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If you have sold or transferred all your shares in Hebei Construction Group Corporation Limited, you should at once hand this circular and the relevant form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.



河北建設集團股份有限公司

HEBEI CONSTRUCTION GROUP CORPORATION LIMITED

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1727)

**CONTINUING CONNECTED
TRANSACTION IN RELATION TO THE NEW ENGINEERING
CONSTRUCTION SERVICE FRAMEWORK AGREEMENT
AND
NOTICE OF 2021 FIRST EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board
Committee and the Independent Shareholders**



Halcyon Capital Limited

A letter from the Board is set out on pages 4 to 14 of this circular. A letter from the Independent Board Committee, containing its advice to the Independent Shareholders, is set out on page 15 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 16 to 32 of this circular.

A notice of EGM of the Company to be held at 8:30 a.m. on Tuesday, 28 December 2021 at Meeting Room No. 1, 3/F, No. 125 Lugang Road, Jingxiu District, Baoding City, Hebei Province, the PRC is set out on pages 39 to 40 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.hebjs.com.cn).

Whether or not you intend to attend the EGM, holders of Shares of the Company are requested to complete the enclosed form of proxy of the Company in accordance with the instructions printed thereon and return it to the Company's H Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares of the Company) or the Company's PRC registered office at No. 125 Lugang Road, Jingxiu District, Baoding City, Hebei Province, the PRC (for holders of Domestic Shares of the Company), as soon as possible, but in any event, not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof (i.e., not later than 8:30 a.m. on Monday, 27 December 2021). Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjournment thereof if you so wish.

8 December 2021

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	4
I. Introduction	4
II. Matter to be Resolved at the EGM	5
1. Continuing Connected Transaction in relation to the New Engineering Construction Service Framework Agreement.	5
III. EGM and Methods of Voting	12
IV. Closure of Register of Members	13
V. Recommendations	13
VI. Additional Information	14
Letter from the Independent Board Committee	15
Letter from the Independent Financial Adviser	16
Appendix I – Statutory and General Information	33
Notice of 2021 First Extraordinary General Meeting	39

DEFINITIONS

In this circular, unless the context otherwise requires, the following terms shall have the following meanings:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board” or “Board of Directors”	the board of Directors of the Company
“Company”	Hebei Construction Group Corporation Limited
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“continuing connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
“EGM”	the 2021 first extraordinary general meeting of the Company to be convened and held at 8:30 a.m. on Tuesday, 28 December 2021 at Meeting Room No. 1, 3/F, No. 125 Lugang Road, Jingxiu District, Baoding City, Hebei Province, the PRC
“Group”	the Company and its subsidiaries
“H Shares”	overseas listed foreign Shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and listed on the Stock Exchange
“HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors independent from related matters to advise Independent Shareholders in respect of the New Engineering Construction Service Framework Agreement and its proposed annual caps

DEFINITIONS

“Independent Financial Adviser”	Halcyon Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser of the Company appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the New Engineering Construction Service Framework Agreement and its proposed annual caps
“Independent Shareholders”	Shareholders of the Company other than Zhongru Investment and Qianbao Investment
“Independent Third Parties”	to the best knowledge of the Directors after having made all reasonable enquiries, persons not connected to the Group and its connected persons
“Latest Practicable Date”	3 December 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“New Engineering Construction Service Framework Agreement”	the engineering construction service framework agreement entered into between the Company and Zhongming Zhiye on 22 November 2021
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Qianbao Investment”	Qianbao Investment Co., Ltd. (乾寶投資有限責任公司) (previously known as Baoyuan Investment Co., Ltd. (寶元投資有限責任公司)), a company incorporated in the PRC on 19 April 2010 with limited liability. As at the Latest Practicable Date, Qianbao Investment directly and indirectly through Zhongru Investment held approximately 73.8% equity interests of the Company in aggregate and is a controlling shareholder of the Company
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
“Share(s)”	Domestic Shares and H Shares
“Shareholders(s)”	holder(s) of the Share(s) of the Company

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Supervisor(s)”	supervisor(s) of the Company
“Zhongming Zhiye”	Zhongming Zhiye Co., Ltd. (中明置業有限公司), a company incorporated in the PRC on 1 December 2016 with limited liability. As at the Latest Practicable Date, Zhongming Zhiye was owned as to 92.5% and 7.5% by Zhongru Investment and Qianbao Investment, the controlling shareholders of the Company, respectively
“Zhongru Investment”	Zhongru Investment Co., Ltd. (中儒投資股份有限公司) (previously known as Baoding Zhongyang Investment Co., Ltd. (保定中陽投資股份有限公司)), a joint stock company incorporated in the PRC on 2 August 2010. As at the Latest Practicable Date, Zhongru Investment directly held 68.3% equity interests of the Company and is a controlling shareholder of the Company
“%”	per cent

