



KARDAN N.V.

Kardan NV (hereinafter - the “Company”)

May 7, 2020

To
The Israel Securities Authority
22 Kanfei Nesharim St.
Jerusalem

To
The Tel Aviv Stock Exchange Ltd.
2 Ahuzat Bayit St.
Tel Aviv

Via the magna system

Dear Sir/Madam,

Re: Immediate Report – Clarifications and Updates regarding the Hua Rona Loan and other Issues that were Raised in Bond Holders’ Meetings

Further to the Company’s notice to the trustees of the Company’s bond holders (Series A and B) (hereinafter – the “**Trustees**” and “**Bond Holders**”, respectively), regarding the intention of Kardan Land China Limited (hereinafter – “**Kardan Land China**”), Kardan Land Dalian (HK) Limited, and Kardan Land Dalian Ltd. (hereinafter jointly – “**Kardan Dalian**”) to extend by one year the term of a loan provided to Kardan Dalian by Hua Rong (China) Investment Management Ltd. and Hua Rong Holdings (Shenzhen) Equity Investment Fund Management Ltd. (hereafter jointly and respectively – “**Hua Rong**”, the “**Dalian Loan**” and the “**Loan Agreement**”), and to repay part of the Loan (repayment of 150 million RMB, all as set out in the Company’s letter to the Trustees, which was attached to the immediate report published by the Trustees on May 3 2020 (reference no. 2020-10-043434 and 2020-10-043203), which is incorporated into this report by way of reference (hereinafter – the “**Company’s Letter**”), and further to Bond Holders’ meetings held on May 4 2020 (hereinafter – the “**Meetings**”), set forth below are clarifications and further information requested during the course of the Meetings:

1. Payments to Trustees and their advisors

Set forth below are data regarding amounts paid by the Company to the Trustees and their agents, by series of bonds, as from November 2017 through December 2019 (in thousands of NIS):

	Trustee (payment for special work)	Economic advisors and representatives	Attorneys	Total
Series A Bonds	22	416	751	1,189
Series B Bonds	412	598	1,057	2,067
Total	434	1,014	1,808	3,256

In addition to the data listed in the table, the Company has borne the cost of the observer appointed on behalf of the Trustees, which amounted to NIS 192 thousand through December 2019.

2. Assets and liabilities of Kardan Land Dalian (hereafter - the “Project Company”)

Set forth below are additional data about the value of Kardan Dalian (the Europark Dalian project company):

	Value in millions of Euros (as of December 31 2019) *	Comments
Galleria Dalian shopping mall**	214.6	As stated in the Company’s financial statements as of December 31 2019 (based on the valuation report as of December 31 2019 that was attached to the Company’s 2019 periodic report)
Inventory of apartments and parking spaces**	50.0	Calculated in accordance with the number of apartments and parking spaces in inventory, in accordance with expected selling prices as estimated by Kardan Dalian’s management
Other receivables	6.3	Trade and other receivables and tax advances
Cash	13.1	---
Loan	(95.0)	---
Trade payable and other payables	(37.3)	Including adjustments based on Kardan Dalian’s assumptions as to future contingent payments and other payments
Liabilities to related companies of the Kardan Land China group	(6.3)	
Net asset value	145.4	

* The assets and liabilities listed in the table are denominated in Chinese Yuan. At the request of the Bond Holders, the data are presented in Euros. Accordingly, changes in the Yuan-Euro exchange rate impact the value of these assets in Euro.

** In accordance to the aforesaid valuation, the fair value of the shopping mall as of December 31 2019 is EUR 215.6 million. For the sake of conservatism, the Company’s management decided not to recognize gain from increase in value during the fourth quarter of 2019. It should be noted that it is highly probable that the coronavirus outbreak will have an adverse effect on the value of the asset in the first quarter of 2020. In addition, the continuation of the crisis in the coming quarters may result in additional negative impact in the future.

*** The inventory of apartments and parking spaces, other receivables, suppliers and other payables include forward looking information, which is based on management’s estimates as to, among other things, future selling prices, future payments and liabilities, provisions and collection, as this term is defined in the Securities Law. These assumptions may materialize in a manner different than Company’s estimates due to factors beyond the Company’s control, such as decrease in real estate prices, difficulty in collection of debts, increase of construction costs, delays in completion of construction and so forth.

