
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Central China Real Estate Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.



建業地產股份有限公司 *

Central China Real Estate Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0832)

**CONNECTED TRANSACTION
PROVISION OF FINANCIAL ASSISTANCE TO
JIAYAO GLOBAL INVESTMENTS LIMITED
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



红日资本有限公司

RED SUN CAPITAL LIMITED

Capitalised terms used in this cover page have the same meanings of those defined in this circular.

The letter from the Board is set out on pages 9 to 43 of this circular. A letter of recommendation from the Independent Board Committee to the Independent Shareholders is set out on pages 44 to 46 of this circular. A letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder, is set out on pages 47 to 88 of this circular.

The notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not the Shareholders are able to attend the EGM, the Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Center, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof should the Shareholders so wish.

14 April 2020

* for identification purpose only

PRECAUTIONARY MEASURES FOR THE EGM

Please see pages 1 to 2 of this circular for precautionary measures being taken to prevent and control the spread of the novel coronavirus at the EGM, including:

- compulsory body temperature checks and health declarations
- compulsory wearing of surgical face masks (please bring your own mask)
- no refreshment will be served
- no souvenirs will be distributed
- checks on travel history and quarantine restrictions of attendees

Any person who does not comply with the above precautionary measures may be denied entry into the EGM venue. The Company will require all attendees to wear surgical face masks before they are permitted to attend, and during their attendance of the EGM at all times, and reminds the Shareholders that they may appoint the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

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PRECAUTIONARY MEASURES FOR THE EGM

In view of the ongoing novel coronavirus epidemic and recent guidelines for prevention and control of its spread, the Company will implement the following precautionary measures at the EGM to protect the Shareholders, staff and other stakeholders who attend the EGM from the risk of infection:

- (i) compulsory body temperature checks will be conducted on every Shareholder, proxy and other attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the EGM venue or be required to leave the EGM venue;
- (ii) the Company will require all attendees to wear surgical face masks before they are permitted to attend, and during their attendance of the EGM at all times, and to maintain a safe distance between seats (please bring your own mask);
- (iii) no refreshment will be served at the EGM;
- (iv) no souvenirs will be distributed at the EGM; and
- (v) each attendee may be asked whether (a) he/she travelled outside of Hong Kong within the 14-day period immediately before the EGM; and (b) he/she is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to any of these questions may be denied entry into the EGM venue or be required to leave the EGM venue.

Any person who does not comply with above requirements may be denied entry into the EGM venue or be required to leave the EGM venue. To the extent permitted under law, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of other attendees at the EGM. In our case, denied entry to the EGM venue also means that person will not be allowed to attend the EGM.

In the interest of all stakeholders' health and safety and in accordance with recent guidelines for prevention and control of the spread of novel coronavirus, the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, the Shareholders may complete the proxy forms and appoint the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM instead of attending the EGM in person.

PRECAUTIONARY MEASURES FOR THE EGM

The proxy forms were despatched to the Shareholders together with this circular, and can otherwise be downloaded from the websites of the Company at www.jianye.com.cn or the Stock Exchange at www.hkexnews.hk. If you are not a registered Shareholder (i.e. if your Shares are held via banks, brokers, custodians or Hong Kong Securities Clearing Company Limited), you should consult directly with your banks, brokers or custodians (as the case may be) to assist you in the appointment of proxy.

If you have any questions relating to the EGM, please contact the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, via the following:

Address	: 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Email	: hkinfo@computershare.com.hk
Telephone	: +852 2865 0990
Fax	: +852 2862 8628

DEFINITIONS

In this circular and the appendices to it, the following expressions have the following meanings unless the context requires otherwise:

“Agency Agreement”	the paying and transfer agency agreement to be entered into by the Issuer, the Trustee and the agents named therein relating to the Bonds
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors of the Company
“Bonds”	the proposed issue of the 6.875% guaranteed bonds in the aggregate principal amount of US\$203,000,000 due 2021 by the Issuer
“CCRE China”	Central China Real Estate Group (China) Company Limited* (建業住宅集團(中國)有限公司), a wholly-owned subsidiary of the Company
“Closing”	completion of the subscription of the Bonds under the Subscription Agreement
“Closing Date”	has the meaning ascribed to it in the section headed “Letter from the Board – 2. Subscription Agreement – Closing Date” in this circular
“Company”	Central China Real Estate Limited (建業地產股份有限公司*), an exempted company established under the laws of the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Contracts”	the Subscription Agreement, the Trust Deed, the Agency Agreement and the Deed of Guarantee
“controlling shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Counter Indemnity”	the counter indemnity provided by the Issuer to the Guarantors under the Counter Indemnity and Facility Agreement

DEFINITIONS

“Counter Indemnity and Facility Agreement”	the agreement to be entered into between the Guarantors and the Issuer in connection with certain arrangements relating to the Guarantee, including the Guarantee Fee, Counter Indemnity and Credit Facility
“Credit Facility”	the revolving credit facility made available by the Issuer to the Guarantors under the Counter Indemnity and Facility Agreement
“Deed of Guarantee”	the deed of guarantee to be entered into by the Guarantors in favour of the Trustee relating to the Bonds
“Director(s)”	director(s) of the Company
“DIT”	DIT Group Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 726)
“DIT Group”	DIT and its subsidiaries
“Domestic Guarantee”	has the meaning ascribed to it in the section headed “Letter from the Board – 7. Listing Rules Implications – Connected transaction” in this circular
“Drawin Intelligent Manufacture”	Drawin Intelligent Manufacture Technology Industry Group Limited* (築友智造科技產業集團有限公司), a company incorporated in the PRC with limited liability and a connected person of the Company, and which also indirectly wholly-owns Jiayao
“Drawin Private Group”	Drawin Intelligent Manufacture and its subsidiaries which are not part of the DIT Group
“EGM”	the extraordinary general meeting of the Company to be convened for the Independent Shareholders to consider and if thought fit, pass resolutions to approve each of the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder

DEFINITIONS

“Engineering Services Strategic Cooperation Framework Agreement”	the framework agreement entered into between the Company and Drawin Intelligent Manufacture on 30 December 2019 for the provision of the certain engineering services by Drawin Intelligent Manufacture to the Group
“Financial Assistance” or “Guarantee”	the guarantee to be provided by the Guarantors in favour of the Trustee in respect of the Bonds pursuant to the Deed of Guarantee
“Group”	the Company and its subsidiaries
“Guarantee Fee”	the guarantee fee payable by the Issuer to the Guarantors pursuant to Counter Indemnity and Facility Agreement
“Guarantors”	the Company and the Subsidiary Guarantors (each of which is a subsidiary of the Company)
“Henan Hongdao”	Henan Hongdao Business Information Consultancy Co., Ltd.* (河南弘道商務信息諮詢有限公司), a company incorporated in the PRC with limited liability and indirectly wholly-owned and controlled by Mr. Wu, and which also is the indirect sole shareholder of Drawin Intelligent Manufacture and Jiayao
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee under the Board comprising all independent non-executive Directors to advise the Independent Shareholders on the connected transaction
“Independent Financial Adviser”	Red Sun Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder
“Independent Shareholder(s)”	shareholders of the Company other than those who have material interests in the connected transaction, being the Shareholders other than Mr. Wu and his associates

DEFINITIONS

“Investor” or “Ping An”	China Ping An Insurance Overseas (Holdings) Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of Ping An Insurance (Group) Company of China, Ltd., whose shares are listed on the Main Board of the Stock Exchange (stock code: 2318)
“Issuer” or “Jiayao”	Jiayao Global Investments Limited (嘉耀(國際)投資有限公司), a limited liability company incorporated in the British Virgin Islands which is indirectly wholly-owned and controlled by Mr. Wu, and therefore a connected person of the Company. It is a controlling shareholder of DIT, and is indirectly wholly-owned by Drawin Intelligent Manufacture
“Issuer Group”	the Issuer and its subsidiaries, which includes the DIT Group
“Latest Practicable Date”	6 April 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Loss”	any liability, damages, cost, claim, loss or expense (including without limitation, legal fees, costs and expenses and any value added tax thereon)
“Mr. Wu”	Mr. Wu Po Sum, the chairman of the Company, an executive Director and a controlling shareholder of the Company, and indirectly wholly-owns and controls the Issuer
“Obligations”	has the meaning ascribed to it in the section headed “Letter from the Board – 3. Deed of Guarantee” in this circular
“PRC”	the People’s Republic of China, which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Shareholder(s)”	holder(s) of Shares from time to time
“Shares”	the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 12 February 2020 entered into between the Issuer, the Guarantors and the Investor in connection with the subscription of the Bonds
“Subsidiary Guarantors”	<ul style="list-style-type: none">(i) Ahead Properties Limited, a company incorporated in Hong Kong;(ii) Artstar Investments Limited, a company incorporated in the British Virgin Islands;(iii) Bumper Up Limited, a company incorporated in the British Virgin Islands;(iv) Central China Properties Development Limited, a company incorporated in Hong Kong;(v) Central China Real Estate Holdings Limited, a company incorporated in the British Virgin Islands;(vi) Central China Real Estate Investments Limited, a company incorporated in Hong Kong;(vii) Construction Premier Service Limited, a company incorporated in Hong Kong;(viii) Country Star Holdings Limited, a company incorporated in Hong Kong;(ix) Joy Ascend Holdings Limited, a company incorporated in the British Virgin Islands;(x) Abundant Well Limited, a company incorporated in Hong Kong;(xi) Cheer World Limited, a company incorporated in Hong Kong;(xii) Leapup Limited, a company incorporated in the British Virgin Islands;

DEFINITIONS

	(xiii) Precise Wish Limited, a company incorporated in Hong Kong;
	(xiv) Proud Sky Investments Limited, a company incorporated in the British Virgin Islands; and
	(xv) Sino Joy Enterprises Limited, a company incorporated in the British Virgin Islands, each of which is a wholly-owned subsidiary of the Company
“Terms and Conditions”	the terms and conditions of the Bonds
“Trust Deed”	the trust deed to be entered into by the Issuer and the Trustee relating to the Bonds
“Trustee”	DB Trustees (Hong Kong) Limited
“USD” or “US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

LETTER FROM THE BOARD



建業地產股份有限公司 *

Central China Real Estate Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0832)

Executive Directors:

Mr. Wu Po Sum (*Chairman*)

Mr. Liu Weixing

Mr. Wang Jun

Mr. Yuan Xujun

Non-Executive Director:

Mr. Lim Ming Yan

Ms. Wu Wallis (alias Li Hua)

Independent Non-Executive Directors:

Mr. Cheung Shek Lun

Mr. Xin Luo Lin

Dr. Sun Yuyang

Registered Office:

Cricket Square Hutchins Drive

P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

*Principal place of business
in Hong Kong:*

Room 7701B-7702A, 77th Floor

International Commerce Centre

1 Austin Road West Kowloon

Hong Kong

14 April 2020

To the Shareholders

Dear Sir/Madam,

**CONNECTED TRANSACTION
PROVISION OF FINANCIAL ASSISTANCE TO
JIAYAO GLOBAL INVESTMENTS LIMITED**

1. INTRODUCTION

Reference is made to the announcements of the Company dated 12 February 2020, 4 March 2020, 6 April 2020 and 9 April 2020 in relation to the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder.

* for identification purpose only

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) details of the connected transaction in respect of the provision of Financial Assistance; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the connected transaction in respect of the provision of the Financial Assistance; (iii) a letter from the Independent Financial Adviser in relation to the connected transaction in respect of the provision of the Financial Assistance; and (iv) a notice convening the extraordinary general meeting, as well as any other information required to be disclosed under the Listing Rules.

2. SUBSCRIPTION AGREEMENT

Principal terms of the Subscription Agreement are set out as follows:

Date

12 February 2020 (after trading hours)

Parties

- (1) Jiayao (as the issuer);
- (2) the Company (as a guarantor);
- (3) each of the Subsidiary Guarantors (each as a guarantor); and
- (4) Ping An (as the investor).

As at the Latest Practicable Date, the Issuer is indirectly wholly-owned and controlled by Mr. Wu, the chairman of the Company, an executive Director and a controlling shareholder of the Company. Therefore the Issuer is an associate of Mr. Wu and a connected person of the Company. The Issuer is a controlling shareholder of DIT.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Investor and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

LETTER FROM THE BOARD

Principal Terms of the Bonds

- Principal Amount** : US\$203,000,000.
- Form and Denomination** : The Bonds are in registered form in the denomination of US\$100,000 each and integral multiples thereof. A bond certificate will be issued to each Bondholder in respect of its registered holding of Bonds.
- Maturity Date** : 364 days from the date of issue.
- Interest** : The Bonds bear interest from and including the Issue Date at the rate of 6.875 per cent. per annum payable semi-annually in arrears.
- Status of the Bonds** : The Bonds (when issued) will constitute direct, unconditional, unsubordinated and (subject to certain Terms and Conditions) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to certain Terms and Conditions, at all times rank at least equally with all of its other present and future direct, unconditional, unsecured and unsubordinated obligations.
- Guarantee** : Subject to the Independent Shareholders' approval set out in paragraph (c) of the sub-section headed "Letter from the Board – 2. Subscription Agreement – Conditions Precedent" in this circular, each of the Guarantors undertakes to the Investor to, on or prior to the Closing Date, execute and deliver to the Investor and the Trustee the Guarantee, pursuant to which each of the Guarantors will jointly and severally guarantee the obligations of the Issuer in respect of the Bonds, including the due and punctual payment of the principal, interest and all other amounts payable under the Bonds, as continuing security, and which shall only be discharged in accordance with the terms of the Guarantee.

LETTER FROM THE BOARD

- Status of the Guarantee** : The obligations of the Issuer in respect of the Bonds, including the due and punctual payment of the principal, premium (if any), interest and all other amounts payable under the Bonds and the Trust Deed, are irrevocably and unconditionally guaranteed by the Guarantors pursuant to the Guarantee. The obligations of each Guarantor under the Guarantee are direct, unconditional, unsubordinated and unsecured obligations of each Guarantor and (save for certain obligations required to be preferred by law) rank at least equally with all existing and future unsubordinated and unsecured obligations of each Guarantor from time to time outstanding.
- Early Redemption** : Unless previously redeemed or purchased and cancelled as provided in the Terms and Conditions, the Issuer will redeem each Bond at 100% of its principal amount together with any accrued but unpaid interest on the maturity date of the Bonds. The Issuer may not redeem the Bonds at its option prior to that date except for redemption for taxation reasons as set out in the Terms and Conditions (but without prejudice to events of default under the Terms and Conditions).
- Listing** : No application will be made for a listing of the Bonds on any stock exchange.
- Governing Law** : Hong Kong law.

LETTER FROM THE BOARD

Indemnity

Each of the Issuer and the Guarantors jointly and severally undertakes to the Investor that if the Investor or any of its nominees or any of its and their respective related parties incurs any Loss arising out of, in connection with or based on:

- (a) any breach by the Issuer or any Guarantor of any of their respective representations, warranties, undertakings, covenants, guarantees, indemnities or agreements contained in, or deemed to be made pursuant to, the Subscription Agreement or any Contract; or
- (b) the failure by the Issuer, any member of the Issuer Group or any member of the Group, or any of their respective directors or officers to comply with any requirements of statute or regulation in relation to the offering, issue and sale of the Bonds or provision of the Deed of Guarantee,

it shall pay to the Investor on demand an amount equal to such Loss on an after tax basis. This indemnity is in addition to any other remedies that the Investor or any of its nominees or any of its and their respective related parties may have.

Conditions Precedent

The obligations of the Investor to subscribe and pay for, and the obligations of the Issuer to issue, the Bonds are subject to the fulfilment, prior to or simultaneously at Closing of the following conditions to the satisfaction of the Investor:

(a) Compliance:

- (i) the representations and warranties of the Issuer and of the Guarantors in any of the Contracts being true, accurate and correct and not misleading in any respect as at each date on which they were made;
- (ii) the Issuer and the Guarantors having performed all of their respective obligations under the Contracts to be performed on or before the Closing Date;
- (iii) there having been delivered to the Investor the certificate(s) in the form set out in the Subscription Agreement, dated as of such date, of a duly authorised officer of the Issuer and a duly authorised officer of the Company to such effect; and
- (iv) there having been delivered to the Investor a disclosure document substantially in the form set out in the Subscription Agreement;

LETTER FROM THE BOARD

- (b) **Material Adverse Change:** up to the Closing Date, in the opinion of the Investor, there shall not have occurred any change (nor any development or event involving a prospective change), which is, or is reasonably likely to be, materially adverse to the condition (financial or others), prospects, results of operations, trading position or general affairs of the Issuer Group or the Group or to the trading in the shares of the Company or the shares of DIT on the Stock Exchange;
- (c) **Shareholders Approval:** on or prior to the Closing Date, the Independent Shareholders have duly passed, in accordance with the constitutional documents of the Company and the Listing Rules, resolution(s) approving the entering into and provision of the Deed of Guarantee by the Guarantors, and such approval remains valid and in full force on the Closing Date;
- (d) **Other Consents:** on or prior to the Closing Date, there shall have been delivered to the Investor copies of all consents and approvals required on the part of the Issuer or any of the Guarantors in relation to the issue of the Bonds and the performance of its obligations under the Bonds and all the transactions contemplated under the Contracts, in each case in form and substance reasonably satisfactory to the Investor (including, without limitation, approval by the Issuer's or a Guarantor's board of directors, shareholders and any relevant governmental or regulatory authorities);
- (e) **Clearance and Settlement:** on or prior to the Closing Date, the Bonds having been eligible for clearance and settlement through the facilities of Euroclear Bank S.A./N.V.;
- (f) **Contracts:** on or before the Closing Date, there having been delivered to, or at the instruction of, the Investor each of the Contracts other than the Subscription Agreement, duly executed by each party thereto other than the Investor in the form and substance as agreed between the Issuer and the Investor;
- (g) **Legal Opinions:** on or before the Closing Date, there having been delivered to the Investor opinions, in form and substance satisfactory to the Investor, dated the Closing Date, as the case may be, of:

 - (i) legal opinions of the legal counsel agreed by the parties to the Subscription Agreement as to the law of the British Virgin Islands;
 - (ii) legal opinions of the legal counsel agreed by the parties to the Subscription Agreement as to the law of the Cayman Islands;

LETTER FROM THE BOARD

- (iii) legal opinions of the legal counsel agreed by the parties to the Subscription Agreement as to English law; and
- (iv) legal opinions of the legal counsel agreed by the parties to the Subscription Agreement as to Hong Kong law.

The Investor may, at its sole discretion and upon such terms as it thinks fit, waive compliance with the whole or any part of the conditions precedent set out in the Subscription Agreement.

As at the Latest Practicable Date, none of the above conditions precedent is fulfilled.

Closing Date

Closing will take place on the day which is five business days (each being a day (other than a Saturday or Sunday or a public holiday) on which commercial banks are generally open for business in Hong Kong, London and New York City) after the day on which all conditions set out in the Subscription Agreement have been fulfilled or waived in accordance with the Subscription Agreement, or such other date as the Issuer and the Investor may mutually agree in writing (“**Closing Date**”).

Termination

At any time prior to payment of the Issue Price to the Issuer:

- (a) if there shall have come to the notice of the Investor any breach of, or any event rendering untrue or incorrect in any respect, any of the warranties, representations and undertakings contained in the Subscription Agreement or any failure to perform any of the Issuer’s or the Guarantors’ undertakings or agreements in the Subscription Agreement;
- (b) if any of the conditions precedent set out in the Subscription Agreement has not been satisfied, or waived by the Investor, on or prior to 30 April 2020;
- (c) if in the opinion of the Investor, there shall have been, since the date of the Subscription Agreement, any change, or any development involving a prospective change, in national or international monetary, financial, political or economic conditions (including foreign exchange controls) which would in its view, be likely to prejudice materially the success of the issue of the Bonds;

LETTER FROM THE BOARD

- (d) if, in the opinion of the Investor, there shall have occurred any of the following events: (i) a suspension or a material limitation in trading in securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq Stock Exchange, Inc., or the London Stock Exchange; (ii) a suspension or a material limitation in trading in the Company's securities on the Stock Exchange; (iii) a general moratorium on commercial banking activities in any of Hong Kong, the Cayman Islands, the British Virgin Islands, the PRC, London or New York declared by the relevant authorities or a material disruption in commercial banking or securities settlement or clearance services in any of Hong Kong, the Cayman Islands, the British Virgin Islands, the PRC, London or New York; or (iv) a materially adverse change or development involving a prospective change in taxation affecting the Issuer or any of the Guarantors or the Bonds;
- (e) if Mr. Wu ceases to be the controlling shareholder (within the meaning of the Listing Rules) of the Issuer, DIT or the Company, or ceases to be, or unable to perform his duties as, an executive Director or senior management of the Group; or
- (f) if, in the opinion of the Investor, there shall have occurred any event or series of events (including the occurrence of any local, national or international outbreak or escalation of disaster, hostility, insurrection, armed conflict, act of terrorism, act of God or epidemic) as would in its view be likely to prejudice materially the success of the issue and distribution of the Bonds or dealings in the Bonds in the secondary market,

then the Investor shall be entitled (but not bound) by notice to the Issuer to elect to treat such event, breach or failure as terminating the Subscription Agreement notwithstanding any other provisions of the Subscription Agreement.

3. DEED OF GUARANTEE

Pursuant to the Subscription Agreement, subject to the Independent Shareholders' approval as set out in paragraph (c) under the section headed "Letter from the Board – 2. Subscription Agreement – Conditions Precedent" in this circular, the Company and each of the Subsidiary Guarantors, as guarantors, are expected to enter into the Deed of Guarantee in favour of the Trustee prior to or upon Closing.

