



25 July 2024

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**MAJOR AND CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO RENEWAL OF
FINANCIAL SERVICES FRAMEWORK AGREEMENT**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the 2024 Financial Services Agreement, the Annual Cap Amounts for deposit services and the deposit services transactions contemplated thereunder (the “**Transactions**”), details of which are set out in the letter from the Board (“**Letter from the Board**”) of the circular of the Company dated 25 July 2024 (the “**Circular**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Reference are made to the announcement of the Company dated 2 February 2021 and the circular of the Company dated 25 February 2021 in relation to, among others, the 2021 Financial Services Agreement, pursuant to which Minmetals Finance may provide financial services to the Company and its subsidiaries in Mainland China for a term of three years from 20 April 2021 to 19 April 2024. The 2021 Financial Services Agreement expired on 19 April 2024 and it is expected that the Group will continue to enter into similar transactions from time to time thereafter. Accordingly, on 19 April 2024, the Company and Minmetals Finance entered into the 2024 Financial Services Agreement to renew the 2021 Financial Services Agreement for a further term of three years from 20 April 2024 to 19 April 2027.

As at the Latest Practicable Date, Minmetals Finance is an indirect non-wholly owned subsidiary of China Minmetals, which is the controlling shareholder of the Company holding approximately 61.88% issued Shares. Accordingly, Minmetals Finance is a connected person of the Company pursuant to Chapter 14A of the Listing Rules and the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Since one or more of the applicable percentage ratios for the



provision of deposit services by Minmetals Finance under the 2024 Financial Services Agreement exceeds 5%, it is subject to reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. LAM Chung Lun, Billy, Ms. LAW FAN Chiu Fun, Fanny and Professor WANG Xiuli, has been formed to advise the Independent Shareholders in respect of the 2024 Financial Services Agreement and the Transactions (including the Annual Cap Amounts). We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders on the provision of deposit services under the 2024 Financial Services Agreement and the Annual Cap Amounts for deposit services.

We are not associated with the Company, Minmetals Finance, China Minmetals or their respective core connected persons or associates. In the past two years prior to this appointment, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, Minmetals Finance, China Minmetals or their respective core connected persons or associates. Accordingly, we are independent from the Company pursuant to Rule 13.84 of the Listing Rules and are considered eligible to give independent advice on the provision of deposit services under the 2024 Financial Services Agreement and the Annual Cap Amounts for deposit services.

In formulating our opinion and advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company, which we have assumed to be true, accurate and complete in all material aspects. We have reviewed the information of the Company, among other things, (i) the annual report of the Company for the year ended 31 December 2023 (the “**2023 Annual Report**”); (ii) the announcement of the Company dated 19 April 2024 in relation to, among others, the provision of deposit services under the 2024 Financial Services Agreement and the Annual Cap Amounts for deposit services (the “**Announcement**”); and (iii) other information contained in the Circular. We also have sought and received confirmation from the Company that no material facts have been omitted from the information supplied and opinions expressed to us were not misleading in any material aspects. We consider that the information we have received is sufficient for us to reach our opinion and give our advice and recommendations set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Company, Minmetals Finance, China Minmetals or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Circular were true at the time they were made and at the date of the Circular and will continue to be true up to the time of the SGM, and Shareholders will be informed of any material change as soon as possible.



PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Information of the parties

1.1. Information of the Group

The Group is principally engaged in the businesses of real estate development, specialised construction and property development.

Set out below is the summary of the financial information of the Group for the years ended 31 December 2022 and 2023 as extracted from the 2023 Annual Report:

	For the year ended	
	31 December	
	2023	2022
	HK\$'000	HK\$'000
	(Audited)	(Audited)
Revenue		
— Real estate development	12,307,637	9,874,962
— Specialised construction	271,906	147,538
— Property investment	51,196	42,029
	<u>12,630,739</u>	<u>10,064,529</u>
Gross profit	2,172,568	1,053,314
Loss for the year attributable to equity holders of the Company	<u>(1,015,518)</u>	<u>(1,362,468)</u>

For the two years ended 31 December 2022 and 2023

For the years ended 31 December 2022 and 2023, the Group recorded a revenue of approximately HK\$10,064.5 million and HK\$12,630.7 million respectively, representing an increase of approximately 25.5%. More than 95% of the revenue was generated from real estate development. As disclosed in the 2023 Annual Report, the growth in revenue from real estate development business was driven by the handover and recognition of some real estate development projects in the Pearl River Delta in 2023.

