

8 December 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTION IN RELATION TO THE NEW ENGINEERING CONSTRUCTION SERVICE FRAMEWORK AGREEMENT

INTRODUCTION

		 */	



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



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

· h	, I de Group and have seemed that all silen illionisation, manifest
-1 1 1	
(-	
∀ *	
rr 	
r ₎	
<u>. </u>	
	(K.
·	\$
1 ⁻ 6	
<u> </u>	
<u> </u>	
1. 1.	
i.	MI
Y	
<u> </u>	
<u>. </u>	
<u> </u>	
• -	<u> </u>
<u> </u>	
-	
£ 251	
•	
7.	
<u> </u>	
5	
*·	
- : ————————————————————————————————————	



PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion for the New Engineering Construction Service 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 2021 Interim 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 2020 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 2020 was derived from the provision of construction contracting services.

According to the 2020 Annual Report, approximately 49% of the value of the new contracts of the Group's contracting construction business were attributable to the Beijing-Tianjin-Hebei Region and over 70% 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 23%.

Financial highlights

Set out below is the summary of key financial information of the Group for each of the two years ended 31 December 2020 and the six months ended 30 June 2020 and 2021 as extracted from the 2020 Annual Report and 2021 Interim Report:

	For the year ended 2020 RMB'mil	1 31 December 2019 RMB'mil	Six months end 2021 RMB'mil	led 30 June 2020 RMB'mil
Operating revenue Operating costs	40,150 (38,010)	41,077 (39,024)	19,970 (18,891)	14,372 (13,604)
Implied gross profit (Note)	2,140	2,053	1,079	768
Profit before tax Income tax expense	936 (184)	1,209 (446)	(53)	(70)
Profit for the year/period from continuing operations	752	763	229	247

Note: Such amount was calculated based on the operating revenue and operating costs of the Group and was not disclosed in the 2020 Annual Report and the 2021 Interim Report.



As illustrated in the above table, the Group has recorded net profit for each of the two years ended 31 December 2020 and six months ended 30 June 2020 and 2021, and according to the 2021 Interim Report, the consolidated net assets value of the Company attributable to the Shareholders reached approximately RMB6,248 million as at 30 June 2021.

For the six months ended 30 June 2021, revenue of the Group increased considerably by approximately 39.0%, which was principally driven by the increase in revenue derived from construction contracting business of approximately RMB5,466 million. According to the 2021 Interim Report, the increase in revenue from construction contracting business for the six months ended 30 June 2021 was mainly due to the fact that as compared to the same period of last year, the relevant business of the Group was not significantly affected by the COVID-19 pandemic during the six months ended 30 June 2021. During the first half of 2021, approximately 67.7% of revenue of the Group was generated from its building

business. The Group recorded similar level of gross profit margin in the first half of 2020 The Group recorded similar level of gross profit margin in the first half of 2020 The Group recorded similar level of gross profit margin in the first half of 2020		half of 2021, approximately 67.7% of revenue of the Group was generated from its building
business. The Group recorded similar level of gross profit margin in the first half of 2020		24 3% generated from infrastructure construction
business. The Group recorded similar level of gross profit margin in the first half of 2020		
business. The Group recorded similar level of gross profit margin in the first half of 2020		
business. The Group recorded similar level of gross profit margin in the first half of 2020		
business. The Group recorded similar level of gross profit margin in the first half of 2020		
business. The Group recorded similar level of gross profit margin in the first half of 2020		
business. The Group recorded similar level of gross profit margin in the first half of 2020		
The Group recorded similar level of gross profit margin in the first half of 2020		
The Group recorded similar level of gross profit margin in the first half of 2020		
The Group recorded similar level of gross profit margin in the first half of 2020		
The Group recorded similar level of gross profit margin in the first half of 2020		
The Group recorded similar level of gross profit margin in the first half of 2020		
The Group recorded similar level of gross profit margin in the first half of 2020		
The Group recorded similar level of gross profit margin in the first half of 2020	-	
The Group recorded similar level of gross profit margin in the first half of 2020	ă. 	
The Group recorded similar level of gross profit margin in the first half of 2020		
The Group recorded similar level of gross profit margin in the first half of 2020		
The Group recorded similar level of gross profit margin in the first half of 2020		
The Group recorded similar level of gross profit margin in the first half of 2020		business.
Y		
Y		The Group recorded similar level of gross profit margin in the first half of 2020
		the Group recorded similar areas profit was mainly driven by the improvement in
	·	
)	
	ì	
	•	
	L	
	£1	



The profit of the Group for the year ended 31 December 2020 was slightly reduced by approximately 1.4% from approximately RMB763 million in 2019 to approximately RMB752 million in 2020. The reduction in net profit was principally attributable to the increase in losses on assets impairment of approximately RMB314 million and partially offset by the decrease in income tax expenses of approximately RMB262 million.

