB9,386 million, representing a significant decrease of approximately 65% compared to FY2021 of RMB27,079 million.

#### Total liabilities

The total liabilities of the Group as at 31 December 2022 was approximately RMB198,186 million mainly consisting of (i) total borrowings of RMB97,023 million; (ii) trade and other payables of RMB44,938 million; (iii) contract liabilities of RMB41,026 million; and (iv) income tax payable amounting to RMB13,149 million. The total liabilities of the Group decreased approximately 3% compared to RMB204,805 million as at 31 December 2021.

#### Gearing ratio

As at 31 December 2022, the Group's net gearing ratio was approximately 196% (restated) compared to 85% as at 31 December 2021. The significant increase in net gearing ratio was due to impact from multiple extreme factors including continued market downturn, noticeable decline in overall sales and a very harsh financing environment in 2022 in the PRC. Coupled with the slowdown of the cash collection progress and exchange loss from the RMB which depreciated considerably against USD during the year, the gearing ratio of the Group recorded a significant increase.

*As at 31 December 2023*

#### Total assets

As at 31 December 2023, the total assets of the Group was approximately RMB206,172 million, mainly comprising (i) trade and other receivables and prepayments of RMB69,288 million; (ii) properties under development of RMB48,516 million; (iii) interest in joint ventures of RMB18,680 million; (iv) completed properties held for sale of RMB26,714 million; and (v) investment properties of RMB15,857 million. The total assets of the Group decreased by approximately 15% from RMB242,966 million (restated) as at end of FY2022. The decrease was largely attributable to the decrease in properties under development, interests in joint ventures and trade and other receivables and prepayments. In addition, the cash and bank balance including the restricted bank deposits of the Group as at the end of FY2023 was RMB5,022 million, representing a significant decrease of approximately 46% compared to FY2022 of RMB9,386 million.

#### Total liabilities

The total liabilities of the Group as at 31 December 2023 was approximately RMB185,380 million mainly consisting of (i) total borrowings of RMB96,143 million; (ii) trade and other payables of RMB49,780 million; (iii) contract liabilities of RMB20,873 million; and (iv) income tax payable amounting to RMB14,561 million. The total liabilities of the Group decreased approximately 7% compared to RMB198,186 million as at 31 December 2022.

#### Gearing ratio

As at 31 December 2023, the Group's net gearing ratio was approximately 438% compared to 196% (restated) as at 31 December 2022. The significant increase in net gearing ratio was due to impact from multiple extreme factors including continued market downturn, noticeable decline in overall sales and a very harsh financing environment in 2023 in the PRC. Coupled with the slowdown of the cash collection progress and the erosion of profitability across the industry, the gearing ratio of the Group recorded a significant increase.

### *2.3 Disclaimer of opinion on the 2023 financial results of the consolidated financial statements*

According to the annual report of the Group for the year ended 31 December 2023, the auditor of the Group did not express an opinion on the consolidated financial statements of the Group due to multiple uncertainties relating to going concern, which among other things included (i) the Group recorded a net loss of approximately RMB20.98 billion for the year ended 31 December 2023 and the Group's current liabilities were in excess of current assets of the Group; (ii) the Group had total borrowings of approximately RMB96.14 billion, of which the current borrowings amounted to approximately RMB69.75 billion, while the Group had cash and cash equivalents of approximately RMB1.99 billion only. Subsequent to 31 December 2023, the total principal and interest amounts of three of the Group's bonds are approximately RMB8.42 billion, of which approximately RMB6.42 billion has already matured but has not been repaid; (iii) in view of the Group's tight liquidity position, on 15 September 2023, the Group announced to commence a holistic restructuring of its offshore debts ("**Offshore Debt Restructuring**") and to suspend payments of all its offshore debts (except for payments which would facilitate or be incidental to the debt restructuring having regard to the rights and priorities of the relevant creditors) until the Offshore Debt Restructuring and/or extension solutions are implemented. These offshore debts include seven guaranteed notes with carrying amount of approximately RMB23.25 billion and one perpetual subordinated guaranteed capital securities with carrying amount of approximately RMB4.57 billion as at 31 December 2023, due to the suspended payments, the Group has received demand letters, acceleration notices and other legal letters with respect to certain offshore debts; (iv) the Group has been involved in various litigation cases for unpaid borrowings, outstanding construction and daily operations payables, delayed delivery of several projects and other matters for which the Group has made provision; and (v) the Group's internal funds were progressively shrinking and the Group also experienced liquidity pressure due to limited access to external capital to finance its construction projects. All of the above reasons and other events or conditions indicated that multiple material uncertainties exist that may cast significant doubt on the Group's ability to continue as a going concern.

In view of disclaimer audit opinion and the financial performance, liquidity and financial position of the Group as mentioned above, we concur with the Directors that, the Group has been facing significant liquidity pressure, in order to improve its liquidity and to obtain funds to meet its financial needs and commitments, INDIGO II would be one of the property assets that is of a meaningful size and suitable for realization for additional liquidity.

### 3. Information on the Target Company

The Target Company is a company established under the laws of the PRC with limited liability. As at the Latest Practicable Date, the Target Company was accounted for as a joint venture of the Company in the consolidated financial statements of the Group and is owned as to 35% by Seller 1, 29.79% by Seller 2, 35% by Purchaser 2 (Equity) (a wholly-owned subsidiary of Swire Properties) and 0.21% by Jiangtai Authority Entity (wholly-owned by the Jiangtai Township Government), respectively.

The Target Company is principally engaged in property development and is mainly responsible for the development and operation of the Property for the proposed development of a project named INDIGO II. Located in Dawangjing Business Circle, Beijing with strong business atmosphere, INDIGO II is intended to be developed into a flagship commercial complex.

#### *Financial Information of the Target Company*

Set out below is the financial information of the Target Company prepared in accordance with the Hong Kong Financial Reporting Standards for each of the three financial years ended 31 December 2021, 2022 and 2023 and for the four months ended 30 April 2024 as extracted from Appendix II — Financial Information of the Target Company to the Circular:

	FY2021	FY2022	FY2023	For the four months ended 30 April 2024
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Profit/(loss) before income tax	76,404	(24,283)	(1,479,335)	102,135
Profit/(loss) after income tax	53,166	(19,375)	(1,111,253)	75,942

During FY2023, the Target Company recorded a loss before income tax of RMB1,480 million compared to a loss before income tax of RMB24.3 million in FY2022. The increase in loss in FY2023 was mainly attributable to the impairment loss of investment properties held by the Target Company amounting to RMB1,472 million due to the change in fair value of the Property. During FY2022, the Target Company recorded a loss before income tax of RMB24.3 million compared to a profit before income tax of RMB76.4 million for FY2021. The Target Company recorded a profit in FY2021 compared to a loss in FY2022 mainly due to a gain in fair value change on investment properties recorded in FY2021 compared to a loss recorded in FY2022.

During the four months ended 30 April 2024, the profit before income tax for the period amounted to RMB102 million mainly represented the increase in gain in fair value change of the Property during such period.

	As at 31 December 2021 RMB'000 (unaudited)	As at 31 December 2022 RMB'000 (unaudited)	As at 31 December 2023 RMB'000 (unaudited)	As at 30 April 2024 RMB'000 (unaudited)
Current assets	5,591	10,090	87,560	71,731
Non-current assets	<u>12,193,283</u>	<u>12,962,809</u>	<u>12,581,365</u>	<u>12,748,688</u>
<b>Total assets</b>	<u><u>12,198,874</u></u>	<u><u>12,972,899</u></u>	<u><u>12,668,925</u></u>	<u><u>12,820,419</u></u>
Current liabilities	484,805	278,497	352,043	326,465
Non-current liabilities	<u>2,213,398</u>	<u>3,213,106</u>	<u>3,946,839</u>	<u>4,047,969</u>
<b>Total liabilities</b>	<u><u>2,698,203</u></u>	<u><u>3,491,603</u></u>	<u><u>4,298,882</u></u>	<u><u>4,374,434</u></u>
Net assets attributable to holding company	<u><u>9,500,671</u></u>	<u><u>9,481,296</u></u>	<u><u>8,370,043</u></u>	<u><u>8,445,985</u></u>

*As at 31 December 2022*

#### Total Assets

As at 31 December 2022, the total assets of the Target Company were approximately RMB12,973 million, mainly comprising (i) investment properties amounting RMB12,700 million representing the construction in progress of the Property (i.e INDIGO II); and (ii) other receivables and prepayments mainly composed of input value added tax pending deduction over one year and prepaid construction costs amounting to RMB263 million. The total assets of the Target Company increased by from RMB12,199 million as at the end of FY2021 to RMB12,973 million as at the end of FY2022 mainly due to the increase in fair value of the investment properties from RMB12,152 million as at the end of FY2021 to RMB12,700 million as at the end of FY2022 and an increase in other receivable and prepayments recorded as at end of FY2022.

