Lego Corporate
Finance Limited
力高企業融資有限公司

27 December 2024

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

**MAJOR AND CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE RENEWAL OF
THE EXISTING FINANCIAL ADVANCES FRAMEWORK AGREEMENT**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the New Financial Advances Framework Agreement 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 issued by the Company to the Shareholders dated 27 December 2024 (the "**Circular**"), 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.

As the Existing Financial Advances Framework Agreement will expire on 31 December 2024, on 11 December 2024, the Company (for itself and on behalf of its subsidiaries) entered into the New Financial Advances Framework Agreement with Zhong An Cayman (for itself and on behalf of its subsidiaries but excluding the Group), on substantially the same terms as the Existing Financial Advances Framework Agreement, pursuant to which the Group will continue to provide Advances to the Zhong An Group for a term of three years commencing from 1 January 2025 and ending on 31 December 2027.

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As at the Latest Practicable Date, since Zhong An Cayman is a controlling Shareholder (indirectly interested in approximately 66.02% of the issued share capital of the Company), Zhong An Cayman is a connected person of the Company as defined under the Listing Rules. Accordingly, the transactions contemplated under the New Financial Advances Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Advances based on the highest Cap during the term of the New Financial Advances Framework Agreement exceeds 5%, the Advances constitute non-exempted continuing connected transactions of the Company and are therefore subject to the reporting, announcement, circular, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. In addition, the Advances constitute provision of financial assistance by the Group to the Zhong An Group under Chapter 14 of the Listing Rules. As the highest applicable percentage ratio in respect of the Advances based on the highest Cap during the term of the New Financial Advances Framework Agreement exceeds 100%, the Advances constitute major transactions of the Company and are therefore subject to reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. Xu Chengfa, Mr. Lam Yau Yiu and Mr. Yuan Yuan, has been established to advise the Independent Shareholders as to (i) whether the terms of the New Financial Advances Framework Agreement (including the proposed Caps) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. We, Lego Corporate Finance Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in such regard.

OUR INDEPENDENCE

In the last two years prior to the Latest Practicable Date, (i) we have acted as the independent financial adviser to the Company on one occasion in respect of an off-market share buy-back by the Company as detailed in the circular of the Company dated 18 October 2024; and (ii) we have acted as the independent financial adviser to Zhong An Intelligent Living Service Limited ("**ZAILSL**", stock code: 2271), a fellow subsidiary of Zhong An Cayman, on another occasion in respect of certain continuing connected transactions as detailed in the circular of ZAILSL dated 18 December 2024 (together, the "**Previous Engagements**"). The Previous Engagements were limited to providing independent advisory services to the Company or ZAILSL (as the case may be) pursuant to the Listing Rules. Notwithstanding the Previous Engagements, as at the Latest Practicable Date, we did not have any relationship with, or any interest in, the Company or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees paid or payable to us in connection with the Previous

Engagements and this appointment as the Independent Financial Adviser, no arrangement exists whereby we had received or will receive any fees or benefits from the Company. Accordingly, (i) we do not consider the Previous Engagements would affect our independence to act as the Independent Financial Adviser under the current engagement; and (ii) we consider that we are independent pursuant to Rule 13.84 of the Listing Rules and that we are eligible to give independent advice in respect of the New Financial Advances Framework Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have relied on the information, facts and representations contained or referred to in the Circular and the information, opinions and representations provided or expressed to us by the Directors and/or the management of the Company (the "**Management**"). We have assumed that all the information, facts and representations contained or referred to in the Circular, and all the information, opinions and representations provided or expressed by the Directors and/or the Management, for which they are solely responsible, were true, accurate and complete in all material respects at the time when they were provided and continue to be so as at the Latest Practicable Date and that they may be relied upon in formulating our opinion. We have also assumed that all such opinions and statements of intention or belief expressed by the Directors and/or the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiries.

The Directors have confirmed to us that no material facts have been withheld or omitted from the information provided, representations made or opinions expressed. We have no reason to suspect that any relevant information has been withheld or omitted, nor are we aware of any facts or circumstances which would render the information provided, representations made or opinions expressed to us untrue, inaccurate or misleading. We consider that we have been provided with, and have reviewed, sufficient information currently available, and that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided, representations made or opinions expressed by the Directors and/or the Management, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position or future prospects of the Group and the Zhong An Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

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

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the New Financial Advances Framework Agreement and the transactions contemplated thereunder. Except for its inclusion in the Circular, this letter 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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the New Financial Advances Framework Agreement and the transactions contemplated thereunder, we have considered the following principal factors and reasons:

1. Information on the Group

1.1. Business overview of the Group

The Company is an investment holding company incorporated in the Cayman Islands with limited liability, the shares of which have been listed on the Main Board of the Stock Exchange (stock code: 1321) since 10 July 2014. The Group is principally engaged in commercial property investment for leasing, commercial property development for sale and leasing and commercial property management in the PRC. According to the interim report of the Company for the six months ended 30 June 2024 (the "**CNC Interim Report 2024**"), the total gross floor area of land reserves held for development and/or sale of the Group was approximately 3,762,642 square metres as at 30 June 2024.