The Group's gross profit for the year ended 31 December 2022 and 2023 amounted to approximately HK\$1,053.3 million and HK\$2,172.6 million respectively, representing an increase of approximately 106.3%. As disclosed in the 2023 Annual Report, the gross margin of the Group increased from approximately 10.5% in 2022 to approximately 17.2% in 2023, mainly due to the higher gross profit margins of the products recognised for the real estate development business during 2023.



The Group recorded loss attributable to equity holders of the Company for the year ended 31 December 2023 of approximately HK\$1,015.5 million, representing a decrease of approximately 25.5% as compared to loss of approximately HK\$1,362.5 million for the year ended 31 December 2022. As disclosed in the 2023 Annual Report, loss for the year in 2023 was mainly attributable to the sluggish real estate market, the provision for impairment of inventories for the Group's real estate development projects, as well as the increase in finance costs as a result of increasing borrowing costs and decreasing interest capitalisation rate.

Set out below is the summary of the financial position of the Group as at 31 December 2022 and 2023 as extracted from the 2023 Annual Report:

	As at 31 December	
	2023	2022
	HK\$'000	HK\$'000
	(Audited)	(Audited)
Total assets	53,575,153	67,387,025
Total liabilities	39,227,508	50,574,927
Net assets	14,347,645	16,812,098

As at 31 December 2023, the Group's total assets amounted to approximately HK\$53,575.2 million, mainly comprised of (i) inventories (properties under development and properties held for sale) of approximately HK\$33,601.8 million; (ii) prepayment, trade and other receivables of approximately HK\$8,821.5 million; (iii) unrestricted cash and bank deposits of approximately HK\$3,410.7 million; (iv) investment properties of approximately HK\$2,806.3 million; and (v) interests in associates of approximately HK\$2,028.9 million. As at 31 December 2023, the Group's total developable GFA ("**Land Bank**") amounted to 6,667,000 square meters, of which more than 65% of Land Bank are located in first tier and second tier cities in PRC.

As at 31 December 2023, the Group's total liabilities amounted to approximately HK\$39,227.5 million, mainly comprised of (i) borrowings (both current and non-current) of approximately HK\$23,316.7 million; (ii) trade and other payables of approximately HK\$9,114.9 million; and (iii) contract liabilities of approximately HK\$5,706.8 million. The total borrowings of the Group decreased from approximately HK\$24,308.8 million as at 31 December 2022 to HK\$23,316.7 million as at 31 December 2023 due to the repayment of construction loans, corporate loans and loans from non-controlling shareholders of real estate projects during 2023.



The Group's net assets has decreased from approximately HK\$16,812.1 million as at 31 December 2022 to approximately HK\$14,347.6 million as at 31 December 2023, which was mainly due to the distribution of dividends from various cooperative projects to shareholders during the year, of which approximately HK\$1,198.9 million was distributed to non-controlling shareholders of subsidiaries, as well as the loss attributable to equity holders of the Company of approximately HK\$1,015.5 million and the decrease in exchange reserves of approximately HK\$265.8 million during 2023 as disclosed in the 2023 Annual Report.

1.2. Information of Minmetals Finance and China Minmetals

Minmetals Finance, an indirect non-wholly owned subsidiary of China Minmetals, is a non-banking financial institution established in the PRC on 26 May 1993 under the approval of PBOC. It is principally engaged in the provision of financial services to China Minmetals and its subsidiaries (including the Group). It is subject to the supervision of the CBRC.

China Minmetals is a state-owned enterprise established under the laws of the PRC and the ultimate controlling shareholder of the Company which is indirectly interested in approximately 61.88% of the issued share capital of the Company as at the Latest Practicable Date. It is principally engaged in exploration, mining, smelting, processing and trading for metals and minerals, finance, real estate, and mining and metallurgic technology.

2. Reasons for and benefits of the Transactions

As stated in the Letter from the Board of the Circular, Minmetals Finance is a non-banking financial institution subject to the supervision of the CBRC. It is authorised to provide a variety of financial services including deposit services, loan services and settlement services to members of China Minmetals (including the Group).