#### Total Liabilities

The Target Company recorded total liabilities of RMB3,492 million as at the end of FY2022. The total liabilities comprising mainly (i) long term borrowings of bank loans amounting to RMB3,063 million; and (ii) other payables amounting to RMB410 million. The total liabilities of the Target Company increased from RMB2,698 million as at the end of FY2021 to RMB3,492 million as at the end of FY2022 mainly due to an increase in the amount of bank loans and other payables.

As a result of the above, the Target Company recorded a net asset value of RMB9,481 million as at 31 December 2022.

*As at 31 December 2023*

#### Total Assets

As at 31 December 2023, the total assets of the Target Company amounted to approximately RMB12,669 million, mainly comprising (i) the fair value of investment properties representing the construction in progress of the Property amounting to RMB11,986 million; (ii) other receivables and prepayments including mainly input value added tax pending deduction over one year and prepayments for construction costs amounting to RMB246 million; and (iii) deferred income tax assets amounting to RMB350 million. The total assets of the Target Company decreased from RMB12,972 million as at the end of FY2022 to RMB12,669 million as at the end of FY2023 mainly due to the decrease in fair value of investment properties from RMB12,700 million to RMB11,986 million but was slightly offset by deferred tax income assets recorded in FY2023 but not in FY2022 and an increase in cash and bank balance from RMB8.9 million to RMB86.6 million.

#### Total Liabilities

The Target Company recorded total liabilities of RMB4,299 million as at the end of FY2023. The total liabilities comprise mainly (i) long term borrowings of bank loans amounting to RMB3,760 million; and (ii) other payables of RMB539 million. The total liabilities of the Target Company increased from RMB3,492 million as at the end of FY2022 to RMB4,299 million as at the end of FY2023, mainly attributable to the increase in the amount of bank loans and other payables.

As a result of the above, the Target Company recorded a net asset value of RMB8,370 million as at 31 December 2023.

As at 30 April 2024, the unaudited net asset value of the Target Company prepared in accordance with the Hong Kong Financial Reporting Standards was approximately RMB8,446 million. The increase in net asset value was mainly attributable to increase in fair value of investment properties recorded which was slightly offset by the increase in the amount of borrowings during the period.

#### *The Property*

The Property comprises a development site of 78,298.69 sq.m for proposed mixed-use development known as INDIGO II located in Tuofangying Village, Jiangtai Town, Chaoyang District, Beijing, the PRC. As advised by the Company, the Property is to be developed into a complex, comprising office buildings, commercial space, hotel, car parks, storage and other utilities with a total planned gross floor area of 564,716.93 sq.m. The immediate neighborhood is mainly dominated by commercial developments and industrial parks. Upon its completion, it is expected to connect with Metro Line No. 14 directly. The Property is approximately 15-minute drive to Beijing's central business district and 30-minute drive to Beijing Capital International Airport.

The land use rights of the Property have been granted for terms of 40 years due to expire on 8 July 2060 for commercial uses and 50 years due to expire on 8 July 2070 for office, underground storage and underground parking uses. As at the valuation date (i.e. 30 April 2024), the Property was under construction and is estimated to complete construction in phases between 2025 and 2027.

Based on the Valuation Report, as at 30 April 2024, the market value of the Property was RMB12,168 million. The 64.79% interest of the Property attributable to the Group is valued at RMB7,883.6 million.

#### **4. Information on the Sellers**

Each of the Sellers is a company established under the laws of the PRC with limited liability and is a wholly-owned subsidiary of the Company. Each of the Sellers is principally engaged in investment holding.

#### **5. Information on the Purchasers**

##### *Purchaser 1*

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Purchaser 1 is a limited partnership established under the laws of the PRC whose limited partnership interest is held as to approximately 99.99% by China Life Insurance and approximately 0.01% by a wholly-owned

subsidiary of China Life Insurance (Group) Company, the holding company of China Life Insurance. Purchaser 1 is principally engaged in equity investment, investment management, asset management, etc.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, China Life Insurance is a joint stock limited liability company incorporated under the laws of the PRC listed on the Stock Exchange (Stock Code: 02628) and The Shanghai Stock Exchange (Stock Code: 601628) and is a substantial shareholder of the Company which holds approximately 29.59% of the total issued share capital of the Company as at the Latest Practicable Date. China Life Insurance is one of the leading life insurance companies in the PRC. It offers personal insurance businesses, including life insurance, health insurance and accident insurance businesses, reinsurance relating to the above insurance businesses, use of funds permitted by applicable PRC laws and regulations or the State Council of the PRC (中華人民共和國國務院), as well as all types of personal insurance services, consulting business and agency business, sale of securities investment funds, and other businesses permitted by the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, China Life Insurance (Group) Company is the holding company of China Life Insurance and is held as to 90% and 10% by the Ministry of Finance of the PRC (中華人民共和國財政部) and the National Council for Social Security Fund (全國社會保障基金理事會), respectively. It offers insurance policies to groups and individuals, which are managed by China Life Insurance under the policy management agreements.

***Purchaser 2 (Equity) and Purchaser 2 (Debt)***

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of Purchaser 2 (Equity) and Purchaser 2 (Debt) is wholly-owned by Swire Properties. Purchaser 2 (Equity) is principally engaged in investment holding while Purchaser 2 (Debt) is principally engaged in property investment. Swire Properties is a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange. The principal activities of Swire Properties and its subsidiaries are: (a) property investment, that is the development, leasing and management of commercial, retail and some residential properties; (b) property trading, that is the development and construction of properties, principally residential apartments, for sale; and (c) investment in and operation of hotels.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquires, other than being a joint venture partner of certain projects of the Group, each of Purchaser 2 (Equity) and Purchaser 2 (Debt) and their ultimate beneficial owners is a third party independent of the Company and its connected persons (as defined under the Listing Rules).



## 6. Principal terms of the Disposal Agreements

The principal terms of the Disposal Agreements are set out as follows:

### *(A) The Sale and Purchase Agreement*

Details of the terms of the Sale and Purchase Agreement are set out below:

**Date:** 7 June 2024

**Parties:**

- (i) the Company;
- (ii) Seller 1, being a wholly-owned subsidiary of the Company;
- (iii) Seller 2, being a wholly-owned subsidiary of the Company;
- (iv) Purchaser 1;
- (v) Purchaser 2 (Equity);
- (vi) Purchaser 2 (Debt); and
- (vii) the Target Company.

### *Subject matter*

The Sellers conditionally agreed to sell and the Purchasers conditionally agreed to acquire the Target Equity Interests and the Target Creditor's Rights at the total consideration of RMB4 billion.

#### 1. Transfer of Target Equity Interests

Purchaser 1 and Purchaser 2 (Equity) conditionally agreed to acquire and the Sellers conditionally agreed to sell an aggregate of 64.79% equity interests in the Target Company at the total consideration of RMB3,875,171,911.36, details of which are as follows:

- (i) Purchaser 1 conditionally agreed to acquire an aggregate of 49.895% equity interests in the Target Company, which include:
  - (a) 20.105% equity interests in the Target Company to be disposed of by Seller 1 at the consideration of RMB1,202,505,498.96; and
  - (b) 29.79% equity interests in the Target Company to be disposed of by Seller 2 at the consideration of RMB1,781,777,608.26.

- (ii) Purchaser 2 (Equity) conditionally agreed to acquire and Seller 1 conditionally agreed to sell 14.895% equity interests in the Target Company at the consideration of RMB890,888,804.14.

