
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 Xinming China Holdings Limited, you should at once hand this circular and the accompanying proxy forms and reply slips to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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Xinming China Holdings Limited
新明中國控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2699)

(1) CONTINUING CONNECTED TRANSACTION
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**



A notice convening the extraordinary general meeting (the “EGM”) of Xinming China Holdings Limited (the “Company”) to be held at Suites 903-905, 9th Floor, Shui On Centre, 6-8 Harcourt Road, Wanchai, Hong Kong on Monday, 22 May 2017 at 11:00 a.m. or any adjournment thereof is set out on pages 33 to 34 of this circular. A form of proxy is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof, should you so wish.

28 April 2017

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DEFINITIONS

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

“Board”	the board of Directors of the Company
“Calculation Station”	定額站, a government authority under the Ministry of Construction of PRC which is established in every prefecture-level city
“Chongqing Xinming”	重慶新明置業股份有限公司 (Chongqing Xinming Property Company Limited*), a limited liability company established in accordance with PRC laws, which is owned as to 60% by the Company
“Company”	Xinming China Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange (Stock Code: 2699)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Construction Contracts”	Contract of Building No. 1 of China South-western City in Chongqing, Contract of Building No. 3 and No. 5 of China South-western City in Chongqing and Contract of Building No. 2 and No. 7 of China South-western City in Chongqing entered into between Chongqing Xinming and Yuanyang Holdings, as well as Business and Commercial Buildings Construction and Installation Contract of Hang Zheng Chu Chu [2013] No. 97 Plot and Business and Commercial Buildings Waterproofing Project Contract of Hang Zheng Chu Chu [2013] No. 97 Plot entered into between Hangzhou Xinming and Yuanyang Holdings
“Calculation of Budget for Construction Works”	《建築工程預算定額》 issued by the Ministry of Construction of the PRC
“Calculation of Construction Cost of Construction Projects”	《建設工程施工費用定額》 issued by the Ministry of Construction of the PRC
“Director(s)”	Director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened at Suites 903-905, 9th Floor, Shui On Centre, 6-8 Harcourt Road, Wanchai, Hong Kong, on Monday, 22 May 2017 at 11:00 a.m., to consider if think fit, to approve the resolution, among others, relating to the Engineering Services Framework Agreement (including the annual caps) and the transactions contemplated thereunder

DEFINITIONS

“Engineering Services Framework Agreement”	the engineering services framework agreement entered into between the Company and Yuanyang Holdings on 7 March 2017
“Group”	the Company and its subsidiaries
“Hangzhou Xinming”	杭州新明置業投資有限公司 (Hangzhou Xinming Property Investment Limited*), a limited liability company established in accordance with PRC laws, which is wholly-owned by the Company
“Independent Board Committee”	a committee of the Board comprising three independent non-executive Directors, Mr. Gu Jiong, Mr. Lo Wa Kei, Roy and Mr. Fong Wo, Felix
“Independent Shareholders”	Shareholders other than Mr. Chen Chengshou and his associate(s)
“Latest Practicable Date”	25 April 2017
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ministry of Construction of the PRC”	Ministry of Housing and Urban-Rural Development of the PRC
“Optima Capital”	Optima Capital Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Engineering Services Framework Agreement (including annual caps)
“Pricing Mechanism”	the pricing mechanism to calculate the price of the projects under the Construction Contracts
“PRC”	People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	holders of shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Yuanyang Holdings”	遠揚控股集團有限公司 (Yuanyang Holdings Group Limited*) (formerly known as 遠揚控股集團股份有限公司 (Yuanyang Holdings Group Share Limited Company*)), a limited liability company established in accordance with the PRC laws
“Yuanyang Holdings Group”	Yuanyang Holdings and its subsidiaries
“Zhejiang Xinming Trading”	浙江新明貿易有限公司 (Zhejiang Xinming Trading Limited*), a limited liability company established in accordance with PRC laws
“%”	per cent

* *For identification purpose only*

LETTER FROM THE BOARD



新明中国控股

XINMING CHINA

Xinming China Holdings Limited

新明中國控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2699)

Executive Directors:

Mr. Chen Chengshou

Mr. Feng Cizhao

Mr. Wong Thian Tsu Michael

Non-executive Directors:

Ms. Gao Qiaoqin

Independent Non-executive Directors:

Mr. Gu Jiong

Mr. Lo Wa Kei, Roy

Mr. Fong Wo, Felix

Registered office:

Clifton House

75 Fort Street

PO Box 1350

Grand Cayman KY1-1108

Cayman Islands

28 April 2017

To the Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTION
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

I. INTRODUCTION

Reference is made to the announcement of the Company dated 7 March 2017 in relation to, inter alia, the Engineering Services Framework Agreement.

The purpose of this circular is to provide you with information which will help you make an informed decision on whether to vote for or against the resolution to be proposed at the EGM in relation to the Engineering Services Framework Agreement and the recommended annual caps for the Engineering Services Framework Agreement for the years ending 31 December 2017 and 31 December 2018.

LETTER FROM THE BOARD

II. CONTINUING CONNECTED TRANSACTION

Reference is made to the announcement of the Company dated 20 January 2017 and 7 March 2017 in relation to, inter alia, the continuing connected transaction pursuant to Rule 14A.60 of the Listing Rules. After the Company's review on the construction progress of the Construction Contracts and the further negotiation with Yuanyang Holdings, on 7 March 2017, the Company entered into the Engineering Services Framework Agreement with Yuanyang Holdings to supplement the arrangement of outstanding works under the Construction Contracts in the year of 2017 and 2018.

Engineering Services Framework Agreement

Chongqing Xinming and Hangzhou Xinming entered into the Construction Contracts whereupon Yuanyang Holdings was appointed as a contractor of the Group for the construction and engineering works for a number of projects during the period between March 2013 and August 2015.

On 16 December 2016, upon routine sample checking of contracting parties of the Group, the financial department of the Group noticed that there appeared to be a change to the shareholding structure of Yuanyang Holdings. The administrative department of the Group was then informed by Yuanyang Holdings that Zhejiang Xinming Trading acquired 51% shareholding of Yuanyang Holdings. Since Zhejiang Xinming Trading was a company which Mr. Zheng Xiangtian, the elder brother of Mr. Chen Chengshou (an executive Director of the Company) owned 90% of its equity interest, Yuanyang Holdings became a connected person of the Company. The construction work under the Construction Contracts was then suspended immediately.

Subsequently, the company secretary department of the Company liaised with several departments which are responsible for the projects under the Construction Contracts to extract data and information regarding the completed work and outstanding work. The Board was then formally notified the change of shareholding structure of Yuanyang Holdings on 5 January 2017. Although the construction periods under the Construction Contracts have expired, the Company obtained a legal opinion from PRC qualified lawyers on 20 January 2017 to confirm that the Construction Contracts were still effective. The Company decided to carry on the projects under the Construction Contracts and therefore made an announcement to disclose details of the Construction Contracts in accordance with Rule 14A.60 of the Listing Rules on 20 January 2017.