Financial position

Set out below is the highlight of financial position of the Group as at 30 June 2021 extracted from the 2021 Interim Report:

As at 30 June 2021 RMB'mil

 Total assets
 60,572

 Total liabilities
 54,133

 Number 475
 6,439

a	The Group recorded total assets of approximately RMB60,572 million as at 30 June
24	
X	
7	
<u></u>	



2. Reasons for and benefits of entering into of the New Engineering Construction Service Framework Agreement

As stated in the Letter from the Board, given that: (i) the Group has provided engineering construction services to Zhongming Zhiye and its branches and subsidiaries in the past, and the relevant services provided in the past have provided stable and profits to the Group; (ii) the pricing of construction 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 incurring any 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 New Engineering Construction Service 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.

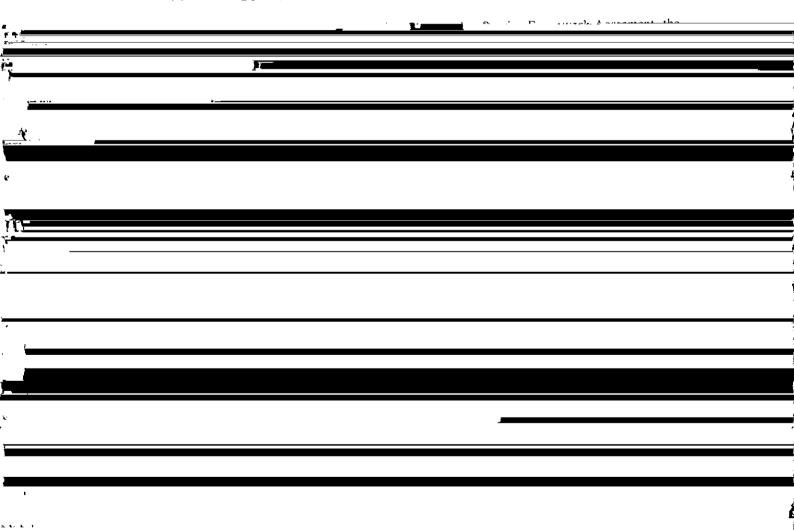
and the Shareholders as a whole. We noted that according to the 2020 Annual Report, building construction business was the largest revenue contributing business segment, over 70% of the new contract value of the Group in 2020 was attributable to building construction business. As advised by the Company and based on halest the torne of contracting services offered to Zhoneming Zhive and its associates



(3) Principal terms

According to the New Engineering Construction Service Framework Agreement, the Group provides engineering construction services (the "Construction Services"), including but not limited to engineering procurement construction, decoration and landscape engineering, to Zhongming Zhiye and its associates in the daily business process, and Zhongming Zhiye and its associates will pay service fees to the Group. The term of the New Engineering Construction Service Framework Agreement will commence from 1 January 2022 until 31 December 2024 (both dates 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 New Engineering Construction Service Framework Agreement.

(4) Pricing policy



cost for the Group to provide construction 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



In order to ensure that the fees charged by the Group for the provision of construction services are fair and reasonable and conform 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 construction services to Independent Third Party customers.

.,	4. P	ricing policies ar	nd internal co	ntrol measure	s regarding p	orice determin	nation for the	
ť			1					
		-	A.					
# '								
·								
-73	•	<u> 10.</u>						
ı								
•								
								ŧ
»								

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 New Engineering Construction Service 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 New Engineering Construction Service Framework Agreement:

• 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 relicion and the Listing Rules regarding continuing connected transactions. In



