
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 stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China New City Group Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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China New City Group Limited

中國新城市集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1321)

**MAJOR AND CONTINUING CONNECTED TRANSACTIONS
RENEWAL OF THE EXISTING FINANCIAL ADVANCES
FRAMEWORK AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



Capitalised terms used in this cover page shall have the same meanings as defined in this circular.

A letter from the Board is set out on pages 4 to 15 of this circular. A letter from the Independent Board Committee is set out on pages 16 to 17 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 42 of this circular. A notice convening the EGM to be held at 4:30 p.m. on Wednesday, 15 January 2025 at Crystal Hall, 4th Floor, Holiday Inn Hangzhou Xiaoshan, No. 688 Shanyin Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for the EGM is enclosed with this circular.

Whether or not you intend to attend the EGM in person, you are requested to complete and return the enclosed form of proxy, in accordance with the instructions printed thereon, as soon as possible and in any event not later than forty-eight (48) hours before the time scheduled for the EGM (i.e. at or before 4:30 p.m. on Monday, 13 January 2025) or any adjournment thereof to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong. Completion and return of a form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

27 December 2024

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Advances”	the financial assistance in the form of recurring advances to be made by the Group to the Zhong An Group in accordance with the terms and conditions set out in the New Financial Advances Framework Agreement;
“Board”	the board of Directors;
“business day(s)”	day(s) on which commercial banks are open for business in the PRC (excluding Saturdays, Sundays and public holidays);
“Caps”	the highest daily balance amount that the Group may advance to the Zhong An Group pursuant to the New Financial Advances Framework Agreement for each year during its term;
“Company”	China New City Group Limited, an exempted company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1321);
“connected person”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“EGM or Extraordinary General Meeting”	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, approve the New Financial Advances Framework Agreement, the transactions contemplated thereunder and the proposed Caps;
“Existing Financial Advances Framework Agreement”	the financial advances framework agreement entered into between the Company (for itself and on behalf of its subsidiaries) and Zhong An Cayman (for itself and on behalf of its subsidiaries but excluding the Group) on 27 June 2022 (after trading hours);
“Group”	the Company and its subsidiaries from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;

DEFINITIONS

“Ideal World”	Ideal World Investments Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly-owned by Zhong An Cayman and is a controlling Shareholder of the Company;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Independent Board Committee”	a committee of the Board comprising Mr Xu Chengfa, Mr Lam Yau Yiu and Mr Yuan Yuan, being the independent non-executive Directors;
“Independent Financial Adviser”	Lego Corporate Finance Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and appointed as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions under the New Financial Advances Framework Agreement and the proposed Caps;
“Independent Shareholder(s)”	Shareholder(s) who are not required to abstain from voting at the EGM;
“Latest Practicable Date”	23 December 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mr Shi Zhongan”	Mr Shi Zhongan (施中安), the chairperson of the Board, a non-executive Director and a controlling Shareholder of the Company, who is also the chairperson of the board of directors, an executive director and a controlling shareholder of Zhong An Cayman;
“New Financial Advances Framework Agreement”	the financial advances framework agreement entered into between the Company (for itself and on behalf of its subsidiaries) and Zhong An Cayman (for itself and on behalf of its subsidiaries but excluding the Group) on 11 December 2024 (after trading hours);
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Whole Good”	Whole Good Management Limited (全好管理有限公司), a company incorporated in the British Virgin Islands with limited liability, which is wholly-owned by Mr Shi Zhongan and is a controlling shareholder of Zhong An Cayman and the Company;
“Zhong An Cayman”	Zhong An Group Limited (眾安集團有限公司), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 672), and a controlling Shareholder of the Company;
“Zhong An Group”	Zhong An Cayman and its subsidiaries from time to time; and
“%”	per cent.

Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

LETTER FROM THE BOARD



China New City Group Limited

中國新城市集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1321)

Executive Directors:

Mr Shi Nanlu (*Chief Executive Officer*)

Mr Jin Jianrong

Non-executive Directors:

Mr Shi Zhongan (*Chairperson*)

Independent non-executive Directors:

Mr Xu Chengfa

Mr Lam Yau Yiu

Mr Yuan Yuan

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman, KY1-1111

Cayman Islands

*Principal place of business
in Hong Kong:*

Room 4010, 40th Floor

China Resources Building

26 Harbour Road

Wanchai

Hong Kong

27 December 2024

Dear Shareholder(s),

**MAJOR AND CONTINUING CONNECTED TRANSACTIONS
RENEWAL OF THE EXISTING FINANCIAL ADVANCES
FRAMEWORK AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 11 December 2024 in relation to the renewal of the Existing Financial Advances Framework Agreement. Pursuant to the requirements under the Listing Rules, the Company will seek the Independent Shareholders' approval in relation to the New Financial Advances Framework Agreement, the transactions contemplated thereunder and the proposed Caps.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) details of the Advances under the New Financial Advances Framework Agreement; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the terms of the Advances under the New Financial Advances Framework Agreement; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Advances under the New Financial Advances Framework Agreement; and (iv) a notice convening the EGM.

MAJOR AND CONTINUING CONNECTED TRANSACTIONS

(i) Background

Reference is made to the announcements of the Company dated 27 June 2022 and 5 July 2022 where it was announced, among other things, that the Company (for itself and on behalf of its subsidiaries) entered into the Existing Financial Advances Framework Agreement with Zhong An Cayman (for itself and on behalf of its subsidiaries but excluding the Group).

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.

The proposed Caps for the Advances under the New Financial Advances Framework Agreement for the years ending 31 December 2025, 31 December 2026 and 31 December 2027 are RMB1,800 million, RMB1,800 million and RMB1,800 million, respectively.

(ii) New Financial Advances Framework Agreement

The salient terms of the New Financial Advances Framework Agreement 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).

LETTER FROM THE BOARD

The terms “the Company” and “Zhong An Cayman” used in the New Financial Advances Framework Agreement will, as the case may be, mean the subsidiaries of the Company and Zhong An Cayman.

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.

The Group will not make any Advances until the Independent Shareholders, if thought fit, pass resolution(s) approving the New Financial Advances Framework Agreement and the transactions contemplated thereunder and the proposed Caps at the EGM.

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.

LETTER FROM THE BOARD

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 loan, 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,

which is determined on the basis of (i) the expected financial needs of the Zhong An Group; and (ii) the anticipated operating cash inflows and the financial needs of the Group.

LETTER FROM THE BOARD

(iii) Historical amounts of recurring advances

Set out below are the historical (i) highest daily balance amount of the recurring advances provided by the Group to the Zhong An Group; and (ii) rate at which interests were payable by Zhong An Cayman to the Company for the two years ended 31 December 2023 and the year ending 31 December 2024:

	Existing annual caps RMB million	Highest daily balance RMB million (approx.)	Interest rate %
For the year ended 31 December 2022 ^(Note 1)	1,200	–	–
For the year ended 31 December 2023	1,500	–	–
For the year ending 31 December 2024 ^(Note 2)	1,800	660	5

Notes:

- Commencing from 19 September 2022, being the date of approval by the independent shareholders of the Company of the Existing Financial Advances Framework Agreement.*
- In respect of the historical highest daily balance and the interest rate, for the period from 1 January 2024 up to and including the Latest Practicable Date.*

Pursuant to the terms of the Existing Financial Advances Framework Agreement, the interest rate of 5% per annum charged on the historical recurring advances provided by the Group to the Zhong An Group during the year ending 31 December 2024 was determined by the Company with reference to the benchmark interest rate then promulgated by the People's Bank of China for RMB short-term loan within one-year term of 4.35% per annum.

The Company is of the view that the interest rate of 5% per annum charged was not less favourable to the Company as compared with (i) the aforementioned benchmark interest rate; and (ii) the effective interest rate for bank and other borrowings of the Group as at 30 June 2024 of 4.51%.