LETTER FROM THE BOARD

Guarantee

Under the Deed of Guarantee, each of the Guarantors unconditionally and irrevocably guarantees, on a joint and several basis, to the Trustee the due performance of and compliance with all of the obligations (present or future, direct or indirect, absolute or contingent, at any time or from time to time) of the Issuer in respect of the Bonds or under the Trust Deed and/or the Agency Agreement (the “**Obligations**”), including, but not limited to, the due and punctual payment of all sums expressed to be payable from time to time by the Issuer under the Trust Deed, the Agency Agreement and/or in respect of the Bonds, according to the terms therein. In the case of the failure of the Issuer to pay any sum as and when the same shall become due and payable, the Guarantors agree to cause such payment to be made as and when the same becomes due and payable as if such payment were made by the Issuer in the manner and currency prescribed by the Terms and Conditions for payments by the Issuer under the Trust Deed and the Agency Agreement and in respect of the Bonds.

Indemnity

If any or all of the Obligations are not duly performed by the Issuer and are not performed by the Guarantors under the Deed of Guarantee for any reason whatsoever, each Guarantor, as a separate and independent obligation and liability from its obligations and liabilities under the Deed of Guarantee, indemnifies and agrees to indemnify and keep indemnified the Trustee in full and on demand, and save harmless the Trustee from and against all and any liability, damages, cost, claim, loss or expense (including without limitation, legal fees, costs and expenses and any value added tax thereon) resulting from the failure of the Issuer and/or the Guarantors to duly perform such Obligations, provided that this indemnity shall not apply to the extent but only to the extent that a court of competent jurisdiction determines that any such liability, damages, cost, claim, loss or expense incurred or suffered by or brought against the Trustee arises directly from the fraud, wilful default or gross negligence of the Trustee. Unless prohibited under applicable laws, the Trustee shall not be responsible or liable for any special, indirect, punitive or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit), whether or not foreseeable and irrespective of whether the Trustee have been advised of the likelihood of such loss or damage and regardless of the form of action.

LETTER FROM THE BOARD

Term

The obligations of the Guarantors shall be continuing obligations notwithstanding any settlement of account or other matter or thing whatsoever and shall not be considered satisfied by any intermediate payment or satisfaction of all or any of the Issuer's obligations under or in respect of the Bonds or the Trust Deed and shall remain in full force and effect until all sums due from the Issuer under the Trust Deed or in respect of the Bonds have been paid, and all other actual or contingent obligations of the Issuer thereunder or in respect thereof have been satisfied, in full.

Our Directors currently expect that the term of the Deed of Guarantee will expire on the maturity date of the Bonds (being 364 days from the date of issue of the Bonds), which is the date on which the Issuer should have duly paid the principal amount of the Bonds together with any accrued but unpaid interest, fees or expenses in respect of the Bonds or the Trust Deed (after which the Issuer would have satisfied its actual or contingent obligations thereunder).

4. COUNTER INDEMNITY AND FACILITY AGREEMENT

On or about the same date as that of the Deed of Guarantee, the Guarantors and the Issuer are expected to enter into the Counter Indemnity and Facility Agreement. A summary of the key terms of the Counter Indemnity and Facility Agreement are set out as follows:

Guarantee Fee

A guarantee fee in the amount equal to 1.50% flat on the aggregate principal amount of the Bonds per annum shall be payable by the Issuer to the Company in arrears at the end of each calendar year after the date of the Counter Indemnity and Facility Agreement for so long as the Deed of Guarantee remains in full force and effect (which, pursuant to the Deed of Guarantee, shall be until all sums due from the Issuer under the Trust Deed or in respect of the Bonds have been paid, and all other actual or contingent obligations of the Issuer thereunder or in respect thereof have been satisfied, in full).

The Issuer further undertakes to each of the Guarantors that it will use its best efforts to duly perform and comply with all of its obligations (present or future, direct or indirect, absolute or contingent, at any time or from time to time) in respect of the Bonds or under the Trust Deed and/or the Agency Agreement, including, but not limited to, the due and punctual payment of all sums expressed to be payable from time to time by the Issuer under the Trust Deed, the Agency Agreement and/or in respect of the Bonds, according to the terms therein, and if required, to seek such assistance (financial or otherwise) as may be necessary from its shareholder(s) or ultimate beneficial owner(s) in order to ensure such due performance and compliance.

LETTER FROM THE BOARD

Credit Facility

The Issuer agrees to make available to the Guarantors a revolving credit facility in an aggregate amount of up to US\$203,000,000, which shall consist of: (1) US\$50,000,000, which shall be transferred by the Issuer to the Guarantors within three business days after Closing; and (2) the remaining US\$153,000,000, which may be drawn down by the Guarantors to the extent not cancelled, reduced or transferred by the Issuer under the Counter Indemnity and Facility Agreement, subject to the terms of the Counter Indemnity and Facility Agreement.

The interest rate applicable to each advance made under the Credit Facility for each interest period shall equal to the interest rate payable by the Issuer under the Bonds (being 6.875% per annum at the date of the Counter Indemnity and Facility Agreement) and will accrue from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 days.

Counter Indemnity

The Issuer unconditionally and irrevocably agrees as an independent and a primary obligation:

- (a) to indemnify and keep indemnified each Guarantor in full and on demand and hold harmless such Guarantor from and against all and any liabilities, damages, costs, claims, demands, payments, losses and expenses (including any direct, indirect or consequential losses, loss of profit and all interest, penalties and legal fees (calculated on a full indemnity basis) and all other costs and expenses and any value added tax thereon) incurred or suffered by such Guarantor in each case arising out of or in connection with any and every obligation and/or liability of any Guarantor under the Deed of Guarantee (including any renewal, extension, increase or variation of such obligation in or under the Deed of Guarantee); and
- (b) to pay to the Guarantors on demand from time to time any amount payable by the Issuer under paragraph (a) above with interest on that amount from the date of any Guarantor's payment made pursuant to the Deed of Guarantee.

The Counter Indemnity shall remain in full force and effect until the final release or termination of the Deed of Guarantee and the Guarantors have ceased to have any obligations under the Deed of Guarantee.

No fee is payable by the Guarantors to the Issuer for the Counter Indemnity.

LETTER FROM THE BOARD

Internal control measures

Each of the following risk control or internal control measures shall be adopted:

1. The Issuer undertakes to provide a written notice to the Guarantors whenever it withdraws or utilises any proceeds received from the issuance of the Bonds. Such notice shall specify the date and amount being withdrawn or utilised.
2. The Issuer shall provide its quarterly reports about business performance, compliance, deposits and loans, and other services, and the financial statements (including profits and loss accounts and balance sheet) to the Company for review and continuous monitoring. The Company will have specifically designated personnel from the relevant departments to monitor the financial performance and position of the Issuer and will report to the management of the Company regularly.
3. The Issuer shall also provide quarterly reports with details of the breakdown of the usage of the proceeds from the Bonds to ensure they are used for the designated purpose. Random checks may be performed by the designated personnel of the Company to monitor the usage of the proceeds from the Bonds and will report to the management of the Company regularly.
4. The management of the Company will also report the default risks and corporate governance risks in association with the Issuer to the independent non-executive Directors during each of the audit committee meetings (if necessary).

5. REASONS FOR AND BENEFITS OF THE PROVISION OF FINANCIAL ASSISTANCE

Intended use of proceeds

As far as the Company is aware, the intended use of proceeds from the issuance of Bonds, save for the US\$50 million that will be utilised by the Group via the Credit Facility, will be for (a) the expansion and construction of additional factories for the Issuer Group and/or the Drawin Private Group, (b) research and development by the Issuer Group and/or the Drawin Private Group, and (c) investment and general working capital purposes of the Issuer Group, the Drawin Private Group and/or its other affiliates.

LETTER FROM THE BOARD

Expansion of the Drawin Private Group, as well as the preferential treatment to be provided to the Group, is directly beneficial to the Company

The Drawin Private Group (including Drawin Intelligent Manufacture), one of the Group's suppliers/providers of prefabricated components and construction materials and the associated engineering and construction services, are specializing in providing integrated solutions for intelligent buildings and an innovative high-tech enterprise engaging in the ecological chain construction of intelligent buildings. In particular, the Company has entered into an Engineering Services Strategic Cooperation Framework Agreement on 30 December 2019, pursuant to which Drawin Intelligent Manufacture shall provide services (including engineering design, general contracting of construction, manufacture, transportation and installation of concrete prefabricated parts, decoration of finished housing and supply of decoration board (彩力板) for the proposed real estate projects) to the Group. Please refer to the announcement of the Company dated 30 December 2019 and the circular of the Company dated 19 February 2020, respectively, for details of the Engineering Services Strategic Cooperation Framework Agreement. In order for Drawin Intelligent Manufacture to fulfill the expected orders under the Engineering Services Strategic Cooperation Framework Agreement, Drawin Private Group requires capital to expand and increase its production capacity as well as to continue its other business operations.

As disclosed in the announcement of the Company dated 30 December 2019 and the circular of the Company dated 19 February 2020, the Group plans to transform and upgrade from the traditional construction industry to the high-tech manufacturing industry through the development of prefabricated buildings, seeking improvement in many aspects such as product quality and production efficiency. As for prefabricated buildings, construction waste can be decreased, construction water and revolving materials can be saved, and on-site labor and construction period can be reduced, so that buildings can be completed in higher quality with shortened construction period and lowered cost. The Group has increasingly adopted prefabricated components, including but not limited to decoration board (彩力板), in the designs of its real estate projects since 2019. In recent years, prefabricated components are more often used in, and being regarded as a signature of, high-end real estate properties in the PRC. It is the Group's strategy to gradually increase the ratio of prefabricated components to be used in its real estate projects, not only in its high-end projects but also widely spread to its middle or lower-end projects. In addition, with the stringent environmental protection policy implemented in Henan province, the Group plans to utilise more prefabricated components gradually in order to alleviate and avoid the impact of the implementation of more stringent environmental protection policies.

LETTER FROM THE BOARD

Drawin Private Group is one of the few suppliers in the market to possess certain high-end technology needed for carrying out prefabrication construction (装配式工程) for real estate development projects. In light of the Group's strategy as described in the above paragraph, it is of paramount importance that Drawin Private Group will be able to reliably supply such service to the Group at reasonable price to ensure the quality and timely completion of projects. The applicable pricing policies set out under the Engineering Services Strategic Cooperation Framework Agreement were agreed by the parties on arms' length negotiation and the Company sought quotations from at least two independent third party service providers to ensure that such pricing policies are fair and reasonable and no less favourable to the Company than those available from independent third parties.

Based on information provided by the Issuer and Drawin Intelligent Manufacture to the Group, including its expansion plan from the Bond proceeds and the expected cost savings to be achieved by the Issuers Group through, among others, increased production capacity which shall result in improved economies of scale and reduced transportation costs, and having considered the terms and obligations of the deed of undertaking entered into with Drawin Intelligent Manufacture which are further detailed below, the Board is of the view that the expected cost savings to be generated by the Drawin Intelligent Manufacture would further lower the Group's construction costs, as it is the business practice for the Group and its suppliers, including Drawin Intelligent Manufacture, to conduct purchases under a cost-plus model.

Given Drawin Intelligent Manufacture shall share its operating information with the Group, which shall include granting the Company access to all its books and records that are relevant to determining whether the preferential treatment has been properly given to the Company and provide the Company a monthly summary of material terms (including service type, price, amount and timing of services supplied) agreed with its other customers, further detailed below, and pursuant to the internal controls to be implemented with a view to enforce the terms of the deed undertaking with Drawin Intelligent Manufacture, the Group, through its staff at the project level, the procurement team as well as the finance team, will monitor and assess the reasonableness of the costs incurred by Drawin Intelligent Manufacture in connection with purchases made from them. The Board considered that the Group can ensure cost savings to be generated by Drawin Intelligent Manufacture will benefit the Group through lowering purchase costs.

Calculation of expected cost savings for the Group

The Board has further assessed calculations of the expected cost savings for the Group in the three years ending 31 December 2022 with reference to the construction costs per square metre under prefabricated construction method compared against the construction costs per square metre under the tradition construction method.

LETTER FROM THE BOARD

Construction costs for the prefabricated construction model – For the years ended 31 December 2017, 2018 and 2019, construction costs per square metre was approximately RMB1,938, RMB1,893 and RMB1,833, representing a year-on-year decrease of approximately 2.34% and 3.15%, respectively. For the years ending 31 December 2020, 2021 and 2022, it is estimated that construction costs per square metre will be approximately RMB1,803, RMB1,773 and RMB1,743, respectively. This was based on the prudent assumption that the previous decrease in construction costs under the prefabricated construction model will slow down, with a year-on-year decrease of approximately 1.7%. The expected cost savings are primarily related to the improved economies of scale, reduction in prefabricated mould creation costs, manufacturing set up costs, transportation costs as well as reduction in construction wastage.

Construction costs for the traditional construction model – On the other hand, for the traditional construction model, construction costs have generally been increasing, mainly due to the increase in wages of construction workers, which typically accounts for 20% to 25% of the total construction costs, depending on projects. It was estimated that this trend will continue, and construction cost per square metre will be approximately RMB1,805, RMB1,835 and RMB1,865, respectively, which assumed a year-on-year increase of RMB30 (being approximately 1.7%).

Cost savings by adopting prefabricated construction model – This means, by adopting a prefabricated construction model, the Group expects to enjoy a savings in construction costs per square metre of approximately RMB2, RMB62 and RMB122, which the Board believes to be significant. For example, if the Group's GFA of real estate projects that require such prefabricated parts is only 1.5 million square metres, 2.5 million square metres and 4.0 million square metres for the years ending December 31, 2020, 2021 and 2022 (which is a relatively conservative estimate), this means the Board expects the **aggregate potential costs savings for the Group for the upcoming three years of approximately RMB646.2 million.**

Preferential treatment to the Group

In addition, on 14 April 2020, Drawin Intelligent Manufacture executed a deed of undertaking in favour of the Company, which will take effect on the date of the Deed of Guarantee and remain in effect until the Engineering Services Strategic Cooperation Framework Agreement expires or is terminated. Under such undertaking, Drawin Intelligent Manufacture will: (1) to the extent commercially practicable, offer the Company the lowest unit price compared to its pricing policy available to its other customers from time to time for identical products or services; (2) if, during the term of the Engineering Services Strategic Cooperation Framework Agreement, the Company obtains a lower quotation from another independent third party service provider that provides comparable products or services, Drawin Intelligent Manufacture will use its reasonable commercial efforts to match such quotation; and (3) use its reasonable commercial efforts to deliver such products and services in accordance with the timeframe reasonably requested by the Company pursuant to the Engineering Services Strategic Cooperation Framework Agreement. This includes, if the situation requires (such as in the event of limited supply), prioritising the Company's orders.

LETTER FROM THE BOARD

Further, under such deed of undertaking, Drawin Intelligent Manufacture shall:

- grant the Company access to all its books and records that are relevant to determining whether the above preferential treatment has been properly given to the Company, including (among others) purchase orders from other customers;
- provide the Company a monthly summary of material terms (including service type, price, amount and timing of services supplied) agreed with its other customers;
- if Drawin Intelligent Manufacture believes it may be unable to reasonably deliver such products and services in accordance with a timeframe reasonably requested by the Company, it shall promptly inform the Company of the underlying reasons and discuss with the Company with a view to find a solution commercially acceptable by both parties; and
- confirm to the Company with each quotation given to the Company that such preferential treatment has been duly given.

In addition, the Company will implement the below internal control measures in order to ensure the proper execution and enforcement of such deed of undertaking:

- the Company's relevant project level staff responsible for supplier procurement will monitor both the relevant historical pricing records of procurement costs, as well as the market prices quoted from suppliers other than the Drawin Private Group, of the various engineering services covered under the Engineering Services Strategic Cooperation Framework Agreement, with an aim to ensure that sales prices of the relevant products and services offered by the Drawin Private Group to the Company are consistent or in line with the latest market trend;
- the Company's relevant project level staff responsible for supplier procurement will only award contracts to Drawin Intelligent Manufacture based on merit, having considered (among others) bidding price, qualifications and reputation of the supplier, qualification requirements, or obtaining quotes from at least two independent service providers, and in particular, seek a verbal confirmation from Drawin Intelligent Manufacture that such preferential treatment has been duly given;

LETTER FROM THE BOARD

- the Company's finance will review transactions with Drawin Intelligent Manufacture as a whole on a regular basis, as well as conduct monthly sample checks on purchases made by the Company under the Engineering Services Strategic Cooperation Framework Agreement, with an aim to ensure that such preferential treatment under such deed of undertaking has been duly given, and also that the abovementioned internal control procedures, have been complied with by relevant project level staff. Any findings will be reported to the Board on a monthly basis; and
- if there is discovered any potential breach of such deed of undertaking or above internal control measures, the relevant personnel must as soon as practicable inform the Board.

The Board considers that the above deed of undertaking contains favourable terms to the Group, either from a price control, monitoring or product/service delivery perspective, and is ultimately in the interests of the Company and the Shareholders as a whole.

Further, to the Directors' best knowledge and belief, the Group will be one of the Drawin Private Group's largest customers during the term of such agreement. Therefore, in light of the significance of the Group to the Drawin Private Group's business as well as the abovementioned deed of undertaking, the Company believes it will be able to procure reliable supply (both in terms of time and quality) at reasonable prices from the Drawin Private Group.

Further, as disclosed in the circular of the Company dated 19 February 2020 in relation to the Engineering Services Strategic Cooperation Framework Agreement, the Group has an established supplier procurement process. Supplier procurement is generally handled by the Company's project level staff and not the Board. This includes (among others) inviting tender from all parties (including Drawin Intelligent Manufacture and independent third parties) and the awarding of contracts will be determined based on merit, having considered (among others) bidding price, qualifications and reputation of the supplier, qualification requirements, or obtaining quotes from at least two independent service providers. In particular, the existence of the Bonds and the Deed of Guarantee will not affect such decision-making in relation to supplier procurement. The purpose of these procurement procedures is to help ensure that the terms agreed with the selected supplier are on normal commercial terms or no less favourable to the Company than those available from independent third parties.

LETTER FROM THE BOARD

The Group will be sufficiently compensated for its assumed risks under the Deed of Guarantee, which are further managed by various factors

To the Directors' best knowledge and belief, it is a common business practice for commercial banks and financial institutions, as a condition for the provision of financing to privately-owned companies (such as the Issuer), to require its associate company with a strong financial background, actual business operations or recognised listing status to provide a corporate guarantee. During the initial negotiations for the Bonds between the Investor and the Issuer, the Investor specifically raised the requirement for the deal (in light of the Issuer's status as a private company) to require a company with considerable financial strength (commensurate to the proposed principal amount of the Bonds) that is listed on the Main Board of the Stock Exchange (such as the Company) to act as guarantor. Having conducted due diligence on the Company, the Investor proposed that the same parties that acted as guarantors on the Company's recent debt financing exercises (i.e. the Company and the Subsidiary Guarantors) act as guarantors in relation to the Bonds. Such proposal was subsequently presented to the Company. No alternative guarantors were discussed among the parties. It should be noted that the Guarantors will be providing the Deed of Guarantee on a joint and several basis, which means that, in the event of a breach of such Deed of Guarantee by any of the Guarantors, the Trustee will have the right to enforce such guarantee against all or any of the Guarantors, as if they were all jointly liable. For example, the Trustee may enforce such guarantee against the Company only (which holds the entirety of the Group's assets and operations).

Accordingly, taking into account the need to support the expansion of production capacity of Drawin Private Group, and the need to maintain a reliable supply of quality construction components and services for the Group's real estate development projects, it would be of benefit to the Group to provide the Guarantee for the issuance of the Bonds by Jiayao so as to ensure that Drawin Private Group will have sufficient capital to carry out its expansion plans and business operations.

LETTER FROM THE BOARD

Issuer's repayment capability

The Company has conducted due diligence and assessment on the repayment capability of the Issuer Group, including:

- **Due diligence enquiries and financial information of the Issuer Group** – The credit history of the Issuer Group was studied by the Board, including having made due diligence enquiries with the relevant management and finance personnel of the Issuer. Further, the consolidated financial statements and management accounts of the Issuer (including net assets position, which includes its controlling stake in DIT Group) were analysed. Set out below is certain unaudited consolidated financial information of the Issuer Group:

	As at
	29 February
	2020
	<i>(RMB million)</i>
Net assets	2,614.7
	For the
	year ended
	31 December
	2019
	<i>(RMB million)</i>
Revenue	614.7
Assets	4,341.0
Profit after taxation	118.9

The Board further notes that the value of the Issuer Group's net assets substantially exceed the aggregate principal amount of the Bonds, and the Issuer Group is in a satisfactorily healthy financial condition. Further, based on the information and documents reviewed, to the Company's best knowledge and understanding, the Issuer Group has never defaulted on the repayments of any of its facilities since its establishment.

- **Deed of undertaking by Mr. Wu to provide financial assistance to Jiayao** – The Board reviewed the deed of undertaking executed by Mr. Wu in favour of Jiayao, whereby Mr. Wu undertakes to provide such direct financial assistance to Jiayao as may be necessary and requested by Jiayao in writing from time to time in order for Jiayao to duly perform or comply with its obligations in respect of external financing undertaken by Jiayao, such as the transactions contemplated in this circular. The Board has considered Mr. Wu's financial position and is of the view that he has sufficient asset worth to provide such direct financial assistance to Jiayao during the term of the Bonds.

LETTER FROM THE BOARD

- **Issuer's repayment plan for the Bonds** – The Issuer has provided to the Board its proposed repayment plan (the “**Repayment Plan**”). It is contemplated in the Repayment Plan that the Issuer intends to repay all amounts payable under the Bonds out of: (1) profit expected to be generated from Drawin Private Group; (2) dividend Mr. Wu expects to receive from the Company determined based on the Company's recent financial performance and also historical dividend practices, by assuming a similar dividend pay-out ratio adopted by the Company in recent dividend declarations in the past two years; and (3) proceeds to be derived from the disposal of various liquid assets (including shares of listed companies) held by Mr. Wu (which, for the avoidance of doubt, does not include any substantial interest in the Company).