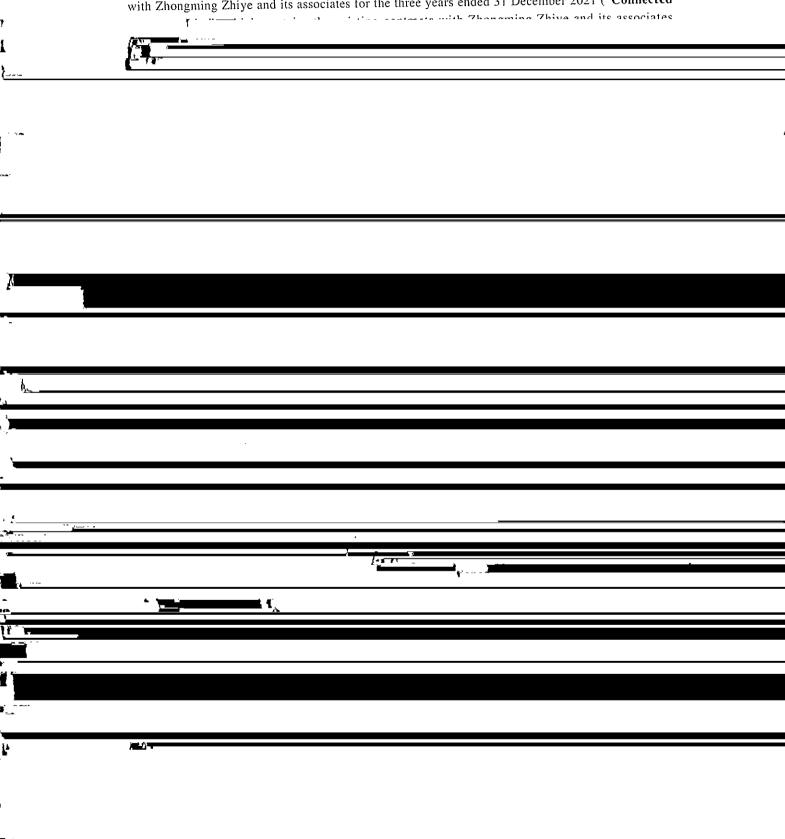
7 - 7 -	a. — <u></u>
	3/2-2
	
,	
<u></u>	
•	
	
_	
	departments of the Company (including but not limited to the finance department
	and the legal department) will also regularly review the implementation of the
	New Engineering Construction Service Framework Agreement and the progress of
ú.	Wew Engineering Constitution and the Roard
4	,
	·P
A 4- A	
<u>.</u>	
	<u>\</u>
(



	Taking into account the na	ture of the Construction	Services and given t	he scope of services	
)					1
<u> </u>					
, ,					,
.					
to -					
					,
•					į
			to Comments and a	Tr con e	
	1. As . 3				
		7			
<u> </u>					



Meanwhile, we have obtained and reviewed the list of construction contracting contracts with Zhongming Zhiye and its associates for the three years ended 31 December 2021 ("Connected Thought and its associates are the contract with Zhongming Zhiye and its associates





Proposed Annual Caps For the year ending 31 December

	2022	2023	2024	
	RMB'mil	RMB'mil	RMB'mil	
	₽ 1 € ○	י מסנ	n nn	
·	As stated in the Letter from the Board, the Ar reference to: (i) the construction service fees previous	sly paid to the Group b	determined mainly with y Zhongming Zhiye and	
,				
	*			
,				
`	(iii) the number of projects currently available to the	Group that requires co	enstruction services; and e Group. In particular:	



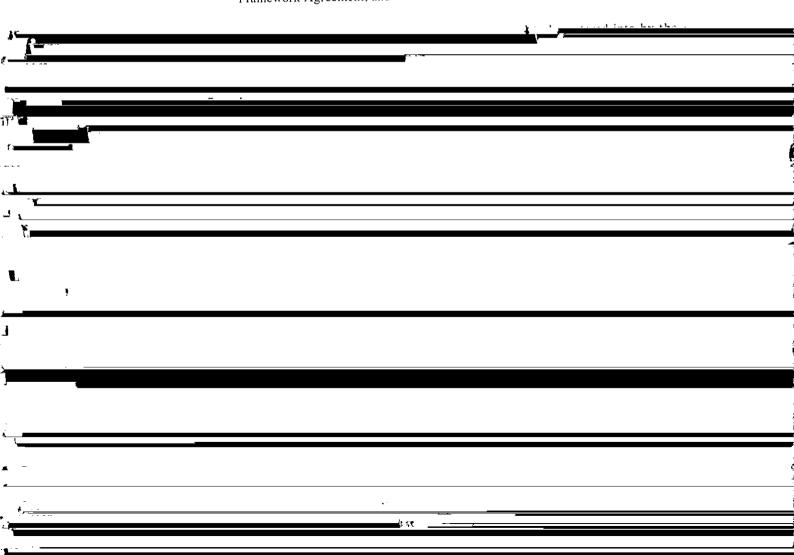
(iii) when the Company estimates the service fees that it may receive from the newly added perstad by the new projects in each year. As mentioned in



As stated in the Letter from the Board, the Annual Caps are principally attributable to the provision of engineering construction services. We have discussed with the Company and understand that the projected transaction amounts for the Construction 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

project progress over the duration of the New Engineering Construction Service Framework Agreement; and





	/ - 1, ··· -	
and the second	<u> </u>	
\		
•		
•		
<u> </u>		
-		
-		
-		;
<i>-</i>	with reference to 17 construction service projects of Zhongming Zhiye and its affiliated	
	real estate companies, amongst which, six of them are currently expected to be completed during the three years ending 31 December 2024, five of them are currently expected to be	
	completed during the year ending 31 December 2025 and the construction of the remaining	
· •	air anaicata ana annountha araactad ta asmalata in an after the reas sudince 21 Dascarban 2006	
<u> </u>		
, F		



6. Conclusion

Taking into account of the aforesaid, we concur with the view of the Directors that the entering into of the New Engineering Construction Service Framework Agreement with Zhongming Zhiye and the Annual Caps are fair and reasonable and in the interests of the Company and the

RECOMMENDATION

Having considered the factors and analyses above, we consider that (i) the labour subcontracting services under the New Engineering Construction Service 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 New Engineering Construction Service Framework Agreement are on normal commercial terms; (iii) the entering into of the New Engineering Construction Service 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 New Engineering Construction Service 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 resolutions to be