

### HALCYON CAPITAL LIMITED

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Q WANDELAM CTOFFT

CENTRAL HONG KONG

9 June 2022

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

# CONTINUING CONNECTED TRANSACTION IN RELATION TO THE NEW LABOR SUBCONTRACT FRAMEWORK AGREEMENT

#### INTRODUCTION

We refer to our encegoment on the independent financial advicer to the Independent

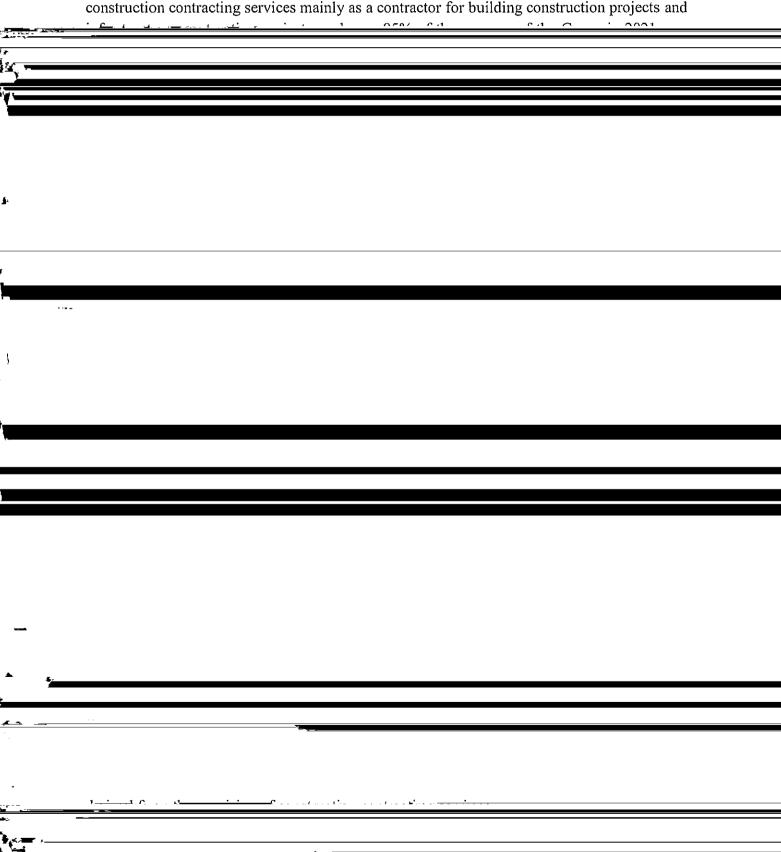
The Independent Board Committee, comprising Ms. Shen Lifeng, Ms. Chen Xin and Mr. Chan Ngai Sang Kenny, being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to (i) the New Labor Subcontract Framework Agreement and its proposed annual caps (the "Annual Caps") are conducted in ordinary and usual course of business of the Group, are on normal commercial terms which are fair and

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

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 reviewed, among other documents, the Labor Subcontract Framework Agreement, the New Labor Subcontract Framework Agreement, the financial statements of the Company, the

# Principal business

As stated in the 2021 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 including service concession arrangements. The Group provides construction contracting services mainly as a contractor for building construction projects and



	asset impairment losses of approximately RMB679 million a	nd RMB976 million, respectively,
	Cq. parament with that in 2000. The increase in immediate	
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	to the deteriora tion in the credit standing of certain custo	mers of property developers.
	Financial position	
	Set out below is the highlight of the financial positio	n of the Group as at 31 December
	2021 extracted from the 2021 Annual Report:	
		1 (21 D 1 2021
		As at 31 December 2021  RMB' mil
	Total assets	66 <u>.9</u> 47
	Total liabilities	61,075
	Net assets	5,873

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normal commercial terms in the ordinary and usual course of business of the Group, are fair and reasonable, and in the interests of the Group and its Shareholders as a whole.