The Board also noted that such Repayment Plan was prepared by the Issuer for due diligence and illustration purpose only, and is not meant to be exhaustive. In particular, such repayment plan was prepared on a relatively conservative basis in terms of the type of sources of funding. For example, it underestimated the final dividend for 2019 which could be receivable by Mr. Wu, as explained further below. It also did not take into account (among others) any future external financing which may be obtained by Mr. Wu. To the Directors' best knowledge and belief, Mr. Wu has over the years had a strong record of being able to obtain external financing on terms that he considers commercially acceptable, and the Board currently has no reason to doubt that, if required (for example, to facilitate Jiayao's payment obligations under the Bonds), Mr. Wu will continue to be able to do so.

Further, the Board notes the possibility that a portion of the Issuer's repayment capability may be based on dividends received by Mr. Wu from the Company. In that regard, the Directors (which includes three independent non-executive Directors) confirms they are fully aware of their fiduciary duties (including, among others, to act in the best interests of the Company and the Shareholders as a whole) and have always and will continue to fully discharge such duties when making recommendations or decisions in relation to dividend declarations. As set out in the Company's annual results announcement for the year ended 31 December 2019, the Board recommended to declare a final dividend of HK\$31.00 cents per Share. If approved by the Shareholders, the final dividend receivable by Mr. Wu from the Company will substantially exceed the corresponding amount set out in the Repayment Plan.

LETTER FROM THE BOARD

- **Drawin Private Group's budget** – The Board reviewed, and discussed with the relevant management and finance personnel of the Drawin Private Group regarding the Drawin Private Group's budget for the year ended 31 December 2020 and its underlying key assumptions. In particular, the Board noted that certain key information in such budget (such as revenue, gross profit margin and net profit margin) were made after having considered historical trends, projects and contracts on hand, potential contracts, and also industry development. Based on such budget, the Board noted that corresponding portion of the Repayment Plan is within the Drawin Private Group's projected net profit for 2020 as set out in such budget.
- **Other contractual obligations of the Issuer** – As an additional due diligence measure, the Board also reviewed the representations and warranties given by the Issuer to the Investor under the Subscription Agreement, which include, among others: (1) the Issuer and each member of the Issuer Group is in compliance with all financial covenants in its outstanding indebtedness and is not in breach or potential breach of any provision of such indebtedness; and (2) there are no outstanding guarantees or contingent payment obligations of the Issuer in respect of indebtedness of third parties. Further, the Issuer has covenanted to the Investor that, during the term of the Bonds, the Issuer is generally restricted from incurring any indebtedness in excess of HK\$500,000, save for certain exceptional circumstances (such as indebtedness relating to the refinancing of the Bonds, or workers' compensation claims).

Based on the above due diligence steps, the Board is satisfied that the Issuer will be able to fulfil its payment obligations in connection with the Bonds.

Credit Facility

Pursuant to the Counter Indemnity and Facility Agreement, the Issuer shall make available to the Guarantors the Credit Facility, pursuant to which the Guarantors may at any time during the term of the Bonds make use of the Bonds proceeds at an interest rate of 6.875% per annum as follows: (1) US\$50,000,000, which shall be transferred by the Issuer to the Guarantors within three business days after Closing; and (2) the remaining US\$153,000,000, which may be drawn down by the Guarantors to the extent that it is available based on the Issuer's actual utilisation of such Bonds proceeds. For example, the Issuer utilising more of such Bonds proceeds will correspondingly decrease the amount available to the Company under this portion of the Credit Facility.

LETTER FROM THE BOARD

The Issuer is agreeable to extending the Credit Facility to the Company, having taken into consideration the recent slowdown in the global and PRC economies, as well as considerable uncertainty about the general economic outlook. While the Issuer and Drawin Intelligent Manufacture still intend to proceed with its expansion plan in the long run, the Issuer and Drawin Intelligent Manufacture have opted to proceed with a more conservative timeframe and therefore will no longer be utilising the full amount of US\$203,000,000 in the forthcoming year. Further, the Issuer has taken into consideration the critical role played by the Company in facilitating the issue of the Bonds. Therefore, the Credit Facility has been structured such that the Company will benefit from the usage of at least US\$50,000,000 of the Bonds proceeds.

The Company currently expects to utilise such US\$50,000,000 for partial repayment of the Company's issued senior notes due October 2020.

The Directors believe that the above arrangement under the Credit Facility is highly beneficial to the Company, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole because:

- under the Credit Facility, the Issuer must transfer US\$50,000,000 (of the Bonds proceeds) to the Guarantors within three business days after Closing. This will allow the Company direct and immediate access to US\$50,000,000 at 6.875% interest. Further, this effectively results in a substantial reduction in the Company's exposure under the Deed of Guarantee from US\$203,000,000 to US\$153,000,000 (the “**Effective Exposure**”);
- the Company currently intends to draw down such amount by 30 June 2020 for partial repayment of the Company's issued senior notes. In any event, the Company's exposure under the Deed of Guarantee for such US\$50,000,000 will effectively be under the sole control of the Company. This provides the highest level of certainty for the Company and its risk for such amount will essentially be that of a borrower, which is significantly lower than the risk as a guarantor;
- the Company does not foresee any difficulty in repaying such US\$50,000,000 to Jiayao, and currently intends to do so with proceeds from the Company's ongoing sales of properties generated in its ordinary course of business;
- the Guarantee Fee payable by the Issuer to the Company is 1.5% of the aggregate principal amount of the Bonds (US\$203,000,000). This amounts to US\$3,045,000, representing 2.0% of the Company's Effective Exposure. This effective guarantee fee of 2.0% (the “**Effective Guarantee Fee**”) is greater than the guarantee fees noted by the Board in the various previous transactions and market precedents, as well as the quotes obtained by the Company from two major PRC banks, each as discussed below;

LETTER FROM THE BOARD

- further, the Company's potential financing costs have increased in light of the recent global economic slowdown as well as relative shortage and uncertainty in the liquidity market. For example, the Board noted that the cost of the Company issuing senior notes for the last ten (10) trading days up to and including the Latest Practicable Date is approximately 16.225% (with reference to the Company's previous issue of senior notes with a 1-year maturity date), which is 9.35% higher than the interest rate under the Credit Facility. Based on the US\$50,000,000 expected to be drawn down by the Company under the Credit Facility by 30 June 2020, this difference of 9.35% represents savings in financing cost of US\$4,675,000 that the Company would otherwise incur if it were to raise funds through senior notes offerings (as it has done in the past).

For illustration purpose, the abovementioned Guarantee Fee of US\$3,045,000 together with the savings in financing cost of US\$4,675,000 represent a **tangible economic benefit to the Company in the amount of US\$7,720,000, representing 5.05% of the Company's Effective Exposure**; and

- as mentioned above, the Company currently expects the remaining US\$153,000,000 available under the Credit Facility will be utilised by the Issuer to fund the business of the Issuer Group and/or the Drawin Private Group (which will ultimately benefit the Group) and that the Company will not be utilising this portion of the Credit Facility. Nevertheless, the intended purpose of this portion of the Credit Facility is not to satisfy any current and direct financing requirement of the Company, but instead to provide the Guarantors with added flexibility, namely, if it turns out due to unforeseen reasons the Issuer cannot fully utilise such US\$153,000,000, the Guarantors will then have the option (based on the Company's financing and business needs at the time) to make use of the Credit Facility to have access to funds at an interest rate at the same rate as the Bonds (i.e. 6.875%). The Company will in particular compare such 6.875% interest rate with the financing cost available to the Company from time to time (which, as demonstrated above with reference to the Company's previous issue of senior notes with a 1-year maturity date, is currently significantly higher at 16.225%). The Guarantors are neither obligated to, nor relying on the ability to, utilise this portion of the Credit Facility. Instead, this portion of the Credit Facility could potentially provide the Company with a higher degree of flexibility, and access to liquidity at a reasonable cost, which could prove to be extremely valuable in the coming year in light of the current political and economic climate as well as uncertain market outlook. Further, any actual drawdown of this portion of the Credit Facility will further reduce the Company's effective exposure under the Deed of Guarantee as well as potentially bring additional tangible economic benefit by way of savings in financing costs, as illustrated above.

LETTER FROM THE BOARD

Previous transactions and market precedents considered by the Board

Furthermore, pursuant to the Counter Indemnity and Facility Agreement, the Guarantors shall be entitled to the Guarantee Fee for the provision of the Financial Assistance. When determining the Guarantee Fee per annum entitled by the Group, the Directors have considered certain market precedents, including:

- (1) previous transactions conducted by the Group itself, where the Group provided a guarantee in favour of a third party, namely:
 - (a) in April 2016, where the Group provided liquidity support in favour of Henan Jianye Property Management Company Limited, a then service provider of the Group and an independent third party, in relation to its asset-backed securities in the amount of RMB650,000,000. Such liquidity support was in relation to an asset-backed scheme, which will provide capital to such service provider for enhancing its property management services to all of the Group's development projects and increase the Group's customer satisfaction, which in turn would be beneficial to the sustainable development of the Group. As part of such asset-backed scheme, the service provider pledged its receivable property management fees for the coming years. Further, the Group could earn a service fee of 1% of the actual cash payment being the fund of the liquidity support provided by the Group. This transaction constituted a discloseable transaction under Chapter 14 of the Listing Rules (with applicable percentage ratios being at least 5% but less than 25%). For details, please see the announcement of the Company dated 13 April 2016; and
 - (b) in December 2019, where the Group provided a guarantee in favour of Henan Hongdao Business Information Consultancy Co., Ltd.* (河南弘道商務信息諮詢有限公司), a connected person of the Group, in relation to its loan in the amount of RMB500,000,000, in return for a service fee equivalent to 1% of the guaranteed amount. This loan will be used to refinance the fund used for the acquisition of Drawin Intelligent Manufacture, which will in turn facilitate the Group to ensure stable, steady and continuous supply of quality prefabricated components/associated construction services, and most importantly at reasonable price, given that the Group has increasing demand in quality prefabricated components. This transaction also involved a counter guarantee provided by the connected borrower in favour of the Group (for nil consideration), an equity pledge provided by the connected borrower to the lending bank, and also a personal guarantee provided by Mr. Wu to the lending bank. This transaction constituted a non-exempt connected transaction under Chapter 14A of the Listing Rules (with applicable percentage ratios being at least 0.1% but less than 5%). For details, please see the announcements of the Company dated 24 December 2019 and 20 February 2020.

LETTER FROM THE BOARD

As set out above, the Board considers that the above previous transactions conducted by the Group do possess various similar characteristics as the transactions contemplated in this circular. Save as disclosed in this paragraph, the Company has not provided similar guarantees to independent third parties; and

- (2) transactions conducted by other companies which met all of the following criteria: (a) the guarantor is a company listed on the Main Board of the Stock Exchange; (b) the guarantor is not a “securities house” (as defined under Chapter 14 of the Listing Rules) or a “banking company” (as defined under Chapter 14A of the Listing Rules)” acting in its ordinary and usual course of business; (c) the transaction was conducted within six calendar months prior to the date of the Subscription Agreement, which is a scope the Board believes can cover all recent transactions while also being a reasonably sufficient time period; (d) the recipient of the guarantee is a bank or otherwise involved in the provision of financing; (e) the guaranteed amount is at least US\$100 million (which the Directors considered to be relatively sizeable and comparable in size to the amount involved under the Subscription Agreement and Deed of Guarantee); (f) the transaction was announced as either a notifiable transaction or a connected transaction and involved a provision of a guarantee by a listed company to a third party (whether an independent third party or a connected person) and not to its own subsidiaries; and (g) the transaction did not otherwise qualify for an exemption generally applicable to financial assistance provided by a listed issuer under Chapter 14A of the Listing Rules, meaning that the guarantee was not provided in proportion to the equity interest directly held by the listed issuer or its subsidiary in the connected person or the commonly held entity.

The key purpose of such criteria is to allow the Board to consider transactions that are relatively comparable to those contemplated in this circular. Given that such criteria are all characteristics of the transactions contemplated in this circular, the Board is of the view that such criteria are appropriate for assessing the fairness and reasonableness of the Deed of Guarantee.

LETTER FROM THE BOARD

The below table sets out a summary of such transactions considered by the Board based on publicly available information (which, to the Directors' knowledge and belief having conducted reasonable enquiries, is an exhaustive list):

Name of company	Stock code	Date of announcement	Relationship between company and relevant borrower	Guaranteed amount ⁽¹⁾	Percentage ratios	Guarantee fee	Reasons for and benefits of the guarantee
Legend Holdings Corporation	3396	2 August 2019	Connected person	US\$130,000,000	At least 0.1% but less than 5%	1% per annum on the maximum amount of the term loan	<p>It is a common business practice for banks to require the provision of guarantee from the shareholders of the borrower, and the banks have stronger confidence in the financial position of the listed company given its Hong Kong listing status. It is common business practice for the listed company to provide guarantees for its subsidiaries and associates.</p> <p>The guarantee will bring revenue to the listed company from the receipt of the guarantee fee.</p>
Ronshine China Holdings Limited	3301	23 August 2019	Independent third party	RMB750,000,000 (US\$106,070,000)	At least 5% but less than 25% (discloseable transaction under Chapter 14 of the Listing Rules)	Nil	<p>The guarantee will facilitate the joint venture company to meet its working capital requirement for the development of a property project, which is expected to generate substantial profits to the Group and is in line with the Group's overall business strategy and interest in the long run. The other joint venture partner also agreed to provide such guarantee under the same terms and conditions.</p>
Beijing Enterprises Clean Energy Group Limited	1250	1 November 2019	Independent third party	RMB885,000,000 (US\$125,160,000)	At least 5% but less than 25% (discloseable transaction under Chapter 14 of the Listing Rules)	Nil	<p>The guarantee will assist an independent third party in obtaining financing for the completion of a project (of which the listed company is the engineering, procurement and construction contractor) and provide the listed company a potential opportunity to invest in such project to expand its portfolio of wind power plants in the PRC.</p>

LETTER FROM THE BOARD

Name of company	Stock code	Date of announcement	Relationship between company and relevant borrower	Guaranteed amount ⁽¹⁾	Percentage ratios	Guarantee fee	Reasons for and benefits of the guarantee
China Tianrui Group Cement Company Limited	1252	8 November 2019	Connected person	RMB3,000,000,000 (US\$424,260,000)	At least 25% but less than 75% (major transaction under Chapter 14 of the Listing Rules)	Nil	It is common commercial practice for lenders in China to require the provision of guarantees as security for provision of loans to a borrower (especially private borrowers). Under the framework agreement, the listed company can seek guarantees from the connected person for its borrowings and/or debentures or corporate bonds. The historical utilisation of guarantees from such connected person is greater than the guarantee being provided by the listed company. The listed company will have recourse against such connected person for the listed company's potential losses (including counter indemnities in favour of the listed company). This arrangement also allowed the listed company to take advantage of potentially better financial terms offered by some banks.
CK Asset Holdings Limited	1113	25 November 2019	Commonly held entity (under Chapter 14A of the Listing Rules)	US\$550,000,000	At least 0.1% but less than 5%	0.45% per annum based on the average outstanding amount of the loan under the relevant facility for the prior 3 months	The guarantee will facilitate the grant of loan facilities to a joint venture that is 50%-owned by the listed company, enabling such joint venture to obtain commercially more favourable terms for such loans (including lower cost of funding and fewer operational restrictions which would allow it to enjoy higher operational flexibility and efficiency). The listed company will also receive a guarantee fee to reflect such financial assistance.
Jiangxi Copper Company Limited	358	30 December 2019	Connected person	RMB1,600,000,000 (US\$226,270,000)	N/A (transaction with connected person at subsidiary level under Rule 14A.101 of the Listing Rules)	Nil	It is common practice for financial institutions in the PRC to request for corporate guarantee as a security for loan facilities granted to borrowers. The guarantees enable the borrower (a subsidiary of the listed company) to receive financing from lenders in order to support its ordinary and usual course of business. This guarantee will also help meet the actual production and operation needs of such subsidiary, lower the finance cost, and with an intention to further increase mutual financing support between such subsidiary and the connected person. Also, a counter indemnity was provided.

LETTER FROM THE BOARD

- (1) For the purpose of this table, conversion of RMB to US\$ is based on the exchange rate of RMB1.0 to US\$0.14.

Having considered the above six market precedents, the Board noted (among others):

- (1) the guarantee fee received by the listed companies ranged from nil to 1% (while the Guarantee Fee of 1.5% under the Deed of Guarantee exceeds this range);
- (2) most of them (namely, four) involved connected transactions (as is the case for the Deed of Guarantee). That being said, the Board did not place undue emphasis on whether a market precedent involved a connected transaction, given that it is a requirement under Chapter 14A of the Listing Rules for such a connected transaction to be conducted on normal commercial terms, the terms thereof are fair and reasonable and that the aforesaid are in the interests of such listed company and its shareholders as a whole. The Board noted that the board of directors (including independent non-executive directors) of the relevant listed company of each market precedent indeed gave such a view. In any event, these connected transaction market precedents involved a guarantee fee ranging from nil to 1%, and ultimately, from all the market precedents, it did not appear that the guarantee fee amount was directly impacted by whether the transaction was a connected transaction;
- (3) it did not appear that the relative size of such guarantees (based on the percentage ratios) had any direct impact on the guarantee amount. In particular, the Board noted that the relatively significant transactions (including two discloseable transactions, and one major transaction that also involved a connected transaction) adopted a nil guarantee fee;
- (4) none of them involved any security provided in favour of the listed company (as is the case for the Deed of Guarantee);
- (5) most of them (namely, four) involved nil guarantee fee, with the reasons for and benefits of the guarantee being some other direct or indirect commercial benefit to the listed company, typically benefiting the business of the listed company, its subsidiary or joint venture;
- (6) most of them (namely, four) did not include a counter guarantee or indemnity provided to the listed company (while the transactions contemplated in this circular include the Counter Indemnity in favour of the Guarantors, as explained further below).

LETTER FROM THE BOARD

Market rates offered by banks and financial institutions

In addition, the Board is of the view that the market rates offered by banks and financial institutions in providing such similar kind of guarantee may involve fundamentally different businesses and interests which would make them less relevant for comparison. For example, the interest of such banks and financial institutions should likely solely be the guarantee fee, while the Company's interest extends beyond that (such as the priority supply and preferential prices to be provided by Drawin Intelligent Manufacture).

Nevertheless, in order to make a more complete assessment of the Deed of Guarantee, the Board directly made enquiries with two major PRC banks to obtain their preliminary quotations on their guarantee fees. The Board expressly informed such banks that such quotation is for a guarantee for financing conducted by private companies (such as the Issuer or Drawin Private Group) and not the Company itself. Such quotations ranged from 1.0% to 1.5% per annum (and can be further lowered after a proper assessment of relevant factors, including the Issuer's and Mr. Wu's creditworthiness). The Board noted that the Guarantee Fee under the Deed of Guarantee represents the highest quote offered by such banks, while the Effective Guarantee Fee exceeds such quotes. To the Directors' understanding, Drawin Private Group did not approach banks for guarantee fee quotations prior to the signing of the Subscription Agreement. Further, in any event and as mentioned above, in order to agree to the principal terms of the Bonds, the Investor specifically required the same parties that acted as guarantors on the Company's recent debt financing exercises (i.e. the Company and the Subsidiary Guarantors), instead of banks or financial institutions, to provide the Deed of Guarantee.

Counter Indemnity

The Guarantors also have the benefit of the Counter Indemnity against the Issuer, under which the Issuer unconditionally and irrevocably indemnifies and keep indemnified each Guarantor in full and on demand and hold harmless such Guarantor from and against all and any liabilities, damages, costs, claims, demands, payments, losses and expenses incurred or suffered by such Guarantor in each case arising out of or in connection with any and every obligation and/or liability of any Guarantor under the Deed of Guarantee. As mentioned in the above paragraphs, to the Company's best knowledge and understanding, the Company is of the view that the Issuer has the ability to fulfil its payment obligations under the Bonds (thus, the Company's obligations under the Deed of Guarantee are unlikely to even be triggered in the first place), and in any event, the Issuer's assets are considered sufficient to fulfil its obligations under the Counter Indemnity. Although the Issuer has not provided any security in favour of the Company in connection with the Counter Indemnity, such lack of security will not affect the enforceability of such Counter Indemnity.

LETTER FROM THE BOARD

Internal controls

In order to properly mitigate investment risks while generating investment returns, the Group is also expected to implement and take the benefit from the risk control or internal control measures to be adopted as set out in the section headed “Letter from the Board – 4. Counter Indemnity and Facility Agreement – Internal control measures” in this circular.

Through such internal control measures, the Company will be able to be aware of and monitor any potential repayment difficulties ahead of the maturity date of the Bonds, which will allow the Company to take appropriate precautionary measures (such as immediately discussing with the Issuer or even taking necessary legal action).

Conclusion

Further, the Company currently does not have any substantiated financing or fund-raising plans during the term of the Deed of the Guarantee (which, as disclosed above, is expected to expire 364 days after the issue of the Bonds). In any event, the Company does not expect the Deed of Guarantee to have any material adverse impact on the Company’s ability to obtain financing or fund-raising.

Taking into account the above, in the unlikely event that the Issuer defaults on the Bonds and the Deed of Guarantee is enforced, it is expected that there will be a short term adverse impact on the Company’s cash flow, but there will not be any material adverse impact on the Company’s operations and financial operations in the long run.

Accordingly, the Directors (excluding the independent non-executive Directors who will express their opinions after considering the advice from the Independent Financial Adviser) are of the view that the provision of Financial Assistance by the Group for the benefit of the Issuer will in turn benefit the Group. Therefore, after arm’s length negotiations between the Guarantors and the Issuer, the Guarantors agreed to provide such Financial Assistance.