## 2. Transfer of Target Creditor's Rights

Purchaser 1 and Purchaser 2 (Debt) conditionally agreed to acquire the Target Creditor's Rights in the aggregate amount of RMB124,828,088.64 on a dollar-for-dollar basis, which is equivalent to the book value of the outstanding principal and interest of the Target Creditor's Rights in the Target Company as at 31 December 2023. Purchaser 1 and Purchaser 2 (Debt) conditionally agreed to acquire the Target Creditor's Rights in the amount of RMB96,130,536.85 and RMB28,697,551.79, respectively, which is the proportionate amount of the Target Creditor's Rights corresponding to the percentage of equity interests in the Target Company to be acquired by Purchaser 1 and Purchaser 2 (Equity) under the Sale and Purchase Agreement.

The transfer of an aggregate of 49.895% equity interests and corresponding creditor's rights in the Target Company to Purchaser 1 and the transfer of 14.895% equity interests and corresponding creditor's rights in the Target Company to Purchasers 2 are inter-conditional.

### *Payment terms*

The consideration for the Disposal shall be payable in two instalments.

#### 1. First instalment in the total amount of RMB3.8 billion

Upon satisfaction of the conditions precedent to the payment of the first instalment (as set out in the sub-section headed "Conditions precedent to the payment of the first instalment" herein below), Sellers Entities shall issue a confirmation letter to each of the Purchasers to confirm the satisfaction of the conditions precedent to the payment of the first instalment. Within 10 business days (subject to a grace period of 5 business days after expiry) after the Purchasers have received, reviewed and acknowledged the confirmation letters, the Purchasers shall pay the first instalment of the consideration for the Disposal in an aggregate amount of RMB3.8 billion to the Sellers in the following manners:

- (i) Purchaser 1 shall pay the consideration in the total amount of RMB1,236,573,989.20 to Seller 1, of which RMB96,130,536.85 is the consideration payable by Purchaser 1 for the portion of the Target Creditor's Rights to be acquired by Purchaser 1, and RMB1,140,443,452.35 is the partial consideration payable by Purchaser 1 for the acquisition of the Target Equity Interests held by Seller 1;

- (ii) Purchaser 1 shall pay the consideration in the amount of RMB1,689,818,972.67 to Seller 2, which is the partial consideration payable by Purchaser 1 for the acquisition of the Target Equity Interests held by Seller 2; and
- (iii) Purchaser 2 (Debt) shall pay the consideration in the amount of RMB28,697,551.79 to Seller 1 for the portion of the Target Creditor's Rights to be acquired by Purchaser 2 (Debt), and Purchaser 2 (Equity) shall pay the partial consideration to Seller 1 for the acquisition of the Target Equity Interests held by Seller 1 in the amount of RMB844,909,486.34.

Conditions precedent to the payment of the first instalment:

Payment of the first instalment of consideration shall be subject to the satisfaction (unless otherwise waived or altered by mutual consent of the Purchasers) of, among others, the following conditions:

- (i) the transaction documents of the Disposal, including but not limited to the New Shareholders Agreement, having been lawfully signed and becoming effective;
- (ii) the conditions precedent to the Disposal, the details of which are set out in the section headed "Conditions precedent to the Disposal" in the letter from the Board contained in this Circular, having been fully satisfied;
- (iii) the representation and warranties made by Sellers Entities to Purchaser 1 and Purchasers 2 respectively under the Sale and Purchase Agreement remaining true and valid;
- (iv) if a declaration on concentration of business operators in relation to the Disposal is required pursuant to the applicable PRC laws or the requirements of the regulatory authorities, the obtaining of the required anti-trust approval documents;
- (v) completion of arrangements in respect of the existing board representatives (four out of eight) and management appointed by the Sellers to the Target Company, such that the four board representatives currently appointed by the Sellers will be reappointed by Purchaser 1, one of which will be a director of the Company nominated by China Life Insurance, and the change or resignation of the designated management personnel appointed by the Sellers to the Target Company shall be completed in accordance with the Sale and Purchase Agreement;

- (vi) the existing shareholders' agreement and its supplemental agreement(s) entered into among the Sellers, Purchaser 2 (Equity) and Jiangtai Authority Entity having been terminated, and the New Shareholders Agreement among Purchaser 1, Purchaser 2 (Equity) and Jiangtai Authority Entity having been entered into;
- (vii) the registration of changes and filing in relation to the transfer of the Target Equity Interests having been completed, and the change of shareholders of the Target Company in its register of shareholders having been completed;
- (viii) the transfer of certain items of the Target Company, including but not limited to business licences, stamps and financial data of the Target Company, from the Sellers Entities to the Purchasers no later than the date of completion of the Disposal;
- (ix) save for the disclosed debts and external guarantees and the debts to be incurred by the Target Company due to daily operations after the date of the Sale and Purchase Agreement and with the prior consent of the Purchasers, the Target Company not having any other liabilities, contingent liabilities, or external guarantees;
- (x) save for the disclosed contracts and the contracts to be signed by the Target Company as required for daily operations after the date of the Sale and Purchase Agreement and with the prior consent of the Purchasers, the Target Company not having any undisclosed contracts that are being performed;
- (xi) the Target Company not having any undisclosed or pending lawsuits, arbitrations, seizures, enforcements, administrative penalties, etc., and it has no outstanding tax payable;
- (xii) save for provision of security with the land use rights of the project plot and the buildings on the project plot for the existing syndicated project loan of the Target Company, there being no other encumbrances such as mortgage, seizure or pledge of accounts receivable in relation to INDIGO II. There being no encumbrances such as mortgage or seizure on assets of the Target Company other than INDIGO II;
- (xiii) Sellers Entities having complied with the agreed covenants in relation to the transition period (i.e. the period between the date of signing of the Sale and Purchase Agreement and the date of completion of the Disposal). There being no breach of such covenants by Sellers Entities, or in the case of a breach (if any), it has been substantially corrected;

- (xiv) all required internal and external approval, filing, registration and disclosure procedures for the Disposal having been completed by Sellers Entities and remaining valid;
  - (xv) relevant regulatory authorities not having taken any action to restrict, prevent or otherwise prohibit Purchaser 1 from the acquisition of Target Equity Interests and Target Creditor's Rights;
  - (xvi) Sellers having fulfilled all relevant obligations in reaching a written arrangement with Purchaser 2 (Equity) in relation to waiver of the right of first refusal by Purchaser 2 (Equity) (as an existing shareholder of the Target Company) in relation to the disposal of the portion of the Target Equity Interests to be acquired by Purchaser 1 under the Disposal (please refer to the section headed "PURCHASER 2 AGREEMENT" in the letter from the Board contained in this Circular for details of such written arrangement); and
  - (xvii) in relation to the designated account for receiving the consideration, Seller 1 and Seller 2 having signed a bank account supervision agreement with relevant parties including the Purchasers. The funds in the designated account will be supervised by such relevant parties and shall be utilized for repayment of certain existing debts owed by the related parties of Seller Entities to the relevant creditors.
2. Second instalment in the total amount of RMB0.2 billion

Upon satisfaction of the conditions precedent to the payment of the second instalment (as set out in the sub-section headed "Conditions precedent to the payment of the second instalment" herein below), the remaining consideration for the Disposal in the amount of RMB0.2 billion shall be paid in the following manners:

- (i) Purchaser 1 shall pay the consideration in the amount of RMB62,062,046.61 to Seller 1, and shall pay the consideration in the amount of RMB91,958,635.59 to Seller 2; and
- (ii) Purchaser 2 (Equity) shall pay the consideration in the amount of RMB45,979,317.80 to Seller 1.

Conditions precedent to the payment of the second instalment:

Payment of the second instalment of consideration shall be subject to the satisfaction of (unless otherwise waived or altered by mutual consent of the Purchasers), among others, the following conditions:

- (i) the conditions precedent to the payment of the first instalment, the details of which are summarised in the section headed “Conditions precedent to the payment of the first instalment” in the “Letter from the Board” in this Circular, having been fully satisfied;
- (ii) the relevant matters in relation to the settlement of certain construction fees for part of the Land between Sino-Ocean Construction and the Target Company and handover and exit works in relation to the replacement of its general contractor and the electrical and mechanical (E&M) engineering general contractor having been completed in accordance with the requirements of the Sale and Purchase Agreement;
- (iii) creditor’s rights and debts between Sino-Ocean Construction and the Target Company having been fully settled;
- (iv) Sellers Entities shall cooperate with, and shall ensure Sino-Ocean Construction and other entities to cooperate with, the Target Company to complete the replacement of the general contractor and the electrical and mechanical (E&M) general contractor for part of the Land; and
- (v) there being no breach by Sellers Entities of the Sale and Purchase Agreement, or in the case of a breach (if any), it has been substantially corrected.