Minmetals Finance has established a long-standing cooperative relationship with the Group and has been providing financial services to the Group since November 2013. Based on the long-standing relationship, the Group is satisfied with the expedient and efficient services rendered by Minmetals Finance as it has a better understanding of the business operations of the Company and its subsidiaries in Mainland China. Accordingly, the Group intended to continue to procure financial services from Minmetals Finance.

The Company entered into the 2024 Financial Services Agreement with Minmetals Finance taking into account (i) the Group's business development plans, treasury management and financial needs; (ii) the need to secure a stable provision of financial services under the 2024 Financial Services Agreement given the rising interest rates and the tightening credit market in the near future; (iii) obtaining an additional channel for financing; and (iv) enhancing return on surplus funds and reducing finance costs due to favourable interest rates for deposits and loans as well as utilisation of settlement services free of handling charge.



Minmetals Finance is subject to the supervision of the CBRC and provides its services in accordance with the rules and operational requirements of CBRC. The Company believes that the risk profile of Minmetals Finance, as a financial services provider to the Company and its subsidiaries in Mainland China, is not greater than that of independent commercial banks in the PRC. Under the relevant rules of the PBOC and CBRC, the clients of Minmetals Finance are restricted to China Minmetals and its subsidiaries (including the Group). Minmetals Finance is hence exposed to a lower level of potential risk than if clients included external entities. Furthermore, we understand that as a regulated financial institution, Minmetals Finance is required to comply with all rules and operational requirements of the regulatory authorities, i.e. the CBRC, including but not limited to maintaining certain financial ratios at all times, and regularly reporting to the CBRC. According to the credit rating report issued by China Chengxin International Credit Rating Co., Ltd (“CCXI”) dated 14 June 2023, the credit rating of China Minmetals was AAA, the highest rating under CCXI’s credit rating scale. According to the website of CCXI, it is a qualified rating agency accepted by PBOC, the China Banking and Insurance Regulatory Commission and National Development and Reform Commission. According to the credit rating report, an AAA rating implies strong debt repayment capacity, remote default risk and an ability to withstand certain negative economic environment scenarios, which in turn indicate the strong financial capabilities of China Minmetals.

Based on the above and the fact that (i) the Company is not restricted under the 2024 Financial Services Agreement to place deposits with any other banks or financial institutions; (ii) interest rate for the deposits placed with Minmetals Finance by the Company and its subsidiaries in Mainland China shall not be lower than (a) the highest interest rate for comparable category of deposits offered by other major PRC commercial banks with which the Company and its subsidiaries in Mainland China have established business relationship; and (b) the highest interest rate offered by Minmetals Finance to other subsidiaries of China Minmetals for a comparable category of deposits; and (iii) the risk profile of Minmetals Finance is not greater than that of independent commercial banks in the PRC as mentioned above, we concur with the Directors’ view that the provision of deposit services under the 2024 Financial Services Agreement was entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

3. The 2024 Financial Services Agreement

The following sets forth the principal terms of the deposit services under 2024 Financial Services Agreement. For detailed terms of the 2024 Financial Services Agreement, please refer to the section headed “II. 2024 Financial Services Agreement” in the Letter from the Board.

Date:	19 April 2024
Parties:	(i) The Company (ii) Minmetals Finance
Term:	20 April 2024 to 19 April 2027



Scope for deposit service:

Minmetals Finance shall provide the current and fixed deposit services to the Company and its subsidiaries in Mainland China on normal commercial terms, on terms (including interests) no less favourable to the Company and its subsidiaries in Mainland China than those that could be obtained from independent third parties:

Current and fixed deposit services

Pursuant to the 2024 Financial Services Agreement, Minmetals Finance shall provide deposit services to the Company and its subsidiaries in Mainland China. The interest rate for the deposits placed with Minmetals Finance by the Company and its subsidiaries in Mainland China shall not be lower than (a) the highest interest rate for comparable category of deposits offered by other major PRC commercial banks with which the Company and its subsidiaries in Mainland China have established business relationship; and (b) the highest interest rate offered by Minmetals Finance to other subsidiaries of China Minmetals for a comparable category of deposits, whichever is higher.