After the Company's further review on the construction progress of the Construction Contracts and the further negotiation with Yuanyang Holdings, on 7 March 2017, the Company entered into the Engineering Services Framework Agreement with Yuanyang Holdings to supplement the arrangement of outstanding works under the Construction Contracts in the year of 2017 and 2018.

Major Terms of the Engineering Services Framework Agreement

a. *Date*

7 March 2017

LETTER FROM THE BOARD

b. Parties

- (1) the Company, and
- (2) Yuanyang Holdings.

c. Subject matter

Pursuant to the Construction Contracts, Yuanyang Holdings undertook the following construction projects of the Group:

Location of the project

Subject matters

China South-western City, No. 229,
Five Star Avenue, Dazu District,
Chongqing

Yuanyang Holdings undertook all construction, installation, construction of specific subcontracting projects and completion warranty within the construction plan of the main body of Building No. 1 of China South-western City (except for independent subcontracting works), as well as the general contracting management of Chongqing Xinming's independent subcontracting works.

China South-western City, No. 229,
Five Star Avenue, Dazu District,
Chongqing

Yuanyang Holdings undertook all construction, installation, construction of specific subcontracting projects and completion warranty within the construction plan of the main body of Buildings No. 3 and No. 5 of China South-western City (except for independent subcontracting works), as well as the general contracting management of Chongqing Xinming's independent subcontracting works.

China South-western City, No. 229,
Five Star Avenue, Dazu District,
Chongqing

Yuanyang Holdings undertook all construction, installation, construction of specific subcontracting projects and completion warranty within the construction plan of the main body of Buildings No. 2 and No. 7 of China South-western City (except for independent subcontracting works), as well as the general contracting management of Chongqing Xinming's independent subcontracting works.

LETTER FROM THE BOARD

Hang Zheng Chu Chu [2013] No.
97 Plot

Yuanyang Holdings undertook all construction (including fine decoration of public areas, which includes public passages, stairs, restrooms and elevator lobby), installation, construction of specific subcontracting projects and completion warranty within the construction plan of the bracing of foundation pit, foundation (including basements) and main body of the Business and Commercial Buildings Project of Hang Zheng Chu Chu [2013] No. 97 Plot (except for independent subcontracting works), as well as the general contracting management of Party A's independent subcontracting works.

Hang Zheng Chu Chu [2013] No.
97 Plot

Yuanyang Holdings undertook the waterproofing works (the adhesive layer and the waterproof layer) for the basements (including bottom floors, side walls and top floors), roofs and restrooms of the Business and Commercial Buildings Project of Hang Zheng Chu Chu [2013] No. 97 Plot. The construction part shall be based on the construction plans and relevant information provided by Hangzhou Xinming to Yuanyang Holdings and the technical matters correspondence forms (技術聯繫單) confirmed by Hangzhou Xinming.

The respective construction periods under the Construction Contracts have expired in 2013 to 2016 but construction work still continued since the projects were not completed yet. All the construction projects above are now expected to be completed by December 2018, in order to make proper arrangement for the remaining works, the Company entered into the Engineering Services Framework Agreement with Yuanyang Holdings to confirm that Yuanyang Holdings will continue to undertake the construction projects above in the year of 2017 and 2018. Each of Chongqing Xinming and Hangzhou Xinming has entered into separate supplemental agreements with Yuanyang Holdings to supplement the arrangement of remaining works (including construction schedule and payment time).

The construction work under the Construction Contracts was suspended since the Company was aware that Yuanyang Holdings became a connected person and up to the Latest Practicable Date. The Engineering Services Framework Agreement shall be effective upon the approval of the Independent Shareholders.

LETTER FROM THE BOARD

Pricing Basis and payment method under the Engineering Services Framework Agreement

The terms of the Engineering Services Framework Agreement are on normal commercial terms or on terms no less favourable than terms available from independent third parties, and are determined after arm's length negotiations. The price will be determined based on the following:

1. The parties will first refer to the fixed price or guidance price (the "State Price") in Calculation of Budget for Construction Works and/or Calculation of Construction Cost of Construction Projects (the "State Indexes") issued by the Ministry of Construction of the PRC, which set out the suggested prices of labour, construction materials and machinery work for different categories of construction works. The State Indexes are updated by the government regularly approximately every 4 years. When there is update on the costs on certain items (e.g. certain construction material) before the update of the State Indexes, the Ministry of Construction of the PRC or other relevant authorities would issue journals to provide information on the updated State Price of such items.

The cost control department of the Group, which is an independent department that reports to the Board directly and is responsible for monitoring the costs and suppliers selection of the Group, will then obtain information on the pricing mechanism prevalent in the market by referring to the pricing mechanism of the Group's previous works of similar type (if any) and the pricing mechanism of similar works within the same district where the relevant projects are located, and will discuss with Yuanyang Holdings to determine the adjustment to the State Price if necessary according to the prevalent market practice. The adjustment will reflect the prevalent mark-up rate or discount rate to the State Price in the market and the cost control department shall ensure that the price is fair and reasonable and the terms are on normal commercial terms or on terms no less favourable than terms from independent third parties after adjustment. The Group will agree with Yuanyang the adjustment to the State Price which becomes the pricing mechanism of the projects under the Construction Contracts (the "Pricing Mechanism"), and the Pricing Mechanism will be approved by the cost control department of the Group, project managers and the Board. The total price of the construction of the project (the "Contract Price") will be determined according to the Pricing Mechanism with the information available.

2. The Group will confirm the construction blueprints of the relevant projects (the "Construction Blueprints") and Yuanyang Holdings will provide the quotations for the Construction Blueprints (the "Yuanyang Quotations") which are based on the amount of works required and according to the Pricing Mechanism.

The cost control department of the Group will then engage at least one independent engineering consulting firm, which would be selected from a list of approved independent engineering consulting firms (the "Approved List"), to provide quotation(s) for the Construction Blueprints (the "Independent Quotations") according to the Pricing Mechanism and review the Yuanyang Quotations. The independent engineering consulting firms in the Approved List are qualified independent suppliers of the Group which are selected by the cost control department

LETTER FROM THE BOARD

of the Group based on the professional ethics, service quality and scale of operation of the independent consulting firms. The Approved List will be approved by the chairman of the Board and will be updated approximately every three months. There are currently 11 independent engineering consulting firms in the Approved List. In the event that there is any discrepancy between the Independent Quotations and Yuanyang Quotations, the cost control department of the Group will discuss with Yuanyang Holdings and reconcile the difference and adjust the Yuanyang Quotations if necessary. If the dispute is not resolved after negotiation, the parties will seek opinion from the Calculation Station on calculation of construction costs under Ministry of Construction of the PRC or other relevant authorities on the disputed area of the quotation, which shall be final and binding on the parties.