1.2. Financial information of the Group

Set out below is a summary of the financial results of the Group (i) for the year ended 31 December 2022 ("**FY2022**") and the year ended 31 December 2023 ("**FY2023**") as extracted from the annual report of the Company for FY2023 (the "**CNC Annual Report 2023**"); and (ii) for the six months ended 30 June 2023 ("**1H2023**") and the six months ended 30 June 2024 ("**1H2024**") as extracted from the CNC Interim Report 2024:

	For the year ended 31 December		For the six months ended 30 June	
	2022	**2023**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue				
– Commercial property development	137,416	825,373	565,273	2,723,530
– Property rental	101,528	110,712	60,582	48,646
– Hotel operations	221,657	257,923	124,419	112,651
– Other services	131,182	103,227	68,285	36,947
	591,783	1,297,235	818,559	2,921,774
Gross profit	117,373	368,097	229,021	1,579,596
Gross profit margin	*19.8%*	*28.4%*	*28.0%*	*54.1%*
(Loss)/profit for the year/period	(461,640)	(425,133)	(71,996)	347,502
(Loss)/profit attributable to owners of the parent	(432,523)	(404,136)	(66,669)	377,789

For the years ended 31 December 2022 and 2023

The Group's revenue increased by approximately RMB705.4 million, or approximately 119.2%, from approximately RMB591.8 million for FY2022 to approximately RMB1,297.2 million for FY2023. According to the CNC Annual Report 2023, such increase was primarily attributable to the substantial increase in the revenue from sales of commercial properties of approximately RMB688.0 million during the year, which was mainly resulted from the income recognised for the delayed delivery of development projects in FY2023 due to the pandemic earlier.

The Group's gross profit increased by approximately RMB250.7 million, or approximately 213.5%, from approximately RMB117.4 million for FY2022 to approximately RMB368.1 million for FY2023. According to the CNC Annual Report 2023, such result was mainly due to the increase in gross profit from the increase in property sales in FY2023. The overall gross profit margin of the Group increased from approximately 19.8% for FY2022 to approximately 28.4% for FY2023, which was primarily resulted from the relatively higher selling prices as well as lower land costs of the relevant properties sold during FY2023.

The Group recorded a net loss of approximately RMB425.1 million for FY2023, representing a decrease of approximately 7.9% as compared to that of approximately RMB461.6 million for FY2022, mainly due to the combined effect of (i) the significant increase in gross profit for FY2023 as explained above; and (ii) the increase in net loss from changes in fair value of investment properties for FY2023.

For the six months ended 30 June 2023 and 2024

The Group's revenue increased by approximately RMB2,103.2 million, or approximately 256.9%, from approximately RMB818.6 million for 1H2023 to approximately RMB2,921.8 million for 1H2024. According to the CNC Interim Report 2024, such increase was primarily attributable to the substantial increase in the revenue from sales of commercial properties of approximately RMB2,158.3 million during the period, which was mainly resulted from the income recognised for two major development projects delivered during 1H2024.

The Group's gross profit increased by approximately RMB1,350.6 million, or approximately 589.8%, from approximately RMB229.0 million for 1H2023 to approximately RMB1,579.6 million for 1H2024. According to the CNC Interim Report 2024, such result was mainly due to the significant increase in property sales with a higher gross profit margin during 1H2024. The higher gross profit margin of such property sales was attributable to the relatively higher selling prices as well as lower land costs of the relevant properties sold during 1H2024. As a result, the overall gross profit margin of the Group increased from approximately 28.0% for 1H2023 to approximately 54.1% for 1H2024.

The Group turned around from a net loss of approximately RMB72.0 million for 1H2023 to a net profit of approximately RMB347.5 million for 1H2024, mainly due to the combined effect of (i) the significant increase in gross profit for 1H2024 as explained above; (ii) the increase in net loss from changes in fair value of investment properties for 1H2024; and (iii) the increase in income tax expense for 1H2024.

Set out below is a summary of the financial position of the Group (i) as at 31 December 2022 and 2023 as extracted from the CNC Annual Report 2023; and (ii) as at 30 June 2024 as extracted from the CNC Interim Report 2024:

	As at 31 December		As at 30 June
	2022	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)
Total assets	15,179,776	13,533,007	13,421,184
– Non-current assets	9,390,984	9,047,360	8,402,320
– Current assets, including:	5,788,792	4,485,647	5,018,864
– Cash and cash equivalents	948,087	181,155	123,710
Total liabilities	9,871,867	8,692,168	8,216,823
– Non-current liabilities, including:	3,643,501	3,359,976	3,351,841
– Interest-bearing bank and other borrowings	2,689,041	2,534,180	2,706,610
– Current liabilities, including:	6,228,366	5,332,192	4,864,982
– Interest-bearing bank and other borrowings	1,319,438	584,860	575,860
Net current (liabilities)/assets	(439,574)	(846,545)	153,882
Total equity	5,307,909	4,840,839	5,204,361
Total equity attributable to owners of the parent	5,103,573	4,746,886	5,139,691
Net gearing ratio *(Note)*	44.5%	45.6%	52.3%
Average effective interest rate for bank and other borrowings	4.97%	4.86%	4.51%

Note:

Net gearing ratio is calculated by dividing net debts by total equity attributable to owners of the parent plus net debts as at the end of respective year/period.

As at 30 June 2024, the non-current assets of the Group mainly comprised (i) investment properties of approximately RMB4,296.1 million; (ii) property (which were mainly hotel properties held for self-use) and equipment of approximately RMB2,268.7 million; (iii) properties under development of approximately RMB948.1 million; (iv) equity investments designated at fair value through other comprehensive income of approximately RMB355.4 million; and (v) long term prepayments of approximately RMB329.6 million. Meanwhile, the Group's current assets mainly consisted of (i) completed properties held for sale of approximately RMB3,612.6 million; (ii) properties under development of approximately RMB534.8 million; (iii) prepayments, other receivables and other assets of approximately RMB504.1 million; (iv) cash and cash equivalents of approximately RMB123.7 million; and (v) restricted cash (which was placed in the designated bank accounts for a specified use and subject to certain withdrawal restrictions pursuant to relevant regulations in the PRC) of approximately RMB100.2 million. The decrease in cash and cash equivalents from approximately RMB948.1 million as at 31 December 2022 to approximately RMB123.7 million as at 30 June 2024 was primarily attributable to the repayment of interest-bearing bank and other borrowings and amounts due to related companies during the period, reducing the total outstanding balance from approximately RMB4,763.4 million as at 31 December 2022 to approximately RMB3,330.1 million as at 30 June 2024.