Non-exclusivity:

The Company and its subsidiaries in Mainland China have the right to use other financial services providers according to operational needs and to determine the deposit and loan amounts as well as the schedule for withdrawal of deposits (other than fixed deposits with specified deposit terms).

As advised by the management of the Company, the principal terms of the provision of deposit services pursuant to the 2024 Financial Services Agreement are generally in line with that of the provision of deposit services pursuant to the 2021 Financial Services Agreement. We have reviewed a sample of deposit transactions placed with Minmetals Finance and PRC commercial banks during the term of the 2021 Financial Services Agreement and noted that the sample transactions were conducted in accordance with the scope, whereby the interest rates offered by Minmetals Finance to the Company and its subsidiaries in Mainland China on current and fixed deposits were no less favorable than those offered by other major PRC commercial banks/financial institutions.

In addition, as advised by the management of the Company, the Group sought to monitor and manage its members in depositing cash resources among major banks and/or financial institutions in the PRC as a measure to manage credit risk exposure as well as to enhance overall deposit interest yield in accordance with its treasury management strategy. We have reviewed the Group's bank deposit schedule and noted that the Company and its subsidiaries in Mainland China have placed deposits with not less than 30 commercial banks in the PRC from time to time during the three years ended 31 December 2023. The management of the Company further advised that deposit transactions are reported to the



management of the Company and the Directors (including the independent non-executive Directors) on a monthly basis (the “**Monthly Report**”). The Monthly Report sets out the balance of deposits of that particular month, which is used to ensure that the approved limit has not been exceeded. Furthermore, the designated personnel from the finance department of the Company will be responsible for monitoring the deposit placed with Minmetals Finance regularly with a view to ensure the ongoing compliance of the annual caps. Based on our review of 4 samples of the Monthly Reports in each financial year from 2021 to 2024 and as confirmed by the management of the Company, the maximum daily outstanding balance of deposits are within the relevant annual cap limit during the term of the 2021 Financial Services Agreement.

Based on the above, we are of the view that the principal terms of the deposit services under 2024 Financial Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

4. Annual Cap Amounts

Historical figures

Set out below are the approximate historical deposit transaction amounts in relation to the provision of deposit services by Minmetals Finance to the Company and its subsidiaries in Mainland China under the 2021 Financial Services Agreement:

	For the period from 20 April 2021 to 31 December 2021 <i>RMB</i>	For the year ended 31 December 2022 <i>RMB</i>	For the year ended 31 December 2023 <i>RMB</i>	For the period from 1 January 2024 to 31 March 2024 <i>RMB</i>
The maximum daily outstanding balance of deposits (including accrued interests)	2,972,930,374	2,974,578,950	2,995,992,355	1,703,710,465
Historical annual caps	3,000,000,000	3,000,000,000	3,000,000,000	3,000,000,000
Percentage of maximum daily outstanding balance of deposit (including interests accrued thereon) over the historical annual caps	99.10%	99.15%	99.87%	56.79%



Annual Cap Amounts

The Annual Cap Amounts on the maximum daily outstanding balance of deposits (including accrued interests) placed by the Company and its subsidiaries in Mainland China with Minmetals Finance pursuant to the 2024 Financial Services Agreement will remain the same as the annual caps under the 2021 Financial Services Agreement as follows:

	For the period from 20 April 2024 to 31 December 2024 RMB	For the year ending 31 December 2025 RMB	For the year ending 31 December 2026 RMB	For the period from 1 January 2027 to 19 April 2027 RMB
The maximum daily outstanding balance of deposits (including accrued interests)	3,000,000,000	3,000,000,000	3,000,000,000	3,000,000,000

As set out in the Letter from the Board, the Annual Cap Amounts on the maximum daily outstanding balance of deposits (including accrued interests) placed by the Company and its subsidiaries in Mainland China with Minmetals Finance were determined based on arm's length negotiations between the Group and Minmetals Finance having considered, among others, (i) the historical transaction figures; (ii) strategies of the treasury management of the Company taking into account the cash flow requirements and financial needs of the Group for its business development plans; (iii) the expected cash flow position of the Group and its contract sales; (iv) the capital efficiency of surplus funds taking into account the favourable interest rates offered by Minmetals Finance; and (v) the safety of surplus funds taking into account the centralization and monitoring of funds.

