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11TH FLOOR
8 WYNDHAM STREET
CENTRAL
HONG KONG

24 May 2024

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**CONTINUING CONNECTED TRANSACTION IN RELATION TO
THE ENGINEERING CONSTRUCTION RELATED SERVICES FRAMEWORK
AGREEMENT**

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee in respect of the terms of the Engineering Construction Related Services Framework Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in a circular of the Company (the “**Circular**”) to the Shareholders dated 24 May 2024, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 6 May 2024, the Company and Zhongming Zhiye entered into the Engineering Construction Related Services Framework Agreement as the Engineering Construction Service Framework Agreement and the Construction Auxiliary Service Framework Agreement will expire on 31 December 2024. Pursuant to the Engineering Construction Related Services Framework Agreement, the Group will provide engineering construction related services, including but not limited to, engineering construction services such as engineering procurement construction, decoration and landscape engineering and construction auxiliary services such as design and consultancy to Zhongming Zhiye and its associates in the ordinary course of business, and Zhongming Zhiye and its associates will pay service fees to the Group.

Since Zhongming Zhiye is held as to 92.5% by Zhongru Investment and as to 7.5% by Qianbao Investment, and each of Zhongru Investment and Qianbao Investment is a controlling Shareholder, Zhongming Zhiye is a connected person under Rule 14A.07A(4) of the Listing Rules. By virtue of the aforesaid relationship, the provision of engineering construction related

services under the Engineering Construction Related Services Framework Agreement constitutes continuing connected transaction under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising Ms. Shen Lifeng, Ms. Chen Xin and Mr. Chan Ngai Sang Kenny, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to (i) whether the Engineering Construction Related Services Framework Agreement is entered into on normal commercial terms in the ordinary and usual course of business of the Company, the terms and the proposed annual caps of the continuing connected transaction contemplated thereunder (the “**Annual Caps**”) are fair and reasonable, and in the interests of the Company and the Independent Shareholders as a whole; and (ii) how the Independent Shareholders should vote on the relevant resolution regarding the Engineering Construction Related Services Framework Agreement and the Annual Caps at the AGM.

Our role, as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Engineering Construction Related Services Framework Agreement and the transactions contemplated thereunder, is to (i) provide the Independent Board Committee and the Independent Shareholders an independent opinion and recommendation as to whether the Engineering Construction Related Services Framework Agreement are entered into on normal and commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Group and the Independent Shareholders as a whole, and whether the terms thereof and the Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (ii) advise the Independent Shareholders on how to vote on the relevant resolution regarding the Engineering Construction Related Services Framework Agreement and the Annual Caps at the AGM.

We are not associated with the Company, Zhongming Zhiye or their respective core connected persons, close associates or associates and accordingly are considered eligible to give independent advice on the terms of the Engineering Construction Related Services Framework Agreement. Except for being appointed as the independent financial adviser to the then independent board committee and independent shareholders of the Company (details of which have been set out in the letter from Halcyon Capital Limited as contained in the circular of the Company dated 9 June 2022), there was no other engagement between the Group and Halcyon Capital in the last two years from the date of this letter. Apart from the normal professional fees paid to us in connection with our independent financial advisory appointments under the aforesaid engagement and this engagement, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transactions and therefore we consider that such relationship will not affect our independence as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Engineering Construction Related Services Framework Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee, we have relied on the information, financial information and the facts supplied to us and representations expressed by the Directors and/or management of the Group and have assumed that all such information, financial information and facts and any representations made to us, or referred to in the Circular, in all material aspects, are true, accurate and complete as at the time they were made and continue to be so as at the date of the Circular, has been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the management of the Group. The Directors have confirmed in the Circular that, 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 and we have further been confirmed by the Company that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analysis were based upon, among others, the information provided by the Group including the Engineering Construction Related Services Framework Agreement, the annual report of the Company for the year ended 31 December 2023 (the “**2023 Annual Report**”), the Circular and certain published information from the public domain.

We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the entering into of the Engineering Construction Related Services Framework Agreement, and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification or appraisal of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position, profitability or the prospects of the Group, Zhongming Zhiye or any of their respective subsidiaries or associates. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy and shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion for the Engineering Construction Related Services Framework Agreement and the respective transactions contemplated thereunder, we have considered the following principal factors and reasons:

1. Information of the Group

Principal business

As stated in the 2023 Annual Report, the Group is a leading non-state owned construction group in the PRC and is principally engaged in construction contracting business and other businesses mainly including service concession arrangements. Based on the 2023 Annual Report, the Group provides construction contracting services mainly as a contractor for building construction projects and infrastructure construction projects, and over 95% of the revenue of the Group in 2023 was derived from the provision of construction contracting services.