3. If there is any change to the Construction Blueprints of the relevant projects or other change necessitating any change to the finalised quotation of Yuanyang Holdings, the construction department of the Group will first confirm the change to the Construction Blueprints required, and then the cost control department of the Group will compare the changed quotation with the previously finalised quotation. If such change is approved, the changed quotation has to be signed by the project manager, deputy head of the construction department, manager of the construction department and manager of production costs of the cost control department in order to be effective.
4. Payment will be made with reference to the progress of the projects according to the terms and conditions of the specific agreements of the relevant projects. The progress of the projects will be verified by the construction department of the Group, and the payment request of Yuanyang Holdings will be processed and approved by the construction department, cost control department and finance department of the Group. In general, when Yuanyang Holdings completes certain part of the construction and progress payment is payable according to the specific agreements of the relevant projects, Yuanyang Holdings shall submit written request for payment together with supporting documentary proof to the Group for approval. If the Group fails to pay the progress payment within 21 days after confirmation of the request of Yuanyang Holdings, Yuanyang Holdings is entitled to cease all construction work unless otherwise agreed. 3%-5% of the Contract Price will be retained as security and will be released to Yuanyang Holdings within 5 years after the completion of the construction according to the schedule set out in the specific agreements of the relevant projects.

The Pricing Mechanism and the payment terms are agreed as described above which are applied to all similar transactions with independent third parties and were assessed by the Company prior to the signing of the Engineering Services Framework Agreement by comparing it with previous contracts within the past 1 year entered between the Group and independent third parties to ensure that the Pricing Mechanism and payment terms are agreed on normal commercial terms or no less favourable to terms available from independent third parties.

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Annual Caps and Basis of Determination

In considering the annual caps for the Engineering Services Framework Agreement, the Directors have considered a number of factors including: (i) the progress of construction under the Construction Contracts, (ii) the amount of outstanding works and expected progress and (iii) the inclusion of a buffer for the estimated increase in the Contract Price.

The progress of construction and expected progress of the projects under the Construction Contracts are set out below:

Construction Contract	Original construction period	Construction progress	Outstanding works
Building No. 1 of China South-western City in Chongqing	5 March 2013 to 30 August 2013	Construction of the main structure of the building, painting of interior wall, insulation of exterior wall, installation of aluminium windows and doors and construction of curtain wall have been completed.	Installation of railings and entry doors as well as electrical engineering have not been completed. Main construction work is expected to be completed by August 2017.
Buildings No. 3 and No. 5 of China South-western City in Chongqing	10 October 2013 to 30 December 2014	<u>Building No.3</u> Construction work has been completed and completion certificate was obtained in June 2015. <u>Building No.5</u> Construction of the main structure of the building, construction of curtain wall and installation of railings, windows and doors have been completed.	<u>Building No.3</u> Not applicable. <u>Building No.5</u> Installation of electrical cables and wires has not been completed. Main construction work is expected to be completed by July 2017.

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Construction Contract	Original construction period	Construction progress	Outstanding works
Buildings No. 2 and No. 7 of China South-western City in Chongqing	10 April 2014 to 10 November 2015	<p><u>Building No.2</u> Checking and acceptance of the building has been completed.</p> <p><u>Building No.7</u> Construction of the main structure of the building, painting of interior wall and insulation of exterior wall have been completed.</p>	<p><u>Building No.2</u> Data regarding the checking and acceptance of the building has not been fully collected.</p> <p>Main construction work is expected to be completed by June 2017.</p> <p><u>Building No.7</u> Installation of doors, windows and railings as well as electrical engineering have not been completed.</p> <p>Main construction work is expected to be completed by December 2017.</p>
Business and Commercial Buildings Construction and Installation Contract of Hang Zheng Chu Chu [2013] No. 97 Plot	20 December 2014 to 20 December 2016	Construction of the main structure of the basement, the commercial podium and 12,560 square meters of the main office building has been completed.	<p>Construction of the main structure of 58,801 square meters of the main office building has not been completed.</p> <p>Main construction work is expected to be completed by December 2017.</p>
Business and Commercial Buildings Waterproofing Project Contract of Hang Zheng Chu Chu [2013] No. 97 Plot	10 August 2015 to 20 September 2016	Waterproofing for the bottom floor and exterior side wall of the basement has been completed.	<p>Waterproofing for top floor of the basement, roofs restrooms, balconies and fire water tanks has not been completed.</p> <p>Main construction work is expected to be completed by December 2017.</p>

Regarding the buffer for the estimated increase in the Contract Price, the Group has made reference to the difference between the contract price and actual payment sum of previous projects of similar type, and considered that additional costs may be incurred due to unforeseeable additional construction works as a result of change to the project blueprint or other changes of costs during the construction period. Therefore, the Group concluded that a 25% buffer shall be applied to the total Contract Price, among which a 15% buffer shall be applied to formulate the annual cap in 2017 and a

LETTER FROM THE BOARD

10% buffer shall be applied to formulate the annual cap in the year of 2018, considering that a substantial part of the remaining works is expected to be completed by December 2017 and tidy up works may be needed afterwards or construction may be extended to 2018.

After considering the above factors, the Directors recommended the annual caps for the Engineering Services Framework Agreement for each of the years ending 31 December 2017 and 31 December 2018 shall be RMB225,488,295 and RMB19,607,678, respectively. The breakdown of the Contract Price and the proposed annual cap of the respective projects is set out below:

	Contract Price in total (in RMB)	Proposed annual cap for the year ended 31 December 2017 (in RMB)	Proposed annual cap for the year ended 31 December 2018 (in RMB)
Building No. 1 of China South-western City in Chongqing	1,500,000	1,725,000	150,000
Buildings No. 3 and No. 5 of China South-western City in Chongqing	5,200,000	16,962,500	1,475,000
Buildings No. 2 and No. 7 of China South-western City in Chongqing	14,750,000	5,980,000	520,000
Business and Commercial Buildings Construction and Installation Contract of Hang Zheng Chu Chu [2013] No. 97 Plot	170,449,778	196,017,245	17,044,978
Business and Commercial Buildings Waterproofing Project Contract of Hang Zheng Chu Chu [2013] No. 97 Plot	4,177,000	4,803,550	417,700

LETTER FROM THE BOARD

The historical transaction amounts of the Construction Contracts for each of the years ending 31 December 2014, 31 December 2015 and 31 December 2016 are set out below:

	For the year ended 31 December 2014 <i>(in RMB)</i>	For the year ended 31 December 2015 <i>(in RMB)</i>	For the year ended 31 December 2016 <i>(in RMB)</i>
Building No. 1 of China South-western City in Chongqing	7,500,000	(not applicable)	1,500,000
Buildings No. 3 and No. 5 of China South-western City in Chongqing	52,500,000	15,000,000	3,750,000
Buildings No. 2 and No. 7 of China South-western City in Chongqing	33,600,000	62,400,000	(not applicable)
Business and Commercial Buildings Construction and Installation of Hang Zheng Chu Chu [2013] No. 97 Plot	4,114,305	107,559,688	14,693,946
Business and Commercial Buildings Waterproofing Project of Hang Zheng Chu Chu [2013] No. 97 Plot	(not applicable)	1,545,000	103,000

Reasons for and Benefits of Entering Into the Engineering Services Framework Agreement

Yuanyang Holding Group was awarded the “First Class Qualification” certificate issued by the Ministry of Housing and Urban-Rural Development of China. The Construction Contracts will contribute to the development of the brand and market image of the Company’s Hangzhou Canal Project and the Chongqing China South-western City Project. As the original construction periods under the Construction Contracts were over, the Group entered into the Engineering Services Framework Agreement with Yuanyang Holdings to supplement the arrangement of outstanding works and ensure that the construction will be continued smoothly. The Construction Contracts were entered into by the Group long before Yuanyang Holdings became a connected person. Considering that it is not cost effective and time efficient to change the contractor to undertake the remaining works of the construction projects, and that the terms of the Construction Contracts were based on normal commercial terms or on terms no less favourable than terms provided by independent third parties, the Company has not considered to arrange a tender for the remaining work under the Construction Contracts after Yuanyang Holdings became a connected person of the Company.

Based on the above reasons, the Directors (including the independent non-executive Directors) considered that the Engineering Services Framework Agreement was entered into after arm’s length negotiations in the ordinary and usual course of business of the Group and the terms and conditions were fair and reasonable. The transactions thereunder were in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

If the Engineering Services Framework Agreement is not approved by the Independent Shareholders, the Company will consider engaging other contractors to complete the projects under Construction Contracts and in such event, the expected time of completion of the projects may be delayed.

Information on the Company

The Company, together with its subsidiaries, is an integrated residential and commercial property developer.

Information on Yuanyang Holdings

Yuanyang Holdings is a modern integrated enterprise engaged in construction, general contracting, industrial investment and real estate development.

Internal Control

The Company has implemented the following measures relating to the internal control system of its connected transactions:

- (a) The finance department of the project companies under the Company will be responsible for regularly collecting the detailed information of the said continuing connected transactions (including but not limited to the progress reports, payment arrangement and actual transaction amount of respective services agreements under the Engineering Services Framework Agreement) and reporting to the manager of the finance department in such regard regularly. The cost control department and finance department of the Company will assist in reviewing and controlling particular terms and conditions and actual transaction amounts of the continuing connect transactions.
- (b) The project managers of the Company will be responsible for supervising whether the transaction terms and prices and other terms of the separate construction contracts are in compliance with the principles set out in the Engineering Services Framework Agreement, assessing the fairness of the transaction terms and pricing terms, and reporting relevant information to the head of cost control department on a timely manner.
- (c) The secretary to the Board will collect the reports from the manager of finance department and report to the Board in such regard on a regular basis. The Board shall be responsible for the inspecting and supervising the control of connected transactions of the Company as well as the implementation of connected transaction control system by the Directors, senior management and connect persons of the Company.
- (d) The cost control department is an independent department which reports to the Board directly. The staff of the department will all sign an anti-corruption undertaking and will declare their interest in case they are related to any contracting party or supplier of the

LETTER FROM THE BOARD

Group. It comprises 3 teams – the settlement team, the tender team and the suppliers management team. The cost control department will ensure fair selection of suppliers of goods and services to the Group.

- (e) In addition, the independent non-executive Directors will review the continuing connected transactions under the Engineering Services Framework Agreement to ensure that such agreements are entered into on normal commercial terms or on terms no less favourable to terms available from independent third parties, are fair and reasonable and the transactions are conducted pursuant to the terms of such agreements by checking whether the above measures are duly taken. The auditor of the Company will also conduct annual review on the pricing terms and annual caps of the continuing connected transactions.

Listing Rules Implications

As at the Latest Practicable Date, 51% equity interest in Yuanyang Holdings was held by Zhejiang Xinming Trading, a company which Mr. Zheng Xiangtian, the elder brother of Mr. Chen Chengshou (an executive Director of the Company), owned 90% of its equity interest. Therefore, Yuanyang Holdings is a connected person of the Company pursuant to the requirements of the Listing Rules. Accordingly, the transactions under the Engineering Services Framework Agreement constitute continuing connected transactions of the Company.

As the respective applicable percentage ratios calculated on an annual basis in respect of the aggregate amount of the transactions contemplated under the Engineering Services Framework Agreement will exceed 5%, the transactions contemplated under the Engineering Services Framework Agreement constitute non-exempt continuing connected transactions under the Listing Rules, and are subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under the Listing Rules.

Directors' Interests in the Engineering Services Framework Agreement

The connected Directors, namely Mr. Chen Chengshou and Ms. Gao Qiaoqin, had abstained from voting on the resolution of the transactions under the Engineering Services Framework Agreement by the Board. None of the Directors except the connected Directors has material interests in the transactions under the Engineering Services Framework Agreement.

III. EGM

A notice of the EGM to be held on Monday, 22 May 2017 at 11:00 a.m. at Suites 903-905, 9th Floor, Shui On Centre, 6-8 Harcourt Road, Wanchai, Hong Kong, at which relevant resolution will be proposed to approve the Engineering Services Framework Agreement, is set out on pages 33 to 34 of this circular.

Mr. Chen Chengshou and his associates will be required to abstain from voting at the EGM with respect to the ordinary resolution in connection with the Engineering Services Framework Agreement.

LETTER FROM THE BOARD

The proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM, or any adjournment thereof, if you so wish. Voting at the EGM will be taken by poll in accordance with the Listing Rules.

IV. ADDITIONAL INFORMATION

Additional information is also set out in the appendix of this circular for your information

By order of the Board
Xinming China Holdings Limited
Kam Chun Ying Francis
Company Secretary

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

28 April 2017

To the Independent Shareholders

Dear Sir/Madam,

(1) CONTINUING CONNECTED TRANSACTIONS AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the circular dated 28 April 2017 issued by the Company of which this letter forms part. Capitalised terms used herein shall have the same meaning as those defined in the circular unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Engineering Services Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Optima Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

RECOMMENDATION

Having taken into account the advice of Optima Capital, we are of the opinion that (i) the transactions under the Engineering Services Framework Agreement are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. (ii) the terms of the Engineering Services Framework Agreement (including the annual caps) are normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution as set out in the notice of EGM to approve the Engineering Services Framework Agreement (including the annual caps) at the EGM.

