



HALCYON CAPITAL LIMITED

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

services under the Engineering, Construction Related Services Framework Agreement

constitutes continuing connected transaction under Chapter 14A of the Listing Rules.

The Independent Board Committee consists of Mr. M. C. Li, Mr. M. C. Yip and Mr. M. C. Yip.

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Board of Directors, we

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,

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

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 a total of 1,100,000,000 shares in issue.

	<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 99% of which were non-current assets.

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 RMB34,400 million.

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 2002 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

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

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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

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- 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 not less~~

gross profit margin of consumable transactions with Independent Third Parties. Accordingly

We consider that our findings to be true 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 following table shows the rationale for determining the Annual Caps

Note: The amount of the construction services under the Construction Services Framework

Agreement for the year ending 31 December 2024 was BMD2 million and the utilization rate for the three

and steady 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 Zhongyuan Zhijie and its affiliates for the next three years. The Company's

- 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.~~

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 existing agreements entered into by the Group with [REDACTED]

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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 investment

estate climate index is 100, the moderate level is between 95 and 105, the lower level is

Zhongming Zhiye and its affiliated real estate companies; (iv) during the two years ended

21 December 2022 and 31 December 2021, respectively. The following table sets out the

projects of Zhongming Zhiye and its affiliated real estate companies (iv) as at 31 December 2022.

CONFIDENTIAL

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