Jiayao is indirectly wholly-owned by Mr. Wu. Mr. Wu is regarded as being interested in the provision of Financial Assistance and the transactions contemplated under the Subscription Agreement, the Deed of Guarantee and the Counter Indemnity and Facility Agreement due to his interest in Jiayao, and therefore he has abstained from voting on the relevant resolution of the Board approving the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder. Save as disclosed, none of the other Directors has any material interest in the same, and hence no other Director is required to abstain from voting on such Board resolutions.

LETTER FROM THE BOARD

Taking into account all of the above as a whole, the Directors (excluding the independent non-executive Directors who will express their opinions after considering the advice from the Independent Financial Adviser) considered that the arrangements for this transaction as a whole (including the amount of Guarantee Fee) sufficiently compensates the Company for the assumed risks, and ultimately, the terms of the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder are not in the ordinary and usual course of business of the Group but are on normal commercial terms, the terms thereof are fair and reasonable and that the aforesaid are in the interests of the Company and the Shareholders as a whole.

6. INFORMATION OF THE PARTIES

The Group is principally engaged in real estate development and sales in Henan Province, the PRC.

The Subsidiary Guarantors are all investment holding companies, through which the Company owns all of its assets and operations in the PRC.

The principal activity of the Issuer is investment holding, including holding approximately 63.5% of the DIT Group.

The Investor is a direct wholly owned subsidiary of Ping An Insurance (Group) Company of China, Ltd., whose shares are listed on the Main Board of the Stock Exchange (stock code: 2318). The Investor is a key platform of its group's overseas investment.

The principal activity of the Trustee is to deliver a wide range of fiduciary services to capital markets instruments including corporate debt, structured finance, project financing and syndicated loans.

7. LISTING RULES IMPLICATIONS

Connected transaction

The Issuer is indirectly wholly-owned and controlled by Mr. Wu (the chairman of the Company, an executive Director and a controlling shareholder of the Company), therefore the Issuer is an associate of Mr. Wu and a connected person of the Company. Accordingly, the Guarantee to be provided by the Guarantors for the benefit of the Issuer under the Deed of Guarantee constitutes financial assistance to be provided by the Group to a connected person and thus a connected transaction of the Company in accordance with Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

As stated in the announcement of the Company dated 24 December 2019, CCRE China (a wholly-owned subsidiary of the Company) and Henan Hongdao (which is indirectly wholly-owned and controlled by Mr. Wu and the indirect sole shareholder of Drawin Intelligent Manufacture and Jiayao) entered into a deed of guarantee arrangement, pursuant to which CCRE China shall be entitled to a 1% guarantee fee from Henan Hongdao in consideration of the provision of a corporate guarantee (the “**Domestic Guarantee**”) by CCRE China to Zhengzhou Branch of Shanghai Pudong Development Bank Co., Ltd.* (上海浦東發展銀行股份有限公司鄭州分行) in respect of Henan Hongdao’s domestic bank loan in the amount of RMB500 million. The provision of the Domestic Guarantee constituted a connected transaction subject to the reporting and announcement requirements but are exempt from the independent shareholders’ approval requirements under the Listing Rules.

Pursuant to Rules 14.22 and 14A.81 of the Listing Rules, as Henan Hongdao is indirectly wholly-owned and controlled by Mr. Wu and the indirect sole shareholder of Jiayao, and the provision of the Domestic Guarantee and the Financial Assistance were both entered into within a 12-month period and are of similar nature, the transactions thereunder shall be aggregated.

As one or more of the applicable percentage ratios (other than the profit ratio) calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Financial Assistance, when aggregated with the Domestic Guarantee, exceeds 5%, the provision of Financial Assistance constitutes a non-exempt connected transaction of the Company and is therefore subject to the reporting, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Discloseable transaction

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the provision of the Financial Assistance, when aggregated with the Domestic Guarantee, exceeds 5% but all of them are less than 25%, the provision of Financial Assistance constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements, but is exempt from circular and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

8. INDEPENDENT BOARD COMMITTEE

In compliance with the Listing Rules, the Independent Board Committee has been established to consider the terms of the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder and to advise the Independent Shareholders as to whether they are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and to give its recommendation as to the voting in respect of the resolution to be proposed at the EGM for approving the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder, after taking into account the recommendation of the Independent Financial Adviser. In this connection, the Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder. The text of the letter from the Independent Board Committee is set out on pages 44 to 46 of this circular and the text of the letter from the Independent Financial Adviser containing its advice is set out on pages 47 to 88 of this circular.

9. THE EGM

The EGM of the Company will be held at 7701B-7702A, Level 77, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong on 29 April 2020 at 15:30, during which resolutions will be proposed to the Independent Shareholders to consider and, if thought fit, pass resolutions to approve each of the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder.

The notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not the Independent Shareholders are able to attend the EGM, the Independent Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Center, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Independent Shareholders from attending and voting in person at the EGM or any adjournment thereof should the Independent Shareholders so wish.

LETTER FROM THE BOARD

As Mr. Wu is a controlling shareholder of the Company, he and his associate (namely, Joy Bright Investments Limited) are required to abstain from voting at the EGM. Save as disclosed, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no other Shareholder is required to abstain from voting on the resolution(s) to be proposed in respect of the aforesaid matters.

10. CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the EGM to be held on 29 April 2020, the register of members of the Company will be closed from 24 April 2020 to 29 April 2020 (both days inclusive), during which period no transfer of shares in the Company can be registered. In order to qualify for attending the EGM, all properly completed share transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 23 April 2020.

11. RECOMMENDATION

The Directors, including the independent non-executive Directors whose views are set out in the section headed "Letter from the Independent Board Committee" in this circular after considering the advice from the Independent Financial Adviser, are of the view that the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder have been entered into on normal commercial terms that are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board (including the Independent Board Committee) recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder.

12. ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on pages 44 to 46 of this circular which contains its recommendation to the Shareholders as to voting at the EGM in relation to the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder; and (ii) the letter from the Independent Financial Adviser as set out on pages 47 to 88 of this circular which contains its advice to the Independent Board Committee and the Shareholders in relation to the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder.

LETTER FROM THE BOARD

Your attention is also drawn to the general information set out in the appendix to this circular.

Yours faithfully,
By order of the Board of
Central China Real Estate Limited
Wu Po Sum
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



建業地產股份有限公司 *

Central China Real Estate Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0832)

14 April 2020

To the Independent Shareholders

Dear Sir/Madam,

**CONNECTED TRANSACTION
PROVISION OF FINANCIAL ASSISTANCE TO
JIAYAO GLOBAL INVESTMENTS LIMITED**

We refer to the circular of the Company dated 14 April 2020 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein have the same meanings as defined in the Circular or the letter from the Independent Financial Adviser set out in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and whether they are in the interest of the Company and the Shareholders as a whole and to recommend whether or not the Independent Shareholders should vote for the resolution to be proposed at the EGM to approve the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder. The appointment of Red Sun Capital Limited as the Independent Financial Adviser to advise you and us in this regard has been approved by us. Details of its advice, together with the principal factors and reasons it has taken into consideration in arriving at such advice, are set out on pages 47 to 88 of the Circular.

* for identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Your attention is also drawn to the “Letter from the Board” in the Circular and other information set out in the appendices thereto.

Having considered the terms of the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder and taking into account the independent advice from Red Sun Capital Limited, the Independent Financial Adviser, in particular the principal factors, reasons and recommendation as set out in its letter, which includes (among others):

- (i) the background information of the Group, in particular, the business expansion and growth in revenue and profit for the year/period recorded for the year ended 31 December 2017 and 2018, the six months ended 30 June 2018 and 2019;
- (ii) the reasons for and benefits of the provision of Financial Assistance, including (a) in view of the increasingly stringent environmental protection policy in Henan Province, the management of the Company considered it necessary for the Group to make a transition towards prefabrication construction which is in the interests of the Group, and such strategical change requires a reliable supply source, namely the Drawin Private Group, for the Group’s upcoming real estate development projects; (b) the Drawin Private Group is one of the few suppliers in the market to possess certain high-end technology needed for carrying out prefabrication construction for real estate development projects, which the Group is increasingly adopting this kind of construction for its upcoming real estate development projects, thus the management of the Company considered that it is of paramount importance that Drawin Private Group will be able to reliably supply such service to the Group on terms no less favourable to the Group than those available from independent third parties while ensuring the quality and timely completion of projects; (c) the analysis on the abilities of the Issuer and Mr. Wu to fulfil their respective obligations under the Subscription Agreement, the Counter Indemnity and Facility Agreement, and the Deed of Undertaking, under the section headed “6. Our analysis on the provision of Financial Assistance” in the letter from the Independent Financial Adviser as set out in this circular; and (d) the intended utilisation of the Credit Facility by the Group, the expected economic benefits to the Group arising thereunder as well as the resulting reduction in guarantee exposure to the Group to the Effective Exposure under the Deed of Guarantee;
- (iii) the analysis on the terms of the Financial Assistance, including the Counter Indemnity, the Guarantee Fee and the Credit Facility;

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

(iv) the analysis as a whole on (a) the market guarantee arrangements identified, which included among others, the relationship between the listed companies and the borrower, the size of the transaction to the subject listed companies, the counter-guarantee/indemnity, securities provided by the subject borrower or other relevant parties (if any), the size of the guarantee, the guarantee fee (or the lack of it) and its basis, the reasons for the market guarantee arrangements identified; (b) the market precedents identified; and (c) the previous transactions conducted by the Group, which further supported findings from the market guarantee arrangements analysis; and

(v) the financial effects of the provision of Financial Assistance,

we are of the opinion that the terms of the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable, so far as the Independent Shareholders are concerned and, in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Cheung Shek Lun

Dr. Sun Yuyang

Mr. Xin Luo Lin

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and Independent Shareholders for inclusion in this circular.



紅日資本有限公司
RED SUN CAPITAL LIMITED

Unit 3303, 33/F, West Tower, Shun Tak Centre,
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Tel: (852) 2857 9208

Fax: (852) 2857 9100

14 April 2020

*To: The Independent Board Committee and the Independent Shareholders of
Central China Real Estate Limited*

Dear Sirs,

CONNECTED TRANSACTION PROVISION OF FINANCIAL ASSISTANCE TO JIAYAO GLOBAL INVESTMENTS LIMITED

I. INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the provision of Financial Assistance and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company (the “**Circular**”) to the Shareholders dated 14 April 2020, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 12 February 2020 (after trading hours), the Company and the Subsidiary Guarantors (each of which is a subsidiary of the Company) (as Guarantors), entered into the Subscription Agreement with Jiayao (as the Issuer) and Ping An (as the Investor), pursuant to which the Issuer agreed to issue, and the Investor agreed to subscribe and pay for, or procure to be subscribed and paid for, the Bonds, while the Guarantors agreed to provide a guarantee in favour of the Trustee as security for the performance of the obligations of the Issuer under the Bonds, the Trust Deed and the Agency Agreement. It is anticipated that the Guarantors will enter into the Deed of Guarantee and the Counter Indemnity and Facility Agreement prior to or upon Closing.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the Issuer is indirectly wholly-owned and controlled by Mr. Wu (the chairman of the Company, an executive Director and a controlling shareholder of the Company), therefore the Issuer is an associate of Mr. Wu and a connected person of the Company. Accordingly, the Guarantee to be provided by the Guarantors for the benefit of the Issuer under the Deed of Guarantee constitute financial assistance to be provided by the Group to a connected person and thus a connected transaction of the Company in accordance with Chapter 14A of the Listing Rules.

As set out in the announcement of the Company dated 24 December 2019, CCRE China (a wholly-owned subsidiary of the Company) and Henan Hongdao (which is indirectly wholly-owned and controlled by Mr. Wu and the indirect sole shareholder of Drawin Intelligent Manufacture and Jiayao) entered into a deed of guarantee arrangement, pursuant to which CCRE China shall be entitled to a 1% guarantee fee from Henan Hongdao in consideration of the provision of a corporate guarantee by CCRE China to Zhengzhou Branch of Shanghai Pudong Development Bank Co., Ltd. (上海浦東發展銀行股份有限公司鄭州分行) in respect of Henan Hongdao's domestic bank loan in the amount of RMB500 million. The provision of the Domestic Guarantee constituted a connected transaction subject to the reporting and announcement requirements but are exempt from the independent Shareholders' approval requirements under the Listing Rules.

Pursuant to Rules 14.22 and 14A.81 of the Listing Rules, as Henan Hongdao is indirectly wholly-owned and controlled by Mr. Wu and the indirect sole shareholder of Jiayao, and the provision of the Domestic Guarantee and the Financial Assistance were both entered into within a 12-month period and are of similar nature, the transactions thereunder shall be aggregated.

As one or more of the applicable percentage ratios (other than the profit ratio) calculated pursuant to Rule 14.07 of the Listing Rules in respect of the provision of Financial Assistance exceeds 5%, the provision of Financial Assistance constitutes a non-exempt connected transaction of the Company and is therefore subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

II. THE INDEPENDENT BOARD COMMITTEE

The Board currently comprises Mr. Wu Po Sum, Mr. Liu Weixing, Mr. Wang Jun and Mr. Yuan Xujun as executive Directors, Mr. Lim Ming Yan and Ms. Wu Wallis (alias Li Hua) as non-executive Directors, and Mr. Cheung Shek Lun, Mr. Xin Luo Lin and Dr. Sun Yuyang as independent non-executive Directors.

The Independent Board Committee comprising all the aforementioned independent non-executive Directors has been formed to advise the Independent Shareholders as to whether the provision of Financial Assistance is on normal commercial terms and are fair and reasonable, in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We, Red Sun Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders for the purpose of advising the Independent Board Committee and the Independent Shareholders whether the terms under the provision of Financial Assistance is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

III. OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, the Issuer, the Investor and their respective shareholders, directors or chief executives, or any of their respective associates and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the provision of Financial Assistance. In the previous two years, save for our appointment as the independent financial adviser in connection with (i) the provision of corporate guarantee by the Company to a connected person, details of which are set out in the announcement of the Company dated 24 December 2019; (ii) the previous and existing engineering services strategic cooperation framework agreements of the Company entered into in November 2019 and December 2019 respectively, details of which are set out in the announcements of the Company dated 13 November 2019, 13 December 2019 and 30 December 2019, respectively; and (iii) the mandatory unconditional cash offer in connection with DIT, details of which are set out in the composite document of DIT dated 12 August 2019, Red Sun Capital Limited has not acted as an independent financial adviser to the independent board committee and the independent shareholders of the Company or DIT for any transaction.

Apart from normal professional fees paid or payable to us in connection with this appointment and the engagement as stated above as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

IV. BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group, the Issuer, the Investor and their respective shareholders and management contained in the Circular and the information and representations provided to us by the Group and/or its senior management (the “**Management**”) and/or the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular (including this letter) or otherwise provided or made or given by the Group and/or the Management and/or the Directors and for which it is/they are solely responsible were true and accurate, and valid and complete in all material respects at the time they were made and given and continue to be true and accurate, and valid and complete in all material respects as at the date of the Circular. We have assumed that all the opinions, beliefs and representations for matters relating to the Group, the Issuer, the Investor made or provided by the Management and/or the Directors contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or the Management and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and the Management has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group and/or the Management and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification nor have we conducted any independent investigation into information provided by the Directors and the Management, background, business or affairs or future prospects of the Company, the Issuer, the Investor and their respective shareholder(s) and subsidiaries or affiliates, and their respective history, experience and track records, or the prospects of the markets in which they respectively operate.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

V. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the terms of the provision of Financial Assistance, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

As set out in the Letter from the Board, the Group is principally engaged in real estate development and sales in Henan Province, the PRC.

Set out below is a summary of the Group's operating results by activities, extracted from the published annual results announcement of the Company for the year ended 31 December 2019 (the "2019 Annual Results Announcement") and the annual report of the Company for the year ended 31 December 2018 (the "2018 Annual Report"):

Summary of the Group's operating results by business activities:

	For the year ended 31 December		
	2019	2018	2017
	RMB'000	RMB'000	RMB'000
	(unaudited)	(audited)	(audited)
Revenue from contracts with customers			
within the scope of HKFRS15			
<i>Disaggregated by major products or service lines</i>			
– Sales of properties	29,161,164	13,629,185	13,210,985
– Revenue from hotel operations	322,598	284,628	265,530
– Revenue from project management service	1,022,918	675,266	307,762
– Others	96,954	47,479	–
	30,603,634	14,636,558	13,784,277
Revenue from other sources			
– Rental income from investment properties	113,607	106,669	28,568
– Rental income from properties for sale	49,457	40,253	66,362
		146,922	94,930
Total Revenue	30,766,698	14,783,480	13,879,207
Profit for the year/period	2,415,522	1,415,123	899,282

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the year ended 31 December 2019 compared to the year ended 31 December 2018

As disclosed in the 2019 Annual Results Announcement, revenue of the Group increased by approximately 108.1% to approximately RMB30,767 million in 2019 from approximately RMB14,783 million in 2018, primarily due to the increase in the number of property projects delivered and projects under development recognised according to the percentage of completion that were eligible for revenue recognition. In particular, revenue from property sales increased by approximately 114.0% to approximately RMB29,161 million in 2019 from approximately RMB13,629 million in 2018 due to an increase in the gross floor area recognised by approximately 140.8% to approximately 4,506,000 sq.m. in 2019 from approximately 1,871,000 sq.m. in 2018, while the average selling price (excluding underground parking space) decreased by approximately 11.1% to RMB6,472 per sq.m. in 2019 from RMB7,284 per sq.m. in 2018.

For the year ended 31 December 2019, profit increased by approximately 70.7% to approximately RMB2,416 million in 2019 from approximately RMB1,415 million in 2018. Such increase was primarily attributable to (i) the increase in gross profit increased from approximately RMB5,091 million in 2018 to approximately RMB8,005 million in 2019 as a result from the increase in income from sales of properties of approximately 108.1% during 2019; and (ii) the increase in other income from approximately RMB64 million in 2018 to approximately RMB800 million in 2019 as a result of (a) an increase of approximately RMB334 million in the gain from deemed disposal of joint ventures and (b) an increase of approximately RMB459 million in gain from the disposal of a joint venture recorded this year.

For the year ended 31 December 2018 compared to the year ended 31 December 2017

As disclosed in the 2018 Annual Report, revenue of the Group increased from approximately RMB13.9 billion for the year ended 31 December 2017 to approximately RMB14.8 billion for the year ended 31 December 2018, representing an increase of approximately 6.5%. The reason for such increase was mainly attributable to (i) the increase in revenue derived from sales of properties of approximately RMB418.2 million as a result of the increase in the average selling price (excluding underground parking spaces) from approximately RMB5,672 per square metre for the year ended 31 December 2017 to approximately RMB7,284 per square metre for 31 December 2018; and (ii) the increase in revenue derived from the provision of project management service of approximately RMB367.5 million as a result of the increase in operation and management services provided by the Group.

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For the year ended 31 December 2018, profit for the year also increased from approximately RMB899.3 million for the year ended 31 December 2017 to approximately RMB1,415.1 million, representing an increase of approximately 57.4%. Such increase was mainly attributable to the increase in gross profit as the gross profit margin increased from approximately 23.6% for the year ended 31 December 2017 to approximately 34.4% for the year ended 31 December 2018. The increase was principally due to (i) the increase of the average selling price of property sales recognised was higher than the increase of the average cost of sales; (ii) an increase in the proportion of sales of car park spaces with higher gross profit margin as a result of increased sales volume; (iii) an increase in the proportion of sales volume in cities with higher gross profit margin, such as Zhengzhou and Luoyang; and (iv) an increase in revenue from project management services with higher gross profit margin.

Summary of consolidated statement of financial position of the Group

	As at 31 December		
	2019	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)	(audited)
Total assets	143,967,389	101,962,375	62,527,185
Total liabilities	131,365,068	91,692,591	54,054,016
Total equity attributable to owners of the			
Company	9,718,025	8,837,090	7,694,673

The Group's total assets increased from approximately RMB62,527.2 million as at 31 December 2017 to approximately RMB101,962.4 million as at 31 December 2018. The increase was mainly due to the increase from inventories and other contract costs from approximately RMB24,341.2 million as at 31 December 2017 to approximately RMB50,316.0 million as at 31 December 2018. The Group's total liabilities also increased from approximately RMB54,054.0 million as at 31 December 2017 to approximately RMB91,692.6 million as at 31 December 2018. Such increase was mainly due to the increase in contract liabilities from nil as at 31 December 2017 to approximately RMB40,829.6 million as at 31 December 2018.

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As at 31 December 2019, the Group's total assets further increased to approximately RMB143,967.4 million which was mainly attributable to (i) the increase in inventories and other contract costs of approximately RMB19,676.6 million; and (ii) the increase in cash and cash equivalent of approximately RMB8,505.4 million as compared to the respective figures as at 31 December 2018. It was also noted that the Group's total liabilities increased to approximately RMB110,297.5 million as at 31 December 2019 which was mainly attributable to (i) the increase in trade and other payables of approximately RMB14,691.6 million; and (ii) the increase in contract liabilities of approximately RMB12,125.3 million comparing to the respective figures as at 31 December 2018. As a result of the above, the total equity attributable to owners of the Company increased from approximately RMB8.8 billion as at 31 December 2018 to approximately RMB9.7 billion as at 31 December 2019.

In addition to the above, since the six months ended 30 June 2019, we also noted from announcements of the Company dated 2 August 2019, 27 September 2019 and 1 November 2019, 10 January 2020 and 6 February 2020 that the Group has issued certain debt issuance bearing interest at a rate ranged from 6.75% to 7.9%.

