



HALCYON CENTRAL 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.

THEY ARE ALL SUBJECT TO THE APPROVAL OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS AND THE INDEPENDENT SHAREHOLDERS.

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

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

[REDACTED]

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 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 RMB7,680 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

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

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

- The Company has established a clear set of contract standards and terms to ensure that all framework agreements meet these 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.

- 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

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

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

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

Note: The annual cap of the construction services under the Construction Auxiliary Service Framework Agreement for the year ending 31 December 2024 was RMB7 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

	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

and standby projects, the size of real estate projects under construction has grown
moderately over the year, and the Company estimates an increase in the maximum

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

the transaction amount of the lease also includes the construction

is estimated based on the signed contract and the contract process
schedule amount which was project is somewhat expected to be

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

- (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

development assessment 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

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 projects

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 contracts in FY 2022 and FY 2023.

RECOMMENDATION

Having considered the factors and analyses above, we consider that (i) the engineering construction related services under the Engineering Construction Related Services Framework