LETTER FROM THE BOARD

(iv) The proposed Caps and the basis of determination

The proposed Caps in respect of the Advances under the New Financial Advances Framework Agreement for the three years ending 31 December 2027 are as follow:

Proposed Caps		
For the years ending 31 December		
<i>RMB million</i>		
2025	2026	2027
1,800	1,800	1,800

In determining the proposed Caps, the Company has taken into account of the following:

- (a) the anticipated financial needs of the Zhong An Group, estimated with reference to the financial figures as disclosed or derived from the interim report of Zhong An Cayman, including (i) cash and cash equivalents of Zhong An Cayman in the amount of approximately RMB587.9 million as at 30 June 2024; (ii) the total interest-bearing bank and other borrowings of the Zhong An Group of approximately RMB7,786.8 million (of which approximately RMB3,588.1 million were due within one year or on demand) as at 30 June 2024; and (iii) the capital commitments of the Zhong An Group of approximately RMB2,560.9 million as at 30 June 2024, mainly in respect of property development expenditure, which are expected to be financed by the Zhong An Group from its own funds, cash proceeds from sales and external financing;
- (b) the anticipated cash inflows to be generated by the Company resulting from the operating activities and the sale of properties of the Group; and
- (c) the Group's projected liquidity position and available funds to meet its financial needs.

The proposed Caps, representing the highest daily balance amount that the Group may advance to the Zhong An Group, are not directly comparable to the amounts of "cash and cash equivalents" and the "bank borrowings" as at a period/year-end, as (i) the recurring advances might not have been made to the Zhong An Group in the same financial year; and (ii) the period/year-end financial figures may not represent the highest cash position of the Group during such period/year.

For the six months ended 30 June 2024, the Group had generated contracted sales revenue of approximately RMB663.4 million, which is greater than the amount of advances of approximately RMB660.0 million made by the Group to the Zhong An Group for the year ending 31 December 2024. Based on the current progress and status of the Group's projects-on-hand, the preliminary estimated contracted sale for each of the years ending 31 December 2025 and 2026 is of an amount of around RMB2,600 million. After taking into account the preliminary estimated

LETTER FROM THE BOARD

contracted sale and cash inflow to be generated from the Group's operating activities, it is anticipated that the Group would have adequate cash for providing the Advances with reference to the amount of the proposed Caps.

Taking into account of the above, the Company considers that the amounts of the proposed Caps for the three years ending 31 December 2027, are fair and reasonable.

(v) Internal control procedures

In order to ensure that (i) the terms of the New Financial Advances Framework Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable to the Company and its Shareholders taken as a whole; and (ii) the interest charged to the Zhong An Group are no less favourable than those charged to independent third parties by the Company for similar transactions, the Company has adopted the following internal control measures, pursuant to which it conducts regular monitoring and review of the relevant transactions:

- (a) prior to requesting for an Advance, Zhong An Cayman shall submit a written notice to the Company requesting for 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;
- (b) when deciding whether to make an Advance upon a request, the financial management department of the Company 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;
- (c) in addition, the Group shall perform due diligence work on the Zhong An Group before its approval of 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 interest of the Group in respect of the Advances;

LETTER FROM THE BOARD

- (d) the financial management department of the Company will regularly keep track of the benchmark interest rate promulgated by the People's Bank of China for RMB short-term loan 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
- (e) lastly, the financial management department of the Company will 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 Company 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 Company 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.

Based on historical advances provided by the Group to the Zhong An Group for the two years ended 31 December 2023 (commencing from 19 September 2022, being the date of approval by the independent shareholders of the Company of the Existing Financial Advances Framework Agreement) and the period from 1 January 2024 up to and including the Latest Practicable Date, the Group had always been able to fully recover the amount of advances made in accordance with the terms and conditions of such relevant advances from the Zhong An Group to the extent such advances were due and payable on or before the Latest Practicable Date. Although generally the Advances are not to be guaranteed, the Group may, after assessing the credit risk of the Zhong An Group, agree with the Zhong An Group to provide guarantee for the Advances to secure recoverability.