According to the 2023 Annual Report, approximately 76% of the value of the new contracts of the Group's contracting construction business were attributable to the Beijing-Tianjin-Hebei Region and approximately 54% of the value of the new contracts of the Group's contracting construction business were attributable to building construction, followed by infrastructure construction of approximately 33%.

Financial highlights

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

	For the year ended 31 December	
	2023	2022
	<i>RMB'mil</i>	<i>RMB'mil</i>
Revenue	33,493	40,006
Cost of sales	(31,697)	(38,371)
Implied gross profit (<i>Note 1</i>)	1,796	1,635
Implied gross profit margin (<i>Note 2</i>)	5.4%	4.1%
Profit before tax	227	429
Income tax expense	(69)	(114)
Net profit	158	315

Notes:

1. *Such amount was calculated based on the revenue and cost of sales of the Group and was not disclosed in the 2023 Annual Report.*
2. *The implied gross profit margin was calculated based on the implied gross profit and revenue of the Group and was not disclosed in the 2013 Annual Report.*

As illustrated in the above table, the Group has recorded net profit for each of the two years ended 31 December 2023, and according to the 2023 Annual Report, the consolidated net assets value of the Company attributable to owners of the parent was approximately RMB6,047 million as at 31 December 2023.

The revenue of the Group for 2023 amounted to approximately RMB33,493 million, representing a decrease of approximately RMB6,513 million as compared with last year, which was mainly due to the decrease in revenue from construction contracting segment of RMB6,193 million. The decrease in revenue from construction contracting segment was mainly attributable to the decrease in revenue in building construction business of approximately RMB5,713 million.

Although the Group recorded decreases in revenue in both building construction business and infrastructure construction business for 2023, as stated in the 2023 Annual Report, the Group recorded improved gross profit rate in both businesses which amounted to approximately 4.2% and 6.7%, respectively, for 2023 as compared to approximately 3.2% and 5.6%, respectively, in 2022.

According to the 2023 Annual Report, the decrease in revenue from building construction business was mainly attributable to the completion of certain large-scale projects during 2023, while the impact of the pandemic was weakened, which resulted in decrease in labor costs and fixed costs, and thus the gross profit rate of the building construction business for 2023 was increased as compared to 2022.

The net profit of the Group for the year ended 31 December 2023 amounted to approximately RMB158 million in 2023, representing a decrease of approximately RMB157 million as compared with 2022. Such decrease was mainly attributable to the credit impairment losses of approximately RMB339 million for 2023, as compared to a reversal of credit impairment losses of approximately RMB131 for 2022. According to the 2023 Annual Report, such increase in credit impairment loss was mainly due to the increase in individual bad debt provision for customers with significant risk of default based on the Group's assessment on customer's operating conditions.

Financial position

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

As at 31 December 2023

	<i>RMB ' mil</i>
Total assets	64,886
Total liabilities	58,658
Net assets	6,228

The Group recorded total assets of approximately RMB64,886 million as at 31 December 2023 and approximately 90% of which were current assets. As at 31 December 2023, the current assets of the Group principally comprised contract assets of approximately RMB39,123 million, accounts receivable of approximately RMB7,479 million, currency funds of approximately RMB7,689 million.

The Group recorded total liabilities of approximately RMB58,658 million as at 31 December 2023 and over 95% of which were current liabilities. As at 31 December 2023, the current liabilities of the Group principally comprised trade payable of approximately RMB34,488 million, contract liabilities of approximately RMB6,704 million and other payables of approximately RMB5,707 million.

The Group recorded a slight increase in net assets attributable to shareholders of the parent of the Company from approximately RMB5,995 million as at 31 December 2022 to approximately RMB6,047 million as at 31 December 2023.

2. Reasons for and benefits of entering into of the Engineering Construction Related Services Framework Agreement

As stated in the Letter from the Board, given that: (i) the Group has provided engineering construction related services to Zhongming Zhiye and its branches and subsidiaries in the past, and the relevant services provided in the past have provided stable and substantial profits to the Group; (ii) the pricing of engineering construction related services provided by the Group to Zhongming Zhiye and its affiliated real estate companies is fair and on normal commercial terms; and (iii) Zhongming Zhiye and its affiliated real estate companies have made timely payments in the past without bad debts. In the future, Zhongming Zhiye and its affiliated real estate companies will also give priority to the payment of project funds to the Group. The Directors (including independent non-executive Directors) are of the opinion that, the Engineering Construction Related Services Framework Agreement and its proposed annual caps are entered into on normal commercial terms in the ordinary and usual course of business of the Company and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

We noted that according to the 2023 Annual Report, building construction business was the largest revenue contributing business segment, approximately 54% of the new contract value of the Group in 2023 was attributable to building construction business. As advised by the Company and based on our analysis below, the terms of contracting services offered to