Yours faithfully,
Independent Board Committee
Mr. Fong Wo, Felix
Mr. Gu Jiong
Mr. Lo Wa Kei, Roy

LETTER FROM OPTIMA CAPITAL

The following is the letter of advice from Optima Capital to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



Suite 1501, 15th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

28 April 2017

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the transactions under the Engineering Services Framework Agreement (the “**Transactions**”). Details of the Engineering Services Framework Agreement are set out in the letter from the Board contained in the circular of the Company dated 28 April 2017 (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 otherwise specified.

Yuanyang Holdings is a company owned as to 51% by Zhejiang Xinming Trading. Zhejiang Xinming Trading is in turn a company owned as to 90% by Mr. Zheng Xiangtian (“**Mr. Zheng**”), the elder brother of Mr. Chen Chengshou (“**Mr. Chen**”) who is the Chairman of the Board, an executive Director and a substantial Shareholder interested in 1,349,600,000 Shares (representing approximately 71.84% of the total issued share capital of the Company) as at the date of the Engineering Services Framework Agreement. Accordingly, Yuanyang Holdings is a connected person of the Company and the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are subject to the reporting, announcement, Independent Shareholders’ approval and annual review requirements under Chapter 14A of the Listing Rules.

The Company will seek the Independent Shareholders’ approval of the Engineering Services Framework Agreement and the annual caps for the value of the Transactions for each of the two financial years ending 31 December 2017 and 2018 (the “**Annual Caps**”) at the EGM. The voting at the EGM will be conducted by way of poll. Mr. Chen and his associates shall abstain from voting on the resolution approving the Engineering Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps at the EGM. To the best of the Directors’ knowledge, information and belief having made all reasonable enquires, save as disclosed above, no other Shareholder is required to abstain from voting at the EGM.

LETTER FROM OPTIMA CAPITAL

The Independent Board Committee, comprising Mr. Gu Jiong, Mr. Lo Wa Kei, Roy and Mr. Fong Wo, Felix, each being an independent non-executive Director, has been established to advise the Independent Shareholders as to whether (i) the Transactions are in the ordinary course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Engineering Services Framework Agreement and the Annual Caps are on normal commercial terms or on terms no less favourable to the Company than those available from independent third parties and are fair and reasonable so far as the Independent Shareholders are concerned, and to give a recommendation to the Independent Shareholders in respect of the voting on the resolution to be proposed at the EGM to approve the Engineering Services Framework Agreement and the Annual Caps. We, Optima Capital, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, neither Optima Capital nor persons stipulated under Rule 13.84(4) of the Listing Rules had any current business relationship with the Company, Yuanyang Holdings, or a director, subsidiary, holding company or substantial shareholder of the Company or Yuanyang Holdings, which would be reasonably considered to affect our independence in performing the duties as set out in the Listing Rules, or might reasonably give rise to a perception that our independence would be so affected.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company (together, the “**Management**”) and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the date hereof and will continue to be so as at the date of the EGM. We have assumed that all the opinions or representations of the Management have been reasonably made after due and careful enquiry. We have also sought and received confirmation from the Management that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Engineering Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and whether the Transactions are 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 have taken into account the following principal factors and reasons:

LETTER FROM OPTIMA CAPITAL

1. Principal businesses of the Group and Yuanyang Holdings

The Group is an integrated residential and commercial property developer. Since the inception of its business in Taizhou, Zhejiang Province of the PRC, the Group has expanded its geographical coverage by developing sites in a number of cities, namely Shanghai, Chongqing, Tengzhou and Hangzhou, the PRC. The business of the Group mainly comprises three areas: (i) development of residential and commercial properties for sale; (ii) leasing of commercial properties held by the Group for investment and provision of leasing services for commercial properties developed by the Group which are purchased and owned by third parties; and (iii) provision of property management services to residential customers.

Yuanyang Holdings is a construction and property development company in Hangzhou and is principally engaging in construction, general contracting, industrial investments and real estate development. Yuanyang Holdings has been one of the major suppliers and contractors of the Group since 2011 when it was still a third party independent of the Company and its connected persons.

Having considered the respective principal activities of the Group and Yuanyang Holdings as described above, we are of the view that the Engineering Services Framework Agreement is entered into in the ordinary and usual course of business of the Group.

2. Background to and reasons for the Engineering Services Framework Agreement

As disclosed in the announcements of the Company dated 20 January 2017 and 7 March 2017 in relation to the Transactions, Chongqing Xinming and Hangzhou Xinming entered into the Construction Contracts with Yuanyang Holdings whereupon Yuanyang Holdings was appointed as a contractor of the Group for the construction and engineering works for a number of development projects during the period between March 2013 and August 2015. In mid-December 2016, the Company was informed that a 51% equity interest in Yuanyang Holdings was acquired by Zhejiang Xinming Trading which is a company owned as to 90% by Mr. Zheng, the elder brother of Mr. Chen; and Yuanyang Holdings became a connected person of the Company since then. As the construction works under the Construction Contracts were delayed and the construction periods under the Construction Contracts have expired, the Company had conducted a review on the construction progress of each of the Construction Contracts and expected that all the outstanding construction works under the Construction Contracts (the “**Remaining Works**”) will substantially be completed in 2017 and may possibly be extended to 2018. In order to make proper arrangement for the Remaining Works, the Company entered into the Engineering Services Framework Agreement with Yuanyang Holdings on 7 March 2017 to confirm the engagement of Yuanyang Holdings as contractor for the Remaining Works. Each of Chongqing Xinming and Hangzhou Xinming has also entered into separate supplemental agreements to the Construction Contracts with Yuanyang Holdings to supplement the detailed arrangement for the Remaining Works (including construction schedule and payment terms) of each project involved.

LETTER FROM OPTIMA CAPITAL

The Remaining Works involve a total of four ongoing development projects of the Group as described below:

Project location	Type of development	Original construction period
Building No. 1 of China South-western City in Chongqing	Commercial	5 March 2013 to 30 August 2013
Buildings No. 3 and No. 5 of China South-western City in Chongqing	Commercial	10 October 2013 to 30 December 2014
Buildings No. 2 and No. 7 of China South-western City in Chongqing	Commercial	10 April 2014 to 10 November 2015
Hang Zheng Chu Chu [2013] No. 97 Plot (the “ Land ”)	Commercial	(i) For main construction works: 20 December 2014 to 20 December 2016 (ii) For waterproofing works: 10 August 2015 to 20 September 2016

The Remaining Works for the first three projects mainly related to installation of railings, doors and windows as well as electrical engineering works, while those for the fourth project mainly related to construction of the main structure and waterproofing works.