The Company has not experienced any default in payment by the Zhong An Group with respect to the recurring advances made under the Existing Financial Advances Framework Agreement. Given Zhong An Cayman is a company listed on the Stock Exchange, information of its financial positions and information which may materially affect the Zhong An Group is easily accessible to and reviewed by the Company from time to time. Prompt actions can be taken by the Group in response to any matter which may adversely affect the credit worthiness of the Zhong An Group. In addition, under the New Financial Advances Framework Agreement, the Company is not obliged to make an Advance to the Zhong An Group. As stated in the paragraph headed “(ii) New Financial Advances Framework Agreement – the Advances” of this circular, the New Financial Advances Framework Agreement specifically provides that it is the Company who decides whether to make an Advance based on factors including the liquidity position of the Company. Based on these, the Board is of the view that the Group's liquidity and financial position will not be adversely affected by Advances which will be made after careful and due considerations of, among others, the Group's liquidity position.

LETTER FROM THE BOARD

(vi) Reasons for and benefits of the New Financial Advances Framework Agreement

As a property developer, the Zhong An Group is in need of short-term funds from time to time to finance its daily operation. One of the Group's treasury objectives is to seek an optimum utilisation of its funds so as to generate income to the Group. As the Zhong An Group may be in need of funds from time to time, the transactions contemplated under the New Financial Advances Framework Agreement would help enhance the efficiency in the use of the Group's available funds or working capital and generate a revenue stream from the expected interest income.

The Group will finance the Advances from internal resources.

The Directors (including the members of the Independent Board Committee after having considered the advice of the Independent Financial Adviser) are of the view that (i) while entering into the New Financial Advances Framework Agreement was not in the ordinary and usual course of business of the Group, the terms of the New Financial Advances Framework Agreement are considered to be on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole; and (ii) the basis of determining the proposed Caps is fair and reasonable.

The Board approved the New Financial Advances Framework Agreement, the transactions contemplated thereunder and the proposed Caps. Mr Shi Zhongan, being the non-executive Director of the Company and an executive director of Zhong An Cayman, abstained from voting on the relevant resolutions approving such transactions. Save as disclosed above, no other Directors had a material interest in such transactions and was required to abstain from voting on the relevant resolutions approving such transactions.

(vii) Listing Rules implications

Since Zhong An Cayman is a controlling Shareholder (indirectly interested in approximately 66.02% of the issued share capital of the Company) of the Company, Zhong An Cayman is a connected person of the Company as defined in 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.

LETTER FROM THE BOARD

Further, 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.

(viii) Information of the parties

The Company and the Group

The Company is an investment holding company. 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.

Zhong An Cayman and the Zhong An Group

The principal activity of Zhong An Cayman is investment holding. The Zhong An Group is principally engaged in property development, property leasing and hotel operations.

(ix) Financial effect of the Advances under the New Financial Advances Framework Agreement

The Directors are of the opinion that the provision of the Advances by the Group to the Zhong An Group under the New Financial Advances Framework Agreement will not have material impact on the earnings, assets and liabilities of the Group.

THE EGM AND PROXY ARRANGEMENT

The EGM will be held at 4:30 p.m. on Wednesday, 15 January 2025 at Crystal Hall, 4th Floor, Holiday Inn Hangzhou Xiaoshan, No. 688 Shanyin Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC for the Independent Shareholders to consider and, if thought fit, approve the New Financial Advances Framework Agreement, the transactions contemplated thereunder and the proposed Caps. A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use by the Independent Shareholders at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM in person, you are requested to complete and return the enclosed form of proxy, in accordance with the instructions printed thereon, as soon as possible and in any event not later than forty-eight (48) hours before the time scheduled for the EGM or any adjournment thereof to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt

LETTER FROM THE BOARD

Road, Hong Kong. Completion and return of a form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Independent Shareholders on all resolutions at the EGM must be taken by poll. The chairman of the EGM will therefore demand a poll for every resolution to be put to vote at the EGM pursuant to article 72 of the articles of association of the Company. An announcement on the poll results will be published by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

As at the Latest Practicable Date, (i) Ideal World (a wholly owned subsidiary of Zhong An Cayman) was interested in 66.02% of the total issued Shares and (ii) Whole Good was interested in 1.56% of the total issued Shares. Ideal World, Whole Good and their respective associates are required to abstain from voting on the relevant resolutions at the EGM in view of their material interest in the transactions contemplated under the New Financial Advances Framework Agreement. Save for Ideal World, Whole Good and their respective associates, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, no other Shareholder is required to abstain from voting on any resolution to be proposed at the EGM in respect of the New Financial Advances Framework Agreement, the transactions contemplated thereunder and the proposed Caps.