2. Background information of the Issuer

The Issuer is indirectly wholly-owned and controlled by Mr. Wu and is an investment holding company incorporated in the British Virgin Islands being a controlling shareholder of DIT, whose shares are listed on the Main Board of the Stock Exchange (stock code: 726). The Issuer is also an indirect wholly owned subsidiary of Drawin Intelligence Manufacturer and therefore also a member of the Drawin Private Group. As set out in the Letter from the Board, the Drawin Private Group (including Drawin Intelligent Manufacture) is one of the Group's suppliers/providers of prefabricated components and construction material and the associated engineering and construction services, which specialised in the provision of integrated solutions for intelligent buildings and an innovative high-tech enterprise engaging in the ecological chain construction of intelligent buildings.

As set up in the announcements of the Company dated 13 November 2019 and 13 December 2019, the Company has entered into a strategic cooperation framework agreement (the **"2019 Engineering Services Strategic Cooperation Framework Agreement"**) with Drawin Intelligence Manufacture on 13 November 2019, pursuant to which Drawin Intelligent Manufacture shall provide services (including engineering design, general contracting of construction, manufacture, transportation and installation of concrete prefabricated parts, decoration of finished housing and supply of decoration board (彩力板) for the proposed real estate projects) (the **"Engineering Services"**) to the Group for the period between 1 November 2019. Subsequently on 30 December 2019, the Company entered into the existing strategic cooperation framework agreement (the **"Engineering Services Strategic Cooperation Framework Agreement"**) on 30 December 2019 to extend the cooperation between the Group and Drawin Intelligence Manufacture in relation to the provision of the Engineering Services by Drawin Intelligence Manufacture for the period between 1 January 2020 and 31 December 2022. Please refer to the announcement and circular of the Company dated 30 December 2019 and 19 February 2020 respectively, for further details of the Engineering Services Strategic Cooperation Framework Agreement.

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As disclosed in the Letter from the Board, the Group plans to transform and upgrade from the traditional construction industry to the high-tech manufacturing industry through the development of prefabricated buildings, seeking improvement in many aspects such as product quality and production efficiency. As for prefabricated buildings, construction waste can be decreased, construction water and revolving materials can be saved, and on-site labor and construction period can be reduced, so that buildings can be completed in higher quality with shortened construction period and lowered cost. The Group has increasingly adopted prefabricated components, including but not limited to decoration board (彩力板), in the designs of its real estate projects since 2019. In recent years, prefabricated components are more often used in, and being regarded as a signature of, high-end real estate properties in the PRC. It is the Group's strategy to gradually increase the ratio of prefabricated components to be used in its real estate projects, not only in its high-end projects but also widely spread to its middle or lower-end projects. In addition, with the stringent environmental protection policy implemented in Henan province, the Group plans to utilise more prefabricated components gradually in order to alleviate and avoid the impact of the implementation of more stringent environmental protection policy.

The Management advised that Drawin Intelligent Manufacture is an operator specializing in providing integrated solutions for intelligent buildings and an innovative high-tech enterprise engaging in the ecological chain construction of intelligent buildings. Drawin Intelligent Manufacture and its subsidiaries (together the **"Drawin Group"**) has been developing its decoration board since 2014 and has obtained over six patents in relation to the design and technology of the board production line. As per the website of Drawin Intelligent Manufacture (<http://www.cmdrawin.com>) and as advised by the Management, members of the Drawin Group have completed construction projects across some 20 provinces covering more than 40 cities in the PRC, they also hold various certifications/qualifications/registrations, including among others, First-grade qualification for construction main contractor* (建築工程施工總承包壹級) and High and new technological enterprise status* (高新技術企業資質). From 2018 to 2019, the Drawin Group completed 10 construction projects with the adoption of prefabricated components.

Drawin Private Group is one of the few suppliers in the market to possess certain high-end technology needed for carrying out prefabrication construction (裝配式工程) for real estate development projects. Since the Group is increasingly adopting this kind of construction for its upcoming real estate development projects, the Management considered that it is of paramount importance that Drawin Private Group will be able to reliably supply such service to the Group at reasonable price to ensure the quality and timely completion of projects.

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3. Overview of the PRC economy and urbanisation in the PRC

As set out on the website of the National Bureau of Statistics of the PRC (<http://data.stats.gov.cn>), year-on-year growth in gross domestic product for the PRC in 2018 was approximately 6.6% (2017: 6.8%). Pursuant to the Thirteenth Five Year Plan* (十三五規劃) set out by the PRC government, the annual gross domestic product growth target for the next five years from 2016 was approximately 6.5%. However, such target was subsequently adjusted down to 6.0% by the PRC government in March 2019. As stated in the Thirteenth Five Year Plan, the PRC government targets to, among others, (i) accelerate the agricultural population urbanisation* (加快農業轉移人口市民化) by implementing three main strategies, namely further reform of the household registration system* (深化戶籍制度改革), implementation of the residence permit system* (實施居住證制度) and improvement on the system for promoting urbanisation of agricultural population* (健全促進農業轉移人口市民化的機制); and (ii) optimise urbanisation layout* (優化城鎮化佈局和形態) by implementing three main strategies, namely the acceleration of the construction and advancement of urban agglomeration* (加快城市群建設發展), enhance the drive of activities by central cities* (增強中心城市輻射帶動功能) and speeding up of the development of small and medium-sized cities and characteristic towns* (加快發展中小城市和特色鎮).

The table below sets out a summary of the urbanisation levels from 2014 to 2018 in the PRC:

	2014	2015	2016	2017	2018
Total population (<i>in millions</i>)	1,367.8	1,374.6	1,382.7	1,390.0	1,395.4
Urban population (<i>in millions</i>)	749.2	771.2	793.0	813.4	831.4
Urbanisation rate (%)	54.8	56.1	57.4	58.5	59.6

Source: National Bureau of Statistics of China

In addition, we also noted that promotion of urbanisation remains one of the main objectives of the PRC government under its Thirteenth Five-Year Plan (十三五規劃). Pursuant to the Thirteenth Five-Year Plan, the PRC government has set the target for the percentage of permanent urban residents at 60% by 2020, an increase from approximately 56.1% recorded at the beginning of the Thirteenth Five Year Plan. The aforesaid PRC government policies are set with the view to promote long term stability of the PRC economy and the PRC property market.

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Furthermore, as set out on the website of the Henan Province Bureau of Statistics (<http://www.ha.stats.gov.cn>), the total population and urban population in 2018 were approximately 96.1 million and 49.7 million, respectively, based on such data, it was calculated that the urbanisation rate of Henan Province in 2018 was approximately 51.7%. On this basis, the urbanisation rate of Henan Province was calculated to be lower than the overall urbanisation rate of the PRC in 2018. Against this backdrop, the Management considered that such to be an indicator for a higher urbanisation opportunity in Henan for the future.

According to information published by the Henan Province Bureau of Statistics* (河南省統計局), in the first three quarters of 2019, the province's gross domestic product was approximately RMB3,290.0 billion, representing a year-on-year increase of approximately 8.1%. The real estate development investment was approximately RMB486.8 billion, representing a year-on-year increase of approximately 18.3%, of which residential investment was approximately RMB364.7 billion, representing a year-on-year increase of approximately 18.7%. The sales area of commercial housing* (商品房) was approximately 81.3 million square meters, representing a year-on-year increase of approximately 19.4%, of which residential sales area increased by approximately 17.2%. Commercial housing sales were approximately RMB442.6 billion, representing an increase of approximately 27.4%, of which residential sales increased by approximately 22.7%.

4. Reasons for and benefits of the provision of Financial Assistance

The Group is principally engaged in real estate development and sales in Henan Province, the PRC. As set out in the Letter from the Board, since the Group is increasingly adopting prefabrication construction for its upcoming real estate development projects, it is of paramount importance that Drawin Private Group, being one of the few suppliers in the market to possess certain high-end technology needed for carrying out prefabrication construction (装配式工程) for real estate development projects, will be able to reliably supply such service to the Group at reasonable price to ensure the quality and timely completion of projects.

The Group's expected benefits as a property developer from the intended use of proceeds

As set out in the Letter from the Board, as far as the Company aware, the intended use of proceeds of the Issuer from the issuance of Bonds, save for the amount of US\$50.0 million under the Credit Facility to be utilised by the Group, will be for (i) the expansion and construction of additional factories for the Issuer Group and/or the Drawin Private Group which are involved in the business of manufacturing construction materials; (ii) research and development by the Issuer Group and/or the Drawin Private Group; and (iii) investment and general working capital purposes of the Issuer Group, the Drawin Private Group and/or its other affiliates.

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As it is the Group's strategy to gradually increase the ratio of prefabricated components to be used in its real estate projects, not only in its high-end projects but also widely spread to its middle or lower-end projects, with the aim to differentiate its properties from the competitors', as well as to enhance the Group's brand reputation and customer recognition. The Group believes that introducing more prefabricated components in its projects will create the needed competitive edge over its competitors, strengthen the Group's position in the industry and eventually beneficial to the Group and the Shareholders as a whole.

Moreover, the Management further advised that during a three months period from November 2017 to January 2018, the relevant government authority issued a notice regarding restrictions on air-pollution activities, including certain property construction processes, in Henan Province. While such restrictions were imposed on certain more traditional construction activities, we understand from the Management that the assembling and installation of prefabricated components did not fall within the ambit of the aforesaid restrictions on air-pollution activities. Therefore, the Group is of the view that using prefabricated components for its real estate projects is a viable alternative solution which would contribute to a more efficient construction process and manage the adverse impact arising from restrictions on air-pollution activities in Henan Province imposed by the relevant government authority.

To achieve the said strategic goal, the Directors believe the Group would need to ensure stable, steady and continuous supply of quality prefabricated components at reasonable price. In the absence of stable and steady supply, it would hinder the Group's choice on construction material, limiting the designs of the properties and may cause interruption on the schedules and disturbing overall planning of the projects.

The Group's expected benefits from the continued expansion of the Drawin Private Group

Furthermore, the Company has entered into an Engineering Services Strategic Cooperation Framework Agreement on 30 December 2019, pursuant to which Drawin Intelligent Manufacture shall provide services (including engineering design, general contracting of construction, supply of concrete prefabricated parts, and supply and installation of decoration board (彩力板) for the proposed real estate projects) to the Group, further details of which are set out in the announcement and circular of the Company dated 30 December 2019 and 19 February 2020, respectively. In order for Drawin Intelligent Manufacture to fulfil the expected orders under the Engineering Services Strategic Cooperation Framework Agreement, Drawin Private Group requires capital to expand and increase its production capacity as well as to continue its other business operations.

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Accordingly, taking into account the need to support the expansion of production capacity of Drawin Private Group, and the need to maintain a reliable supply of quality construction components and services for the Group's real estate development projects, it would be beneficial to the Group to provide the Guarantee for the issuance of the Bonds by Jiayao so as to ensure that Drawin Private Group will have sufficient capital to carry out its expansion plans and business operations.

Drawin Private Group is one of the few suppliers in the PRC market to possess certain high-end technology needed for carrying out prefabrication construction (装配式工程) for real estate development projects. Since the Group is increasingly adopting this kind of construction for its upcoming real estate development projects, it is of paramount importance that Drawin Private Group will be able to reliably supply such service to the Group at reasonable price to ensure the quality and timely completion of projects. The applicable pricing policies set out under the Engineering Services Strategic Cooperation Framework Agreement were agreed by the parties on arms' length negotiation and the Company sought quotations from at least two independent third party service providers to ensure that such pricing policies are fair and reasonable and no less favourable to the Company than those available from independent third parties.

As set out in the Letter from the Board, based on information provided by the Issuer Group to the Group, including its expansion plan from the Bond proceeds and the expected cost savings to be achieved by the Issuers Group through, among others, increased production capacity which shall result in improved economies of scale and reduced transportation costs, and having considered the terms and obligations of the deed of undertaking entered into with Drawin Intelligent Manufacture which are further detailed below, the Board is of the view that the expected cost savings to be generated by the Drawin Intelligent Manufacture would further lower the Group's construction costs, as it is a business practice for the Group and its suppliers, including Drawin Intelligent Manufacture, to conduct purchases under a cost-plus model.

Given Drawin Intelligent Manufacture shall share its operating information with the Group, which shall include granting the Company access to all its books and records that are relevant to determining whether the preferential treatment has been properly given to the Company and provide the Company a monthly summary of material terms (including service type, price, amount and timing of services supplied) agreed with its other customers, further detailed below, and pursuant to the internal controls to be implemented with a view to enforce the terms of the deed undertaking with Drawin Intelligent Manufacture, the Group, through its staff at the project level, the procurement team as well as the finance team, will monitor and assess the reasonableness of the costs incurred by Drawin Intelligent Manufacture in connection with purchases made from them. The Board considered that the Group can ensure cost savings to be generated by Drawin Intelligent Manufacture will benefit the Group through lowering purchase costs.

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In this connection, we have reviewed a schedule prepared by the Management (“**Cost Saving Schedule**”) based on information collected, which sets out the calculations of the expected cost savings with reference to the construction costs per square metre under prefabricated construction method compared against the construction costs per square metre under the tradition construction method.

We understand that the aforesaid prefabricated construction costs are estimated based on historical construction costs data from 2017, 2018 and 2019, which ranged from approximately RMB1,938 per square metre in 2017, gradually decreased to approximately RMB1,893 per square metre in 2018, and further to approximately RMB1,833 per square metre in 2019. In this connection, we have further obtained and reviewed a supporting schedule provided by the Management setting out a breakdown of the historical construction costs (as set out in the Cost Saving Schedule), which included the relevant labour costs, prefabricated mould costs, water and electricity, utilities, other building materials, management costs and other sundry costs.

As detailed in the preceding paragraph, we noted that construction costs per square metre under the prefabricated construction have been decreasing at a rate of approximately 2% to 3% year-on-year, and the Management has prudently estimated a smaller year-on-year percentage decrease going forward at less than 2% in the Cost Saving Schedule, being more conservative than the aforesaid historical rate of decrease. After discussion with the Management, we understand that the expected cost savings are primarily related to the improved economies of scale, reduction in prefabricated mould creation costs, manufacturing set up costs, transportation costs as well as reduction in construction wastage. On the other hand, the construction costs per square metre under the tradition construction method have been increasing in general, primarily attributable to the increase in wages of construction workers, which typically accounts for around 20% to 25% of the total construction costs, depending on projects. Based on our work done, we are of the view that the above calculation methodology is a reasonable basis for the cost savings estimations. Under the Cost Saving Schedule, such rate of increase in wages of construction workers has been estimated at approximately 7% year-on-year, the Management advised that such estimate was based on historical salary increment of the Group. In this connection, based on our market research on historical increase in wages of PRC construction workers, we considered the aforesaid percentage increase to be reasonable.

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Furthermore, we noted that in the Cost Saving Schedule, the estimated construction area to be constructed using the prefabricated method and hence be able to enjoy such savings, has been prudently estimated for 1.5 million square metre, 2.5 million square metre and 4.0 million square metre, representing only 15%, 25% and 40% of the total estimated development area of 10.0 million square metre for each of the year ending 31 December 2020, 2021 and 2022, respectively. This is considered to be prudent in nature as the annual results announcement for the year ended 31 December 2019 sets out that (i) as of 31 December 2019, the Company commenced the construction of 100 projects in total with newly commenced gross floor area of 14,982,000 square metre, representing an increase of approximately 7% compared with the target of projects commencement at the beginning of 2019; and (ii) as at 31 December 2019, the Company had 151 projects under development with a total gross floor area of approximately 30,196,000 square metres, including 20 projects under development in Zhengzhou and 131 projects under development in other cities of Henan Province.

Having considered the expected reduction in construction costs per square metre to be attained by Drawin Intelligent Manufacture after the completion of the expansion and the expected construction area to be developed by the Group which may involve purchases from Drawin Intelligent Manufacture, barring unforeseen circumstances, the Board expects the potential aggregate cost savings for the upcoming three years to be approximately RMB646.2 million.

The Group's expected benefits from the deed of undertaking entered into with Drawin Intelligent Manufacture

In addition, on 9 April 2020, Drawin Intelligent Manufacture executed a deed of undertaking in favour of the Company, which will take effect on the date of the Deed of Guarantee and remain in effect until the Engineering Services Strategic Cooperation Framework Agreement expires or is terminated. Under such undertaking, Drawin Intelligent Manufacture will: (i) to the extent commercially practicable, offer the Company the lowest unit price compared to its pricing policy available to its other customers from time to time for identical products or services; (ii) if, during the term of the Engineering Services Strategic Cooperation Framework Agreement, the Company obtains a lower quotation from another independent third party service provider that provides comparable products or services, Drawin Intelligent Manufacture will use its reasonable commercial efforts to match such quotation; and (iii) use its reasonable commercial efforts to deliver such products and services in accordance with the timeframe reasonably requested by the Company pursuant to the Engineering Services Strategic Cooperation Framework Agreement. This includes, if the situation requires (such as in the event of limited supply), prioritising the Company's orders.

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We also noted from the Letter from the Board that, pursuant to the deed of undertaking, Drawin Intelligent Manufacture shall (i) grant the Company access to all its books and records that are relevant to determining whether the above preferential treatment has been properly given to the Company, including (among others) purchase orders from other customers; (ii) provide the Company a monthly summary of material terms (including service type, price, amount and timing of services supplied) agreed with its other customers; and (iii) if Drawin Intelligent Manufacture is unable to reasonably deliver such products and services in accordance with a timeframe reasonably requested by the Company, it shall promptly inform the Company of the underlying reasons and discuss with the Company with a view to find a solution commercially acceptable by both parties; and (iv) confirm to the Company with each quotation given to the Company that such preferential treatment has been duly given.

Having considered the aforesaid terms under the deed of undertaking, each being favourable terms to the Group either from a price control, monitoring or product delivery perspective, and our previous analysis on the importance of the Group's ability to secure and cooperate with a reliable and technical strong supplier to support its continued development, in particular, to carry out high quality prefabrication construction, we are of the view that the deed of undertaking is in the interests of the Company and the Shareholders as a whole.

In addition, we also noted that the Company will implement the below internal control measures in order to ensure the proper execution and enforcement of such deed of undertaking:

- (i) the Group's relevant project level staff responsible for supplier procurement will monitor both the relevant historical pricing records of procurement costs, as well as the market prices quoted from suppliers other than the Drawin Private Group, of the various engineering services covered under the Engineering Services Strategic Cooperation Framework Agreement, with an aim to ensure that sales prices of the relevant products and services offered by the Drawin Private Group to the Company are consistent or in line with the latest market trend;
- (ii) the Group's relevant project level staff responsible for supplier procurement will only award contracts to Drawin Intelligent Manufacture based on merit, having considered (among others) bidding price, qualifications and reputation of the supplier, qualification requirements, or obtaining quotes from at least two independent service providers, and in particular, seek a verbal confirmation from Drawin Intelligent Manufacture that such preferential treatment has been duly given;

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- (iii) the Group's finance will review transactions with Drawin Intelligent Manufacture as a whole on a regular basis, as well as conduct monthly sample checks on purchases made by the Company under the Engineering Services Strategic Cooperation Framework Agreement, with an aim to ensure that such preferential treatment under such deed of undertaking has been duly given, and also that the abovementioned internal control procedures, have been complied with by relevant project level staff. Any findings will be reported to the Board on a monthly basis; and
- (iv) if there is discovered any potential breach of such deed of undertaking or above internal control measures, the relevant personnel must as soon as practicable inform the Board.

Having considered the aforesaid internal control procedures to be implemented, in particular, different departments of the Group, namely project level staff as well as finance department staff, shall monitor and carry out the stated internal control procedures, we are of the view that there are sufficient internal control procedures in place to govern the effective enforcement of the deed of undertaking.

In addition, to the Directors' best knowledge and belief, the Group will be one of the Drawin Private Group's largest customers during the term of such agreement. Therefore, in light of the significance of the Group to the Drawin Private Group's business as well as the abovementioned deed of undertaking, the Company believes that it will be able to procure reliable supply (both in terms of time and quality) at reasonable prices from the Drawin Private Group. Given the size of the Group in terms of revenue and scale of operations as further analysed under the section headed "1. Background information of the Group", the Management considered that it is of paramount importance for the Group to secure reliable supplier with the required technological capabilities with a view to ensure smooth operations of the Group. Moreover, given the increasingly stringent environmental protection policy implemented in Henan province as discussed above, the Management considered that it is no longer a matter of debate on whether the Group should seek to a shift towards more environmental friendly construction methods, such as, prefabrication construction, it is a matter of how the Group can make such shift towards prefabrication construction which is in the interests of the Group, and such strategical change requires a reliable supply source, namely the Drawin Private Group, for the Group's upcoming real estate development projects, such that the aforesaid increasingly stringent environmental protection policy would not adversely impact the Group's operations in the foreseeable future.

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Further, as disclosed in the circular of the Company dated 19 February 2020 in relation to the Engineering Services Strategic Cooperation Framework Agreement, the Group has an established supplier procurement process. Supplier procurement is subject to various stipulated procedures which are generally handled by the Company's project staff and/or project manager and not the Board. This includes, among others, inviting tender from various suppliers, from the Group's approved supplier list, which includes Drawin Intelligent Manufacture and independent third parties, and the award of contracts will be determined based on merit, having considered (among others) bidding price, qualifications and reputation of the supplier, qualification requirements, or obtaining quotes from at least two independent service providers.

Given the above, in particular the selection of suppliers are based on a list of criteria and is handled by the relevant project staff and/or project manager, the existence of the Bonds and the Deed of Guarantee will not affect such decision-making in relation to supplier procurement. The purpose of these procurement procedures is to help ensure that the terms agreed with the selected supplier are on normal commercial terms or no less favourable to the Company than those available from independent third parties.