Subject to the terms of the Sale and Purchase Agreement, if any of the conditions precedent to the payment of the second instalment cannot be satisfied within 1 year after the signing of the Sale and Purchase Agreement for reasons not due to the Purchasers, Purchaser 1 and Purchaser 2 (Equity) are no longer required to pay the aforementioned second instalment in the total amount of RMB0.2 billion.

Conditions precedent to the Disposal:

Completion of the Disposal is conditional upon, among other things, the satisfaction of the following conditions precedent (unless otherwise waived or altered by mutual consent of the Purchasers) within 90 days after signing of the Sale and Purchase Agreement:

- (1) Sellers Entities shall procure the Target Company and Beijing Municipal Commission of Planning and Natural Resources to sign written document(s) or Beijing Municipal Commission of Planning and Natural Resources to issue written document(s) approving the transfer of the Target Equity Interests by Beijing Municipal Commission of Planning and Natural Resources;
- (2) Sellers Entities shall procure the Target Company and Beijing Municipal Commission of Planning and Natural Resources to sign a supplementary agreement or other written document(s), or other government agencies acceptable to the Purchasers to issue written document(s) on arrangements acceptable to the Purchasers on matters of subsequent transfer of the equity interests in the Target Company by its shareholders to other entities, the property rights registration for INDIGO II, and the extension of the completion date of construction of INDIGO II;
- (3) Sellers Entities shall ensure that the equity pledge and equity freeze of the respective shareholders of the Sellers, and the pledge of revenue rights attached to the equity interests in the Target Company on the part of the Sellers, and all matters in relation to such equity pledge, equity freeze, and pledge of revenue rights that may affect the Disposal are properly handled in accordance with the requirements of the Purchasers. Sellers Entities shall issue written confirmation document(s) and relevant supporting materials to the Purchasers in this regard;

- (4) in respect of the existing syndicated project loan of the Target Company, the Target Company shall reach an arrangement acceptable to all parties in accordance with the requirements of the Purchasers, and the Target Company shall sign a valid agreement acceptable to the Purchasers with the relevant entities regarding the aforementioned matters. Sellers Entities shall ensure their full cooperation to complete such matters, and ensure that the Target Company notifies the lending banks of such project loan and/or obtain consent from the lending banks if such notification or consent is required in relation to the Disposal pursuant to the relevant syndicated project loan agreements;
- (5) Sellers Entities shall be responsible for coordinating with Jiangtai Authority Entity to issue a written document on the consent to the transfer of the Target Equity Interests and the waiver of the right of first refusal;
- (6) Sellers Entities shall ensure that the Target Company obtains the consents and approvals required in each agreement signed by the Target Company, and issues a confirmation letter to the Purchasers confirming the completion of the aforementioned matters;
- (7) the arrangements in relation to the PM Co and relevant service agreement(s) between the PM Co and the Target Company which are acceptable to Purchaser 1 and Purchaser 2 (Equity) have been reached and corresponding written agreements which are acceptable to Purchaser 1 and Purchaser 2 (Equity) have been signed, and Sellers Entities shall cooperate in this regard;
- (8) except for agreements in relation to the general contracting of construction of part of the Land for INDIGO II between Sino-Ocean Construction and the Target Company and the relevant service agreements between the PM Co and the Target Company, all agreements, contracts or collaboration arrangements between the Target Company and Sellers Entities and their related parties have been terminated in accordance with the requirements of the Purchasers, and the termination agreements shall be acceptable to the Purchasers and shall specify fee settlement and payment matters under the respective agreements;



- (9) Sellers Entities shall ensure that the use of all information systems and approval platforms that belong to Sellers Entities and their related parties by the Target Company has been terminated in accordance with the Purchasers' requirements. Sellers Entities shall hand over all data, information and materials to the Target Company in accordance with the Purchasers' requirements, and cooperate with the Target Company to launch new systems and new platforms;
- (10) the relevant construction blueprints of INDIGO II have passed the review, and the Target Company has obtained a new construction permit for designated part of the Land and all drainage permits required for INDIGO II project;
- (11) in respect of the demolition, vacancy, and resettlement agreements signed by the Target Company, Sellers Entities, after the signing of the Sale and Purchase Agreement, shall coordinate as soon as possible with the Target Company, the Jiangtai Township Government or its subsidiaries to sign relevant written documents as acceptable to the Purchasers;
- (12) all parties have reached an agreement on the transaction documents in relation to the Disposal, and the Company shall be responsible for coordinating with Jiangtai Authority Entity to sign the relevant transaction documents to complete all transactional arrangements under the Sale and Purchase Agreement;
- (13) Sellers Entities shall ensure that Sino-Ocean Construction issues a letter of undertaking to the Purchasers on the date of signing of the Sale and Purchase Agreement in relation to the matters mentioned under paragraphs (ii) and (iv) under the section headed "Conditions precedent to the payment of the second instalment" in the letter from the Board contained in this Circular;
- (14) Sellers Entities shall perform necessary internal decision-making procedures for the signing and performance of the relevant transaction documents in relation to the Disposal, and make necessary disclosures and obtain necessary approvals in accordance with applicable laws and regulations, including approval from the Shareholders on the Disposal; and

(15) Purchasers (including the limited partner(s) and executive partner(s) of Purchaser 1) shall (i) perform the necessary internal decision-making procedures and external publicity procedures for signing the relevant transaction documents in relation to the Disposal; and (ii) obtain any consent, approval, order or authorization from any applicable government agency; or make any applicable registration, qualification review, designation, declaration or filing with any government agency (including but not limited to, obtaining written or electronic approval documents of the antitrust review on concentration of business operators in relation to the Disposal), except for reporting to the National Financial Regulatory Administration and filing with the Asset Management Association of China.

If the aforementioned conditions precedent cannot be fulfilled within 90 days after the date of the Sale and Purchase Agreement, Purchaser 1 and Purchaser 2 (Equity) may jointly agree to grant a grace period (as determined by Purchaser 1 and Purchaser 2 (Equity) after negotiation) and notify the Sellers in writing. If such conditions precedent cannot be satisfied within the grace period (if any), Purchaser 1 and Purchaser 2 (Equity) may jointly decide to terminate the Sale and Purchase Agreement without assuming any liability.

#### *Completion*

Completion of the Disposal shall take place on the date on which (i) the registration of changes in relation to the Target Equity Interests to be acquired by Purchaser 1 and Purchaser 2 (Equity) with the market supervision and management authorities has been completed; and (ii) each of Purchaser 1 and Purchaser 2 (Equity) has been registered as a shareholder of the Target Company in its register of shareholders.

#### *Right of first offer (優先報價權)*

Although the Purchasers shall have the right to transfer or dispose of equity interests in the Target Company and/or its corresponding creditor's rights to parties other than the Company, the terms of the Sale and Purchase Agreement offer the Company the right of first offer to buy-back the Target Equity Interests and the Target Creditor's Rights then held by the Purchasers at a certain point in time after completion of the Disposal as agreed with the relevant purchaser at a fixed consideration or on an agreed basis for formulating the consideration, enabling the Group to have the opportunity to re-participate in the INDIGO II project when its financial position improves. Details of the right of first offer are as follows.

1. Right of first offer in relation to the equity interests and creditor's rights in the Target Company held by Purchaser 1

Provided that the terms on forfeiture of the right of first offer of the Company in the Sale and Purchase Agreement have not been triggered, the Company shall be entitled to exercise the right of first offer in respect of Purchaser 1 as follows:

- (1) Right of first offer for the Period

Subject to the judgment and internal decision-making of Purchaser 1 with regard to the market changes, Purchaser 1 intends to continue to hold the 49.895% equity interests in the Target Company for a period of 5 years from the date of completion of the Disposal. Upon the expiry of 5 years from the completion date and prior to 30 September 2037 (the "Period"), in the event that Purchaser 1 intends to transfer part or all of the equity interests held by Purchaser 1 in the Target Company, Purchaser 1 shall issue a notice to the Company and the Company shall confirm whether it will exercise its right of first offer in respect of such equity interests and creditors' rights (if any) as set out in the notice in accordance with the terms of the Sale and Purchase Agreement.