LETTER FROM THE BOARD



河北建設集團股份有限公司

HEBEI CONSTRUCTION GROUP CORPORATION LIMITED

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1727)

Executive Directors:

Mr. LI Baozhong (*Chairman*)
Mr. SHANG Jinfeng (*President*)
Mr. LIU Yongjian
Mr. ZHAO Wensheng

Registered Office:

No.125 Lugang Road
Jingxiu District
Baoding, Hebei Province
PRC

Non-executive Directors:

Mr. LI Baoyuan (*Honorary Chairman*)
Mr. CAO Qingshe (*Vice Chairman*)

*Headquarters and Principal Place of
Business in the PRC:*

No.125 Lugang Road
Jingxiu District
Baoding, Hebei Province
PRC

Independent non-executive Directors:

Ms. SHEN Lifeng
Ms. CHEN Xin
Mr. CHAN Ngai Sang Kenny

Principal Place of Business in Hong Kong:
40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai, Hong Kong

8 December 2021

To the Shareholders

Dear Sir or Madam,

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

I. INTRODUCTION

The Company proposes to convene the EGM at 8:30 a.m. on Tuesday, 28 December 2021 at Meeting Room No. 1, 3/F, No. 125 Lugang Road, Jingxiu District, Baoding City, Hebei Province, the PRC. The notice convening the EGM is set out on pages 39 to 40 of this circular.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with details regarding the resolution to be proposed at the EGM for your consideration and approval as an ordinary resolution at the EGM, and to provide relevant information to enable you to make an informed decision on whether to vote for or against or abstain from voting on that resolution. Such resolution and relevant details are set out in the letter from the Board.

II. MATTER TO BE RESOLVED AT THE EGM

1. Continuing Connected Transaction in relation to the New Engineering Construction Service Framework Agreement

An ordinary resolution will be proposed at the EGM to approve the New Engineering Construction Service Framework Agreement and its proposed annual caps.

Renewal of Continuing Connected Transactions for 2022 to 2024

(1) Background

References are made to the announcement dated 17 May 2019 and the circular dated 31 May 2019 in relation to, among others, the Engineering Construction Service Framework Agreement entered into between the Company and Zhongming Zhiye on 17 May 2019 and the formulation of annual caps for the continuing connected transactions thereunder for 2019, 2020 and 2021. As disclosed in the announcement and the circular, pursuant to the Engineering Construction Service Framework Agreement, the Group provides engineering 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.

As the Engineering Construction Service Framework Agreement will expire on 31 December 2021, the Company entered into the New Engineering Construction Service Framework Agreement with Zhongming Zhiye on 22 November 2021, and proposed the annual caps thereunder for 2022, 2023 and 2024 for the purpose of renewal of the continuing connected transaction. Subject to the approval on the EGM, the agreement is valid for a term of three years commencing from 1 January 2022 and expiring on 31 December 2024.

(2) New Engineering Construction Service Framework Agreement

Date: 22 November 2021

Parties: the Company (as the service provider); and
Zhongming Zhiye (as the service recipient).

LETTER FROM THE BOARD

Principal terms:

According to the New Engineering Construction Service Framework Agreement, the Group provides engineering 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 starts from 1 January 2022 until 31 December 2024 (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.

Pricing policy:

According to the New Engineering Construction Service Framework Agreement, the cost for the Group to provide construction services to Zhongming Zhiye and its associates will be determined based on arms-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 respective housing and urban-rural construction bureaus in the places where the projects are located; (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.

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 bidding 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 impacts of the project on the Company's macro strategy.

LETTER FROM THE BOARD

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.

(3) *Historical amount*

For the three years ended 31 December 2019, 2020 and 2021, the annual caps of the total service fees charged by the Group for providing engineering construction services to Zhongming Zhiye and its associates are set forth below:

(Unit: RMB million)

	Annual caps for the year ended 31 December		
	2019	2020	2021
Total service fees	1,100	1,200	1,400

For the two years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021, the actual total service fees charged by the Group for providing engineering construction services to Zhongming Zhiye and its associates are set forth below:

(Unit: RMB million)

	Actual transaction amount for the year ended 31 December		Actual transaction amount for the nine months ended 30 September
	2019	2020	2021
Total service fees	534.05	410.53	551.79