Counter Indemnity and Facility Agreement

We also noted that pursuant to the Counter Indemnity and Facility Agreement, the Issuer shall make available to the Guarantors the Credit Facility, pursuant to which the Guarantors may at any time during the term of the Bonds make use of the Bonds proceeds at an interest rate of 6.875% per annum, as follows: (1) US\$50.0 million, which shall be transferred by the Issuer to the Guarantors within three business days after Closing; and (2) the remaining US\$153.0 million, which may be drawn down by the Guarantors to the extent that it is available based on the Issuer's actual utilisation of such Bonds proceeds.

The availability of the Credit Facility allows the Guarantors to have access to funds at the same interest rate as the Bonds. The Issuer is agreeable to extending the Credit Facility to the Company given the recent development in the global and PRC economies. As set out in the Letter from the Board, in connection with the Credit Facility, the Company currently expects to drawdown US\$50.0 million shortly after the issue of the Bonds and no later than 30 June 2020 and to utilise such amount for partial repayment of the Group's issued senior notes due October 2020.

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The Company's current intended utilisation of the Credit Facility and the use of remaining net proceeds by the Issuer was after discussion with the Issuer subsequent to the date of the Subscription Agreement, and having considered the recent slowdown in the global and PRC economies, as well as considerable uncertainties around the general economic outlook. While the Issuer and Drawin Intelligent Manufacture still intends to proceed with its expansion plan in the long run, the Issuer has opted to proceed with a more conservative timeframe and therefore will no longer be utilising the full amount of US\$203.0 million in the forthcoming year. Further, the Issuer has taken into consideration the critical role played by the Company in facilitating the issue of the Bonds. Therefore, the Credit Facility has been structured such that the Company will benefit from the usage of at least US\$50.0 million of the Bonds proceeds.

In this connection, we observed the following:

- (i) under the Credit Facility, the Issuer must set aside US\$50.0 million out of the net proceeds raised from the Bonds for the Guarantors. On this basis, this results in a substantial reduction in the Company's exposure under the Deed of Guarantee from US\$203.0 million to US\$153.0 million (the **"Effective Exposure"**);
- (ii) along with the substantial reduction in the Company's Effective Exposure under the Deed of Guarantee, the Group will also benefit from the additional secured funding of US\$50.0 million in the prevailing uncertain economic environment;
- (iii) the Guarantee Fee payable by the Issuer to the Company at 1.50% of the aggregate principal amount of the Bonds, calculated based on US\$203.0 million multiplied by 1.50%, shall amount to approximately US\$3.05 million, representing approximately 2.00% of the Company's Effective Exposure (the **"Effective Guarantee Fee"**). The Effective Guarantee Fee is greater than the maximum guarantee fees noted from our analysis on the Market Guarantee Arrangements, Market Precedents and Previous Transactions as set out in the section headed "(iii) Market Guarantee Arrangements, Market Precedents and Previous Transactions" in this letter below, as well as the quotations obtained by the Company from two major PRC banks which are further detailed below; and
- (iv) based on market information as at the Latest Practicable Date, in light of the uncertainties associated with the continued development of the recent pandemic, the slowdown in the global economy as well as the fluctuations experienced by the capital markets, the trading yields of the debt securities issued by the Group has all increased which could potentially indicate that the Group's financing costs may have increased. With reference to the prevailing yield of the Group's senior notes with a 1-year maturity date, calculated using the average for the last ten trading days up to and including the Latest Practicable Date, the Board considered that the potential costs of the Company issuing new senior notes is approximately 16.225% compared to the interest rate under the Credit Facility of 6.875% per annum, a potential saving in financing costs of 9.350% per annum, subject to the actual interest rate at the relevant time.

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For illustrative purposes only, based on the US\$50.0 million to be drawn down by the Company under the Credit Facility by 30 June 2020, the aforesaid difference of 9.350% represents a potential savings in finance costs of approximately US\$4.67 million per annum, assuming that the Group would otherwise incur if it was to raise funds through senior notes offerings. Based on the aforesaid approximately US\$4.67 million in potential savings in finance costs together with approximately US\$3.05 million in Guarantee Fees, the total economic benefits to the Group is calculated to be approximately 5.05% of the Effective Exposure (i.e. US\$7.72 million divided by US\$153.0 million).

In addition, (i) the Company does not expect the Deed of Guarantee to have any material adverse impact on the Company's ability to obtain financing or fund-raising; (ii) the Guarantors shall also be entitled to the Guarantee Fee for the provision of the Financial Assistance; and (iii) the Guarantors also have the benefit of the Counter Indemnity against the Issuer, further details of which are set out under the section headed "5. Reasons for and benefits of the provision of Financial Assistance" in the Letter from the Board.

Having considered that, (i) the Group is principally engaged in real estate development and sales in the PRC; (ii) the expected benefits to be derived from the Group's supplier, namely the Drawin Private Group (including the Drawin Group); (iii) the track record of the Drawin Private Group in providing integrated solutions for intelligent buildings, particularly in prefabricated buildings, which is considered to be not widely available in the prevailing market; (iv) the expected benefits by developing prefabricated buildings; (v) a secured and quality supply of construction materials from a stable supplier, namely, the Drawin Private Group, which is in line with the Group's strategy shall promote the long term stability of the Group's property development business; (vi) the Engineering Services Strategic Cooperation Framework Agreement entered into by the Company (as services user) and Drawin Intelligent Manufacture (as services provider); (vii) the expected benefits of the Group from the deed of undertaking executed by Drawin Intelligent Manufacture in favour of the Company which is further detailed under paragraph headed "The Group's expected benefits from the deed of undertaking entered into with the Drawin Intelligent Manufacture" above; and (viii) the expected benefits related to the US\$50.0 million drawdown to be made by the Group and the economic benefits to the Group as a whole as further discussed under the paragraph headed "Counter Indemnity and Facility Agreement" above, we concur with the Directors' view that the provision of Financial Assistance are in the interests of the Company as a whole.

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5. Principal terms of the Subscription Agreement, the Bonds, the Deed of Guarantee, the Counter Indemnity and Facility Agreement

The following information has been extracted from the Letter from the Board:

Date 12 February 2020 (after trading hours)

Parties

- (1) Jiayao (as the issuer);
- (2) the Company (as a guarantor);
- (3) each of the Subsidiary Guarantors (each as a guarantor);
and
- (4) Ping An (as the investor)

As at the Latest Practicable Date, the Issuer is indirectly wholly-owned and controlled by Mr. Wu, the chairman of the Company, an executive Director and a controlling shareholder of the Company, therefore is an associate of Mr. Wu and a connected person of the Company. The Issuer is also a controlling shareholder of DIT.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Investor and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

Subject matter The Issuer agreed to issue, and the Investor agreed to subscribe and pay for, or procure to be subscribed and pay paid for, the Bonds according to the terms of the Subscription Agreement. For principal terms of the Bonds, please refer to the Letter from the Board.

Indemnity Each of the Issuer and the Guarantors jointly and severally undertakes to the Investor that if the Investor or any of its nominees or any of its and their respective related parties incurs any Loss arising out of, in connection with or based on:

- (i) any breach by the Issuer or any Guarantor of any of their respective representations, warranties, undertakings, covenants, guarantees, indemnities or agreements contained in, or deemed to be made pursuant to, the Subscription Agreement or any Contract; or

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- (ii) the failure by the Issuer, any member of the Issuer Group or any member of the Guarantor Group, or any of their respective directors or officers to comply with any requirements of statute or regulation in relation to the offering, issue and sale of the Bonds or provision of the Deed of Guarantee,

it shall pay to the Investor on demand an amount equal to such Loss on an after tax basis. This indemnity is in addition to any other remedies that the Investor or any of its nominees or any of its and their respective related parties may have.

Further details of the principal terms of the Subscription Agreement, among others, the conditions precedent, are set out in the Letter from the Board.

In addition, we also set out herein a summary of the principal terms of the Bonds:

Principal amount	US\$203,000,000
Form and Denomination	The Bonds are in registered form in the denomination of US\$100,000 each and integral multiples thereof. A bond certificate will be issued to each Bondholder in respect of its registered holding of Bonds.
Maturity Date	364 days from the date of issue.
Interest	The Bonds bear interest from and including the Issue Date at the rate of 6.875% per annum payable semi-annually in arrears.
Guarantee	Subject to the Independent Shareholders' approval set out in paragraph (c) of the sub-section headed "Letter from the Board – 2. Subscription Agreement – Conditions Precedent" in this circular, each of the Guarantors undertakes to the Investor to, on or prior to the Closing Date, execute and deliver to the Investor and the Trustee the Guarantee, pursuant to which each of the Guarantors will jointly and severally guarantee the obligations of the Issuer in respect of the Bonds, including the due and punctual payment of the principal, interest and all other amounts payable under the Bonds, as continuing security, and which shall only be discharged in accordance with the terms of the Guarantee.

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**Status of the
Guarantee**

The obligations of the Issuer in respect of the Bonds, including the due and punctual payment of the principal, premium (if any), interest and all other amounts payable under the Bonds and the Trust Deed, are irrevocably and unconditionally guaranteed by the Guarantors pursuant to the Guarantee. The obligations of each Guarantor under the Guarantee are direct, unconditional, unsubordinated and unsecured obligations of each Guarantor and (save for certain obligations required to be preferred by law) rank at least equally with all existing and future unsubordinated and unsecured obligations of each Guarantor from time to time outstanding.

Early Redemption

Unless previously redeemed or purchased and cancelled as provided herein, the Issuer will redeem each Bond at 100% of its principal amount together with any accrued but unpaid interest on the maturity date of the Bonds. The Issuer may not redeem the Bonds at its option prior to that date except for redemption for taxation reasons as set out in the Terms and Conditions (but without prejudice to events of default under the Terms and Conditions).

Further details of the principal terms of the Bonds are set out in the Letter from the Board.

Pursuant to the Subscription Agreement, subject to, among others, the Independent Shareholders' approval, the Company and each of the Subsidiary Guarantors, as guarantors, are expected to enter into the Deed of Guarantee in favour of the Trustee prior to or upon Closing.

Under the Deed of Guarantee, each of the Guarantors unconditionally and irrevocably guarantees, on a joint and several basis, to the Trustee the due performance of and compliance with all of the obligations (present or future, direct or indirect, absolute or contingent, at any time or from time to time) of the Issuer in respect of the Bonds or under the Trust Deed and the Agency Agreement (the "**Obligations**"), including, but not limited to, the due and punctual payment of all sums expressed to be payable from time to time by the Issuer under the Trust Deed, the Agency Agreement and/or in respect of the Bonds, according to the terms therein. In the case of the failure of the Issuer to pay any sum as and when the same shall become due and payable, the Guarantors agree to cause such payment to be made as and when the same becomes due and payable as if such payment were made by the Issuer in the manner and currency prescribed by the terms and conditions for payments by the Issuer under the Trust Deed and the Agency Agreement in respect of the Bonds. Further details of the Deed of Guarantee are set out in the Letter from the Board.

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Pursuant to Counter Indemnity and Facility Agreement, a guarantee fee in the amount equal to 1.5%, flat on the aggregate principal amount of the Bonds per annum shall be payable by the Issuer to the Company in arrears at end of each calendar year after the date of the Counter Indemnity and Facility Agreement for so long as the Deed of Guarantee remains in full force and effect. In addition, the Issuer shall also make available to the Guarantors the Credit Facility under the Counter Indemnity and Facility Agreement.

Further to the Counter Indemnity provided by the Issuer to the Guarantors, the Issuer further undertakes to each of the Guarantors that it will use its best efforts to duly perform and comply with all of its obligations (present or future, direct or indirect, absolute or contingent, at any time or from time to time) in respect of the Bonds or under the Trust Deed and/or the Agency Agreement, including, but not limited to, the due and punctual payment of all sums expressed to be payable from time to time by the Issuer under the Trust Deed, the Agency Agreement and/or in respect of the Bonds, according to the terms therein, and if required, to seek such assistance (financial or otherwise) as may be necessary from its shareholder(s) or ultimate beneficial owner(s) in order to ensure such due performance and compliance.

Further details of the Counter Indemnity and Facility Agreement are set out in the Letter from the Board.

6. Our analysis on the provision of Financial Assistance

With a view to assess the fairness and reasonableness of the provision of Financial Assistance, we have reviewed and analysed, among others, the internal control of the Group, the Counter-Indemnity by the Issuer, the Guarantee Fee, the Credit Facility to be made available to the Guarantors by the Issuer and the financial effects of the provision of Financial Assistance to the Group, details of which are set out below.

(i) Internal control

Prior to entering the Subscription Agreement, the Management has conducted due diligence and assessment on the repayment capability of the Issuer Group, including the review of the consolidated financial statements and management accounts of the Issuer Group. For the year ended 31 December 2019, the unaudited revenue and profit after taxation of the Issue Group amounted to approximately RMB614.7 million and RMB118.9 million, respectively. We noted from the Letter from the Board that the unaudited net asset value as at 29 February 2020 amounted to approximately RMB2,614.7 million, such (i) is notably higher than the aggregate principal amount of the Bonds of US\$203.0 million; and (ii) represents over two times the Effective Exposure of US\$153.0 million after taking into consideration the US\$50.0 million to be drawn down by the Group under the Credit Facility, which is further detailed under the section headed “Financial effects of the provision of Financial Assistance” in this letter below. In addition, we noted that based on the information and documents reviewed, to the Company’s best knowledge and understanding, the Issuer Group has never defaulted on the repayments of any of its facilities since its establishment.

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As part of our work and analysis, we have obtained and reviewed (i) the deed of undertaking entered into between the Issuer and Mr. Wu, pursuant to which, for so long as Mr. Wu remains to be the sole beneficial owner of the Issuer, Mr. Wu shall provide direct financial assistance as may be necessary and requested by the Issuer in writing from time to time in order for the Issuer to duly perform or comply with its obligations in respect of any external financing activity undertaken by the Issuer (the “**Deed of Undertaking**”). The Board considered Mr. Wu’s financial position and is of the view that he has sufficient asset worth to provide such direct financial assistance to Jiayao during the term of the Bonds. We have conducted further work in this connection which have been further detailed below; and (ii) a repayment schedule provided by the Management which supports how the repayment amount under the Bond can be satisfied (the “**Repayment Schedule**”). We noted that the Repayment Schedule is prepared to assess the repayment ability of Mr. Wu under the assumption that he has to be responsible for the entire US\$203.0 million of the Bonds. However, given the intended drawdown of US\$50.0 million under the Credit Facility by the Group, and the Effective Exposure will be substantially reduced to US\$153.0 million. Hence, such assessment is considered to be conservative in nature.

We also noted from the Letter from the Board that such Repayment Schedule was prepared by the Issuer for due diligence and illustration purposes only, and is not meant to be exhaustive. In particular, such repayment schedule was also prepared on a relatively conservative basis in terms of the type of sources of funding. For example, it underestimated the final dividend for 2019 which could be receivable by Mr. Wu, as further detailed below.

It also did not take into account (among others) any future external financing which may be obtained by Mr. Wu. To the Directors’ best knowledge and belief, Mr. Wu has over the years had a strong record of being able to obtain external financing on terms that he considers commercially acceptable, and the Board currently has no reason to doubt that, if required (for example, to facilitate Jiayao’s payment obligations under the Bonds), Mr. Wu will continue to be able to do so.

The Repayment Schedule sets out how the repayment amount may be satisfied by a combination of sources in a non-exhaustive manner, such included (i) level of profit expected to be generated from Drawin Intelligent Manufacture Technology Industry Group Limited (“**Drawin Intelligent Manufacture**”) and its subsidiaries (together the “**Drawin Private Group**”), which has qualified as an innovative high-tech enterprise, principally engages in the provision of integrated solutions for intelligent buildings and ecological chain construction of intelligent buildings; (ii) expected amount of interim and final dividend receivable by Mr. Wu from the Company; and (iii) liquid assets, including listed company shares, held by Mr. Wu.

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With regard to the above, we have obtained and discussed with the Management on the Drawin Private Group's budget for the year ended 31 December 2020 (the **"Drawin Private Group Budget"**) and the underlying key assumptions including revenue, gross profit margin and net profit margin which were made after taken into consideration of historical trends, projects and contracts on hand, potential contracts and industry development and the Management advised that based on information available, the Drawin Private Group Budget is achievable. Based on the Drawin Private Group Budget, we noted that the net profit for the year ended 31 December 2020 is in line with the relevant balance as set out in the Repayment Schedule.

Furthermore, we also reviewed the 2018 Annual Report and 2019 Annual Results Announcement and noted that profit attributable equity shareholders of the Company for the years ended 31 December 2018 and 2019 amounted to approximately RMB1,154.3 million (equivalent to approximately HK\$1,269.7 million¹) and approximately RMB2,015.1 million (equivalent to approximately HK\$2,216.6 million), respectively, the equity attributable to equity shareholders of the Company amounted to approximately RMB9,718.0 million (equivalent to approximately HK\$10,689.8 million) as at 31 December 2019. Based on the published disclosure of interests information of the Company from the website of Stock Exchange and noted that Mr. Wu held approximately 2,046.5 million Shares, based on the closing price of HK\$4.02 per Share as at the Latest Practicable Date, the market value of the Shares held by Mr. Wu is in excess of HK\$8.2 billion.

In connection with our work performed on the estimated amount of interim and final dividend receivable by Mr. Wu from the Company under Repayment Schedule, we have reviewed the dividend pay-out ratio of the Group, being total dividend declared divided by profit after tax for the years ended 31 December 2018 and 2019. We also noted from the Letter from the Board that the Board notes the possibility that a portion of the Issuer's repayment capability may be based on dividends received by Mr. Wu from the Company. In that regard, the Directors confirm they are fully aware of their fiduciary duties (including, among others, to act in the best interests of the Company and the Shareholders as a whole) and have always and will continue to fully discharge such duties when making recommendations or decisions in relation to dividend declarations.

¹ For illustration purposes only and unless otherwise stated, conversion of RMB into Hong Kong dollars in this letter is based on the exchange rate of RMB1.0 to HK\$1.1. Such conversion should not be construed as a representation that any amount has been, could have been, or may be, exchanged at this or any other rate.

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Based on the above and after our discussion with the Management, it is understood that the Group intends to continue to maintain its historical dividend pay-out ratio policy in the foreseeable future barring unforeseen circumstances, and that the basis of maintaining the dividend pay-out ratio is independent from the provision of Financial Assistance. Furthermore, we noted from the annual results announcement of the Group for the year ended 31 December 2019, the Board recommended to declare a final dividend of HK 31.00 cents per Share. If approved by the Shareholders, the final dividend receivable by Mr. Wu from the Company will substantially exceed the corresponding amount set out in the Repayment Schedule. Given the Group's historical track record of approval from the Shareholders in relation to the recommended dividend, it is considered reasonable for the dividend receivable to be included in the Repayment Schedule. Furthermore, we understand from the Management that the Repayment Schedule is not meant to be exhaustive and while it sets out possible sources of repayment, it did not take into account, among others, any future external financing which may be obtained by Mr. Wu.

As set out in the Letter from the Board, the Group shall adopt the following risk control or internal control measures:

- (a) the Issuer undertakes to provide a written notice to the Guarantors whenever it withdraws or utilise any proceeds received from the issuance of the Bonds. Such notice shall specify the date and amount being withdrawn or utilised.
- (b) the Issuer shall provide its quarterly reports about business performance, compliance, deposits and loans, and other services, and the financial statements (including profits and loss accounts and balance sheet) to the Company for review and continuous monitoring. The Company will have specifically designated personnel from the relevant departments to monitor the financial performance and position of the Issuer and will report to the management of the Company regularly.
- (c) the Issuer shall also provide quarterly reports with details of the breakdown of the usage of the proceeds from the Bonds to ensure they are used for the designated purpose. Random checks may be performed by the designated personnel of the Company to monitor the usage of the proceeds from the Bonds and will report to the management of the Company regularly.
- (d) the management of the Company will also report the default risks and corporate governance risks in association with the Issuer to the independent non-executive Directors during each of the audit committee meetings (if necessary).

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Having considered our analysis and work performed on the Issuer Group as well as Mr. Wu's ability to fulfil his obligations under the Deed of Undertaking as set out above, we are not aware of information which suggests that the Issuer Group together with Mr. Wu's financial support would be unable to meet the relevant repayment obligations as and when they fall due, on this basis, we concur with the Board that the Issuer Group together with Mr. Wu will be able to fulfil its payment obligations in connection with the Bonds.

(ii) Counter Indemnity by the Issuer

As set out in the Letter from the Board, pursuant to the Counter Indemnity, the Issuer unconditionally and irrevocably agrees as an independent and a primary obligation (a) to indemnify and keep indemnified each Guarantor in full and on demand and hold harmless such Guarantor from and against all and any liabilities, damages, costs, claims, demands, payments, losses and expenses (including any direct, indirect or consequential losses, loss of profit and all interest, penalties and legal fees (calculated on a full indemnity basis) and all other costs and expenses and any value added tax thereon) incurred or suffered by such Guarantor in each case arising out of or in connection with any and every obligation and/or liability of any Guarantor under the Deed of Guarantee (including any renewal, extension, increase or variation of such obligation in or under the Deed of Guarantee); and (b) to pay to the Guarantors on demand from time to time any amount payable by the Issuer under paragraph (a) above with interest on that amount from the date of any Guarantor's payment made pursuant to the Deed of Guarantee.

The Counter-Guarantee shall remain in full force and effect until the final release or termination of the Deed of Guarantee and the Guarantors have ceased to have any obligations under the Deed of Guarantee. No fee is payable by the Guarantors to the Issuer for the Counter Indemnity.

The Management advised that the principal assets of the Drawin Private Group comprised of approximately 63.5% equity interest of DIT which had a total market capitalisation of approximately HK\$1.4 billion as at the Latest Practicable Date, and an unaudited equity attributable to owners of DIT as at 31 December 2019 of approximately HK\$1.8 billion. In addition, as set out in the Letter from the Board, the Company has conducted financial due diligence and assessment on the repayment capability of the Issuer Group through reviewing the consolidated financial statements and management accounts of the Issuer Group. Based on the information and documents reviewed by the Group, and to the Company's best knowledge and understanding, it was understood that the Issuer Group has never defaulted on the repayments of any of its facilities since its establishment.