3. Further clarifications regarding the Dalian Loan

Further to what is stated in the Company’s letter and in reports published by the Company, it wishes to mention and clarify a number of issues so that Bond Holders will have those data when making a decision in connection with the Dalian Loan:

- The balance of the Dalian Loan is 741 million RMB.
- The final repayment day of the Dalian Loan was set for November 2020.
- The Dalian Loan is secured with all of Kardan Dalian's rights in the Europark Dalian shopping mall, the residential units and parking spaces in the Dalian project, Kardan Dalian's bank accounts, Kardan Dalian's shares and rights by virtue of agreements signed in connection with the Dalian project.
- In addition, Kardan Land China is the guarantor for the full repayment of the Dalian Loan.
- Kardan Dalian is the most material asset owned by Kardan Land China.
- Bearing in mind the repayment date of the Dalian Loan (November 2020) and the lack of resources for repayment thereof, then pursuant to the provisions of the deeds of trust signed in connection with the bonds and pursuant to its legal obligations, Kardan Land China is required to withhold any amounts it receives until alternative sources are identified for repayment of the Dalian Loan. Accordingly, until the recycling of the Dalian Loan is agreed upon, Kardan Land China will not be able to use the funds at its disposal for the purpose of distributing a dividend to the Company, even if it does not use those funds to partly repay the Dalian Loan (a total of 100 million RMB).
- According to information delivered to Kardan Land China's Management, as a condition for discussing the request to extend the term of the Dalian Loan, it is required to partly repay 150 million RMB of the loan. Furthermore, such partial early repayment by the date on which the extension request will be discussed will significantly increase the chances of such an extension being granted.
- As described in the Company's Letter, Kardan Land China contacted a number of financial bodies and requested a loan that will be used to early repay the Dalian Loan. So far, Kardan Land China was informed by such financial bodies that if it wishes them to consider its loan request, Kardan Dalian will need to reduce the balance of the loan to a total of 600 million RMB to 650 million RMB.
- In discussions held both with Hua Rong and with other potential lenders, Kardan Land China was informed that in accordance with Chinese regulations, in order for a the loan to be approved, the lender is required to provide evidence that the borrower is able to fully repay the loan and service the interest from project's sources; this requirement is added to the requirement to meet a coverage ratio between the value of the collaterals and the amount of the loan. Kardan Land China was further informed that under internal regulations of each of the lending bodies, those bodies do not settle for evidence regarding the ability to repay the loan. Rather, they require evidence that a company can repay the loan which includes the safety factors set out in their internal regulations, which vary from one lender to another. This means that despite the high coverage ratios between the value of the asset as reflected in the valuation obtained by the Company and the loan balance, Kardan Dalian is requires to evidence it is able to repay the loan from the project sources during the periods required by the lenders, as a condition for providing a new loan or extending the period of the existing loan¹.
- In the opinion of Kardan Land China's management, if it refuses Hua Rong's demand to early repay part of the loan, its relationship with Hua Rong will be damaged and the request to extend the term of the loan may be declined. Furthermore, non-compliance with the terms of the loan might undermine the Company's chances of receiving a loan from banks and other

¹ Early repayment of 150 million RMB will allow Kardan Dalian to prove a better repayment ability and in a shorter period, which will increase the chances of extending the Dalian Loan and finding a refinancing loan.

entities, as well as the chances of successfully selling the rights in the Europark Dalian shopping mall in the future; in an extreme scenario, non-compliance with the terms of the loan might lead to Hua Rong's instigating foreclosure procedures.

- If Hua Rong decides to instigate foreclosure procedures, such procedures will involve both Kardan Dalian and Kardan Land China. Such procedures might put all of Kardan Land China's assets at risk.
- As described in the Company's Letter, the transfer of the support amount and the early repayment of the loan on the dates listed in the Company's letter will reduce Kardan Dalian's financial costs in 2020 by 7 million RMB, and will entitle Kardan Dalian with a one-off benefit of 6 million RMB, by virtue of a Dalian incentive plan.

It should be emphasized that as of the date of this report no entity has undertaken to extend the term of the loan or to provide an alternative loan for the purpose of recycling the current loan.

It should also be noted that in relation to the circumstances described in this letter, in accordance with the provisions of the Deeds of Trust, and in detail in Section 10.1.2 of the Amended Deeds of Trust, Kardan Land China is not required to transfer the funds in its possession to the Company for an early repayment, but may leave the funds in its possession for the purpose of covering its obligations as specified above. Accordingly, the Company approaching the trustees as specified in the Company's letter, was performed as part of the transparency and cooperation as required between it and the trustees, and does not require the amendment of the trust deeds.