Zhongming Zhiye and its associates were on normal commercial terms and comparable to the terms offered to third parties. Meanwhile, as stated above and according to the 2023 Annual Report, the decrease in profit recorded was attributable to the increase in credit impairment losses, and taking into account the factors that Zhongming Zhiye and its affiliated real estate companies have made timely payments in the past without bad debt, and Zhongming Zhiye and its affiliated real estate companies will also give priority to the payment of project funds to the Group in the future, we concur with the Company that the conducting of transactions contemplating under the Engineering Construction Related Services Framework Agreement shall not bring adverse impact to the impairment of the Group. Accordingly, we concur with the view of the Directors that the provision of the relevant services under the Engineering Construction Related Services Framework Agreement to Zhongming Zhiye and its associates is in the ordinary and usual course of business of the Company, the continuation of provision of the relevant services under the Engineering Construction Related Services Framework Agreement to Zhongming Zhiye and its associates is in the interests of the Company and the Independent Shareholders as a whole.

3. Principal terms of the Engineering Construction Related Services Framework Agreement

As set out in the Letter from the Board, the principal terms of the Engineering Construction Related Services Framework Agreement are set out below:

(1) Date

6 May 2024

(2) Parties

The Company (as the service provider); and

Zhongming Zhiye (as the service recipient).

(3) Principal terms

According to the Engineering Construction Related Services Framework Agreement, the Group provides engineering construction related services, including but not limited to, engineering procurement construction, decoration and landscape engineering and construction auxiliary services such as design and consultancy (the “**Construction and Related Services**”) to Zhongming Zhiye and its associates in the ordinary course of business, and Zhongming Zhiye and its associates will pay service fees to the Group. The term of the Engineering Construction Related Services Framework Agreement will commence from 1 January 2025 until 31 December 2027 (inclusive). Subject to the relevant laws, regulations and the Listing Rules, the term can be renewed for another

three years upon its expiry as agreed by the specific parties to the agreement, upon which the Group will continue to comply with the applicable requirements under the Listing Rules. Relevant subsidiaries or associated companies of both parties will separately enter into specific agreements and specify specific terms and conditions according to the principles stipulated in the Engineering Construction Related Services Framework Agreement.

(4) Pricing policy

According to the Engineering Construction Related Services Framework Agreement, the fee for the Group to provide engineering construction related services to Zhongming Zhiye and its associates will be determined based on arm's length negotiation with Zhongming Zhiye and its associates. The main reference factors include: (i) availability and cost of raw materials and equipment and machinery, labor and subcontractors; (ii) the local guiding prices of all kinds of raw materials as set out in the monthly cost information manual subscribed by the Company from the cost units under the local housing and urban-rural construction bureaus, such as the "Baoding Engineering Construction Cost Information" issued by the Baoding Engineering Construction Cost Service Center and the Baoding Construction Cost Management Association every month, and the "Cangzhou Engineering Construction Cost Management and Information" issued by the Cangzhou Engineering Construction Cost Management Station every two months; (iii) the project process schedule, the complexity and scale of the construction project, and the potential revision of the scope of work; (iv) the geographical location and environmental conditions of the project site; (v) the Group's estimate of competitive bidding; and (vi) contractual risks.

As further stated under the Engineering Construction Related Services Framework Agreement, regarding the evaluation and analysis of competitive bidding, the Company has mainly formulated the following mechanisms: (i) the competitive quotation analysis mechanism, which is based on collecting bid opening records, network data, competitors' usual quotation methods and the importance attached to the project, which provides a comprehensive and overall analysis basis for quotation decision-making procedures; (ii) the quotation decision-making process mechanism led by the market operation department with the overall participation of each functional department (including but not limited to the production and technology department, the material procurement department and the finance department), where the bidding documents will be interpreted and the bidding strategic plan, division of responsibilities and specific timetable will be formulated through the pre-bidding meeting with the participation of the management of the above departments; and (iii) the final quotation decision-making team comprising the Company's general manager and market operation manager will determine the final quotation of the project with reference to the relevant information of competitors, the specific needs of the project and the impact on the Company's macro strategy.