RECORD DATE

The last record date for the purpose of determining the Independent Shareholders' entitlement to attend and vote at the EGM will be Friday, 10 January 2025. In order to be eligible to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Friday, 10 January 2025 for registration.

RECOMMENDATION

Having considered the reasons set out in the paragraph headed "Major and Continuing Connected Transactions" and the advice of the Independent Financial Adviser, the Directors (including the independent non-executive Directors who are members of the Independent Board Committee) are of the view that (i) while entering into the New Financial Advances Framework Agreement was not in the ordinary and usual course of business of the Group, the terms of the New Financial Advances Framework Agreement are considered to be on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole; and (ii) the basis of determining the proposed Caps is fair and reasonable. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the same.

LETTER FROM THE BOARD

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 consider the terms of the transaction contemplated under the New Financial Advances Framework Agreement and the proposed Caps. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this connection.

Your attention is drawn to (i) the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders, and (ii) the letter from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Advances under the New Financial Advances Framework Agreement and the proposed Caps, which are set out on pages 16 to 17 and pages 18 to 42, respectively, in this circular.

ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
China New City Group Limited
Shi Zhongan
Chairperson

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



China New City Group Limited

中國新城市集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1321)

27 December 2024

To the Independent Shareholders

Dear Sirs/Madam,

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

We refer to the circular of the Company dated 27 December 2024 (the “**Circular**”) of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders of China New City Group Limited to consider the terms of the transactions contemplated under the New Financial Advances Framework Agreement and the proposed Caps, the details of which are set out in the section headed “Major and Continuing Connected Transactions” in the “Letter from the Board” contained in the Circular. Lego Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise us and you in this respect.

Your attention is drawn to the “Letter from the Board”, the advice of the Independent Financial Adviser to us and you in respect of the terms of the transactions contemplated under the New Financial Advances Framework Agreement as set out in the “Letter from the Independent Financial Adviser” as well as other additional information set out in other parts of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the information set out in the “Letter from the Board” and taking into account the advice of the Independent Financial Adviser, and the principal factors and reasons considered by the Independent Financial Adviser in relation thereto as stated in its letter, we consider that (i) while entering into the New Financial Advances Framework Agreement was not in the ordinary and usual course of business of the Group, the terms of the New Financial Advances Framework Agreement are considered to be on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole; and (ii) the basis of determining the proposed Caps is fair and reasonable.

Accordingly, we recommend that you vote in favour of the ordinary resolutions to be proposed at the EGM to approve the New Financial Advances Framework Agreement and the transactions contemplated thereunder and the proposed Caps.

Yours faithfully,
Independent Board Committee

Xu Chengfa
Independent
Non-executive Director

Lam Yau Yiu
Independent
Non-executive Director

Yuan Yuan
Independent
Non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Lego Corporate Finance Limited to the Independent Board Committee and the Independent Shareholders in respect of the New Financial Advances Framework Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 RMB'000 (audited)	2023 RMB'000 (audited)	2023 RMB'000 (unaudited)	2024 RMB'000 (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
<i>Gross profit margin</i>	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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 2022	2023	As at 30 June 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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		For the six months ended 30	
	December		June	
	2022	2023	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(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
<i>Gross profit margin</i>	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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 2022	2023	As at 30 June 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

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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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

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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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

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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.

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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;

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- (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

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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;

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(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.

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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.