As discussed with the Management, Yuanyang Holdings has been engaged as contractor for various projects of the Group since 2011. The delay of the aforesaid projects was due to reasons unrelated to Yuanyang Holdings and the Group is satisfied with the quality of works and services performed by Yuanyang Holdings. Taking this into account and having considered that (i) the terms of the Engineering Services Framework Agreement were based on normal commercial terms or on terms no less favourable to the Group than those provided by independent third parties (as described in more detail in the paragraph headed “Principal terms of the Engineering Services Framework Agreement” below); and (ii) it is not cost effective and time efficient to change the contractor half way through the construction schedule to undertake the Remaining Works, the Company is of the view, with which we concur, that it is not commercially justifiable to arrange a tender and engage other contractors for the Remaining Works and that it is in the interests of the Company and the Shareholders as a whole to enter into the Engineering Services Framework Agreement to continue the engagement of Yuanyang Holdings to complete the Remaining Works.

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3. Principal terms of the Engineering Services Framework Agreement

Subject matter

Pursuant to the Engineering Services Framework Agreement, Yuanyang Holdings shall be engaged as contractor for the Group's four development projects (as detailed in the paragraph headed "Background to and reasons for the Engineering Services Framework Agreement" above), undertaking all construction, installation, construction of specific sub-contracting projects and completion warranty within the construction plan, as well as general contracting management of the Group's independent sub-contractors' works. For the development work at the Land, Yuanyang Holdings is also responsible for undertaking the waterproofing works for the basements, roofs and restrooms for the relevant buildings being constructed thereon.

Pricing basis

Pursuant to the Engineering Services Framework Agreement, the contract sum for each project shall be determined as follows:

- (i) the parties shall refer to the State Price which is mainly obtained from the State Indexes issued by the Ministry of Construction of the PRC to determine the basis of calculating the preliminary contract sum for each project. The basis shall then be reviewed by the cost control department of the Group and necessary adjustments be made based on the terms of previous projects (if available) and/or projects of similar type within the same district where the relevant projects are located (the "**Pricing Basis**"); and
- (ii) the contract sum shall be calculated first by Yuanyang Holdings by applying the Pricing Basis to the final project blueprint (the "**Yuanyang Quotation**"). The cost control department of the Group shall then engage at least one independent engineering consulting firm to provide an estimation of contract sum (the "**Independent Quotation**") based on the project blueprint, and agree with Yuanyang Holdings on necessary adjustments by making reference to the Independent Quotation to finalise the contract sum.

We understand from the Management that the State Price sets out the suggested prices of labour, construction materials and machinery work and respective mark-up fee charged for different categories of construction works. The State Indexes are updated by the government regularly approximately once every four years. When there are changes to the prices of certain items such as prices of construction materials before the update of the State Indexes, the Ministry of Construction of the PRC or other relevant authorities would issue journals to provide updated information to market players.

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The cost control department of the Group is an independent department that reports to the Board directly and responsible for monitoring the costs and suppliers selection of the Group. For each project for which Yuanyang Holdings is proposed to be engaged, the cost control department would obtain information on the pricing basis prevalent in the market by referring to those of the Group's previous works of similar type (if any) and/or those of similar works within the same district where the relevant projects are located, and will discuss with Yuanyang Holdings to determine the adjustment to the State Price if necessary according to the prevalent market practice. The adjustment will reflect the prevalent mark-up rate or discount rate to the State Price in the market, and the cost control department shall ensure that the Pricing Basis is on normal commercial terms or on terms no less favourable than those available from independent contractors. The Pricing Basis will also be approved by the project managers and the Board.

The Management further informed us that the cost control department of the Group will also engage independent engineering consulting firm(s), which is/are selected from the Approved List, to provide Independent Quotation according to the Pricing Basis and the project blueprint. The Approved List was approved by the chairman of the Board and was compiled by and updated approximately every three months by the cost control department of the Group taking into account professional ethics, service quality and scale of operation of the independent consulting firms. In the event that there is any discrepancy between the Independent Quotation and the Yuanyang Quotation, the cost control department of the Group will discuss with Yuanyang Holdings and reconcile the difference and adjust the Yuanyang Quotation if necessary. If the parties fail to agree on the adjustment to the Yuanyang Quotation, the parties shall seek opinion from the Calculation Station, which is a government authority under the Ministry of Construction of PRC, or other relevant authorities to resolve the disputed area of the quotation, which shall be final and binding on the parties.

There are circumstances where changes to project blueprints of relevant projects or other changes are needed after the contract sum is agreed with Yuanyang Holdings. In these cases, the construction department of the Group will first confirm the change to the project blueprint required by the management of the project company if necessary, and the cost control department of the Group will request Yuanyang Holdings to prepare a revised quotation. The revised quotation will be approved by the project manager, deputy head of the construction department, manager of the construction department and manager of production costs of the cost control department of the Group before it becomes effective.

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Payment terms

Pursuant to the Engineering Services Framework Agreement, payment of each project shall be agreed separately with reference to the progress of the projects and the terms and conditions of the specific construction contracts. The Management informed us that the progress of the projects is monitored and verified by the construction department of the Group. In general, when Yuanyang Holdings completes certain part of the construction and progress payment is payable according to the construction contracts of the relevant projects, Yuanyang Holdings shall submit written request for payment together with supporting documentary proof to the Group for approval. Payment requests of Yuanyang Holdings will be reviewed and approved by the construction department, the cost control department and the finance department of the Group. If the Group fails to pay the progress payment within 21 days after confirmation of the request of Yuanyang Holdings, Yuanyang Holdings is entitled to cease all construction work unless otherwise agreed. A sum equivalent to 3% to 5% of the contract sum for each project will be retained as security and will be released to Yuanyang Holdings within five years after completion of the construction according to the schedule set out in the specific agreements of the relevant projects.

Based on the discussions with the Management, we understand that the basis upon which the contract sum and the payment terms are agreed as described above are applied to all similar transactions with independent third parties, and were assessed by the Management prior to the signing of the Engineering Services Framework Agreement to ensure that the basis upon which the contract sum and terms are agreed are on normal commercial terms and no less favourable than those available from independent third parties. We have reviewed the construction contracts entered into between the Company and independent third parties within the past year and noted that the Pricing Basis, payment terms and other conditions of the Engineering Services Framework Agreement are similar with those contracts with the independent third parties. In light of this, we consider that the basis of determining the contract sum adopted for the Transactions as described above, which is also applied to other independent third party contractors of the Group and involves the assessment and monitoring of various departments of the Group, is fair and reasonable.