As at the Latest Practicable Date, to the best knowledge of the Directors, there is no government pricing policy applicable to the engineering construction related services and if any pricing or guiding price of governmental authority is applicable to the relevant transactions in the future, the parties to the Engineering Construction Related Services Framework Agreement will first implement such pricing or guiding price of the governmental authority. In order to ensure that the fees charged by the Group for the provision of engineering construction related services are fair and reasonable and in line with the market practice, the Group will consider the fair prices of the same or similar engineering construction related services provided by Independent Third Parties on normal commercial terms in the ordinary course of business in Baoding or nearby areas of Baoding, analyze the financial reports and market data of other companies in the same or similar industries to understand the average gross profit margin in the industry; and consult industry experts or third-party professional institutions to obtain professional advice on pricing and gross profit margin. The Group will also make reference to the fees charged for comparable transactions of similar nature, complexity and size entered into with Independent Third Party customers in the past. In addition, the Group also aims to maintain competitiveness in terms of pricing. Pricing will be determined after arm's length negotiation with Zhongming Zhiye and its associates on a cost-plus basis (i.e. expected cost plus a certain percentage of profit) to ensure that it is not less favourable than the pricing and terms offered by the Group to the Independent Third Parties.

In order to ensure that the fees charged by the Group for the provision of engineering construction related services are fair and reasonable and in line with to market practices, the Group will closely follow the current level of market fees and market conditions and Independent Third Party cost consultation institutions will review the pricing. In addition, the Group will also refer to the fees charged historically for providing similar engineering construction related services to Independent Third Party customers.

4. Pricing policies and internal control measures regarding price determination for the continuing connected transactions under the Engineering Construction Related Services Framework Agreement

Based on our discussions with the management of the Company and as disclosed in the Letter from the Board, we understand that in addition to the pricing policies under the Engineering Construction Related Services Framework Agreement, the Group has adopted the following internal control measures (the “**Internal Control Measures**”) and will apply these measures when determining the price of products in respect of the continuing connected transactions under the Engineering Construction Related Services Framework Agreement:

- The Company has established a clear set of contract standards and terms to ensure that all framework agreements meet those standards as a minimum. Such standards are consistent with best practices in the market and take into account the Company's risk tolerance and business needs;
- The Company conducts regular market research to understand the terms obtained by Independent Third Parties under similar service framework agreements to ensure the competitiveness of the Company's terms;
- The Company leverages a professional negotiation team (specialists in operation of branches and subsidiaries, legal affairs and technology) in the negotiation process to ensure that the Company's interests are well protected and that the terms are at least consistent with the third-party agreements available in the market;
- The Company has adopted and implemented a set of connected transaction management system. According to the system, the Audit Committee of the Board is responsible for reviewing compliance with relevant laws, regulations, the Company's policies and the Listing Rules regarding continuing connected transactions. In addition, the Audit Committee of the Board, the office of the Board and various internal departments of the Company (including but not limited to the market operation department, the financial securities department and the finance management department and the legal department) are jointly responsible for evaluating the terms and service fees (including but not limited to identifying transactions with Independent Third Parties to determine the market prices) under the Engineering Construction Related Services Framework Agreement, especially the pricing policy of the transaction; the market operation department, the production security department and the finance management department are responsible for the approval of the annual caps and its fairness under such transaction;
- The Audit Committee of the Board, the office of the Board and various internal departments of the Company (including but not limited to the finance department and the legal department) will also regularly review the implementation of the Engineering Construction Related Services Framework Agreement and the progress of the transaction semi-annually and quarterly, respectively. In addition, the Board of the Company will regularly review the pricing policy of the Engineering Construction Related Services Framework Agreement on an annual basis; the Company's independent non-executive Directors and auditors will conduct annual reviews of the continuing connected transactions under the Engineering Construction Related Services Framework Agreement in accordance with the Listing Rules and provide annual confirmations to confirm that the transaction is conducted in accordance with the terms of the agreement and in accordance with normal commercial terms and pricing policy; and

- When considering the Construction and Related Services provided by the Group to the above-mentioned connected persons, the finance management department of the Company will continue to regularly study the prevailing market conditions and practices on a semi-annual basis and refer to the pricing and terms of similar transactions concluded between the Group and Independent Third Parties to ensure that the pricing and terms provided by the above-mentioned connected persons through the bidding process or mutual commercial negotiation (as the case may be) are fair and reasonable, and not less favourable than those provided to Independent Third Parties..

Furthermore, as set out in the management system on connected transactions adopted by the Company, the pricing of the connected transactions must be fair and with reference to the following principles that, among other things, except where the government pricing or the government-guided prices apply, if there is a comparable independent third party market price or charging standard, the transaction price may be determined with reference to such price or standard with priority; where there is no comparable independent third party market price, the transaction price may be determined with reference to the price of a non-related party transaction occurring between the related party and a third party independent of such related party; and if there is neither independent third party market price nor independent non-related party transaction price for reference, a reasonable price could be served as the pricing basis, the final price is the reasonable cost plus the reasonable profit. For pricing of connected transactions determined based on the abovementioned principles, different pricing methodologies shall be adopted depending on the types and circumstances of connected transactions to be entered into, which include cost-plus method, resale price method, comparable sales method, comparable net profit method and profit split method. In particular, for cost-plus method, the pricing is determined based on the relevant costs of the Group plus a gross profit margin which are determined based on the gross profit margin of comparable transactions with Independent Third Parties.