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group as set out in the audited consolidated financial statements of the Group for each of the three years ended 31 December 2021, 2022 and 2023 was disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinanewcity.com.cn):

- (a) the Company's annual report for the year ended 31 December 2021 published on 27 April 2022 (pages 89 to 251), which can be accessed by the direct hyperlink below:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0427/2022042701261.pdf>

- (b) the Company's annual report for the year ended 31 December 2022 published on 19 April 2023 (pages 94 to 255), which can be accessed by the direct hyperlink below:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0419/2023041901249.pdf>

- (c) the Company's annual report for the year ended 31 December 2023 published on 25 April 2024 (pages 101 to 255), which can be accessed by the direct hyperlink below:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0425/2024042502643.pdf>

2. INDEBTEDNESS STATEMENT

As at the close of business on 31 October 2024, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the indebtedness of the Group was as follows:

Borrowings

The Group had bank loans and other borrowings repayable within one year and after one year of approximately RMB1,565,360,000 and approximately RMB2,141,160,000, respectively. Except for certain bank and other borrowings amounting to approximately RMB1,693,000,000 are secured and guaranteed, all other bank loans are secured. Secured bank borrowings were secured by property and equipment, completed properties held for sale and investment properties of the Group. Guaranteed bank borrowings were guaranteed by Zhong An Cayman, a controlling Shareholder of the Company and Mr Shi Zhongan, a non-executive Director of the Company.

Lease liabilities

The Group had lease liabilities of approximately RMB58,547,000, of which current portion was approximately RMB31,185,000 and non-current portion was approximately RMB27,362,000, respectively.

Guarantees and contingent liabilities

The Group had contingent liabilities of approximately RMB351,283,000, which were guarantees provided by the Group in favour of certain banks for the grant of mortgage loans to purchasers of the Group's properties.

Save as disclosed above and apart from intra-group liabilities, the Group did not have any other outstanding bank overdrafts or loans, or other similar indebtedness, mortgages, charges, or guarantees or other material contingent liabilities as at 31 October 2024.

As at the Latest Practicable Date, the Directors are not aware of any material adverse changes in the indebtedness position and contingent liabilities of the Group since the close of business on 31 October 2024.

3. WORKING CAPITAL SUFFICIENCY

The Directors are of the opinion that, after taking into account (i) the Group's internal financial resources, including but not limited to cash flows to be generated from the operating activities and existing cash and bank balances, and (ii) the effect of the Advances under the New Financial Advances Framework Agreement, the Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Focusing on the four major business segments of industrial property development, commercial operations, hotel management, and industrial investment as its core, the Group also diversifies its business layout further in other emerging industries such as industrial services, rural cultural tourism, wholesale of agricultural products with intelligent approach, film and television education, and digital health. As such, a “golden circle” with strong synergy and circulation effects has been formed successfully among different segments. Over the years, the Group has always adhered to prudent operations and continued to improve operating efficiency leveraging on its diversified industrial layout backed by strong urban development and operation services and industrial resource integration capabilities. For the six months ended 30 June 2024 (the “Period”), the Group’s consolidated revenue was approximately RMB2,922 million, representing a year-on-year increase of 256.9%; gross profit was approximately RMB1,580 million, representing a year-on-year increase of 589.7%, which is much higher than the revenue growth rate. The gross profit margin for the Period is approximately 54.1%, representing an increase of approximately 26.1% as compared to the corresponding period of last year.

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 sector’s robust growth trajectory. Central government policies will maintain their efficacy, with local governments anticipated to refine their regulatory tactics. More importantly, the central government reiterates its commitment to the reasonable financing demands of real estate firms, heralding a more accommodative financing climate for private and mixed-ownership entities.

As market supply-demand dynamics evolve, the resurgence of buyer confidence and market sentiment is paramount. The real estate market is projected to recover incrementally as economic conditions and household incomes stabilise.

In this context, the Group will adhere to a prudent management ethos, ensuring financial solidity and efficient resource integration. We will vigorously pursue business innovation and steadfastly advance urban renewal projects to invigorate cities. Within the existing property market, we will explore innovative development paradigms to adeptly navigate market fluctuations, maintaining the Group’s leading position in the competitive landscape.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, there is no material adverse change in the financial or trading position of the Group since 31 December 2023, being the date to which the latest published audited consolidated financial statements of the Company was made up.