As at 30 June 2024, the non-current liabilities of the Group mainly comprised (i) interest-bearing bank and other borrowings of approximately RMB2,706.6 million; and (ii) deferred tax liabilities of approximately RMB617.6 million. Meanwhile, the Group's current liabilities mainly consisted of (i) trade payables of approximately RMB2,085.0 million; (ii) tax payable of approximately RMB1,128.0 million; (iii) contract liabilities (which mainly represent deposits received from the customers in advance of delivering properties to such customers) of approximately RMB662.0 million; (iv) interest-bearing bank and other borrowings of approximately RMB575.9 million; and (v) other payables and accruals of approximately RMB319.9 million.

As at 30 June 2024, the consolidated net current assets and net assets of the Group were approximately RMB153.9 million and RMB5,204.4 million, respectively.

Based on the foregoing, while the Group remained in net loss and net current liabilities position for/as at the year ended 31 December 2022 and 2023, it is noted that (i) the financial performance of the Group has improved from a net loss of approximately RMB72.0 million for 1H2023 to a net profit of approximately RMB347.5 million for 1H2024 with the increased revenue primarily contributed from higher sales of commercial properties of two major development projects delivered during 1H2024; and (ii) the financial position of the Group has also improved from net current liabilities of approximately RMB846.5 million as at 31 December 2023 to net current assets of approximately RMB153.9 million as at 30 June 2024 together with the increase in net assets from approximately RMB4,840.8 million as at 31 December 2023 to approximately RMB5,204.4 million as at 30 June 2024.

2. Information on the Zhong An Group

2.1. Business overview of the Zhong An Group

Zhong An Cayman is an investment holding company incorporated in the Cayman Islands with limited liability, the shares of which have been listed on the Main Board of the Stock Exchange (stock code: 672) since 13 November 2007. The Zhong An Group is principally engaged in property development, property leasing and hotel operations.

As at the Latest Practicable Date, Zhong An Cayman is one of the controlling Shareholders.

2.2. Financial information of the Zhong An Group

Set out below is a summary of the financial results of the Zhong An Group (i) for FY2022 and FY2023 as extracted from the annual report of Zhong An Cayman for FY2023 (the "**ZA Annual Report 2023**"); and (ii) for 1H2023 and 1H2024 as extracted from the interim report of Zhong An Cayman for 1H2024 (the "**ZA Interim Report 2024**"):

	For the year ended 31 December		**For the six months ended 30 June**	
	2022	**2023**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue				
– Residential segment	8,658,716	13,192,997	3,259,500	6,361,169
– Commercial segment	591,783	1,297,235	818,559	2,921,774
	9,250,499	14,490,232	4,078,059	9,282,943
Gross profit	2,470,929	1,525,396	699,196	1,830,042
Gross profit margin	*26.7%*	*10.5%*	*17.1%*	*19.7%*
Profit for the year/period	21,418	287,114	156,064	117,901
Profit attributable to owners of the parent	186,734	479,442	196,571	62,509

For the years ended 31 December 2022 and 2023

The Zhong An Group's revenue increased by approximately RMB5,239.7 million, or approximately 56.6%, from approximately RMB9,250.5 million for FY2022 to approximately RMB14,490.2 million for FY2023. According to the ZA Annual Report 2023, such increase was primarily attributable to the increase in the total gross floor area of the properties sold and delivered in FY2023 as compared to those sold and delivered in FY2022, resulting in the corresponding increase in the amount of recognised revenue in FY2023.

The Zhong An Group's gross profit decreased by approximately RMB945.5 million, or approximately 38.3%, from approximately RMB2,470.9 million for FY2022 to approximately RMB1,525.4 million for FY2023. According to the ZA Annual Report 2023, such decrease was mainly due to the decrease in the average selling price recognised in FY2023 as compared to that in FY2022, leading to the decrease in the overall gross profit margin of the Zhong An Group from approximately 26.7% for FY2022 to approximately 10.5% for FY2023.

Despite the decrease in gross profit for the year, the Zhong An Group recorded a significant increase in net profit of approximately 12 times from approximately RMB21.4 million for FY2022 to approximately RMB287.1 million for FY2023, mainly due to the combined effect of (i) the substantial decrease in income tax expense for FY2023; (ii) the turnaround from the share of losses of joint ventures and associates for FY2022 to share of profits of joint ventures and associates for FY2023; (iii) the decrease in other income and gains for FY2023; and (iv) the increase in net loss from changes in fair value of investment properties for FY2023.

For the six months ended 30 June 2023 and 2024

The Zhong An Group's revenue increased by approximately RMB5,204.9 million, or approximately 127.6%, from approximately RMB4,078.1 million for 1H2023 to approximately RMB9,282.9 million for 1H2024. According to the ZA Interim Report 2024, such increase was primarily attributable to the substantial increase in the revenue from sales of properties of approximately RMB5,293.0 million during the period, which was mainly resulted from the increase in properties delivered in 1H2024 as compared to those delivered in 1H2023.