- (2) Right of first offer upon the expiry of a 5-year term

Upon the expiry of 5 years from the completion date, if Purchaser 1 holds equity interests in the Target Company at that time, the Company shall be entitled to exercise the right of first offer in accordance with the Sale and Purchase Agreement in respect of all equity interests in the Target Company then held by Purchaser 1 and all creditor's rights in the Target Company then held by Purchaser 1 (if any).

In the event that the Company intends to exercise the aforesaid right of first offer, a formal notice in writing (the "**5-Year Term Exercise Notice**") shall be issued by the Company to Purchaser 1 in accordance with the terms of the Sale and Purchase Agreement.

- (3) Right of first offer upon the expiry of a 7-year term

If the Company does not issue the 5-Year Term Exercise Notice as stipulated in paragraph (2) above, upon the expiry of 7 years from the completion date, if Purchaser 1 holds equity interests in the Target Company at that time, the Company shall be entitled to exercise the right of first offer in accordance with the Sale and Purchase Agreement in respect of all equity interests in the Target Company then held by Purchaser 1 and all creditor's rights in the Target Company then held by Purchaser 1 (if any).

In the event that the Company intends to exercise the aforesaid right of first offer, a formal notice in writing (the “7-Year Term Exercise Notice”) shall be issued by the Company to Purchaser 1 in accordance with the terms of the Sale and Purchase Agreement.

(4) Right of first offer at the end of the Period

If the Company does not issue the 5-Year Term Exercise Notice and the 7-Year Term Exercise Notice as stipulated in paragraphs (2) and (3) above respectively, upon the expiry of the period ending 30 September 2037, if Purchaser 1 still holds equity interests in the Target Company at that time, the Company shall be entitled to exercise the right of first offer in accordance with the Sale and Purchase Agreement in respect of all equity interests in the Target Company then held by Purchaser 1 and all creditor’s rights in the Target Company then held by Purchaser 1 (if any).

In the event that the Company intends to exercise the aforesaid right of first offer, a formal notice in writing shall be issued by the Company to Purchaser 1 in accordance with the terms of the Sale and Purchase Agreement.

For the avoidance of doubt, the aforesaid arrangement for the Company to enjoy the right of first offer does not restrict the right of Purchaser 1 to dispose of its equity interests and/or creditor’s rights in the Target Company in any manner, and Purchaser 1 has the right to transfer, set up security on, dispose of and/or make other arrangements of any kind for equity interests held by and/or creditor’s rights of Purchaser 1 in the Target Company unless otherwise provided in the New Shareholders Agreement.

In the event that the Company exercises the right of first offer in accordance with the Sale and Purchase Agreement, the consideration payable to Purchaser 1 for the proposed acquisition shall not be less than the higher of the following two amounts as determined between Purchaser 1 and the Company through negotiations based on the aforementioned principles:

- (i) the investment amount of Purchaser 1 for the acquisition of the equity interests and creditor’s rights in the Target Company to be transferred by Purchaser 1 in the proposed transfer (as calculated and determined by Purchaser 1) plus an amount calculated on the basis of 8% IRR (for a period

commencing from the date on which Purchaser 1 pays the first instalment of the consideration of the Disposal in accordance with the Sale and Purchase Agreement and ending on the date on which Purchaser 1 recovers its entire investment amount for the acquisition of the equity interests and creditor's rights in the Target Company to be transferred by Purchaser 1 in the proposed transfer) over the investment amount of Purchaser 1; and

(ii) the appraisal value of the equity interests and/or creditor's rights to be transferred in accordance with the then relevant requirements for the supervision and regulation of state-owned assets.

2. Right of first offer in relation to the equity interests and creditor's rights in the Target Company held by Purchasers 2

Provided that the terms on forfeiture of the right of first offer of the Company have not been triggered, the Company shall be entitled to exercise the right of first offer in respect of Purchasers 2 in accordance with the following provisions:

(1) Right of first offer upon the expiry of a 2-year term

Upon the expiry of 2 years from the date on which Seller 1 first receives the consideration paid by Purchasers 2 in accordance with the Sale and Purchase Agreement, if Purchaser 2 (Equity) is still holding equity interests in the Target Company at that time, the Company shall be entitled to exercise the right of first offer in accordance with the Sale and Purchase Agreement in respect of the 14.895% equity interests in the Target Company then held by Purchaser 2 (Equity) and the outstanding creditor's rights then held by Purchaser 2 (Debt), being the carrying amount of the portion of the Target Creditor's Rights in the Target Company acquired by Purchaser 2 (Debt) under the Disposal.

In the event that the Company intends to exercise the aforesaid right of first offer, a formal notice in writing (the "**2-Year Term Exercise Notice**") shall be issued by the Company to Purchaser 2 (Equity) upon the expiry of 2 years from the date on which Seller 1 first receives the consideration paid by Purchasers 2 in accordance with the Sale and Purchase Agreement.

(2) Right of first offer upon the expiry of a 3-year term

If the Company does not issue a 2-Year Term Exercise Notice as stipulated in paragraph (1) above, upon the expiry of 3 years from the date on which Seller 1 first receives the consideration paid by Purchaser 2 in accordance with the Sale and Purchase Agreement, if Purchaser 2 (Equity) is still holding equity interests in the Target Company at that time, the Company shall be entitled to exercise the right of first offer in accordance with the Sale and Purchase Agreement in respect of the 14.895% equity interests in the Target Company then held by Purchaser 2 (Equity) and the outstanding creditor's rights then held by Purchaser 2 (Debt), being the carrying amount of the portion of the Target Creditor's Rights in the Target Company acquired by Purchaser 2 (Debt) under the Disposal.

In the event that the Company intends to exercise the aforesaid right of first offer, a formal notice in writing (the "**3-Year Term Exercise Notice**") shall be issued by the Company to Purchaser 2 (Equity) upon the expiry of 3 years from the date on which Seller 1 first receives the consideration paid by Purchaser 2 in accordance with the Sale and Purchase Agreement.

For the avoidance of doubt, Purchaser 2 shall have the right to transfer, dispose of and/or make other arrangements of any kind at its sole discretion for equity interests held by Purchaser 2 (Equity) in the Target Company and/or all the creditor's rights of Purchaser 2 (Debt) in the Target Company, unless otherwise provided in the New Shareholders Agreement.

In the case that the Company decides to exercise any of such rights of first offer pursuant to the terms of the Sale and Purchase Agreement and the Purchaser 2 Agreement (as further elaborated in the section headed "PURCHASER 2 AGREEMENT" below) and signs transfer agreement(s) with Purchaser 1 and/or Purchaser 2, the Company will make announcement(s) as and when appropriate pursuant to the requirements of the Listing Rules.

*(B) Purchaser 2 Agreement*

In accordance with the terms of the Sale and Purchase Agreement, on 7 June 2024, the Company, Seller 1, Purchaser 2 (Equity) and Purchaser 2 (Debt) entered into the Purchaser 2 Agreement in relation to, among other things, the waiver of the right of first refusal by Purchaser 2 (Equity) (as an existing shareholder of the Target Company) in relation to the disposal of the portion of the Target Equity Interests to be acquired by Purchaser 1 under the Disposal, the adjustment and payment of the consideration payable by Purchaser 2 (Equity) in relation to the Disposal, and the Company's exercise of its right of first offer and the payment of the relevant consideration.

*Waiver of the right of first refusal by Purchaser 2 (Equity)*

Subject to the payment of RMB184 million by Seller 1 to Purchaser 2 (Equity), Purchaser 2 (Equity) agreed to waive its right of first refusal in relation to the 49.895% equity interests in the Target Company held in aggregate by the Sellers that is intended to be transferred to Purchaser 1 according to the Sale and Purchase Agreement.

*Adjustment and payment of consideration by Purchaser 2 (Equity) under the Sale and Purchase Agreement*

If the Company and Seller 1 do not pay the consideration in relation to the waiver of the right of first refusal in accordance with the terms of the Purchaser 2 Agreement, Purchaser 2 (Equity) shall have the right to set off an amount equivalent to the aforesaid consideration (i.e. RMB184 million) in relation to the waiver of the right of first refusal against the first instalment of consideration payable by Purchaser 2 (Equity) to Seller 1 under the Sale and Purchase Agreement in relation to the Disposal.