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. 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

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) 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 in which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of Group member/associated corporation	Capacity/nature of interest	Number of share(s) held (Note 1)	Approximate % of shareholding
Mr Shi Zhongan	the Company	Interest of controlled corporations (Note 2)	1,358,859,594 Shares (L)	67.58%
	Zhong An Cayman	Interest of controlled corporation (Note 3)	3,262,411,200 shares of HK\$0.10 each (L)	57.89%
	Whole Good	Beneficial owner	1 share of US\$1.00 (L)	100%

Notes:

- The letter "L" denotes the person's long position in the shares and underlying shares of the Company or the relevant associated corporation.
- Among these 1,358,859,594 Shares, 1,327,556,000 Shares are held by Ideal World, a wholly owned subsidiary of Zhong An Cayman. The entire issued shares of Zhong An Cayman are owned as to about 57.89% by Whole Good, which is wholly owned by Mr Shi Zhongan. In addition, 31,303,594 Shares are held by Whole Good. By virtue of the SFO, Mr Shi Zhongan is taken to be interested in the Shares in which each of Ideal World and Whole Good is interested.
- These shares are held by Whole Good. By virtue of the SFO, Mr Shi Zhongan is deemed to be interested in the shares of Zhong An Cayman in which Whole Good is interested.

As at the Latest Practicable Date, so far as was known to the Directors, the persons (other than the Directors and chief executives of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Shareholder	Capacity/nature of interest	Number of share(s) held <i>(Note 1)</i>	Approximate percentage of shareholding
Ideal World	Beneficial owner	1,327,556,000 Shares (L)	66.02%
Zhong An Cayman	Interest of controlled corporation <i>(Note 2)</i>	1,327,556,000 Shares (L)	66.02%
Whole Good	Interest of controlled corporation <i>(Note 2)</i>	1,327,556,000 Shares (L)	66.02%
	Beneficial owner	31,303,594 Shares (L)	1.56%

Notes:

1. The letter "L" denotes the person's long position in the shares and underlying shares of the Company or the relevant associated corporation.
2. These Shares are held by Ideal World, the wholly owned subsidiary of Zhong An Cayman. The entire issued shares of Zhong An Cayman are owned as to about 57.89% by Whole Good, which is wholly owned by Mr Shi Zhongan. By virtue of the SFO, each of Zhong An Cayman, Whole Good and Mr Shi Zhongan is taken to be interested in the Shares in which Ideal World is interested.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the Shares as at the Latest Practicable Date.

3. ARRANGEMENTS AND MATTERS CONCERNING DIRECTORS**Interest in assets**

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which has been, since 31 December 2023, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group.

Interest in contracts

As at the Latest Practicable Date, no contract or arrangement was subsisting in which a Director was materially interested and which was significant in relation to the business of the Group.

Interests in competing business

As at the Latest Practicable Date, insofar as the Directors were aware of, none of the Directors or their respective close associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Directors' service contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which is not expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. MATERIAL CONTRACT

In the two years immediately preceding the date of this circular and up to the Latest Practicable Date, the following contract was entered into by the Group which is or may be material:

On 27 February 2023 (after trading hour), the Company (for itself and on behalf of the Group) and Zhong An Cayman (for itself and on behalf of the Zhong An Group) entered into a mortgage arrangement framework agreement, in connection with the issue of guaranteed medium-term notes in an aggregate principal amount of up to RMB1,900,000,000 by the Zhong An Group, pursuant to which two subsidiaries of the Company will make available and pledge two properties in favour of the guarantor to assist the issue of the medium-term notes. In consideration of the Company entering into the mortgage arrangement framework agreement, Zhong An Group agreed to pay the Group an annual fee equalling an amount at 1.2% of the principal amount of the medium-term notes issued. For further details, please refer to the announcement of the Company dated 27 February 2023 and circular of the Company dated 28 March 2023.

5. MATERIAL LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance nor was there any litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

6. QUALIFICATIONS AND CONSENT OF THE EXPERT

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

Name	Qualification
Lego Corporate Finance Limited	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

The above expert has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion of its letter and the references to its name and/or its opinion and advice in the form and context in which they are included.