The Zhong An Group's gross profit increased by approximately RMB1,130.8 million, or approximately 161.7%, from approximately RMB699.2 million for 1H2023 to approximately RMB1,830.0 million for 1H2024, which was in line with the revenue growth for 1H2024 as explained above. The overall gross profit margin of the Zhong An Group remained relatively stable at approximately 17.1% for 1H2023 and approximately 19.7% for 1H2024.

Despite the increase in gross profit for the period, the Zhong An Group recorded a decrease in net profit of approximately 24.5% from approximately RMB156.1 million for 1H2023 to approximately RMB117.9 million for 1H2024, mainly due to (i) the increase in income tax expense for 1H2024; and (ii) the increase in net loss from changes in fair value of investment properties for 1H2024.

Set out below is a summary of the financial position of the Zhong An Group (i) as at 31 December 2022 and 2023 as extracted from the ZA Annual Report 2023; and (ii) as at 30 June 2024 as extracted from the ZA Interim Report 2024:

	As at 31 December		As at 30 June
	2022	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)
Total assets	59,096,852	48,569,768	42,393,898
– Non-current assets	13,456,669	13,095,086	12,282,580
– Current assets, including:	45,640,183	35,474,682	30,111,318
– Cash and cash equivalents	3,001,572	787,166	587,932
Total liabilities	46,763,688	35,614,568	29,298,442
– Non-current liabilities, including:	10,265,999	6,881,721	4,907,822
– Interest-bearing bank and other borrowings	9,234,962	5,974,349	4,198,693
– Current liabilities, including:	36,497,689	28,732,847	24,390,620
– Interest-bearing bank and other borrowings	5,512,718	2,511,810	3,588,080
Net current assets	9,142,494	6,741,835	5,720,698
Total equity	12,333,164	12,955,200	13,095,456
Total equity attributable to owners of the parent	9,476,703	10,219,489	10,301,102
Net gearing ratio *(Note)*	61.6%	55.0%	56.5%
Average effective interest rate for bank and other borrowings	5.47%	4.86%	4.51%

Note:

Net gearing ratio is calculated by dividing net debts by total equity attributable to owners of the parent plus net debts as at the end of respective year/period.

As at 30 June 2024, the non-current assets of the Zhong An Group mainly comprised (i) investment properties of approximately RMB4,296.1 million; (ii) property and equipment of approximately RMB2,324.2 million; (iii) properties under development of approximately RMB1,993.7 million; (iv) investments in associates of approximately RMB1,282.2 million; and (v) investments in joint ventures of approximately RMB1,010.0 million. Meanwhile, the Zhong An Group's current assets mainly consisted of (i) properties under development of approximately RMB11,672.3 million; (ii) completed properties held for sale of approximately RMB10,255.8 million; (iii) prepayments, other receivables and other assets of approximately RMB4,285.8 million; (iv) restricted cash of approximately RMB1,325.7 million; (v) loans to associates of approximately RMB876.6 million; (vi) loans to joint ventures of approximately RMB648.4 million; and (vii) cash and cash equivalents of approximately RMB587.9 million. The decrease in cash and cash equivalents from approximately RMB3,001.6 million as at 31 December 2022 to approximately RMB587.9 million as at 30 June 2024 was primarily attributable to the repayment of interest-bearing bank and other borrowings during the period, reducing the total outstanding balance from approximately RMB14,747.7 million as at 31 December 2022 to approximately RMB7,786.8 million as at 30 June 2024.

As at 30 June 2024, the non-current liabilities of the Zhong An Group mainly comprised (i) interest-bearing bank and other borrowings of approximately RMB4,198.7 million; and (ii) deferred tax liabilities of approximately RMB681.5 million. Meanwhile, the Zhong An Group's current liabilities mainly consisted of (i) contract liabilities (which mainly represent deposits received from the customers in advance of delivering properties to such customers) of approximately RMB9,310.4 million; (ii) trade payables of approximately RMB5,057.6 million; (iii) interest-bearing bank and other borrowings of approximately RMB3,588.1 million; (iv) tax payable of approximately RMB2,942.9 million; (v) amounts due to associates of approximately RMB1,215.2 million; (vi) amounts due to joint ventures of approximately RMB1,196.2 million; and (vii) other payables and accruals of approximately RMB1,031.8 million.

As at 30 June 2024, the consolidated net current assets and net assets of the Zhong An Group were approximately RMB5,720.7 million and RMB13,095.5 million, respectively.

3. Industry outlook

According to the National Bureau of Statistics of the PRC, China's gross domestic product reached approximately RMB94.97 trillion for the first nine months of 2024, representing a period-on-period increase of approximately 4.8% as compared to that for the corresponding period in 2023. In the first three quarters of 2024, despite a complicated external environment and emerging challenges at home, China's economy has posted a generally stable performance.

In recent years, the PRC central government has been actively rolling out policies and stimulus measures to cater to the residential sales market and boost the healthy development of the real estate sector, including policies to ease restrictions on the classification of first-home buyers, lower existing first-home loan rates, and extend tax incentives. For instance, in May 2024, (i) the People's Bank of China and the National Financial Regulatory Administration jointly announced that the minimum down payment ratios for individuals' commercial housing mortgages would be lowered to 15% for first-home purchases and 25% for second-home purchases; and (ii) the People's Bank of China also announced that the floor level of commercial mortgage rates for first and second homes would be cancelled across the country. Moreover, in October 2024, the Ministry of Housing and Urban-Rural Development and four other government departments jointly announced new policy measures to stimulate property sales, including increasing the credit limit for "whitelist" housing projects to RMB4 trillion.