*Company's exercise of its right of first offer under the Sale and Purchase Agreement and the payment of the relevant consideration*

If the Company exercises its right of first offer in respect of the 14.895% equity interests in the Target Company held by Purchaser 2 (Equity) and the outstanding creditor's rights, forming part of the Target Creditor's Rights in the Target Company acquired by Purchaser 2 (Debt) under the Disposal, in accordance with the terms of the Sale and Purchase Agreement, it is agreed under the Purchaser 2 Agreement that the total consideration payable by the Company to Purchasers 2 for the acquisition of the equity interests and the corresponding creditor's rights shall be as follows:

- (i) in the event that the Company issues a 2-Year Term Exercise Notice, the total consideration shall be approximately RMB906 million, plus the carrying amount of the outstanding principal of and interests on the Target Creditor's Rights in the Target Company acquired by Purchaser 2 (Debt) under the Disposal; and
- (ii) in the event that the Company issues a 3-Year Term Exercise Notice, the total consideration shall be approximately RMB1,006 million, plus the carrying amount of the outstanding principal of and interests on the Target Creditor's Rights in the Target Company acquired by Purchaser 2 (Debt) under the Disposal.

## 7. Analysis of the consideration

According to the Directors, the considerations in respect of the Target Equity Interests, the Target Creditor's Rights and the respective considerations payable by Purchaser 1 and Purchasers 2 were determined based on arm's length negotiations between the relevant parties to the Disposal Agreements and with reference to a number of factors, including (i) the unaudited net asset value of the Target Company as at 30 April 2024 prepared in accordance with the Hong Kong Financial Reporting Standards (taking into account the valuation of the Property as at 30 April 2024) of approximately RMB8.4 billion; (ii) the carrying value of the Target Creditor's Right; (iii) the valuation of the Property as at 30 April 2024 in the amount of approximately RMB12.2 billion carried out by Cushman & Wakefield Limited (the "Valuer"), an independent professional property valuer; and (iv) a discount of approximately 29% to the above unaudited net asset value of the Target Company attributable to the Target Equity Interests as agreed and based on arm's length negotiations with the Purchasers, taking into account the urgency of the Group to realise its interest in INDIGO II in order to alleviate the Group's current liquidity pressure, which relates to the individual limitations/circumstances of the Group as opposed to a general willing seller in the market not subject to such limitations/circumstances.

The valuation on the Property as at 30 April 2024 was conducted by the Valuer, using various valuation approaches for different property types contained in the development project held by the Target Company.

For further details of the Valuation Report please refer to Appendix V to the Circular.

### *(i) Expertise and independence of the Valuer*

To assess the expertise and independence of the Valuer, we have (i) reviewed the engagement letter of the Valuer; and (ii) discussed with members of the valuation team engaged in the valuation of the Target Company to understand their experience and relationship with the Company as well as the valuation methodology adopted.

Based on our discussion with the Valuer and from the public domain, the Valuer, Cushman & Wakefield, provided valuation services to more than 120,000 properties in 2021, valued at over RMB6 trillion, they also advised many large-scale state-owned enterprises in their strategic reform, asset revitalization, merger and acquisition and joint venture mandates. The valuation team lead by Ms. Grace S.M. Lam, who is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and a Register Professional Surveyor (General Practice) and has over 30 years' experience in property valuation. We also understand that other members of the valuation team engaged in the Valuation have relevant working experience in carrying out valuation in the PRC's property segment and the scope of work of the Valuer is



appropriate to the opinion required to be given and we are not aware of any limitations on the scope of work which might have an adverse impact on the preparation of the valuation report issued by the Valuer.

The Valuer has confirmed that it is an independent third party of the Company, the Purchasers, and their respective associates. Furthermore, the Valuer confirmed to us that apart from normal professional fees payable to it in connection with its engagement for the issuance of the Valuation Report and other valuation engagements from time-to-time, no arrangements exist whereby it will receive any fee or benefit from the Group, the Purchasers, the Sellers, and its respective associates.

Based on our discussion with the Valuer and our review of their scope of work, we are not aware of any matters that could cause us to have doubts on the expertise and independence of the Valuer.

*(ii) The Valuation*

In assessing the fairness and reasonableness of the valuation of the Target Company, we have reviewed the Valuation Report, the basis and assumptions made, and the methodology adopted by the Valuer in preparing the Valuation. Details of the assumptions are set out in the Valuation Report as contained in Appendix V to the Circular.

We understand that the Property is under construction and the valuation assessment was on the development value as if each constituent portion of the Property has been completed on the valuation date (i.e. 30 April 2024) while taking into account the development cost incurred and the cost that will be incurred to complete the development of the Property.

The Property is a mixed-use development to be known as INDIGO II, with usage mainly including, among other things, office, commercial, hotel, and car parks. Pursuant to the Valuation Report, different valuation methodologies have been adopted for different usage types of the Property which will be elaborated as follows:

*Retail and office portions*

a) Valuation methodology

In assessing the development value of the retail and office portions of the Property as if completed, the Valuer has adopted the investment method under the income approach by capitalizing the market rent of each constituent portion of the Property at an appropriate capitalization rate and cross-checked against comparable sales evidence as available in the relevant market.

When applying investment method, the Valuer has made reference to lettings of other relevant comparable rental evidence of properties of similar use type (subject to relevant adjustments). The capitalization rates adopted in the valuation are based on the Valuer's analyses of the yields of properties of similar use type after due adjustments. Such capitalization rates are estimated with reference to the yields generally expected by the market for comparable properties of similar use type, which implicitly reflect the type and quality of the properties, the expectation of the potential future rental growth, capital appreciation, and relevant risk factors.

b) Major assumptions adopted

<b>Assumptions</b>	<b>Analysis</b>
<i>Comparable rental evidence</i>	<p>We noted that the Valuer have adopted 4 comparable properties each for retail and offices properties. We understand from the Valuer that comparable rental evidences were adopted with reference to asking prices of for let properties and adjustment has been applied in respect of nature, location and accessibility, quality, market position &amp; customer base, theme and quantum.</p> <p>We have reviewed the comparable rental asking price evidence adopted and noted that those rental transactions were in a proximate distance as compared to the Property and of comparable grades to the Property's retail and office portion to be developed. We have also discussed with the Valuer and noted that such adjustment factors were commonly applied for property valuations of such nature of properties.</p> <p>Given the comparable rental evidence were published lettings (i) recently identified on market; (ii) were retail, and/or office properties located in proximate location as compared to the Property; and (iii) were of similar grade of the Property's retail and office portion intended to be developed and for any variance between the Property and the comparable adopted, adjustment has been applied in adjusting the differences of the comparable adopted as to the Property, we concur with the Valuer that such comparables and adjustment applied are appropriate for valuing the Property.</p>

## Assumptions

## Analysis

With reference to the comparable properties and the adjustment mentioned above, average unit market rent of RMB365 per sq.m per month was adopted in the valuation for office portion of the Property and RMB609 per sq.m. per month for retail portion of the Property.

### *Office rental applied in the valuation*

In respect of RMB365 per sq.m per month for office portion of the Property, we noted from the announcement of Quarterly Operating Statement of Swire Properties Limited for the fourth Quarter 2023 (“**Operation Data Announcement**”) that INDIGO I, which is located next to the Property, recorded a latest rental range of mid RMB200 to mid RMB300 per sq.m per month, the RMB365 per sq.m per month adopted in the valuation for the Property is slightly higher than the range noted from the Operation Data Announcement, in view that the Property would be a new property while INDIGO I was completed in 2012 and the Group is disposing the Property, as such a higher than INDIGO I rental estimation applying in the valuation would be acceptable.

### *Retail rental applied in the valuation*

In respect of RMB609 per sq.m per month for retail portion of the Property, we have noted from the public domain on research data published by property agents with over 160 years of operation and current presents in the PRC on “Beijing Retail 2H/2023” paper published on 17 January 2024 that, the RMB per sq.m. month rental in Beijing shopping malls ranging from low RMB400 for suburban malls to low RMB600 for sub-prime malls and close to RMB1,400 for prime malls in 3rd quarter of 2023. In view of the location of the Property which do not situate at the prime location in Beijing (i.e. at first ring of Beijing) RMB609 per sq.m per month which is comparable to the monthly rental of sub-prime malls for retail portion of the Property would be appropriate.

#### Assumptions

#### Analysis

##### *Capitalization rate*

In the course of valuation, the Valuer has adopted capitalization rates ranging from 6% to 6.25% having regard to analysis of the rates of return of relevant market segment which indicate yields ranging mostly from 5.70% to 6.50% for commercial premises.