As at the Latest Practicable Date, the above expert did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any interest, direct or indirect, in any asset which has been, since 31 December 2023, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to, or which was proposed to be acquired or disposed of by or leased to, any member of the Group.

7. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange at (www.hkexnews.hk) and the website of the Company at (www.chinanewcity.com.cn) during the period of 14 days from the date of this circular:

- (a) the New Financial Advances Framework Agreement;
- (b) the letter from the Independent Board Committee, the text of which is set out on pages 16 to 17 of this circular;
- (c) the letter from the Independent Financial Adviser, the text of which is set out on pages 18 to 42 of this circular; and

- (d) the written consent of the Independent Financial Advisers as referred to in the paragraph headed “Qualifications and Consent of the Expert” in this appendix.

8. MISCELLANEOUS

- (a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (b) The head office of the Company in the PRC is situated at 5th Floor, Building 6, Xinhang Business Center, Long Zhang Road, Xihu District, Hangzhou, Zhejiang Province, the PRC.
- (c) The principal place of business of the Company in Hong Kong is situated at Room 4010, 40th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.
- (d) The branch share register and transfer office of the Company in Hong Kong is situated at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (e) The company secretary of the Company is Mr Lin Caihe, who is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.
- (f) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text thereof.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this notice, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of this notice.



China New City Group Limited

中國新城市集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1321)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the“EGM”) of China New City Group Limited (“**Company**”) will be held at 4:30 p.m. on Wednesday, 15 January 2025 at Crystal Hall, 4th Floor, Holiday Inn Hangzhou Xiaoshan, No. 688 Shanyin Road, Xiaoshan District, Hangzhou, Zhejiang Province, the People’s Republic of China to consider and, if thought fit, transact the following ordinary businesses:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the (i) New Financial Advances Framework Agreement (as defined in the circular of the Company dated 27 December 2024 of which this notice forms part (the “**Circular**”)) (a copy of which has been produced in this meeting and marked “A”) and the transactions contemplated thereunder and the implementation thereof; and (ii) the proposed Caps be and are hereby approved, confirmed and authorised; and
- (b) any one director of the Company (the “**Director**”) be and is hereby authorised to do all such acts and things as the Director in his/her sole and absolute discretion deems necessary to implement, give effect to and/or complete the New Financial Advances Framework Agreement and the transactions contemplated thereunder.”

By order of the Board

China New City Group Limited

Shi Zhongan

Chairperson

The People’s Republic of China, 27 December 2024

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

*Principal place of business
in Hong Kong:*

Room 4010, 40th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.
2. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney or authority must be deposited at the offices of the Company's Hong Kong branch registrar and transfer office, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for the EGM (i.e. at or before 4:30 p.m. on Monday, 13 January 2025 (Hong Kong time)), or any adjournment thereof.
3. The last record date for the purpose of determining members who are eligible to attend and vote at the EGM will be Friday, 10 January 2025. In order to be eligible to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share register and transfer office in Hong Kong at the address stated in note 2 above not later than 4:30 p.m. on Friday, 10 January 2025 for registration.
4. Completion and return of an instrument appointing a proxy will not preclude a member of the Company from attending and voting in person at the EGM or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. In the case of joint holders of a share of the Company, any one of such joint holders may vote, either in person or by proxy, at the EGM in respect of such share of the Company as if he/she were solely entitled thereto to, but if more than one of such joint holders are present at the EGM, personally or by proxy, the joint holder so present whose name stands first in the register of members of the Company in respect of the relevant joint holding shall alone be entitled to vote.
6. References to time and dates in this notice are to Hong Kong time and dates.

As at the date of this notice, the board of directors of the Company comprises Mr Shi Nanlu and Mr Jin Jianrong as executive directors of the Company; Mr Shi Zhongan as non-executive director of the Company; and Mr Xu Chengfa, Mr Lam Yau Yiu and Mr Yuan Yuan as independent non-executive directors of the Company.