LETTER FROM THE BOARD

(4) *Proposed annual caps*

For the three years ended 31 December 2022, 2023 and 2024, the proposed annual caps of the total service fees charged by the Group for providing engineering construction services to Zhongming Zhiye and its associates are set forth below:

(Unit: RMB million)

	Proposed annual caps for the year ending 31 December		
	2022	2023	2024
Total service fees	1,200	1,000	900

(5) *Basis of determination of proposed annual caps*

The proposed annual caps under the New Engineering Construction Service Framework Agreement for the three years ending 31 December 2022, 2023 and 2024 are determined mainly with reference to: (i) the construction service 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 require construction services; and (iv) new construction service projects in the next three years expected by the Group. In particular:

- (i) although the historical amounts of the Group's relevant engineering construction services with Zhongming Zhiye and its associates recorded a declining trend in the past few years, the Company estimates an increase in the annual caps of engineering construction service fees charged to Zhongming Zhiye and its associates for the coming three years. On the one hand, the Company's project backlog for the next three years records a significant increase from historical level. During the period from 2019 to 2021, the Company completed seven projects and it is expected that 17 projects will be conducted from 2022 to 2024. On the other hand, the cost of construction contracting services has been on the rise in the past few years. According to Beijing Lange Steel and the price guidance for labor cost of construction work, from the first half of 2019 to the second half of 2021, the price of steel and labor increased by approximately 40% and 21%, respectively. Therefore, the prospective increase in construction costs was also taken into account in the formulation of the relevant annual caps. In addition, an appropriate buffer has been added when formulating the annual caps to cope with potential new projects that cannot be confirmed at present;

LETTER FROM THE BOARD

- (ii) major considerations referred by the Company in estimating prospective project contract amounts of the engineering construction service 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 Service 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 2024, 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 of similar projects. The prospective construction progress is estimated based on the Company's experience and the construction schedules in previous similar projects;

- (iii) when the Company estimates the service fees that it may receive from the newly added construction 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 17 projects will be conducted from 2022 to 2024. Of such 17 projects, six are under construction, two have been acquired but yet to be commenced and another nine have not been acquired but are currently under the Company's continuous and active tracking, which are expected to be acquired in a high probability, of which:

the transaction amount of the above six projects under construction is estimated based on the signed contract and the contract schedule, amongst which, three projects are currently expected to be completed by 31 December 2022, with a total contract amount of approximately RMB138.40 million, one project is currently expected to be completed by 31 December 2023, with a total contract amount of approximately RMB118.24 million, and another two projects are currently expected to be completed by 31 December 2024, with a total contract amount of approximately RMB119.01 million;

the transaction amount of the above remaining 11 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 2022, 2023 and 2024, the service fees expected to be charged by the Group under such projects for providing engineering construction services to Zhongming Zhiye and its associates are approximately RMB1,061.39 million, RMB872.58 million and RMB780.57 million, respectively.

LETTER FROM THE BOARD

(6) *Reasons for and benefits of entering into the New Engineering Construction Service Framework Agreement*

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 substantial 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 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.

(7) *Implications of the Listing Rules*

As of the Latest Practicable Date, Zhongming Zhiye was owned as to 92.5% and 7.5% by Zhongru Investment and Qianbao Investment, the controlling shareholders of the Company, respectively. Therefore, Zhongming Zhiye is a connected person of the Group, and thus according to the Listing Rules, the transactions contemplated under the New Engineering Construction Service Framework Agreement constitute continuing connected transactions of the Company. As its highest applicable percentage ratio (as defined under the Listing Rules) is higher than 5%, therefore, it shall comply with the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Internal Control Measures

In order to ensure that the terms of the New Engineering Construction Service Framework Agreement are fair and reasonable or no less favourable than those available to or from Independent Third Parties and are conducted on normal commercial terms, the Company has adopted the following internal control measures:

- 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 New Engineering Construction Service 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;

LETTER FROM THE BOARD

- 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 New Engineering Construction Service 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 New Engineering Construction Service 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 New Engineering Construction Service 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 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 no less favourable than those provided to Independent Third Parties.

Opinions of the Board

Having considered the pricing policies, basis of determination for the proposed annual caps, reasons for and benefits of the continuing connected transactions, and internal control measures of the Company, the Directors (including the independent non-executive Directors) are of the view that the New Engineering Construction Service 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 transactions contemplated thereunder are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

As Mr. Li Baoyuan, Mr. Li Baozhong, Mr. Cao Qingshe, Mr. Shang Jinfeng, Mr. Liu Yongjian and Mr. Zhao Wensheng are interested in or hold management positions in Zhongming Zhiye and/or its associates, they are therefore deemed to be connected to the New Engineering Construction Service Framework Agreement and the transactions contemplated thereunder. Thus, they have abstained from voting on the Board resolution to approve the New Engineering Construction Service Framework Agreement and its annual caps. Save for those disclosed above, none of the other Directors have any material interest in the New Engineering Construction Service Framework Agreement and the transactions contemplated thereunder, and none of the other Directors are required to abstain from voting on the Board resolution to consider and approve the New Engineering Construction Service Framework Agreement and its annual caps.