As discussed with the Valuer, the capitalization rates adopted were made reference to publicly available market transactions data (“**Market Reference**”) for each individual types of properties which are located proximate to the Property. We have checked on the public domain, the location of the property of the Market Reference with available addresses and noted that such properties were located within 20 minutes’ drive to the Property, which we concur with the Valuer that such Market Reference to be appropriate references.

For the capitalization rates ranging from 6% to 6.25%, we have noted from the public domain published by a global real estate agent regarding cap rates in Asia pacific that in the 4th quarter of 2023, the cap rate of Beijing’s office and retails ranged from 5.25% to 6.5%, of which the capitalization rates adopted in the valuation of the office and retail section of the Property were within the range from data obtained from the public domain.

##### *Hotel portion*

###### a) Valuation methodology

Due to scarcity of transactions of hotel properties, the Valuer has not been able to rely on Market Comparison Method and had valued the development value of the hotel portion of the Property as if completed by discounted cash flow method (“**DCF Method**”) under Income Approach. DCF Method involves discounting future net cash flow after operation-related and property-related capital taxes (i.e. net operating income) of the property for a certain forecast period and the anticipated net operating income receivable thereafter being capitalized at an appropriate terminal capitalization rate until the end of the respective unexpired land use term to its present value by using an appropriate discount

rate that reflects the rate of return required by a third party investor for an investment of this type. The Valuer has prepared the cash flow forecast for 10 years with reference to the current and anticipated market conditions (“DCF Model”).

The discount rate adopted in DCF Method reflects the rate of return required by a third party investor for an investment of similar use type. In determining the discount rate which reflects the inherent risks associated with investment in the property, the Valuer take into consideration compensation for risks inherent in future cash flows, inflation, revenue growth, the Valuer’s understanding of the return expected by investors for similar properties as well as the level of discount rates used in valuations of similar types of properties.

In determining the terminal capitalisation rate for assessing the terminal value, the Valuer had due regard, among other things, to (i) the analyses of known sales transactions of properties of similar use types, or (ii) where transactions of properties of similar use types are not available, the discount rate the Valuer have adopted, the Property’s forecasted change in revenue over the 10-year forecast period, and the duration of the remaining land use term of the property.

b) Major assumptions adopted

**Assumptions**

**Analysis**

*Room rates*

Pursuant to the Valuation Report, the Valuer has made reference to the prevailing room rate of hotels in Beijing in the range of RMB1,330 to RMB1,680 per night subject to the scale and operation of the hotel.

We have cross-checked the room rates of RMB1,100 to RMB2,757 inputted to DCF Model by the Valuer against room rates of hotels nearby the Property from the public domain and noted that the room rate applied in the DCF Model were within the range of room rates for hotels nearby the location of the Property.

We also noted that the hotel which forms part of the INDIGO 1 project, which is located at a proximate distance to the Property charged a rate of around RMB900 to RMB3,000 per night (depending on room types and dates) which is comparable to the room rates applied in the DCF Model.

Assumptions	Analysis
	<p>As the room rates adopted in the DCF Model were comparable to the ranges as noted in the public domain, we consider applying such room rates to be appropriate.</p>
<i>Occupancy rate</i>	<p>Pursuant to the Valuation Report, the Valuer has made reference to the occupancy rate of hotels in Beijing in the range of 40% to 60% subject to the scale and operation of the hotel.</p> <p>We have cross-checked the occupancy rate adopted by the Valuer of 50% to 78% in the DCF model against market data on Beijing hotel room occupancy rate published in the public domain and noted that the occupancy rate adopted by the Valuer were comparable with the occupancy rate recorded between December 2022 up to December 2023 in Beijing of between around 35% to 76.5%.</p> <p>As the occupancy rates adopted were comparable to the ranges as noted in the public domain, we consider applying such occupancy rates to be appropriate.</p>
<i>Cost of operation</i>	<p>Depending on the year of operation, gross operating profit margins of 57.2% to 61.7% were estimated in DCF model.</p> <p>We have cross-checked such margin to gross profit margin of listed companies with principal business operation of hotel on the Stock Exchange (“<b>Hotel Comparables</b>”) and noted that such margin in the DCF Model within the range of gross profit margins of the Hotel Comparables.</p>

*(iii) The consideration*

Set out below is the analysis of net consideration payable to each purchaser after taking into account the above-mentioned valuation result and the unaudited net asset value of the Target Company as at 30 April 2024 (taking into account the valuation of the Property prepared in accordance with the Hong Kong Financial Reporting Standards as at 30 April 2024) of approximately RMB8,446 million:

		Purchaser 1	Purchasers 2 (as the case maybe)
Target Creditor's Rights consideration	(a)	RMB96.1 million	RMB28.7 million
Carrying value of the Target Creditor's right as at 31 December 2023		RMB96.1 million	RMB28.7million
Premium/discount		At par	At par
Target Equity Interest consideration	(b)	RMB2,984.3 million <i>(gross &amp; net)</i>	RMB890.9 million <i>(gross)</i> RMB706.9 million <i>(net)</i>
Equity interest to be acquired		49.895%	14.895%
Net asset value of the Target Equity Interests (taking into account the valuation of the Property prepared in accordance with the Hong Kong Financial Reporting Standards as at 30 April 2024)		RMB4,214.1 million	RMB1,258.0 million
Discount in respect of the gross consideration for the equity interest to be acquired		29.2%	29.2%
Discount in respect of the net consideration for the equity interest to be acquired		29.2%	43.8%

We understand that the Target Creditor's Rights consideration were determined on a dollar-for-dollar basis with reference to the equity interest to be acquired by each of the purchasers, as Purchaser 1 and Purchaser 2 (Debt) have conditionally agreed to acquire the proportionate amount of the Target Creditor's

Rights corresponding to the percentage of equity interests in the Target Company to be acquired by each of them in the amount of RMB96.1 million and RMB28.7 million, respectively.

The net consideration for the Target Equity Interests, however, represented a discount of 29.2% and 43.8% respectively to Purchaser 1 and Purchaser 2 (Equity) were determined after arm's length negotiations between the Company, the Sellers and the Purchasers.

When determining the proposed payment of RMB184 million by Seller 1 to Purchaser 2 (Equity) under the Purchaser 2 Agreement, the Group has taken into account, among others, (i) the aforementioned transfer restrictions under the existing shareholders' agreement in respect of the Target Company that make it impossible for the Group to dispose of its Target Equity Interests and the Target Creditor's Rights to third parties during the construction stage of INDIGO II without the consent from Purchaser 2 (Equity) and the willingness of Purchaser 2 (Equity), as a current shareholder of the Target Company, not to exercise the right of first refusal and separately to provide the required consent for the investment in the Target Company by Purchaser 1; (ii) as opposed to the case of Purchaser 1 who will have the right to appoint representatives (four out of eight) to the Target Company's board (to replace the four current representatives appointed by the Group), Purchaser 2 (Equity)'s acquisition of the 14.895% equity interests in the Target Company would not enable it to increase its current representation (four out of eight) at the Target Company's board, such that it only represents an acquisition of economic interests in the Target Company; (iii) the stated intention for Purchaser 1 to acquire 49.895% equity interests in and relevant debts of the Target Company from the Group, as disclosed in the announcement of the Company dated 29 April 2024, and Purchaser 2 (Equity) is the only willing and serious buyer for the remaining portion (i.e. 14.895% equity interests in and relevant debts of the Target Company), after the Group's dedicated selling efforts for over a year and a half in actively seeking interested buyers; and (iv) if the Group continues to hold the remaining 14.895% equity interests in the Target Company, it will continue to have future funding obligations to INDIGO II, the future return from which will only be realised in the long term as described above, as such, it is the most sensible way for the Group to dispose of the remaining 14.895% equity interests in the Target Company so as to ease the Group's immediate and imminent financial and liquidity needs, and to release the Group from the future funding obligations to INDIGO II.

According to the Directors, the respective discount to the unaudited net asset value of the Target Company was agreed and based on arm's length negotiations with the respective Purchasers, taking into account the urgency of the Group to realise its interest in INDIGO II in order to alleviate the Group's current liquidity pressure, which relates to the individual limitations/circumstances of the Group as opposed to a general willing seller in the market not subject to such limitations/circumstances and a further discount of approximately RMB184



million as agreed and based on arm's length negotiations with Purchaser 2 (Equity) considering certain rights it possesses as a current shareholder of the Target Company of which without them agreeing to the Disposal, the Disposal would not be able to proceed.