As set out in the table above, the maximum daily outstanding balance of deposits (including accrued interests) were over 99% of the relevant historical annual caps for the period from 20 April 2021 to 31 December 2021 and the two years ended 31 December 2022 and 2023. As advised by the management of the Company, the lower maximum daily outstanding balance of deposits (including accrued interest) for the period from 1 January 2024 to 31 March 2024 was mainly attributable to repayments of borrowings during the year ended 31 December 2023, resulting in a decrease of bank deposits.

In assessing the fairness and reasonableness of the proposed Annual Cap Amounts for deposits, we understand that the proposed Annual Cap Amounts for the deposit services were determined with reference to the expected cash level of the Group. We have obtained and reviewed the cash flow budget of the Group for the four years ending 31 December 2027 together with the underlying principal basis and assumptions (the "**Cash Flow Budget**"). From our review, we noted that the Company projected its cash inflow mainly from the sale of properties income, which is based on



(i) the estimated development schedule of land bank and projects under development of the Group, of which the property development cycle was assumed to generally range from 24 to 36 months; and (ii) the expected sales price of the property taking into account the prevailing sales price of comparable properties. The Company projected its cash outflow mainly attributable to (i) the construction costs and the relevant estimated construction costs for the potential new projects taking into account different stages of development; and (ii) the repayment of borrowings. As disclosed in the 2023 Annual Report, the properties under development and held for sale amounted to approximately HK\$33.6 billion as at 31 December 2023 and the Group has recognised the contracted sales of approximately RMB11.3 billion during the year ended 31 December 2023.

Having considered above, in particular (i) the Cash Flow Budget for the four years ending 31 December 2027; and (ii) the latest Group's properties held for sale and development projects in the pipeline, the proposed Annual Cap Amounts for the deposit services should be sufficient to accommodate the Group's expected demand for deposit services by Minmetals Finance, and we are of the view that the proposed Annual Cap Amounts for the deposit services are fair and reasonable so far as the Independent Shareholders are concerned.

5. Internal control measures

In order to safeguard the interests of the Shareholders, the Group will continue to adopt, and/or will continue to procure Minmetals Finance to maintain, the following guidelines and principles for monitoring the transactions between the Company and its subsidiaries in Mainland China, and Minmetals Finance under the 2024 Financial Services Agreement, including but not limited to, (i) Minmetals Finance shall ensure the safe operation of its settlement management network and safeguard the funds of the Company and its subsidiaries in Mainland China; (ii) Minmetals Finance shall adopt control measures in its enterprise resource planning system to ensure effective control of the Annual Cap Amounts such that they shall not be exceeded; and (iii) monitoring and reporting by the finance department of the Company to the management of the Company and the Directors in relation to the Transactions. Details of the internal control measures of the Group are set out in the sections headed "Internal Control Procedures and Risk Management Measures in relation to the 2024 Financial Services Agreement" in the Letter from the Board.

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Transactions are subject to the following annual review requirements:

- (a) the independent non-executive Directors must review the Transactions every year and confirm in the annual report that the transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and
 - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;



- (b) the Company's auditors must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the Transactions:
 - (i) have not been approved by the Board;
 - (ii) were not, in all material respects, in accordance with the pricing policies of the Group;
 - (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing them; and
 - (iv) have exceeded the relevant annual caps;
- (c) the Company must allow, and ensure that the counterparties to the Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Transactions; and
- (d) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required. The Stock Exchange may require the Company to re-comply with the announcement and Shareholders' approval requirements and may impose additional conditions.

In light of the reporting requirements attached to the Transactions, in particular, (i) the restriction of the transaction value by way of annual caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the Transactions and the proposed Annual Cap Amounts not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the deposit transactions pursuant to the 2024 Financial Services Agreement and assist in safeguarding the interests of the Company and the independent Shareholders as a whole.



OPINION AND RECOMMENDATIONS

Having taken into account the above principal factors and reasons, we consider that the entering into of 2024 Financial Services Agreement, including the transaction contemplated thereunder and the Annual Cap Amounts for deposit services are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of business of the Group and 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 resolutions in relation to the deposit services under the 2024 Financial Services Agreement, and the Annual Cap Amounts for deposit services to be proposed at the SGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Calvin Leung
Director

Mr. Calvin Leung is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over 19 years of experience in the corporate finance industry.