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Based on the information and documents of the Issuer reviewed by the Group and having considered the Issuer's investments and shareholding in the DIT Group, to the Company's best knowledge and understanding, the Company is of the view that the Issuer has the ability to fulfil its payment obligations under the Bonds and its assets are considered sufficient to fulfil its obligations under the Counter Indemnity. Given the above, in particular, our work performed on the Repayment Schedule, the Deed of Undertaking, the relevant risk control and internal control measures of the Group, the Counter Indemnity by the Issuer, it is considered that the Issuer together with Mr. Wu's financial support have the ability to fulfil their obligations under the Subscription Agreement, the Counter Indemnity and Facility Agreement, and the Deed of Undertaking. On this basis, we concur with the Management that although the Issuer has not provided any security in favour of the Company in connection with the Counter Indemnity, such lack of security will not affect the enforceability of such Counter Indemnity. In this connection, we have also conducted further analysis under the paragraph headed "(iii) Market Guarantee Arrangements, Market Precedents and Previous Transactions" below.

In addition, after discussion with the Management, even though there are a total of 16 guarantors under the Subscription Agreement, being the Company and the Subsidiary Guarantors, from the Group's operation point of view, the number of guarantors would not necessary cause any additional material disruptions to the Group's operation as a whole compared to having only the Company as the guarantor, as the Company is the direct or indirect holding company of the Subsidiary Guarantors.

(iii) Market Guarantee Arrangements, Market Precedents and Previous Transactions

With a view to assess the reasonableness of the terms under the provision of Financial Assistance, we have conducted market research into other Hong Kong listed companies which published announcement for the provision of guarantee between 1 February 2019 and up to the date of the initial transaction announcement of the Company dated 12 February 2020 (the "**Review Period**"). The Review Period, which is over a period of more than six months immediately prior to the Announcement, is considered to be reasonable and sufficient length of time to capture market representative comparable transactions to assess whether the terms of the provision of Financial Assistance are in line with general market practice.

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In this connection, based on the following criteria, namely, (a) the guarantee provided by the listed company, of which is not a financial institution principally engaged in the provision of guarantees as a service and the shares of which are listed on the Main Board of the Stock Exchange; (b) the provision of guarantee constituted a connected transaction and/or notifiable transaction for the subject listed company; (c) the maximum amount under the guarantee is not less than HK\$800 million, which is considered to be more comparable in size after taken into consideration the amount of guarantee provided by the Group to the Issuer under the Subscription Agreement, being US\$203.0 million, which is equivalent to approximately HK\$1,583.4 million²; (d) the guarantee is not provided in proportion to the equity interest directly held by the subject listed company or its wholly-owned subsidiary; and (e) the provision of guarantee does not meet the criteria for the exemption under Rule 14A.89 of the Listing Rules (together, the “**Criteria**”), on a best effort basis, we have identified an exhaustive list of six transactions from announcements published on the website of the Stock Exchange based on the Criteria (the “**Market Guarantee Arrangements**”). Set out in the table below is a summary of the Market Guarantee Arrangements based on the information contained in the respective transaction announcement issued by the subject listed company:

Company Name (Stock code)	Connected transaction and transaction category	Obligations of guarantor under the subject guarantee	(a) Counter-guarantee/ indemnity; and (b) security, provided by lender or its connected party(ies)	Maximum amount involved (Note 1)	Guarantee fee (%)	Reasons for the provision of guarantee as summarised from the published transaction announcement/circular
Beijing Enterprises Clean Energy Group Limited (“Beijing Enterprises”) (1250) (Note 2)	Connected transaction: No Transaction classification under Chapter 14 of the Listing Rules: Discloseable transaction	Guarantee the due performance of the payment obligations of the counter-party under the principal contract comprising the lease payments and administrative fee	Counter-guarantee/ indemnity: No Security: None specified	RMB885M (HK\$973M)	No guarantee fee specified (Note 3)	The directors of Beijing Enterprises considered that the provision of the guarantee will assist the subject company, being an independent third party to Beijing Enterprises, of which Beijing Enterprises had no shareholding interest in, in obtaining financing for the completion of the project and provide Beijing Enterprises a potential opportunity to invest in the project to expand its portfolio of wind power plants in the PRC. Beijing Enterprises also plays a part in the project as the engineering, procurement and construction contractor and has taken appropriate measures to safeguard the receivable arising from these services.

² For illustration purposes only and unless otherwise stated, conversion of U.S. dollars into Hong Kong dollars in this letter is based on the exchange rate of US\$1.0 to HK\$7.8. Such conversion should not be construed as a representation that any amount has been, could have been, or may be, exchanged at this or any other rate.

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Company Name (Stock code)	Connected transaction and transaction category	Obligations of guarantor under the subject guarantee	(a) Counter-guarantee/ indemnity; and (b) security, provided by lender or its connected party(ies)	Maximum amount involved (Note 1)	Guarantee fee (%)	Reasons for the provision of guarantee as summarised from the published transaction announcement/circular
China Tianrui Group Cement Company Limited ("China Tianrui") (1252) (Note 4)	Connected transaction: Yes Transaction classification under Chapter 14 of the Listing Rules: Major transaction	The connected person shall provide the primary guarantee to the lenders in respect to the loan, debenture or corporate bonds for its subsidiaries while the listed company's guarantee shall only be provided as additional credit support	Counter-guarantee/ indemnity: Yes Security: None specified	RMB3,000M (HK\$3,300M)	Nil, on the basis that such fee is normally calculated based on the annual amount of the guarantees and China Tianrui expected that the amount to be utilized under Tianrui group guarantee is greater than the amount to be utilized under company guarantee.	Reasons for the transaction included (i) it is a common market practice for PRC banks to require privately owned companies to have third-party guarantee before granting a loan; (ii) under the subject framework agreement, China Tianrui can seek guarantee from Tianrui group for its borrowings and/or debentures or corporate bonds, and that historical utilization of the Tianrui group guarantee is greater than that of the company guarantee; (iii) China Tianrui will have recourse against Tianrui group company for its potential losses. In the event that the relevant loan is to be borrowed by a subsidiary of Tianrui group company, Tianrui group company shall provide the primary guarantee, whereas China Tianrui is being provided for additional credit support, Tianrui group company agreed to indemnify any losses by China Tianrui as a result of breach of terms; and (iv) to take advantage of potentially better financial terms on offer by some banks. Tianrui group company is owned by the controlling shareholder of China Tianrui and his spouse.
CK Asset Holdings Limited ("CK Asset") (1113) (Note 5)	Connected transaction: Yes Transaction classification under Chapter 14 of the Listing Rules: Applicable percentage ratios below 5%, being the threshold for a discloseable transaction	Guarantee to each lender all of the subject connected person's payment and other obligations under each facility agreement	Counter-guarantee/ indemnity: No counter guarantee specified Security: None specified	Facility 1: US\$150M (HK\$1,170M) Facility 2: US\$250M (HK\$1,950M) Facility 3: US\$150M (HK\$1,170M) In aggregate: US\$550M (HK\$4,290M)	0.45% per annum based on the average outstanding amount of the loan under the relevant facility agreement for the prior three months, payable on a quarterly basis in arrears, determined by reference to the expected interest saving and higher operational efficiency enjoyed by the borrower.	The guarantee would enable the joint venture company, being 50% indirectly owned by CK Asset and 10% of the voting power being held by a connected person of CK Asset, to obtain commercially more favourable terms for the loan facilities, including but not limited to a lower cost of funding and fewer operational restrictions which would allow it to enjoy higher operational flexibility and efficiency. In return, CK Asset received a guarantee fee to reflect the financial assistance provided by CK Asset.
Jiangxi Copper Company Limited ("Jiangxi Copper") (358) (Note 6)	Connected transaction: Yes Transaction classification under Chapter 14 of the Listing Rules: None noted	The subject mutual guarantees agreement entered into between, among others, a subsidiary of the Company and its substantial shareholder, being a connected persons of the Company, sets out the maximum aggregated annual balance amount of guarantees for each other's obligations in respect of loan facilities which they may respectively obtain from financial institutions for a specified period	Counter-guarantee/ indemnity: Yes Security: None specified	Not exceeding RMB1,600M (HK\$1,760M)	No guarantee fee specified (Note 3)	It is a common practice for financial institutions in the PRC to request for corporate guarantee as a security for loan facilities granted to borrowers. The execution of the relevant agreement enables a subsidiary of Jiangxi Copper to receive financing from lenders in order to support its ordinary and usual course of business. In order to meet the actual production and operation needs of the aforesaid subsidiary, lower the finance cost, and with an intention to further increase mutual financing support between the aforesaid subsidiary and the subject connected person, the subject subsidiary and the subject connected person entered into the relevant agreement. The subject connected person was the substantial shareholder of the subject subsidiary.

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Company Name (Stock code)	Connected transaction and transaction category	Obligations of guarantor under the subject guarantee	(a) Counter-guarantee/ indemnity; and (b) security, provided by lender or its connected party(ies)	Maximum amount involved (Note 1)	Guarantee fee (%)	Reasons for the provision of guarantee as summarised from the published transaction announcement/circular
Legend Holdings Corporation (“Legend Holdings”) (3396) (Note 7)	Connected transaction: Yes Transaction classification under Chapter 14 of the Listing Rules: Applicable percentage ratios below 5%, being the threshold for a discloseable transaction	A wholly-owned subsidiary of Legend Holdings provides a guarantee to secure the whole amount of such term loan together with any interest and other fees payable by the subject connected person under the facility agreement	Counter-guarantee/ indemnity: No counter guarantee specified Security: None specified	US\$130M (HK\$1,014M)	1% per annum on the maximum amount of the term loan determined by the parties through arm's length negotiations on normal commercial terms which are fair and reasonable, payment terms of the subject guarantee fee were not specified	It is a common business practice for banks to require the provision of guarantee from the shareholders of a company, and the banks have stronger confidence in the financial position of Legend Holdings as a company listed in Hong Kong. As such, the banks require a subsidiary of Legend Holdings to provide a corporate guarantee for the facility arrangements. It is a common business for Legend Holdings to provide guarantees for the members of Legend Holdings Group. Such member under this transaction was private equity investments funds, together with their respective management companies/general partners. The provision of guarantee will also bring revenue to Legend Holdings from the receipt of the guarantee fee.
Ronshine China Holdings Limited (“Ronshine China”) (3301) (Note 8)	Connected transaction: No Transaction classification under Chapter 14 of the Listing Rules: Discloseable transaction	Guarantee in favour of the creditor for the due performance of the lender's debt obligations under the loan agreement	Counter-guarantee/ indemnity: No counter guarantee specified Security: None specified	RMB750M (HK\$825M)	No guarantee fee specified (Note 3)	To facilitate the subject joint venture company of Ronshine China to meet its working capital requirement for the development of a property project in Hangzhou, which is expected to generate substantial profits to Ronshine China and is in line with Ronshine China's overall business strategy and interest in the long run. In addition, the other joint venture partner has also agreed to provide guarantee for the entire repayment obligation of the joint venture company to the creditor under the same terms and conditions as to the guarantee agreement.
The Company	Connected transaction: Yes Transaction classification under Chapter 14 of the Listing Rules: Discloseable transaction	Details of which are set out under paragraph headed “Deed of Guarantee” in the Letter from the Board	Counter-guarantee/ indemnity: Yes Security: No	US\$203M (HK\$1,583M)	1.5% per annum of the principal amount of the Bonds payable in arrears at the end of each calendar year after the date of the Counter Indemnity and Facility Agreement	Details of which are set out under paragraph headed “Reasons for and benefits of the provision of Financial Assistance” in the Letter from the Board

Source: website of the Stock Exchange

Notes:

- (1) For the purpose of this table, conversion of US\$ into HK\$, RMB into HK\$ is based on the exchange rate of US\$1.0 to HK\$7.8, and RMB1.0 to HK\$1.1. The exchange rate has been used, where applicable, for the purposes of the illustration only and does not constitute a representation in that any amounts were or may have been exchanged at this or any other rates at all.
- (2) The corresponding transaction announcement of Beijing Enterprises dated 1 November 2019 can be found at www1.hkexnews.hk/listedco/listconews/sehk/2019/1101/201911010102265.pdf.

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- (3) *In general, guarantee fee payable (if any) for the provision of guarantee by a guarantor would be considered to be material information and should be included in the subject transaction announcement, the absence of this information may be attributable to the absence of such guarantee fee.*
- (4) *The corresponding transaction announcement of China Tianrui dated 8 November 2019 can be found at www1.hkexnews.hk/listedco/listconews/sehk/2019/1108/2019110801135.pdf.*
- (5) *The corresponding transaction announcement of CK Asset dated 25 November 2019 can be found at www1.hkexnews.hk/listedco/listconews/sehk/2019/1125/2019112500777.pdf.*
- (6) *The corresponding transaction announcement of Jiangxi Copper dated 30 December 2019 can be found at www1.hkexnews.hk/listedco/listconews/sehk/2019/1230/2019123001593.pdf.*
- (7) *The corresponding transaction announcement of Legend Holdings dated 2 August 2019 can be found at www1.hkexnews.hk/listedco/listconews/sehk/2019/0802/ltn201908021760.pdf.*
- (8) *The corresponding transaction announcement of Ronshine China dated 23 August 2019 can be found at www1.hkexnews.hk/listedco/listconews/sehk/2019/0823/ltn20190823457.pdf.*

Based on the table above, (i) out of the six Market Guarantee Arrangements, four of which constituted connected transactions that are subject to announcement and where applicable, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules and the remaining two did not constitute a connected transaction; (ii) under two of the six Market Guarantee Arrangements, a counter-guarantee/indemnity was provided by a counter-party in respect of the guarantee provided by the subject listed company and no counter-guarantee/indemnity was specified in the other four Market Guarantee Arrangements; (iii) as per the subject announcements published by the Market Guarantee Arrangements, none of the announcements has specified that there was security provided by a counter-party to the subject listed company for the provision of the guarantee; and (iv) the guarantee fee under the respective Market Guarantee Arrangements ranged from nil to 1%.

Upon further analysis, in term of the size of guarantee provided, the closest two Market Guarantee Arrangements to the Guarantee is (i) Jiangxi Copper, size of guarantee provided being not more than RMB1,600M (equivalent to approximately HK\$1,760M), no guarantee fee was specified; and (ii) Legend Holdings, size of guarantee provided being US\$130M (equivalent to approximately HK\$1,014M), a guarantee fee of 1% per annum on the maximum amount of the term loan is payable to the guarantor. In addition, we also conducted further analysed to assess whether the relationship between the subject listed companies and the relevant borrower, being an independent third party or a connected person to the Company, would have a bearing on the guarantee fee, and we noted that in relation to (i) the provision of guarantee by Beijing Enterprises and Ronshine China, which did not fall into the ambit of connected transactions under the Listing Rules, no guarantee fee was specified, respectively; and (ii) the provision of guarantee by the remaining four listed companies, all of which constituted a connected transaction pursuant to the Listing Rules due to relationship

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such as the borrower being an entity interested by a connected person and/or an associate of a connected person of the subject listed company (China Tianrui, CK Asset, Jiangxi Copper and Legend Holdings), the guarantee fee ranged from nil to 1% per annum. We also assess whether the size of the transaction to the subject listed companies would have an effect on the guarantee fee, while the provision of Financial Assistance constituted a discloseable transaction for the Company, three of the Market Guarantee Arrangements (Beijing Enterprises, China Tianrui and Ronshine China) were under the transaction classification, pursuant to Chapter 14 of the Listing Rules, of discloseable transaction or above, no guarantee fee for the aforesaid three Market Guarantee Arrangements were noted.

We also noted that under two of the six Market Guarantee Arrangements, namely (i) China Tianrui; and (ii) Jiangxi Copper, a counter-guarantee/indemnity was provided by a counter-party in respect of the guarantee provided by the subject listed company, the guarantee fee was nil for China Tianrui and no guarantee fee was specified by Jiangxi Copper.

Pursuant to the Counter Indemnity and Facility Agreement, a guarantee fee in the amount equal to 1% flat on the aggregate principal amount of the Bonds per annum shall be payable by the Issuer to the Company in arrears at the end of each calendar year after the date of the Counter Indemnity and Facility Agreement for so long as the Deed of Guarantee remains in full force and effect (which, pursuant to the Deed of Guarantee, shall be until all sums due from the Issuer under the Trust Deed or in respect of the Bonds have been paid, and all other actual or contingent obligations of the Issuer thereunder or in respect thereof have been satisfied, in full). Based on our analysis above, the counter indemnity to be provided by the Issuer to the Guarantors under the Counter Indemnity and Facility Agreement is in line with prevailing market practice, and the Guarantee Fee of 1.5% is above the maximum guarantee fee, in percentage terms, of the Market Guarantee Arrangements.

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Although we noted that the characteristics of and the reasons for the Market Guarantee Arrangements varied from case-to-case, the transactions contemplated under the provision of Financial Assistance and the Market Guarantee Arrangements shared many similarities and are considered to be appropriate for comparison purposes, such as a majority of the guarantee was provided by the subject listed company in connection with obligations under certain borrowings by the borrower, being a connected person or independent third party. The transaction classification under Chapter 14 of the Listing Rules ranged from below the threshold for a discloseable transaction to a major transaction. The maximum amount under guarantee in respect of the Market Guarantee Arrangements ranged from approximately HK\$825 million to approximately HK\$4,290 million, being comparable to the size of the guarantee under the Deed of Guarantee. In addition, we also noted that the guarantee provided by the respective listed companies under the Market Guarantee Arrangements were in favour of connected persons and independent third parties (whereby the subject listed company had no shareholding interests in the borrower), as the case may be. Having considered the abovementioned factors as a whole, we are of the view that the Market Guarantee Arrangements are an appropriate benchmark and market reference for assessing the fairness and reasonableness of the terms under the provision of the Financial Assistance and that a market comparable analysis is a common approach to assess fairness and reasonableness of terms under connected transactions.

During the course of our research, we have also noted the following market precedents (together the “**Market Precedents**”) conducted by Global Sweeteners Holdings Limited (“**Global Sweeteners**”) (stock code: 3889), Global Bio-Chem Technology Group Company Limited (“**Global Bio-Chem**”) (stock code: 809) and G.A. Holdings Limited (“**G.A. Holdings**”) (stock code: 8126) which further supports our findings from the Market Guarantee Arrangements above, namely it is not uncommon for a listed company to provide guarantee to financial institution(s) over the repayment obligations of its business stakeholders, including customer and supplier.

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Global Sweeteners

As set out in the circular of Global Sweeteners dated 6 September 2016³, a wholly-owned subsidiary of Global Sweeteners executed a guarantee in favour of a financial institution in respect of the repayment obligations of a loan of a then supplier (the “**Supplier**”), which is beneficially majority-owned by the labour union of the PRC employees of the Global Sweeteners group and Global Bio-Chem, being its listed parent. The Supplier was an independent third party to Global Sweeteners, and that the Supplier’s business and operations are separately managed by its owned management team, independent from that of Global Sweeteners. Such transaction constituted a major transaction for Global Sweeteners under Chapter 14 of the Listing Rules.

According to the 2016 transaction circular, the Supplier was first established in 2003 and has for some years been the largest supplier of Global Sweeteners as well as a principal supplier of corn kernels for its listed parent group. The first supplier guarantee was entered into in 2010 and had been renewed from time to time since. The maximum principal amount guaranteed under the subject guarantee agreement shall be RMB2.5 billion, on a joint basis with the guarantors from its listed parent group. Global Sweeteners does not receive, and will not receive, any fee or commission for entering into the guarantee agreement. Subsequently, the guarantee was renewed in 2018 under similar terms, by when the Supplier has ceased to be a supplier to Global Sweeteners, further details of which is set out in the circular of Global Sweeteners dated 3 December 2018.

Global Bio-Chem

As set out in the circular of Global Bio-Chem dated 6 September 2016⁴, certain wholly-owned subsidiaries of Global Bio-Chem executed a guarantee in favour of a financial institution in respect of the repayment obligations of a loan of the Supplier, which is beneficially majority-owned by the labour union of the PRC employees of the Global Bio-Chem and Global Sweeteners, being its non-wholly owned listed subsidiary. The Supplier was an independent third party to Global Bio-Chem, and that the Supplier’s business and operations are separately managed by its owned management team, independent from that of Global Bio-Chem. Such transaction constituted a major transaction for Global Bio-Chem under Chapter 14 of the Listing Rules.

³ The corresponding transaction circular of Global Sweeteners dated 6 September 2016 can be found at <https://www1.hkexnews.hk/listedco/listconews/sehk/2016/0906/ltn20160906485.pdf>.

⁴ The corresponding transaction circular of Global Bio-Chem dated 6 September 2016 can be found at <https://www1.hkexnews.hk/listedco/listconews/sehk/2016/0906/ltn20160906477.pdf>.

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According to the 2016 transaction circular, the Supplier has been the largest supplier of Global Bio-Chem for some years and the first supplier guarantee was entered into in 2010 and had been renewed from time to time since. The maximum principal amount guaranteed under the subject guarantee agreement shall be RMB2.5 billion. Global Bio-Chem does not receive, and will not receive, any fee or commission for entering into the guarantee agreement. Subsequently, the guarantee was renewed in 2018 under similar terms, by when the Supplier has ceased to be a supplier to Global Bio-Chem, further details of which is set out in the circular of Global Bio-Chem dated 3 December 2018.