In October 2024, the PRC's real estate market activity improved, with several indicators showing year-on-year growth after a prolonged period of declines, as shown by the latest data from the Ministry of Housing and Urban-Rural Development. According to such data, real estate transactions in China's first-tier cities – Beijing, Shanghai, Guangzhou, and Shenzhen – showed marked growth, with online new home sales up 14.1% year-on-year and second-hand home sales rising by 47.3%. The real estate market sentiment in other major cities has also witnessed some improvement. For example, the new home market in Nanjing City recorded a transaction volume of 401,200 square metres in October 2024, marking an 8.77% month-over-month increase.

As disclosed in the CNC Interim Report 2024, the 2024 government work report of the PRC delineates three pivotal tenets for China's real estate sector: risk mitigation, adherence to baselines and market stabilisation. This policy framework supports the trajectory of the sector's robust growth. The PRC central government policies will continue to maintain their efficacy, with local governments anticipated to refine their regulatory tactics. More importantly, the PRC central government reiterates its commitment to the reasonable financing demands of real estate developers, heralding a more accommodative financing climate for private and mixed-ownership entities. As further mentioned in the CNC Interim Report 2024, the real estate market is projected to recover incrementally as economic conditions and household incomes stabilise and market supply-demand dynamics evolve.

4. Reasons for and benefits of entering into the New Financial Advances Framework Agreement

As disclosed in the Letter from the Board, one of the Group's treasury objectives is to seek an optimal utilisation of its funds to generate income for the Group. With reference to the CNC Interim Report 2024, the Group's cash at banks earns interest at floating rates based on daily bank deposit rates while the Group's short-term time deposits earn interest at short-term time deposit rates. As advised by the Management, the idle cash of the Group is currently deposited in the commercial banks in the PRC with interest rates ranging from approximately 0.1% to 1.25% per annum. On the contrary, according to the terms of the New Financial Advances Framework Agreement, the interest rate of the Advances shall be determined by reference to the benchmark interest rate for RMB short-term loans as then promulgated by the People's Bank of China (which is currently at 4.35% per annum for RMB short-term loans within one-year term as further discussed under the section headed "8. Internal control measures" below) and comparable to the then normal commercial terms or better. As such, the Group is expected to enjoy a higher interest yield for providing the Advances to the Zhong An Group than placing its idle cash in the banks in the PRC. As the Zhong An Group may require funds from time to time, the provision of the Advances under the New Financial Advances Framework Agreement would help enhance the efficiency in the use of and generate additional interest income from the Group's idle cash resources.

As further disclosed in the Letter from the Board, the Zhong An Group, as a property developer, needs short-term funds from time to time to finance its daily operations. We have discussed with the Management and are given to understand that the continual provision of the Advances is essential for the Zhong An Group to maintain its existing financial resources for daily operation and business development, while the Group, being a member within the Zhong An Group, would benefit from the stable development of the Zhong An Group by enjoying the synergy brought by its continuous business growth and brand image, which is in the interests of the Company and the Shareholders as a whole.

As regards the creditworthiness of the Zhong An Group, we have reviewed the background and financial information of Zhong An Cayman and noted that Zhong An Cayman, being one of the controlling Shareholders, is a limited liability company listed on the Stock Exchange (stock code: 672) which indicates that it is subject to strict regulatory compliance and under the supervision by competent authorities in Hong Kong. By virtue of Zhong An Cayman being a listed company, the Company can access to and review the Zhong An Group's material information and development from time to time and prompt actions can be taken by the Group in response to any matter which may adversely affect the creditworthiness of the Zhong An Group. From the financial perspective, we noted that the net assets and net current assets of the Zhong An Group amounted to approximately RMB13,095.5 million and RMB5,720.7 million as at 30 June 2024, respectively, both of which are well above the amount of the proposed Caps of RMB1,800 million. Moreover, although the Zhong An Group is not required to provide any guarantee for the Advances under the New Financial Advances Framework Agreement, the Management advised us that the Group may, after assessing the credit risk of the Zhong An Group, request the Zhong An Group to provide a guarantee for the Advances in order to secure recoverability. Based on the above and, in particular, the strong financial position and solid asset base of the Zhong An Group, we consider that the credit risk associated with the Advances is relatively low.

It is worth noting that, pursuant to the terms of the New Financial Advances Framework Agreement, the Group has the sole discretion to decide whether or not to provide an Advance to the Zhong An Group based on, among other things, its liquidity position. As such, the Group has the flexibility to maintain sufficient cash resources for its operation and development by taking into account (i) its ongoing business development and operational expenses; and (ii) its expansion of existing business and/or potential investments.

Having considered the above reasons and benefits and the terms of the New Financial Advances Framework Agreement being on normal commercial terms and fair and reasonable as discussed below, we are of the view that although the New Financial Advances Framework Agreement was not entered into in the ordinary and usual course of business of the Group, the provision of the Advances is in the interests of the Company and the Shareholders as a whole.