Taking into account the nature of the Construction and Related Services and given the scope of services to be provided by the Group varies across different projects, and having further confirmed with the management of the Company, we noted that in determining the pricing of the Construction and Related Services to be provided by the Group under a particular contract as a whole (i) there is no standard pricing or charging standard; (ii) the government pricing or the government-guided prices does not apply; and (iii) there is neither independent third party market price nor independent non-related party transaction price for reference for such price as a package. Accordingly, the pricing of the Construction and Related Services shall be based on reasonable cost plus a reasonable profit pursuant to the management system on connected transactions of the Group. Meanwhile, as stated in the Letter from the Board, for the Engineering Construction Related Services Framework Agreement, the Group will also make reference to the fees charged for comparable transactions of similar nature, complexity and size entered into with Independent Third Party customers in the past, and as advised by the management of the Group, the relevant

gross profit margin was determined taking into account a number of factors including the gross profit margin of comparable transactions with Independent Third Parties. According to the pricing policy under the Engineering Construction Related Services Framework Agreement, the fees for the Group to provide engineering construction related services to Zhongming Zhiye and its associates will be determined based on arm's length negotiation with Zhongming Zhiye and its associates, and the main reference factors include: (i) availability and cost of raw materials and equipment and machinery, labor and subcontractors; (ii) the local guiding prices of all kinds of raw materials as set out in the monthly cost information manual subscribed by the Company from the cost units under the local housing and urban-rural construction bureaus; (iii) the project schedule, the complexity and scale of the construction project, and the potential revision of the scope of work; (iv) the geographical location and environmental conditions of the project site; (v) the Group's estimate of competitive bidding; and (vi) contractual risks. We concur with the management of the Company that the pricing policy under the Engineering Construction Related Services Framework Agreement is consistent with the management system on connected transactions of the Group.

In addition, we noted from the annual reports of the Company for the year ended 31 December 2022 and 2023 that the auditors and the then independent non-executive directors of the Company have reviewed the Group's continuing connected transactions and confirmed that, among other things, the relevant transactions carried out in the years ended 31 December 2022 and 2023 were carried out in accordance with the terms of the relevant Engineering Construction Service Framework agreement.

Meanwhile, we have obtained and reviewed the list of the ten largest revenue contributing construction contracting and related services contracts with Zhongming Zhiye and its associates for each of the two years ended 31 December 2023 ("**Connected Contract List**"). We have selected the three largest revenue generating contracts during each of the two years ended 31 December 2023 from the Connected Contract List, and obtained and reviewed the relevant supporting documents in relation to the contract sum and the planned cost of services (the "**Relevant Documents**") for these contracts. In addition, we have obtained and reviewed the list of construction contracting contracts between the Group and Independent Third Parties regarding the residential property development contracts that are comparable to the contracts which we selected from the Connected Contract List in terms of size, nature and location, and the transactions contemplated thereunder covered the two years ended 31 December 2023 (the "**Independent Contract List**"), together with the planned gross profit margin of the relevant projects. We noted from the Relevant Documents in relation to the samples selected from the Connected Contract List that the planned gross profit margins are comparable to those stated in the Independent Contract List, and, therefore, consistent with the representation of the Company that the pricing of the Construction and Related Services was determined based on the gross profit margin of comparable transactions with Independent Third Parties.

We consider that our finding is in line with the pricing policy and management system on connected transactions adopted by the Company, and no deviation from the pricing policy and management system on connected transactions adopted by the Company had been noted.

5. Rationale for determining the Annual Caps

The table below sets out the historical transaction amounts between the Group and Zhongming Zhiye and its associates in respect of the transactions contemplated under the Engineering Construction Service Framework Agreement and the Construction Auxiliary Service Framework Agreement for each of the two years ended 31 December 2023 and the three months ended 31 March 2024, the annual caps under the Engineering Construction Service Framework Agreement and the Construction Auxiliary Service Framework Agreement for each of the three years ending 31 December 2024 and the proposed Annual Caps for each of the three years ending 31 December 2027:

Engineering Construction Service Framework Agreement

	For the year ended 31		Three months ended
	December		31 March
	2022	2023	2024
	<i>RMB'mil</i>	<i>RMB'mil</i>	<i>RMB'mil</i>
Actual amount	550	245	10.5
Annual cap	1,200	1,000	900 (Note)
Utilisation rate	45.8%	24.5%	4.7% (Note)

Note: The annual cap of the construction services under the Engineering Construction Service Framework Agreement for the year ending 31 December 2024 was RMB900 million and the utilisation rate for the three months ended 31 March 2024 was annualised based on the actual transaction amount for the three months ended 31 March 2024 multiplied by four and divided by the annual cap for the year ending 31 December 2024.