Taking into consideration:

- (i) the Group has been facing significant liquidity pressure and difficulty in accessing typical financing channels amid the downturn of the real estate market in the PRC, despite the PRC government has announced a series of favorable policies recently (as summarized in the "Letter from the Board" to the Circular) in boosting the PRC property market, those policies were more focused on residential markets in particular ensuring on time delivery of pre-sale properties and providing fundings for project development. However, such policies have yet to provide immediately contribution in easing the immediate funding needs of the Group;
- (ii) the auditor of the Group had issued a disclaimer opinion on the consolidated financial statements of the Group regarding going-concern stating among other things that (a) the Group's current liabilities were in excess of current assets by approximately RMB8.45 billion as at 31 December 2023; (b) the Group had total borrowings of approximately RMB96.14 billion, of which the current borrowings amounted to approximately RMB69.75 billion, while the Group had cash and cash equivalents of approximately RMB1.99 billion as at 31 December 2023; and subsequent to 31 December 2023, the total principal and interest amounts of three of the Group's bonds are approximately RMB8.42 billion, of which approximately RMB6.42 billion has already matured but has not been repaid as at 28 March 2024;
- (iii) as disclosed in the circular of the Company dated 24 February 2021 in relation to, among other things, the investment in the Target Company, the total investment amount in the Target Company by its shareholders shall be RMB23 billion, of which the Group has already contributed approximately RMB6.3 billion (representing both Target Equity Interests and Target Creditor's Rights) as of 30 April 2024 as a 64.79% shareholder. As such, for as long as the Group remains a shareholder of the Target Company, it is expected that a substantial amount of the total investment amount remains to be contributed by the Group in respect of INDIGO II in its capacity as a 64.79% shareholder given that the project is only at its construction stage which would be burdensome to the Group's current financial and liquidity position and the Disposal would release the Group from future funding obligations to the project;

- (iv) the consideration payable by Purchaser 2 (Equity) was based on a net consideration taking into account relevant payment arrangement in order for Purchaser 2 (Equity) to agree to waive its right of first refusal in relation to the sales of the 49.895% equity interests in the Target Company held in aggregate by the Sellers to Purchaser 1 according to the Sale and Purchase Agreement of which without such waiver, the Disposal will not be able to proceed further and Purchaser 2 (Equity) is the only willing and serious buyer for the remaining portion (i.e. 14.895% equity interests in and relevant debts of the Target Company), after the Group's dedicated selling efforts for over a year and a half in actively seeking and negotiating with various counterparties;
- (v) the Target Equity Interests do not represent a full control of the underlying project, meaning that any new purchaser would need to cooperate with the other existing shareholders of the Target Company to complete the project and the development of the Property has yet to be completed nor generate any positive return, has further increased the difficulty for the Sellers in finding suitable buyers;
- (vi) we understand from the management of the Group that despite the Group's dedicated efforts of over a year and a half in actively seeking and negotiating with various counterparties (including direct approaching to two investors and indirect approaching a number of investors through a financial adviser appointed by the Group), no formal proposal has been received from parties (other than the Purchasers);
- (vii) given each of Purchaser 2 (Equity) and Purchaser 2 (Debt) and their ultimate beneficial owners is a third party independent of the Company and its connected persons (as defined under Listing Rules), and the discount in respect of the gross consideration of both Purchaser 1 and Purchaser 2 (Equity) were the same, such that the consideration offered by Purchaser 1 to the Group is no less favorable than that offered by Purchaser 2 who are independent third parties, and given Purchaser 2 (Equity) has agreed to provide a waiver of the right of first refusal in respect of the disposal of 49.895% equity interests in the Target Company to Purchaser 1 under the Disposal and it will not be provided with additional nomination right for board members of the Target Company after increasing in its' equity holdings in the Target Company, Purchaser 2 (Equity) was provided with additional discount on top of the gross consideration, by which in the context of net consideration, Purchaser 2 (Equity)'s net consideration represents a deeper discount as compared to Purchaser 1;

- (viii) the development of the Property had yet to be completed and will not be able to generate any positive cash flow in the near future to ease the liquidity pressure of the Group while the Disposal could provide immediate cash inflow to the Group for repayment of the Group's indebtedness; and
- (ix) given the prime location and development plan of the Property, the Company considers INDIGO II to be a development project with attractive prospect. While the Disposal would provide the Group with much required liquidity and would release its funding obligations to INDIGO II, any future opportunity to re-participate in the INDIGO II project is desirable. Although the Purchasers shall have the right to transfer or dispose of equity interests in the Target Company and/or its corresponding creditor's rights to parties other than the Company, the terms of the Sale and Purchase Agreement offer the Company the right of first offer to buy-back the Target Equity Interests and the Target Creditor's Rights then held by the Purchasers at a certain point in time after completion of the Disposal as agreed with the relevant purchaser at a fixed consideration or on an agreed basis for formulating the consideration, enabling the Group to have the opportunity to re-participate in the INDIGO II project when its financial position improves and provided that the terms on forfeiture of such right as stated in the Sale and Purchase Agreement have not been triggered.

We concur with the Directors (excluding (i) the independent non-executive Directors; and (ii) the Abstained Directors) that, despite the net consideration represents a discount to the net asset value of the Target Equity Interests and would result in a one-time loss on disposal (as further elaborated below), without other better offer(s) received by the Group in disposing the Target Company and other financing options to alleviate the Group's current liquidity pressure, the amount of net consideration to be reasonable.

#### **8. Financial effect of the Disposal**

Immediately after the Completion, the Company will no longer hold any equity interest in the Target Company and therefore, the Target Company's financial results and financial position will no longer have any contribution towards the consolidated financial statements of the Company.

It should be noted that the following analyses are for illustrative purpose only and do not purport to represent how the financial performance and position of the Group will be upon Completion.

#### *Effect on earnings*

It is estimated that the Group may record an unaudited loss on the Disposal, which is calculated with reference to the net consideration for the Target Equity Interests and Target Creditor's Rights (i.e. RMB3,816 million) minus (i) the audited carrying value of the Group's long-term equity investment of the Target Equity Interests as at 31 December 2023 and (ii) the Target Creditor's Rights as at 31 December 2023.

The actual amount of gain or loss as a result of the Disposal to be recorded by the Group may be different from the disclosure in the Circular and will be subject to the review and final audit of the auditors of the Group.

Nevertheless, all professional fees, taxes and other expenses (if any) incurred in association with the Disposal ("**Disposal Expenses**") will decrease the earnings of the Group.

#### *Effect on net asset value*

Referring to the analysis above, depending on the Disposal will result in a gain or loss on such disposal, such gain or loss on disposal will increase or decrease the net asset value of the Group (as the case maybe).

Referring to the illustration and based on the estimation above, the Group would likely record an immediate loss on disposal in relation to disposing the interest of the Target Company and such loss together with the Disposal Expenses will decrease the net asset value of the Group accordingly.

#### *Effect on gearing and cash flow*

Given that the net consideration for the Target Equity Interests and Target Creditor's Rights of RMB3,816 million, after reducing relevant Disposal Expenses will be applied towards repayment of relevant priority indebtedness and necessary payment obligations, it is expected that the receipt of the cash consideration by the Group will have a positive impact on the cash flow and gearing of the Group.

### **RECOMMENDATION**

Having considered the above principal factors and reasons, we are of the view that, the terms of the Disposal Agreements and the transactions contemplated thereunder (including the Disposal), although was not made in the ordinary and usual course of business of the Group, are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned; and the entering into the Disposal Agreements is in the interests of the Company and the Shareholders as a whole.



Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend Independent Shareholders to vote in favor of the relevant resolution for approving the Disposal Agreements and the transactions contemplated thereunder (including the Disposal) at the relevant general meeting.

Yours faithfully,  
For and on behalf of  
**HALCYON CAPITAL LIMITED**

A handwritten signature in black ink, appearing to be "Terry Chu", written over a horizontal line.

**Terry Chu**  
*Managing Director*

*Mr. Terry Chu is a person licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Halcyon Capital Limited and has over 24 years of experience in corporate finance industry.*