G.A. Holdings

As set out in the circular of G.A. Holdings dated 2 December 2019⁵, subsidiaries of G.A. Holdings entered into a guarantee agreement whereby they shall provide guarantee to financial institutions over the repayment obligations of Xiamen Zhong Bao Automobiles Co., Ltd.* (“**XZB Automobiles**”), being an independent third party to G.A. Holdings, as financial support to XZB Automobiles and its related companies (together the “**Zhong Bao Group**”) for its purchase of motor vehicles from suppliers which are part and parcel of the terms of the technical and cooperation agreement entered with G.A. Holdings. G.A. Holdings receives no monetary consideration under the guarantee agreement. The aforesaid transaction constituted a major transaction of G.A. Holdings at the relevant time.

Furthermore, we also noted that on two separate occasions, namely (i) in April 2016, the Group provided liquidity support in favour of Henan Jianye Property Management Company Limited, a then service provider of the Group and an independent third party, in relation to its asset-backed securities in the amount of RMB650 million in return for a service fee equivalent to 1% of the guaranteed amount. As disclosed in the Letter from the Board, such liquidity support was in relation to an asset-backed scheme, which will provide capital to such service provider for enhancing its property management services to all of the Group’s development projects and increase the Group’s customer satisfaction, which in turn would be beneficial to the sustainable development of the Group. As part of such asset-backed scheme, the service provider pledged its receivable property management fees for the coming years. Further, the Group could earn a service fee of 1% of the actual cash payment being the fund of the liquidity support provided by the Group. This transaction constituted a discloseable transaction under Chapter 14 of the Listing Rules (with applicable percentage ratios being at least 5% but less than 25%). Having considered the nature

⁵ The corresponding transaction circular of G.A. Holdings dated 2 December 2019 can be found at www1.hkexnews.hk/listedco/listconews/gem/2019/1202/2019120200123.pdf.

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of the transaction, we concur with the Management that such transaction is not of a recurring nature; and (ii) in December 2019, CCRE China (a wholly-owned subsidiary of the Company) and Henan Hongdao (which is indirectly wholly-owned and controlled by Mr. Wu and the indirect sole shareholder of Drawin Intelligent Manufacture and Jiayao) entered into a deed of guarantee arrangement, pursuant to which CCRE China shall be entitled to a 1% guarantee fee from Henan Hongdao in consideration of the provision of a corporate guarantee by CCRE China to Zhengzhou Branch of Shanghai Pudong Development Bank Co., Ltd. (上海浦東發展銀行股份有限公司鄭州分行) in respect of Henan Hongdao's domestic bank loan in the amount of RMB500 million (together the "**Previous Transactions**"), details of which are set out in the announcements of the Company dated 13 April 2016, 24 December 2019 and 20 February 2020, respectively. As further disclosed in the Letter from the Board, this loan will be used to refinance the fund used for the acquisition of Drawin Intelligent Manufacture, which will in turn facilitate the Group to ensure stable, steady and continuous supply of quality prefabricated components/associated construction services, and most importantly at reasonable price, given that the Group has increasing demand in quality prefabricated components. This transaction also involved a counter guarantee provided by the connected borrower in favour of the Group (for nil consideration), an equity pledge provided by the connected borrower to the lending bank, and also a personal guarantee provided by Mr. Wu to the lending bank. This transaction constituted a non-exempt connected transaction under Chapter 14A of the Listing Rules (with applicable percentage ratios being at least 0.1% but less than 5%).

Having considered the terms of the Previous Transactions, we concur with the Directors that the Previous Transactions do possess various similar characteristics as the transactions contemplated under the provision of Financial Assistance and thus we considered that it is appropriate for us to also compare the terms of the Previous Transactions to the terms under the provision of the Financial Assistance with a view to provide a more comprehensive all round analysis in addition to our analysis on the Market Guarantee Arrangements. It was also noted from the subject announcements that the then Directors are of the view that the terms of the respective Previous Transactions are fair and reasonable.

Furthermore, we also noted that the Company has directly made enquiries to financial institutions and obtained preliminary quotations on guarantee fees for similar guarantee services to those set out under the provision of Financial Assistance. As set out in the Letter from the Board, the Board expressly informed such financial institutions that such quotation is for a guarantee for financing conducted by private companies (such as the Issuer or Drawin Private Group) and not the Company itself. Such quotations ranged from 1.0% to 1.5% per annum. As part of our work, we have obtained and reviewed the correspondence between the subject financial institutions and the Company setting out the preliminary quotations, in addition, we have also obtained the name card of the individuals with a view to ensure each of the individual

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is a representative of the subject financial institution in the abovementioned correspondence with the Company. In addition, to the Directors' understanding, Drawin Private Group did not approach banks for guarantee fee quotations prior to the signing of the Subscription Agreement. We noted that the guarantee fee of 1.5% per annum under the provision of Financial Assistance is at the top end of the aforesaid range.

Having considered the above analysis as a whole, including our analysis on (i) the Market Guarantee Arrangements, which included among others, the relationship between the listed companies and the borrower, the size of the transaction to the subject listed companies, the counter-guarantee/indemnity, securities provided by the subject borrower or other relevant parties (if any), the size of the guarantee, the guarantee fee (or the lack of it) and its basis, the reasons for the Market Guarantee Arrangements; and (ii) the Market Precedents, which comprised of provision of financial assistance by the subject listed company to its business stakeholders and our assessment thereunder; (iii) the Previous Transactions conducted by the Group, with a view to further support our findings from the Market Guarantee Arrangements and the Market Precedents analysis and (iv) the guarantee fee of 1.5% per annum under the provision of Financial Assistance is at the top end of the range of preliminary indication on guarantee fees from financial institutions obtained by the Company, furthermore, we considered our analysis on the Market Guarantee Arrangements, the Market Precedents the Previous Transactions and the range of indicative guarantee fee from the financial institutions holistically and together our analysis on these transactions supports our findings that the terms of the provision of Financial Assistance are in line with general market practice and hence fair and reasonable.

(iv) Credit Facility to be made available to the Guarantors and the Company by the Issuer

As set out in the Letter from the Board, pursuant to the Facility Agreement, the Issuer agrees to make available to the Guarantors a revolving credit facility in an aggregate amount equal to US\$203 million to the extent not cancelled, reduced or transferred by the Issuer under the Counter Indemnity and Facility Agreement, subject to the terms of the Counter Indemnity and Facility Agreement. The interest rate applicable to each advance made under the Credit Facility for each interest period shall equal to the interest rate payable by the Issuer under the Bonds (being 6.875% per annum) and will accrue from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 days.

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In this connection, we have reviewed announcements of the Company since the six months ended 30 June 2019, and noted that the Group has announced the issuance of certain debt securities on 2 August 2019, 27 September 2019 and 1 November 2019, 10 January 2020 and 6 February 2020 bearing interest at a rate ranging from 6.75% to 7.9% (the “**Debt Securities**”). The tenure of the Debt Securities ranged from one to over four years.

Furthermore, we noted from the 2018 Annual Report that the effective interest rate of (a) bank loans of the Group as at 31 December 2018 ranged from approximately 4.75% to 9.3%; and (b) other loans of the Group as at 31 December 2018 ranged from approximately 7% to 12%. The tenure of the aforesaid bank loans and other loans ranged from on demand to more than five years. On this basis, the interest rate and tenure under the Credit Facility are in line with the terms of the external borrowings of the Group.

We also noted that the Letter from the Board that the given the current intended utilisation of the Credit Facility and the use of remaining net proceeds by the Issuer was after discussion with the Issuer subsequent to the date of the Subscription Agreement, and having considered the general slowdown in the global and PRC economies, as well as considerable uncertainties around the general economic outlook. While the Issuer and Drawin Intelligent Manufacture still intends to proceed with its expansion plan in the long run, the Issuer has opted to proceed with a more conservative timeframe and therefore will no longer be utilising the full amount of US\$203.0 million in the forthcoming year. Further, the Issuer has taken into consideration the critical role played by the Company in facilitating the issue of the Bonds. Therefore, the Credit Facility has been structured such that the Company will benefit from the usage of at least US\$50.0 million of the Bonds proceeds. Please refer to our detailed analysis in this connection under the paragraph headed “Counter Indemnity and Facility Agreement” in this letter above.

(v) Financial effects of the provision of Financial Assistance

Pursuant to Counter Indemnity and Facility Agreement, a guarantee fee in the amount equal to 1.5%, flat on the aggregate principal amount of the Bonds per annum shall be payable by the Issuer to the Company in arrears at end of each calendar year after the date of the Counter Indemnity and Facility Agreement for so long as the Deed of Guarantee remains in full force and effect. In addition, the Company current intends to utilise US\$50.0 million under the Credit Facility to be made available to the Guarantors by the Issuer. On this basis, the guarantee exposure of the Group under the Deed of Guarantee is effectively reduced.

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The provision of Guarantee will not have any immediate or direct impact on the cash flow of the Group unless and until such time that an event of default is materialised and the guarantee is called upon. The Management advised that the guarantee will constitute contingent liabilities to the Company which will be disclosed in the notes to the consolidated financial statements of the Group. We also understand from the Management that according to its accounting policies, the accrual of liabilities under the guarantee would be assessed at the respective reporting dates. However, the Management will monitor and assess the contingent liabilities for the guarantee periodically. If the contingent liabilities of the guarantee are likely to be a present obligation and the Management has a reliable estimate at the reporting date, a provision of guarantee liabilities would be made and such amount would be recognised as an expense in the consolidated income statements of the Group. The Directors confirmed that, after reasonable enquiries to the Issuer and based on information available as at the Latest Practicable Date, there are no indication that the Issuer will not be able to fulfil its payment obligations under the Bond as and when they fall due.

VI. RECOMMENDATION

Having considered the factors as set out in this letter above, in particular,

- (i) the background information of the Group, in particular, the business expansion and growth in revenue and profit for the year/period recorded for the years ended 31 December 2017, 2018 and 2019;
- (ii) the reasons for and benefits of the provision of Financial Assistance, including (a) in view of the increasingly stringent environmental protection policy in Henan Province, the Management considered necessary for the Group to make a transition towards prefabrication construction which is in the interests of the Group, and such strategical change requires a reliable supply source, namely the Drawin Private Group, for the Group's upcoming real estate development projects; (b) the Drawin Private Group is one of the few suppliers in the market to possess certain high-end technology needed for carrying out prefabrication construction for real estate development projects, which the Group is increasingly adopting this kind of construction for its upcoming real estate development projects, thus the Management considered that it is of paramount importance that Drawin Private Group will be able to reliably supply such service to the Group on terms no less favourable to the Group than those available from independent third parties while ensuring the quality and timely completion of projects; (c) our analysis on the abilities of the Issuer together with Mr. Wu's financial support to fulfil their respective obligations under the Subscription Agreement, the Counter Indemnity and Facility Agreement, and the Deed of Undertaking, under the section headed "6. Our analysis on the provision of Financial Assistance" in this letter; and (d) the intended utilisation of the Credit Facility by the Group, the expected economic benefits to the Group arising thereunder as well as the resulting reduction in guarantee exposure to the Group to the Effective Exposure under the Deed of Guarantee;

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- (iii) our analysis on the terms of the Financial Assistance, including the Counter Indemnity, the Guarantee Fee and the Credit Facility;
- (iv) our analysis as a whole on (a) the Market Guarantee Arrangements, which included among others, the relationship between the listed companies and the borrower, the size of the transaction to the subject listed companies, the counter-guarantee/indemnity, securities provided by the subject borrower or other relevant parties (if any), the size of the guarantee, the guarantee fee (or the lack of it) and its basis, the reasons for the Market Guarantee Arrangements; (b) the Market Precedents identified; and (c) the Previous Transactions conducted by the Group, which further supported our findings from the Market Guarantee Arrangements analysis; and
- (v) the financial effects of the provision of Financial Assistance,

we are of the view that albeit the connected transaction contemplated in respect of the provision of Financial Assistance is not in the ordinary and usual course of business of the Group, the terms of the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we recommend, the Independent Shareholders to vote in favour of the ordinary resolution(s) to approve the connected transaction contemplated in respect of the provision of Financial Assistance at the EGM.

Yours faithfully
For and on behalf of
Red Sun Capital Limited
Lewis Lai
Managing Director

Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 13 years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company and its Subsidiaries. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (“**Model Code**”) to be notified to the Company and the Stock Exchange, were as follows:

Long position in the Shares

Name of Director or chief executive	Capacity and nature of interest	Number of share options held	Number of Shares held	Approximate percentage of the interest in the Company's issued share capital ⁴
Mr. Wu Po Sum	Interest in a controlled corporation	–	2,044,431,867 ¹	74.60%
	Beneficial owner	2,050,400 ²	–	0.07%
Mr. Wang Jun	Beneficial owner	27,000,000 ²	–	0.99%
Mr. Liu Weixing	Beneficial owner	20,000,000	1,000,000	0.77%
Ms. Wu Wallis (alias Li Hua) ³	Interest of spouse	8,500,000	–	0.31%
Mr. Yuan Xujun	Beneficial owner	20,000,000	–	0.73%

Notes:

1. The 2,044,431,867 Shares were registered in the name and were beneficially owned by Joy Bright Investments Limited (“**Joy Bright**”), a company wholly-owned by Mr. Wu Po Sum. Accordingly, he is deemed to be interested in the 2,044,431,867 Shares by virtue of the SFO.
2. Such interest in the Shares is held pursuant to the share options granted under the share option scheme of the Company.
3. The 8,500,000 share options are beneficially owned by the spouse of Ms. Wu Wallis (alias Li Hua), therefore Ms. Wu Wallis (alias Li Hua) is deemed to be interested in her spouse’s share options for the purposes of the SFO.
4. The approximate percentage of the interest in the Company’s issued share capital is based on a total of 2,740,611,120 Shares of the Company in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders who have an interest and/or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as is known to the Directors and chief executive of the Company, as at the Latest Practicable Date, the following persons (other than Directors and chief executives of the Company) had, or were deemed or taken to have an interest or short position in the Shares and underlying shares of the Company, which are required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity and nature of interest	Number of Shares held	Approximate percentage of the interest in the Company's issued share capital ¹
Joy Bright	Beneficial owner	2,044,431,867 ^{2, 3, 5, 6}	74.60%
CapitaLand LF (Cayman) Holdings Co., Ltd. (“ CapitaLand (Cayman) ”)	Security interest in shares	263,246,492 ^{3, 4}	9.61%
CapitaLand China Holdings Pte Ltd. (“ CapitaLand China ”)	Interest of controlled corporation	263,246,492 ^{3, 4}	9.61%
CapitaLand China Investments Limited (“ CapitaLand China Investments ”)	Interest of controlled corporation	263,246,492 ^{3, 4}	9.61%
CapitaLand Limited (“ CapitaLand ”)	Interest of controlled corporation	263,246,492 ^{3, 4}	9.61%
Temasek Holdings (Private) Limited (“ Temasek Holdings ”)	Interest of controlled corporation	263,246,492 ^{3, 4}	9.61%
Zhongyuan Bank Co., Ltd. (“ Zhongyuan Bank ”)	Security interest in shares	230,000,000 ⁵	8.39%
Long Growth Opportunity VI Limited (“ Long Growth ”)	Security interest in shares	143,200,000 ^{6, 7}	5.23%
Pacific Alliance Group Limited	Interest of controlled corporation	143,200,000 ^{6, 7}	5.23%
PAG Asia Loan Fund III L.P.	Interest of controlled corporation	143,200,000 ^{6, 7}	5.23%
PAG Asia Loan GP III Limited	Interest of controlled corporation	143,200,000 ^{6, 7}	5.23%
PAG Asia Loan LLC	Interest of controlled corporation	143,200,000 ^{6, 7}	5.23%
PAG Holdings Limited	Interest of controlled corporation	143,200,000 ^{6, 7}	5.23%

Notes:

- (1) The approximate percentage of the interest in the Company's issued share capital is based on a total of 2,740,611,120 Shares of the Company in issue as at the Latest Practicable Date.
- (2) Mr. Wu Po Sum holds 100% of the issued share capital of Joy Bright and is deemed to be interested in the 2,044,431,867 Shares held by Joy Bright for the purposes of the SFO.
- (3) On 18 July 2019, Joy Bright executed as chargor a share charge ("**CapitaLand Share Charge**") made in favour of CapitaLand (Cayman) as chargee in respect of 460,681,360 Shares. On 27 December 2019, CapitaLand (Cayman) executed a deed of release in favour of Joy Bright in respect of 197,434,868 Shares under the CapitaLand Share Charge created by Joy Bright in favour of CapitaLand (Cayman).
- (4) CapitaLand (Cayman) is directly wholly owned by CapitaLand China Holdings Pte Ltd. ("**CapitaLand China**"). CapitaLand China is directly wholly owned by CapitaLand China Investments and CapitaLand China Investments is directly wholly owned by CapitaLand. Temasek Holdings has an interest in approximately 50.56% of the issued share capital of CapitaLand. Therefore, each of CapitaLand China, CapitaLand China Investments, CapitaLand and Temasek Holdings is deemed or taken to be interested in the 263,246,492 Shares which are owned by CapitaLand (Cayman) for the purposes of the SFO.
- (5) On 6 November 2019, Joy Bright executed a share pledge in favour of Zhongyuan Bank in respect of 230,000,000 Shares.
- (6) On 23 December 2019, Joy Bright executed a share charge in favour of Long Growth in respect of 143,200,000 Shares.
- (7) These parties were deemed to be total interested in long positions in 143,200,000 Shares under the SFO by virtue of their equity interest in Long Growth.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified of any other person who had interests or short positions in the Shares and underlying Shares, which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered into in the register required to be kept by the Company pursuant to Section 336 of the SFO.

3. DIRECTOR'S INTERESTS**(a) Interests in contract or arrangement**

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

(b) Interests in assets

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been, since 31 December 2018, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(c) Interests in competing business

As at the Latest Practicable Date, none of the Directors or their respective close associates (as defined in the Listing Rules) had an interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them was a controlling Shareholder).

4. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claim of material importance and, so far as the Directors were aware, no litigation or claims of material importance are pending or threatened by or against any member of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, any service contract with the Company or any other member(s) of the Group (excluding contracts expiring or which may be terminated by the Company within a year without payment of any compensation (other than statutory compensation)).

6. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Red Sun Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Each of the above experts has given and confirmed that it has not withdrawn its written consent to the issue of this circular with the inclusion herein of its statements and/or references to its name in the form and context in which it appears. Each of the above experts has further confirmed that as at the Latest Practicable Date, it was not interested in the share capital of any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. It is not interested in any assets which have been, since 31 December 2018 (being the date to which the Company's latest audited financial statements were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. NO MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up.

8. GENERAL

- (a) The registered office of the Company is at Cricket Square Hutchins Drive P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is at Room 7701B-7702A, 77th Floor, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) at the head office and principal place of business of the Company in Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the Subscription Agreement;
- (b) the Deed of Guarantee;
- (c) the Counter Indemnity and Facility Agreement;
- (d) the letter from the Board as set out in this circular;
- (e) the letter from the Independent Board Committee as set out in this circular;
- (f) the letter from the Independent Financial Adviser as set out in this circular;
- (g) the written consent from the expert as referred to in the sub-section headed “Expert and Consent” in this Appendix; and
- (h) this circular.

NOTICE OF EGM



建業地產股份有限公司 *

Central China Real Estate Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0832)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**EGM**”) of the shareholders of Central China Real Estate Limited (the “**Company**”) will be held at 7701B-7702A, Level 77, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong on Wednesday, 29 April 2020 at 15:30 for the following purposes. Unless the context requires otherwise, terms used herein shall have the same meanings as those defined in the circular of the Company dated 14 April 2020 (the “**Circular**”).

ORDINARY RESOLUTION

1. To approve the entering into of the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder as set out in the Circular and to authorize any one Director to do all such acts and things and execute all such documents in connection with the Subscription Agreement, the Deed of Guarantee, the Counter Indemnity and Facility Agreement, the provision of Financial Assistance and the transactions contemplated thereunder.

By order of the Board
Central China Real Estate Limited
Wu Po Sum
Executive Director

Hong Kong, 14 April 2020

* *For identification purpose only*

NOTICE OF EGM

As at the date of this notice, the Board comprises nine Directors, of which Mr. Wu Po Sum, Mr. Liu Weixing, Mr. Wang Jun and Mr. Yuan Xujun are executive Directors, Mr. Lim Ming Yan and Ms. Wu Wallis (alias Li Hua) are non-executive Directors, Mr. Cheung Shek Lun, Mr. Xin Luo Lin and Dr. Sun Yuyang are independent non-executive Directors.

Notes:

- (a) The register of members of the Company will be closed from 24 April 2020 to 29 April 2020 (both days inclusive), during which period no transfer of shares in the Company can be registered. In order to qualify for attending the EGM, all properly completed share transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 23 April 2020.
- (b) Any shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a shareholder of the Company. To be valid, a form of proxy in the prescribed form together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the EGM or any adjourned meeting.
- (c) Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the EGM or any adjournment thereof if he/she so desires and, in such event, the instrument appointing a proxy shall be deemed to have been revoked.
- (d) In the case of joint registered holders of any Shares, any one of such persons may vote at the EGM (or at any adjournment thereof), either personally or by proxy, in respect of such Share(s) as if he or she were solely entitled thereto; but if more than one joint registered holder is present at the EGM, whether in person or by proxy, that one of the joint registered holders whose name stands first on the register of members in respect of the relevant joint holding shall, to the exclusion of other joint holders, be entitled to vote in respect thereof.
- (e) If Typhoon Signal No. 8 or above is expected to be hoisted or a Black Rainstorm Warning Signal is expected to be in force any time after 6:00 a.m. on the date of the EGM, then the EGM will be postponed and the shareholders will be informed of the date, time and venue of the rescheduled Meeting by a supplementary notice posted on the websites of the Company and the Stock Exchange.

The EGM will be held as scheduled when an Amber or Red Rainstorm Warning Signal is in force. Shareholders should decide on their own whether they would attend the EGM under bad weather condition bearing in mind their own situations and if they do so, they are advised to exercise care and caution.