5. Principal terms of the New Financial Advances Framework Agreement

The principal terms of the New Financial Advances Framework Agreement, details of which are set out under the section headed "MAJOR AND CONTINUING CONNECTED TRANSACTIONS – (ii) New Financial Advances Framework Agreement" in the Letter from the Board, are summarised below:

Date:	11 December 2024 (after trading hours)
Parties:	(1) the Company (for itself and on behalf of its subsidiaries); and (2) Zhong An Cayman (for itself and on behalf of its subsidiaries but excluding the Group).
Term:	From 1 January 2025 to 31 December 2027 (both days inclusive), subject to the satisfaction of the conditions precedent referred to below. The term of the New Financial Advances Framework Agreement can be extended on a mutually agreed basis, subject to compliance with the relevant requirements of the Listing Rules.
Conditions precedent:	The New Financial Advances Framework Agreement is conditional on and subject to the compliance by the Company with the relevant Listing Rules requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Advances:	Zhong An Cayman shall utilise the Advances made by the Company pursuant to the New Financial Advances Framework Agreement for its daily business operations. Upon receipt of a written notice from Zhong An Cayman requesting for an Advance, the Company shall decide whether to make an Advance based on, among other things, its liquidity position. If the Company so decides to make an Advance, it shall, within 15 business days after the receipt of a written notice from Zhong An Cayman, make the relevant Advance pursuant to such written notice. If the Company is unable to make an Advance pursuant to a written notice of Zhong An Cayman, or considers necessary to amend the terms of a written notice, it shall reply to Zhong An Cayman within 3 business days after the receipt of such written notice of Zhong An Cayman. The specific terms of each Advance regarding the amount, the receiving bank account and the repayment date, etc. are to be mutually agreed by the parties, and (if required) stipulated under separate agreements to be entered into by the parties. Each of the Advances shall be repayable on demand in case of any event of default of the specific agreements. The parties agree that Zhong An Cayman is not required to provide any guarantee for the Advances, unless otherwise negotiated and agreed by the parties.
Interests:	Interests shall be payable by Zhong An Cayman to the Company for each Advance, the rate of which shall be determined by reference to the benchmark interest rate as then promulgated by the People's Bank of China for RMB short-term loans, and comparable to the then normal commercial terms or better.

Caps:	The Caps for the three years ending 31 December 2027 are as follows: (a) RMB1,800 million for the year ending 31 December 2025; (b) RMB1,800 million for the year ending 31 December 2026; and (c) RMB1,800 million for the year ending 31 December 2027.

For our due diligence purpose, we have obtained and reviewed the New Financial Advances Framework Agreement and Existing Financial Advances Framework Agreement and compared the terms under the New Financial Advances Framework Agreement with those under the Existing Financial Advances Framework Agreement. We did not note any abnormal terms or material difference between the terms of the Existing Financial Advances Framework Agreement and those of the New Financial Advances Framework Agreement, save for the new proposed annual caps.

As regards the pricing policy under the New Financial Advances Framework Agreement, it is noted that the interest rate of the Advances shall be determined by reference to the benchmark interest rate as then promulgated by the People's Bank of China for RMB short-term loans, and comparable to the then normal commercial terms or better. Considering that the above will ensure the interest rate of the Advances to be no less favourable to the Group than prevailing market interest rates, we concur with the Directors' view that such pricing policy is fair and reasonable so far as the Independent Shareholders are concerned.

Furthermore, as mentioned above, the Group has the sole discretion to decide whether or not to provide an Advance to the Zhong An Group based on, among other things, its liquidity position. That is to say, the New Financial Advances Framework Agreement does not impose any obligation to the Group to provide the Advances to the Zhong An Group and the Group may only provide the Advances to the Zhong An Group when it, from time to time, thinks fit and appropriate.

Independent Shareholders' attention is drawn to our view on the terms of the New Financial Advances Framework Agreement as detailed under the section headed "9. Our view on the terms of the New Financial Advances Framework Agreement" below.

6. Review on the historical transaction amount

As extracted from the Letter from the Board, the following table sets out (i) the historical highest daily balance amount of the recurring advances provided by the Group to the Zhong An Group during the term of the Existing Financial Advances Framework Agreement; and (ii) the existing annual caps for the relevant years:

	For the year ended/ending 31 December		
	2022 (Note 1)	2023	2024 (Note 2)
	RMB million	*RMB million*	*RMB million*
Historical highest daily balance amount (approx.)	–	–	660
Existing annual cap	1,200	1,500	1,800
Highest daily utilisation rate (approx.)	–	–	36.7%

Notes:

1. For the period from the date on which the Existing Financial Advances Framework Agreement was approved by the then independent Shareholders (i.e. 19 September 2022) to 31 December 2022

2. For the period from 1 January 2024 up to and including the Latest Practicable Date (the "**Relevant Period**")

As disclosed in the Letter from the Board, no recurring advance was provided by the Group to the Zhong An Group under the Existing Financial Advances Framework Agreement for (i) the period from 19 September 2022 to 31 December 2022; and (ii) the year ended 31 December 2023. As advised by the Management, the Zhong An Group had been financing its business operations through its internal resources and/or other borrowings during such periods and therefore had not requested advances from the Group. For the recurring advances provided by the Group to the Zhong An Group during the Relevant Period (the "**2024 Historical Advances**"), the highest daily balance amount was approximately RMB660 million during such period, representing a highest daily utilisation rate of approximately 36.7%.

7. Assessment of the proposed annual caps

According to the Letter from the Board, the proposed Caps for the Advances under the New Financial Advances Framework Agreement for each of the three years ending 31 December 2027 are RMB1,800 million, RMB1,800 million and RMB1,800 million, respectively.

In assessing the fairness and reasonableness of the proposed Caps, we have discussed with and understood from the Management that, in arriving at the proposed Caps, (i) the Group and the Zhong An Group have principally taken into account the latest financial position and potential property development expenditure of the Zhong An Group; and (ii) the Group has also taken into account the anticipated operating cash inflows of the Group and the Group's projected liquidity position and available funds to meet its financial needs.