4. Annual Caps

The Annual Caps for the value of the Transactions were determined based on the aggregate contract sum for each of the projects agreed with Yuanyang Holdings using the Pricing Basis as described above, with a buffer to cater for unforeseen price changes. In this respect, the Management has considered a number of factors including the progress of construction under the Construction Contracts, the amount of Remaining Works and the expected progress thereof.

The Management informed us that the project manager of the Company monitors the progress and assess the status of project works regularly, and monthly construction progress reports (the “**Progress Reports**”) are prepared by the responsible project manager and reviewed by the head of cost control department of the Company. The contract amounts of the Remaining Works (the “**Contract Amounts**”) were estimated with reference to the amount of Remaining Works as stated in the latest Progress Reports

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and agreed with Yuanyang Holdings based on the Pricing Basis as described above. For the purpose of determining the Annual Cap for the financial year ending 31 December 2017 (the “**2017 Annual Cap**”), the Management has included a 15% buffer on top of the Contract Amounts. A further 10% buffer on the Contract Amounts is set as the Annual Cap for the financial year ending 31 December 2018 (the “**2018 Annual Cap**”). Details of the Contract Amounts and the Annual Caps are set out below:

Project location	Contact Amounts <i>(in RMB)</i>	Add: 15% Buffer <i>(in RMB)</i>	2017 Annual Cap <i>(in RMB)</i>	2018 Annual Cap <i>(in RMB)</i>
Building No. 1 of China South-western City in Chongqing	1,500,000	225,000	1,725,000	150,000
Buildings No. 3 and No. 5 of China South-western City in Chongqing	5,200,000	780,000	5,980,000	520,000
Buildings No. 2 and No. 7 of China South-western City in Chongqing	14,750,000	2,212,500	16,962,500	1,475,000
Hang Zheng Chu Chu [2013] No. 97 Plot	<u>174,626,778</u>	<u>26,194,017</u>	<u>200,820,795</u>	<u>17,462,678</u>
Total	<u>196,076,778</u>	<u>29,411,517</u>	<u>225,488,295</u>	<u>19,607,678</u>

We are advised by the Management that additional costs may be incurred due to unforeseeable additional construction works as a result of change to the project blueprint or other changes of costs during the construction period. To cater for such unforeseen changes, an aggregate of 25% buffer was included in setting the Annual Caps, which was determined with reference to the difference between the contract price and actual project costs for previous construction projects of similar type. Since a substantial part of the Remaining Works is expected to be completed by December 2017, the 25% buffer is split as to 15% for 2017 and as to 10% for 2018 in case tidy up works are needed or the construction works are extended beyond 2017.

We have reviewed the latest Progress Reports and noted that the Progress Reports were prepared by the managers of construction department and reviewed by the head of cost control department of the Company and the project managers. We have compared previous construction projects contracted to independent third parties in the past three years and noted that there are variances in the actual project costs versus contract sums ranging from around 13% to 19%. On this basis, we consider the 25% buffer which provides sufficient flexibility to the Group in the execution of the Construction Contracts, and the Annual Caps which are determined based on the Contract Amounts and the 25% buffer, are fair and reasonable.

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5. Internal control measures

To ensure conformity by the Company with the terms and conditions in relation to the Transactions, the Company has implemented the following internal control measures:

- (i) the finance department of the project companies under the Company will be responsible for regularly collecting the detailed information of the Transactions (including but not limited to the pricing terms, payment arrangement and actual transaction amount of each construction contract under the Engineering Services Framework Agreement) and reporting to the manager of the finance department. The cost control department and finance department of the Company will assist in reviewing and controlling particular terms and conditions and actual transaction amounts of the Transactions;
- (ii) the project managers of the Company will be responsible for supervising whether the transaction terms and prices and other terms of the separate construction contracts are in compliance with the principles set out in the Engineering Services Framework Agreement, assessing the fairness of the transaction terms and pricing terms, and reporting relevant information to the head of cost control department on a timely manner;
- (iii) the secretary to the Board will collect the reports from the manager of finance department and report to the Board in such regard on a regular basis. The Board shall be responsible for inspecting and supervising the control of connected transactions of the Company as well as the implementation of connected transaction control system by the Directors, senior management and connect persons of the Company;
- (iv) the cost control department is an independent department which reports to the Board directly. All the staffs of the department are required to sign an anti-corruption undertaking and will declare their interest in case they are related to any contracting party or supplier of the Group; and
- (v) in addition, the independent non-executive Directors will review the Transactions under the Engineering Services Framework Agreement to ensure that such the Transactions are entered into on normal commercial terms or on terms no less favourable than those available from independent third parties and are fair and reasonable, and the Transactions are conducted pursuant to the terms of the Engineering Services Framework Agreement by checking whether the above internal control measures are adhered to. The auditor of the Company will also conduct annual review on the pricing terms and annual caps of the Transactions.

We noted that different levels of management of the Group participate in the review of the Transactions to ensure that it is in compliance with the terms and conditions as stated in the Engineering Services Framework Agreement.

In addition, as stated in the annual report of the Company for the year ended 31 December 2016, the auditor of the Company has performed procedures in respect of the continuing connected transactions of the Group (i.e. for continuing connected transactions other than the Transactions) in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of

LETTER FROM OPTIMA CAPITAL

Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Rule 14A.56 of the Listing Rules for the year ended 31 December 2016. In addition, the independent non-executive Directors have also confirmed that the continuing connected transactions of the Group (i.e. for continuing connected transactions other than the Transactions) during the year ended 31 December 2016 have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreements; and (iv) their terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In light of the above, we are of the view that appropriate measures are in place to ensure that the Transactions will be conducted on normal commercial terms and to safeguard the interests of the Independent Shareholders and of the Company as a whole.

OPINION

Having considered the abovementioned principal factors and reasons, we consider that the Transactions are in the ordinary and usual course of business of the Group and in the interests of the Company and Shareholders as a whole, and the terms of the Engineering Services Framework Agreement and the Annual Caps are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders and advise the Independent Board Committee to recommend Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Engineering Services Framework Agreement and the Annual Caps.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED
Beatrice Lung
Managing Director

Ms. Beatrice Lung is a responsible officer of Optima Capital Limited and a licensed person registered with the Securities and Futures Commission to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO. Ms. Lung has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.