Construction Auxiliary Service Framework Agreement

	For the year ended 31		Three months ended
	December		31 March
	2022	2023	2024
	<i>RMB'mil</i>	<i>RMB'mil</i>	<i>RMB'mil</i>
Actual amount	0.46	0.43	0
Annual cap	7	2	2 (Note)
Utilisation rate	6.6%	21.5%	0.0% (Note)

Note: The annual cap of the construction services under the Construction Auxiliary Service Framework Agreement for the year ending 31 December 2024 was RMB2 million and the utilisation rate for the three months ended 31 March 2024 was annualised based on the actual transaction amount for the three months ended 31 March 2024 multiplied by four and divided by the annual cap for the year ending 31 December 2024.

Proposed Annual Caps			
For the year ending 31 December			
	2025	2026	2027
	<i>RMB'mil</i>	<i>RMB'mil</i>	<i>RMB'mil</i>
Construction and Related Services	500	560	600

As stated in the Letter from the Board, the Annual Caps have been determined mainly with reference to: (i) the engineering construction related services fees previously paid to the Group by Zhongming Zhiye and its affiliated real estate companies; (ii) expected project contract amount and construction progress; (iii) the number of projects currently available to the Group that requires engineering construction related services; and (iv) newly-added engineering construction related services projects in the next three years expected by the Group. In particular:

- (i) the historical transaction amounts of the Group's relevant engineering construction related services with Zhongming Zhiye and its associates recorded a declining trend in the past few years, mainly due to (a) the impact of the pandemic in the past, which resulted in the projects under construction not being able to complete the construction progress as scheduled, and the overall construction period was significantly delayed due to force majeure, resulting in a decrease in annual transaction amounts. For example, among the projects under construction, the Landun Shangpin Project, the Landun Classics Project, and the Industrial Park Project were originally scheduled to be completed in 2022, but will actually be completed in 2024; among the completed projects, the Shuishiyuan Project and the Hebei Construction Business Center Project were originally scheduled to be completed in 2022, but were/will actually completed in 2023 and 2024, respectively; (b) the downturn of the real estate market in the past three years, which led to the difficulties in development and cash generation of Zhongming Zhiye and its associates, slowing down the development progress from 2022 to 2024, forcing them to focus on destocking and stabilization of cash flow, which further led to the slow progress of the Company's projects under construction, the decrease in new projects and the failure of commencement of the proposed projects; and (c) the active secondary housing market and the mainstream trend of renovation of old residential buildings in the past three years, affecting the advancement of new construction projects of Zhongming Zhiye and its associates. However, with the recovery of regional real estate companies and the restarting of formerly pending

and standby projects, the size of real estate projects under construction has grown modestly year by year, and the Company estimates an increase in the maximum annual total service fees of engineering construction related services fees charged to Zhongming Zhiye and its associates for the next three years. The Company's project backlog for the next three years records a significant increase from historical level. During the period from 2021 to the Latest Practicable Date, the Company completed two projects and it is expected that eleven projects will be conducted from 2025 to 2027. In addition, the increase in construction cost in the future has been taken into account and an appropriate buffer has been added when formulating the annual caps to cope with potential new projects that cannot be confirmed at present;

(ii) major considerations referred by the Company in estimating prospective project contract amounts of the engineering construction related services provided to Zhongming Zhiye and its associates include:

(a) the existing agreements entered into between the Group and Zhongming Zhiye and its associates, total contract amount of the relevant agreements as well as the estimation of cost according to the expected construction progress during the term of the Engineering Construction Related Services Framework Agreement;

(b) the prospective agreements to be entered into between the Group and Zhongming Zhiye and its associates for the three years ending 31 December 2027, the prospective total contract value and the prospective project progress;

of which, the total contract amount of the existing agreements and the total contract amount of the projects to be entered into are estimated based on the Company's cost budget for related projects with reference to the gross profit margin and/or pricing standard for one square meter of similar projects. The prospective construction or transaction progress is estimated according to the Company's experience and construction schedule in the previous similar projects;

(iii) when the Company estimates the service fees that it may receive from the newly added engineering construction related services projects in the next three years, the principal factor for reference is the transaction amount generated by the new projects in each year. As mentioned in (i) above, the Company expected that eleven projects would be conducted from 2025 to 2027. Of such eleven projects, six are under construction and another five have not been acquired but are currently under the Company's continuous and active tracking, which are expected to be acquired with high chance, of which:

- i. the transaction amount of the above six projects under construction is estimated based on the signed contract and the contract process schedule, amongst which, one project is currently expected to be completed by 31 December 2025, with a total contract amount of approximately RMB248 million, four projects are currently expected to be completed by 31 December 2026, with a total contract amount of approximately RMB82 million, and another one project is currently expected to be completed by 31 December 2027, with a total contract amount of approximately RMB45 million;
- ii. the transaction amount of the above remaining five outstanding projects is estimated based on the planned gross floor area of each project, the delivery standard and the cost budget of related projects, with reference to the gross profit margin of similar projects; the construction progress is estimated according to the planned acquisition time of each project with reference to the experience and construction schedule in previous similar projects. For the three years ending 31 December 2025, 2026 and 2027, the service fees expected to be charged by the Group under such projects for providing engineering construction related services to Zhongming Zhiye and its associates are approximately RMB252 million, RMB468 million and RMB555 million, respectively.

Our analysis on the proposed Annual Caps

To assess the fairness and reasonableness of the Annual Caps, we have discussed with the management of the Company and reviewed the calculation (the “**Annual Caps Calculation**”) in relation thereto, including the projected transaction amounts for each existing projects and potential projects for each of the three years ending 31 December 2027. Based on the Annual Caps Calculation and we are given to understand that for the proposed annual cap for the year ending 31 December 2025, approximately 45.5% based on the existing agreements of the projects under construction, approximately 7.9% based on the contracts that are expected to be entered into in relation to subsequent phase(s) of the projects that the Group previously worked on and approximately 45.9% based on projects yet to be acquired but are currently under the Company’s continuous and active tracking (which are expected to be acquired with high chance, and as advised by the management of the Company, the Group has already involved in the planning of the relevant projects with the project owner). On the other hand, we noted that the respective proposed annual cap under the Engineering Construction Related Services Framework Agreement for each of the year ending 31 December 2025, 2026 and 2027 is not expected to be significant and only represented less than 2% of the total construction contracting segmental revenue of the Group in 2023, which is consistent with the reducing trend of the transactions with Zhongming Zhiye and its associates.

As stated in the Letter from the Board, the Annual Caps are principally attributable to the provision of engineering construction related services. We have discussed with the Company and understand that the projected transaction amounts for the Construction and Related Services are determined by the Company based on the following principal factors:

- (i) in respect of the existing agreements entered into by the Group with Zhongming Zhiye and its associates, the total contract value of such relevant agreements and the Company's estimation on the fee schedule based on the expected project progress over the duration of the Engineering Construction Related Services Framework Agreement; and
- (ii) in respect of the prospective agreements expected to be entered into by the Group with Zhongming Zhiye and its associates in the three years ending 31 December 2027, the projected total contract value and the projected project progress based on the information obtained by the Group during its involvement in the planning of the relevant projects with the project owner.

We noted that the historical annual transaction amounts between the Group and Zhongming Zhiye and its associates in respect of the Construction and Related Service for the year ended 31 December 2022 and 2023 was approximately RMB550 million and RMB245 million, respectively, and the proposed Annual Caps for the year ending 31 December 2025 represented an increase of approximately 103.7% as compared to the transaction amount for the year ended 31 December 2023, but a slight drop as compared to the transaction amount for the year ended 31 December 2022.

As advised by the management of the Company, the property development industry is cyclical with a relatively long development cycle, and the expected increase for the year ending 31 December 2025 is mainly driven by the delay in projects on hand of the Group. The construction development may span over years and will be affected by a number of factors including government environmental policies, the climate of the northern part of China during winter time, which may prolong the construction works, the pandemic situation over the past years and the downturn of property development industry in the PRC. According to the 2023 Annual Report, Northern China such as the Beijing-Tianjin-Hebei region was still the major operating region of the Group and approximately 75.7% of the new contract obtained by the Group in 2023 were located in Beijing-Tianjin-Hebei, where operations shall be suspended during winter time (normally November to the end of March) according to relevant national laws and regulations. Meanwhile, according to the National Bureau of Statistics, the total gross floor area of residential buildings sold recorded a drop of approximately 26.8% in 2022 as compared to 2021, which dropped further by approximately 8.2% in 2023. On the other hand, the operating profit of property developers in the PRC recorded considerable drop over the past five years from approximately RMB1,854.4 billion in 2018 to approximately RMB926.3 billion in 2022. The real estate

development prosperity index (also known as the national real estate climate index and, according to the National Bureau of Statistics, the most appropriate level of national real estate climate index is 100, the moderate level is between 95 and 105, the lower level is below 95, and the higher level is above 105) during each of the twelve months in 2023 was below 95, and the index reached 93.36 in December 2023, being the lowest point in 2023.