As discussed under the sub-section headed "2.2. Financial information of the Zhong An Group" above, as at 30 June 2024, the current portion of interest-bearing bank and other borrowings (which were due within one year or on demand) of the Zhong An Group amounted to approximately RMB3,588.1 million while its cash and cash equivalents were approximately RMB587.9 million only. We further noted from the Zhong An Interim Report 2024 that the Zhong An Group had capital commitments of approximately RMB2,560.9 million as at 30 June 2024, mainly in respect of property development expenditure, and it is expected that the Zhong An Group will finance such commitments from its own funds, cash proceeds from sales and external financing. As advised by the Management, additional funds would be needed by the Zhong An Group to fulfil its daily operation needs and capital requirement for potential property projects.

We have also considered the following factors to further assess the fairness and reasonableness of the proposed Caps:

(i) we have discussed with the Management regarding the development plans of the Group from 2025 to 2027 and potential capital expenditures in relation thereto and are given to understand that the Group has not planned for any material capital expenditure or investment as at the Latest Practicable Date. We are further advised that the Group has taken into account its own financial needs when determining the proposed Caps given the expected cash inflows to be generated from the Group's operating activities;

(ii) the rapid growth of the Group's operation scale in recent years as demonstrated by (i) the increase in revenue (a) by approximately 119.2% from approximately RMB591.8 million for FY2022 to approximately RMB1,297.2 million for FY2023; and (b) by approximately 256.9% from approximately RMB818.6 million for 1H2023 to approximately RMB2,921.8 million for 1H2024; and (ii) the increase in net cash flows from operating activities (a) from net cash outflows of approximately RMB214.7 million for FY2022 to net cash inflows of approximately RMB683.9 million for FY2023; and (b) from net cash outflows of approximately RMB163.9 million for 1H2023 to net cash inflows of approximately RMB193.9 million for 1H2024;

(iii) the Group's net carrying amount of completed properties held for sale amounting to approximately RMB10,255.8 million as at 30 June 2024 according to the CNC Interim Report 2024. Moreover, as disclosed in the Letter from the Board, based on the current progress and status of the Group's projects-on-hand, the preliminary estimated contracted sales for each of the years ending 31 December 2025 and 2026 is of an amount of around RMB2,600 million; and

(iv) the outlook of the PRC real estate market as discussed under the section headed "3. Industry outlook" above.

It is noted that the proposed Caps of RMB1,800 million for the three years ending 31 December 2027 are higher than the Group's cash balance of approximately RMB223.9 million as at 30 June 2024. Nevertheless, (i) the cash position of the Group will fluctuate from time to time during a year and the balance as at the end of a period/year only represents the cash position at that particular point of time; (ii) we have obtained and reviewed the Group's month-end cash balance for each month from June 2022 to October 2024 and noted that such cash balance fluctuated from the lowest of approximately RMB131.6 million to the highest of approximately RMB1,321.1 million during such period; (iii) the proposed Caps only represent the highest possible outstanding balance due from the Zhong An Group under the New Financial Advances Framework Agreement, where the Group is not obliged to provide the Advances in such amounts and the Group would assess its then cash position and working capital needs before making any Advances; and (iv) the Group has implemented internal control and risk management measures to monitor the provision of the Advances as discussed under the section headed "8. Internal control measures" below.

Based on the above, we are of the view that the proposed Caps are fair and reasonable so far as the Independent Shareholders are concerned.

8. Internal control measures

In order to ensure that the provision of the Advances will be conducted on normal commercial terms and in accordance with the pricing policy and terms of the New Financial Advances Framework Agreement, we have discussed with and understood from the Management that the Company has adopted the following internal control measures, according to which it conducts regular monitoring and review of the relevant transactions:

(i) prior to requesting an Advance, Zhong An Cayman shall submit a written notice to the Company requesting an Advance. Upon which, the relevant personnel of the Company shall prepare a notification form for internal approval by the financial management department of the Group, setting out the details of the request, including the use of Advance proceeds, expected interest rate, expected drawdown date, expected repayment date, and whether such Advance is expected to be secured;

(ii) when deciding whether to make an Advance upon a request, the financial management department of the Group will assess the liquidity and financial resources of the Group with reference to the amount of Advance requested and any foreseeable funding needs of the Group to ensure that the liquidity position of the Group remains sufficient with available funds to meet its funding requirements from time to time and the Group's total assets and total liabilities are not materially adversely affected if the requested Advance is to be made;

(iii) in addition, the Group shall perform due diligence work on the Zhong An Group before it approves the relevant Advances, which includes (i) conducting public searches on the good standing of the relevant Zhong An Group companies; (ii) taking into account of the then historical credibility of the Zhong An Group in repaying to the Company; (iii) conducting meetings with the relevant Zhong An Group companies in relation to negotiation of the specific terms of the Advances; (iv) assessing the financial situation of the Zhong An Group by reviewing its audited accounts and management accounts to be submitted to the Group from time to time, to safeguard the interests of the Group in respect of the Advances;

(iv) the financial management department of the Group will regularly keep track of the benchmark interest rate promulgated by the People's Bank of China for RMB short-term loans and any relevant interest rates adopted by transactions similar to the Advances to ensure that the interest rate to be charged on each Advance will be on normal commercial or better terms; and

(v) lastly, the financial management department of the Group will continuously review and monitor the Advances to ensure that the relevant Cap will not be exceeded. When a new Advance is requested by the Zhong An Group, the financial management department of the Group will check the records of Advances made to the Zhong An Group and the relevant Cap and new Advance will only be made if the relevant Cap is not exceeded. The financial management department of the Group will conduct regular review of the Advances made to the Zhong An Group and will notify the Board when the relevant Cap is likely to be exceeded, and upon such notification, the Company will take appropriate actions, including ceasing to make new Advances until the Advances are reduced by repayment of the Zhong An Group.