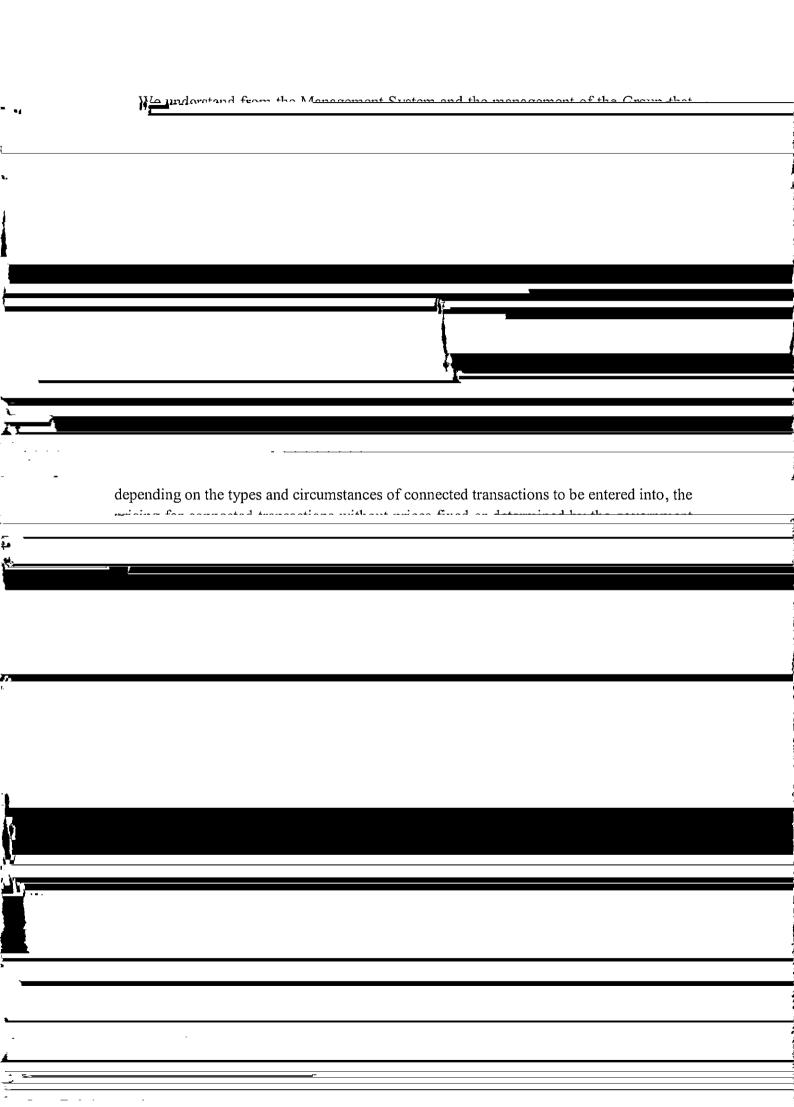
	construction projects and infrastructure construction projects, for which Baoding Tianli
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	The review panel will also take into consideration factors including, but not limited to,	
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	historical results, as well as make reference to prevailing market terms and prices. The bidder with the highest score comprehensively determined by the review panel wins,	

Therefore, only in the event that Baoding Tianli and its associates win the bidding with the highest score determined by the review panel, the Group will enter into business agreements with Baoding Tianli under the New Labor Subcontract Framework Agreement.

and the bidding price offered by such bidder will be implemented.

•	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 such framework agreement for the continuing connected transaction and the progress of the transaction
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·	the pricing policy of such framework agreement for the continuing connected transaction on an annual basis;
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relevant projects covered projects awarded to Baoding Tianli and Independent Third Parties during the two years ended 31 December 2021, we consider that these projects are
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the composition of the review panels. Therefore, the risk for the awarding of contracts to be controlled by a few persons is reduced. Further, taking into account the composition of
the review panel, which may involve the general managers and deputy general managers

based on the combined score of the two parts mentioned above. We consider that our findings is in line with the pricing policy and the Management System.