As advised by the management of the Company, the Annual Caps for the three years ending 31 December 2027 are mainly attributable to the existing project pipeline of Zhongming Zhiye and its affiliated real estate companies and determined based on the assumption that there is no delay in the latest estimated construction development schedule. On the other hand, the utilisation rate of the annual cap for the two years ended 31 December 2023 and the three months ended 31 March 2024 was below 50% and the major reasons of that are attributable to (i) the delay in constructions during the pandemic and as a result of which the completion of a number of projects was delayed from 2022 to 2023 or even 2024; and (ii) the fact that certain potential new projects (which the annual cap for the three years ending 31 December 2024 has taken into account) did not carry as scheduled due to the pandemic and declining market conditions. Based on information provided by the Company, the contracts of certain construction related service performed during the three months ended 31 March 2024 were executed in or before 2022.

As advised by the management of the Company and based on the Annual Caps Calculation, the Annual Caps were determined with reference to eleven construction related service projects of Zhongming Zhiye and its affiliated real estate companies, the aggregate transaction amount attributable to these eleven construction related services projects amount to approximately RMB460.3 million, RMB549.2 million and RMB578.6 million for the year ending 31 December 2025, 2026 and 2027, respectively. Amongst these eleven construction related services projects, based on the Annual Caps Calculation, one of them is currently expected to be completed during the year ending 31 December 2025, four of them are currently expected to be completed during the year ending 31 December 2026 and the construction of the remaining six projects are currently expected to be completed in or after the year ending 31 December 2027. Meanwhile, amongst these eleven construction related service projects, six of them are existing projects, three of them are expected to commence in 2025, one of them are expected to commence in 2026 and the remaining one of them is expected to commence in 2027. Further, in order to ascertain the reasonableness of the estimated number of construction related service projects of Zhongming Zhiye and its affiliated real estate companies to be conducted by the Group during 2025 to 2027, we have taken into account (i) the reasons for the relatively low utilisation rate of the annual caps under the Engineering Construction Service Framework Agreement for the year ended 31 December 2022 and 2023 and the three months ended 31 March 2024 (being the delay in constructions during the pandemic and certain potential new projects did not carry as scheduled due to the pandemic and declining market conditions as stated above); (ii) the PRC economy has been gradually recovering from pandemic; (iii) during the period from 2019 to 2021, the Group had completed seven construction related service projects of

Zhongming Zhiye and its affiliated real estate companies; (iv) during the two years ended 31 December 2023, the Group has derived revenue from eleven construction related service projects of Zhongming Zhiye and its affiliated real estate companies; (v) as stated above, construction development may span over years and will be affected by a number of factors; (vi) the Annual Caps for the respective years only represented less than 2% of the total construction contracting segmental revenue of the Group in 2023; and (vii) a number of these projects are currently expected to be completed in or after the year ending 31 December 2027, we consider that the estimated number of construction related service projects of Zhongming Zhiye and its affiliated real estate companies to be conducted by the Group during 2025 to 2027 is reasonable and not unrealistic.

On the other hand, as advised by the management of the Company, given the planning of some projects under Annual Caps Calculation had not been formally approved and the relevant contracts have yet to be executed, the amount of Construction and Related Services to be provided by the Group under such projects is determined with reference to the historical amount of construction services under similar projects in the past and further adjusted after taking into account of different factors including, but not limited to, the increase in labour cost, location and duration of the project. Meanwhile, we noted that a buffer of not more than RMB40 million had been included in determining the Annual Caps for each of the three years ending 31 December 2027, to cater for potential changes in contract values of the projects which cannot be reasonably ascertained currently, which represent less than 8.0% of the Annual Caps the respective year ending 31 December 2025, 2026 and 2027, and less than 0.2% of the total revenue of the Group for the year ended 31 December 2023.

Taking into account of the aforesaid, we consider that the proposed Annual Caps are fair and reasonable.

6. Conclusion

Taking into account of the aforesaid, we concur with the view of the Directors that the entering into of the Engineering Construction Related Services Framework Agreement with Zhongming Zhiye and the Annual Caps are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

Having considered the factors and analyses above, we consider that (i) the engineering construction related services under the Engineering Construction Related Services Framework Agreement is related to the construction contracting services of the Group, which is part of the ordinary and usual course of business of the Group; (ii) the terms of Engineering Construction Related Services Framework Agreement are on normal commercial terms; (iii) the entering into of the Engineering Construction Related Services Framework Agreement and the Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (iv) the entering into of the Engineering Construction Related Services Framework Agreement are in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we advise (i) the Independent Board Committee to recommend the Independent Shareholders and (ii) the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the AGM to approve the Engineering Construction Related Services Framework Agreement and the Annual Caps.

Yours faithfully,
for and on behalf of
HALCYON CAPITAL LIMITED



Terry Chu
Managing Director

Mr. Chu is a licensed person registered with the Securities and Futures Commission and a responsible officer of Halcyon Capital Limited, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activities. Mr. Chu has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.