In addition to point (iii) above, as advised by the Management, after making an Advance, the Group will continue to (i) monitor the Zhong An Group's financial capability; (ii) keep track of any negative news regarding the Zhong An Group; (iii) regularly follow up with the Zhong An Group regarding the status of the relevant projects; (iv) review settlement amounts regularly and notify the Zhong An Group for any overdue balances; and (v) request immediate repayment from the Zhong An Group if the Group is aware of any potential issues on recoverability or any event of default. Given the aforesaid due diligence work to be performed by the Group on the Zhong An Group before and after the grant of Advances, we consider that the default risks associated with the Advances are mitigated and the recoverability of the Advances is secured.

For our due diligence purpose, we have randomly selected samples from the 2024 Historical Advances in relation to an aggregate principal amount of approximately RMB893.4 million and obtained from the Company the corresponding (i) written notices; (ii) request letters for internal approval; and (iii) internal approval forms. Based on our review of such sample documents, we noted that, before each of the relevant 2024 Historical Advances was made, (i) the Group had assessed, among others, the credibility of the Zhong An Group and the liquidity position of the

Group; and (ii) the request for the relevant advance was reviewed and approved by the financial management department and/or the senior management of the Group. In light of the above and, in particular, that the Group will assess its liquidity and financial resources before making any Advances, we are of the view that there are appropriate internal control measures in respect of the provision of the Advances for the Group to maintain sufficient cash level for its business operations from time to time.

As advised by the Management, the financial management department of the Group regularly monitored the movement of the current account between the Group and the Zhong An Group during the term of the Existing Financial Advances Framework Agreement and when the current account recorded a net balance due from the Zhong An Group during a year, loan interest with an interest rate determined with reference to prevailing market interest rates would be charged. As mentioned under the section headed "6. Review on the historical transaction amount" above, no recurring advance was provided by the Group to the Zhong An Group under the Existing Financial Advances Framework Agreement for (i) the period from 19 September 2022 to 31 December 2022; and (ii) the year ended 31 December 2023. We have obtained from the Company the internal records of the current account between the Group and the Zhong An Group for the Relevant Period and noted that loan interests were accrued at 5% per annum for the net amounts due from the Zhong An Group during such period. In this regard, we have conducted independent search and noted (i) from the website of the People's Bank of China that the prevailing benchmark interest rate for RMB short-term loans within one-year term has remained at 4.35% per annum since 24 October 2015; and (ii) from the websites of major commercial banks in the PRC that the average interest rate for RMB short-term loans within one-year term is approximately 4.35% per annum as at the Latest Practicable Date. We also noted from the CNC Annual Report 2023 and CNC Interim Report 2024 that the average effective interest rate for bank and other borrowings of the Group was approximately 4.97%, 4.86% and 4.51% per annum for the two years ended 31 December 2023 and the six months ended 30 June 2024, respectively. Accordingly, the interest rate of 5% per annum charged on the 2024 Historical Advances was (i) higher than such benchmark interest rate promulgated by the People's Bank of China and such average interest rate published by major commercial banks in the PRC; and (ii) no less favourable to the Group than the then borrowing rates of the Group. On the above basis, we consider that the Group had adhered to the relevant pricing policy during the term of the Existing Financial Advances Framework Agreement.

Furthermore, we noted from the CNC Annual Report 2023 that the independent non-executive Directors have reviewed the continuing connected transactions conducted by the Group during FY2023 and have confirmed that such transactions (i) were entered into in the ordinary and usual course of business of the Group; (ii) were on normal commercial terms or better; and (iii) were in accordance with the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole. Besides, the auditor of the Company has reported on the continuing connected transactions conducted by the Group during FY2023 pursuant to Rule 14A.56 of the Listing Rules and has confirmed that nothing has come to its attention that causes it to believe that such transactions (i) had not been approved by the Board;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group for any transactions involving the provision of goods or services by the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) had exceeded the annual caps set by the Company. As confirmed by the Company, the Company will continue to comply with the relevant annual review requirements pursuant to Rules 14A.55 to 14A.59 of the Listing Rules in respect of the provision of the Advances on an on-going basis.

Taking the above into account, we are of the view that there are appropriate internal control and risk management measures in place to govern the conduct of the transactions contemplated under the New Financial Advances Framework Agreement, thereby safeguarding the interests of the Independent Shareholders.

9. Our view on the terms of the New Financial Advances Framework Agreement

Considering the above, including:

(i) the pricing policy under the New Financial Advances Framework Agreement is fair and reasonable;

(ii) the Group has the sole discretion to decide whether or not to provide an Advance to the Zhong An Group;

(iii) the proposed Caps are fair and reasonable as detailed under the section headed "7. Assessment of the proposed annual caps" above;

(iv) there are appropriate internal control measures in respect of the provision of the Advances for the Group to maintain sufficient cash level for its business operations from time to time; and

(v) the Group has implemented internal control and risk management measures to monitor the provision of the Advances as detailed under the section headed "8. Internal control measures" above,

we concur with the Directors' view that the terms of the New Financial Advances Framework Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the terms of the New Financial Advances Framework Agreement (including the proposed Caps) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and although the New Financial Advances Framework Agreement was not entered into in the ordinary and usual course of business of the Group, the provision of the Advances is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the New Financial Advances Framework Agreement (including the proposed Caps) and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited

Kristie Ho
Managing Director

Ms. Kristie Ho is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. She has over 20 years of experience in the securities and investment banking industries.