1. RESPONSIBILITY STATEMENT

This circular, for which the directors of the Company 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. INTERESTS OF DIRECTORS

(a) Interests in the Company

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

Long positions in the shares and underlying shares:

The Company

Name of Directors	Capacity/Nature of interest	Number of shares/ underlying shares	Approximate percentage of the issued share capital of the Company (%)
Mr. Chen Chengshou	Interest of controlled corporation (<i>Note 1</i>)	1,349,600,000 (L)	71.84%
Ms. Gao Qiaoqin	Interest of spouse (<i>Note 2</i>)	1,349,600,000 (L)	71.84%
Mr. Feng Cizhao	Beneficial owner (<i>Note 3</i>)	129,000 (L)	0.007%
Mr. Zhou Yong-kui (Mr. Zhou Yong-kui resigned as an Executive Director on 12 June 2016)	Beneficial owner (<i>Note 3</i>)	312,833 (L)	0.02%

(L): represents long positions

Notes:

1. 1,349,600,000 shares are registered in the name of Xinxing Company Limited which is wholly-owned by Mr. Chen Chengshou.
2. Ms. Gao Qiaoqin is the spouse of Mr. Chen Chengshou. Under the SFO, Ms. Gao Qiaoqin is taken to be interested in the same number of shares in which Mr. Chen Chengshou is interested.
3. Those shares are award shares granted by the Board on 7 April 2016 pursuant to the Share Award Scheme but have not yet been fully vested. For further details, please refer to the announcement dated 7 April 2016.

Associated corporation – Xinxing Company Limited

Name of Directors	Capacity/Nature of interest	Number and class of securities in the associated corporation	Approximate percentage of interest in the associated corporation (%)
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Mr. Chen Chengshou	Beneficial owner	1 share (<i>Note 1</i>)	100%
Ms. Gao Qiaoqin	Interest of spouse	1 share (<i>Note 2</i>)	100%

Notes:

1. The disclosed interest represents the interests in the associated corporation, Xinxing Company Limited, which is held as to 100% by Mr. Chen Chengshou.
2. Ms. Gao Qiaoqin is the spouse of Mr. Chen Chengshou. By virtue of the SFO, Ms. Gao Qiaoqin is deemed to be interested in the 1 share of Xinxing Company Limited held by Mr. Chen Chengshou.

Save as disclosed above, none of the Directors or chief executives of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests in contracts and assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any transaction, contract or arrangement which is significant in relation to the business of the Group, other than those business in which such Directors have been appointed to represent the interests of the Company and/or other members of the Group.

3. INTEREST OF SUBSTANTIAL SHAREHOLDERS

Interest in the Company

As at the Latest Practicable Date, so far as known to any Directors and chief executive of the Company, the following person(s) (other than the Directors and chief executive of the Company), had notified the Company of its interests and/or short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO:—

Name of substantial shareholder	Long/short position	Capacity	No. of Shares	Approximate percentage of total issued share capital
Xinxing Company Limited (<i>Note</i>)	Long	Beneficial owner	1,349,600,000	71.84%

Note: Xinxing Company Limited is wholly-owned by Mr. Chen Chengshou.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons, other than Directors or chief executives of the Company, who had interests or short positions in the shares, underlying shares and debentures of the Company 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.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates were considered to have any interest in a business which competes or may compete with the business of the Group.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Company were prepared.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

8. EXPERT

- (a) The following sets out the qualifications of the expert who has given its opinion or advice as contained in this circular:

Name	Qualifications
Optima Capital	a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong)

- (b) 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.
- (c) As at the Latest Practicable Date, the above expert had no direct or indirect interest in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 December 2016 (the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased.
- (d) 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 references to its name and logo in the form and context in which they respectively appear.

9. MISCELLANEOUS

- (a) The registered office of the Company is at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.
- (b) The company secretary is Mr. Kam Chun Ying Francis.
- (c) The Hong Kong share registrar of the Company is Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

- (d) The circular has been prepared in both English and Chinese. In the case of any discrepancies, the English text shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at Room 2612, Tower One, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong during normal business hours on any workday from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and Articles of Association of the Company;
- (b) the Engineering Services Framework Agreement;
- (c) the letter from the Board, the text of which is set out on pages 4 to 16 of this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 17 of this circular;
- (e) the letter from Optima Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 18 to 27 of this circular; and
- (f) the written consent referred to in the sub-section above headed “Expert”.

NOTICE OF EXTRAORDINARY GENERAL MEETING



新明中国控股

XINMING CHINA

Xinming China Holdings Limited
新明中國控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2699)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of Xinming China Holdings Limited (the “Company”) will be held at Suites 903-905, 9th Floor, Shui On Centre, 6-8 Harcourt Road, Wanchai, Hong Kong on Monday, 22 May 2017 at 11:00 a.m., for considering and, if thought fit, passing, with or without amendments, the following resolution which will be proposed, as ordinary resolution of the Company:

ORDINARY RESOLUTION

To consider and approve the Engineering Services Framework Agreement entered into between the Company and Yuanyang Holdings Group Limited on 7 March 2017 and the proposed annual caps for such transactions for the year of 2017 and 2018; and to authorise the directors of the Company to do all such further acts and things and execute all such further documents and take all such steps that are ancillary to the Engineering Services Framework Agreement and of administrative nature which, in their absolute discretion, to implement and/or give effect to the matters contemplated under this resolution.

By order of the Board
Xinming China Holdings Limited
Kam Chun Ying Francis
Company Secretary

Hong Kong, 28 April 2017

Notes:

1. Any member of the Company entitled to attend and vote at the EGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise. On a poll, votes may be given either personally or by proxy.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorised to sign the same.

NOTICE OF EXTRAORDINARY GENERAL MEETING

3. To be valid, the instrument appointing a proxy and (if required by the board of directors of the Company) the power of attorney or other authority (if any), under which it is signed or a certified copy of such power or authority shall be delivered to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or adjourned meeting at which the person named in the instrument proposes to vote.
4. No instrument appointing a proxy shall be valid after expiration of 12 months from the date named in it as the date of its execution, except at an adjourned meeting or on a poll demanded at the EGM or any adjournment thereof in cases where the EGM was originally held within 12 months from such date.
5. Completion and delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the EGM if the member so wish and in such event, the instrument appointing a proxy should be deemed to be revoked.
6. Where there are joint holders of any share, any one of such joint holder may vote either in person or by proxy in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
7. The register of members of the Company will be closed from Wednesday, 17 May 2017 to Monday, 22 May 2017 (both dates inclusive) during which period no transfer of shares will be registered. In order to attend and vote at the EGM, all transfer of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 16 May 2017.
8. A form of proxy for use at the EGM is enclosed.
9. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 7:00 a.m. on the date of the EGM, the meeting will be postponed. The Company will post an announcement on the websites of the Company at www.xinn.com.cn and the Hong Kong Stock Exchange at www.hkexnews.hk to notify Shareholders of the date, time and place of the rescheduled meeting.

As at the date of this notice, the Executive Directors are Mr. Chen Chengshou, Mr. Feng Cizhao and Mr. Wong Thian Tsu Michael; the Non-executive Director is Ms. Gao Qiaoqin; and the Independent Non-executive Directors are Mr. Gu Jiong, Mr. Lo Wa Kei, Roy and Mr. Fong Wo, Felix.