# 5. Rationale for determining the Annual Caps

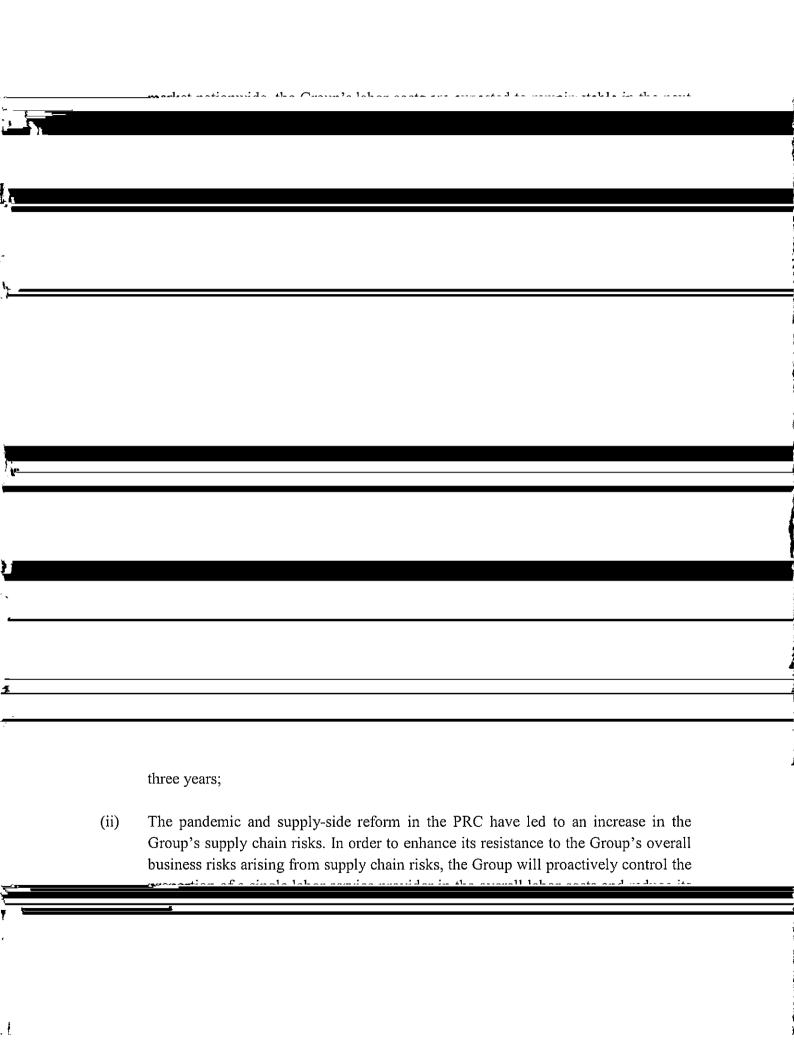
The table below sets out the historical transaction amounts between the Group and Baoding Tianli in respect of the labor subcontract services under the Labor Subcontract

Framework Agreement for each of the two years ended 31 December 2021, the annual caps under the Labor Subcontract Framework Agreement for each of the three years ending 31 December 2022 and the proposed Annual Caps for each of the three years ending 31 December 2025:

	For the year ended 31 December For the four		For the four months
	2020	2021	ended 30 April 2022
	RMB' $mil$	RMB ' $mil$	RMB 'mil
Actual amount	3,455	3,835	976
Annual cap	4,000	4,000	4,000 (Note 1)
Utilisation rate	86.4%	95.9%	73.2%(Note 2)

Notes:

1 The annual can of RMBA 000 million represents the annual can for the wear ending 31



given to understand that the proposed annual cap for the year ending 31 December 2023 was principally determined based on (i) the labor costs of the Group which is expected to remain stable; (ii) the Group's decision and consideration of supply chain safety which aims to proactively control the proportion of a single labor service provider in the overall subcontracting fees to be paid to Baoding Tianli and its associates as a percentage of the

To assess the fairness and reasonableness of the Annual Caps, we have discussed with the management of the Company and reviewed the calculation in relation thereto. We are

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default rate of real estate developers would also increase the credit risk for receivables from
real estate developers. Taking into account the continuous worsening of default rate of real
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<u> </u>	On the other hand, we noted the Group's decision and consideration of supply chain safety which aims to proactively control the proportion of a single labor service provider in the overall labor costs and reduce its reliance on a single labor service provider. In assessing the reasonableness for the implementation of such control, we have obtained and
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	recent years and noted that the growth rate for 2018 was approximately 6.7%, and was reduced to approximately 5.9% in 2019 and 2.3% in 2020. Although the PRC has recorded a rebound in real GDP growth for 2021 to approximately 8.1% following the low GDP
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the four months ended 30 April 2022. Taking into account the facts that the relevant
restrictions and controls have been subsequently eased, the utilisation rate for the four
months ended 30 April 2022 still exceeded 70% and it is not feasible to forecast the
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# Yours faithfully, for and on behalf of

### HALCYON CAPITAL LIMITED

Derek C.O. Chan

Barton Lai

Chairman Director Mr. Chan 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) gamedagad anticitian Ida Chan han mantinimatad in the mantinian afterday or dest for more destructions and additions of the control of the co