LETTER FROM THE BOARD

Independent Board Committee and Independent Financial Adviser

The Company has established the Independent Board Committee (comprising all the independent non-executive Directors, namely Ms. Shen Lifeng, Ms. Chen Xin and Mr. Chan Ngai Sang Kenny) to advise the Independent Shareholders in respect of the New Engineering Construction Service Framework Agreement and its proposed annual caps. The Company has appointed Halcyon Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding such matters.

Information on Parties to the Agreement

Information on the Company

The Company is a joint stock company incorporated in the PRC on 7 April 2017 with limited liability and is engaged in the provision of integrated solutions primarily for the construction contracting of buildings and infrastructure projects.

Information on Zhongming Zhiye

Zhongming Zhiye is a company incorporated in the PRC on 1 December 2016 with limited liability and is primarily involved in real estate consulting services, ecological tourism development and elderly care services. As at the Latest Practicable Date, Zhongming Zhiye was owned as to 92.5% and 7.5% by Zhongru Investment and Qianbao Investment, the controlling shareholders of the Company, respectively.

III. EGM AND METHODS OF VOTING

A notice convening the EGM of the Company to be held at Meeting Room No. 1, 3/F, No. 125 Lugang Road, Jingxiu District, Baoding City, Hebei Province, the PRC at 8:30 a.m. on Tuesday, 28 December 2021 is set out on pages 39 to 40 of this circular. A form of proxy for use at the EGM is attached below and is also published on the website of the Stock Exchange and the website of the Company.

Whether or not you intend to attend the EGM, you are requested to complete the form of proxy attached below in accordance with the instructions printed thereon and return the same to the Company's H Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares of the Company), or to the Company's registered office in the PRC at No. 125 Lugang Road, Jingxiu District, Baoding City, Hebei Province, the PRC (for holders of Domestic Shares of the Company), as soon as practicable and in any event not later than 24 hours before the time appointed for holding the EGM or any adjournment thereof (i.e. no later than 8:30 a.m. on Monday, 27 December 2021). Completion and return of the form of proxy will not preclude you from attending in person and voting at the EGM or any adjourned meeting should you so wish. If you attend and vote at the EGM, the authority of your proxy will be revoked.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, all resolutions set out in the notice of EGM will be taken by way of poll. Vote can be cast in person or by proxy.

LETTER FROM THE BOARD

Any connected persons, Shareholders and their associate who have a material interest in the New Engineering Construction Service Framework Agreement and the transactions contemplated thereunder shall abstain from voting on the EGM. Zhongru Investment and Qianbao Investment have material interest in the New Engineering Construction Service Framework Agreement and the transactions contemplated thereunder. Accordingly, Zhongru Investment and Qianbao Investment will abstain from voting in respect of the relevant resolutions at the EGM. As at the Latest Practicable Date, Zhongru Investment directly held and controlled or was entitled to exercise control over the voting rights of 1,202,500,000 Shares, representing approximately 68.3% of the total issued share capital of the Company. Qianbao Investment directly and indirectly through Zhongru Investment held and controlled or was entitled to exercise control over the voting rights of 1,300,000,000 Shares, representing approximately 73.8% of the total issued share capital of the Company in aggregate. Save as disclosed herein, to the best of the knowledge, information and belief of the Directors after having made all reasonable inquiries, no other Shareholders will be required to abstain from voting at the EGM regarding the relevant resolutions as at the Latest Practicable Date.

IV. CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining Shareholders' entitlements to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 22 December 2021 to Tuesday, 28 December 2021 (both days inclusive), during which period no transfer of Shares of the Company will be registered. In order to qualify for attending and voting at the EGM, holders of H Shares of the Company shall deliver all duly completed and signed transfer documents together with the relevant share certificates to the Company's H Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Monday, 27 December 2021.

V. RECOMMENDATIONS

The Independent Board Committee (comprising all the independent non-executive Directors, namely Ms. Shen Lifeng, Ms. Chen Xin and Mr. Chan Ngai Sang Kenny) has been appointed by the Board to advise the Independent Shareholders in respect of the New Engineering Construction Service Framework Agreement and its proposed annual caps. Halcyon Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding such matters.

Your attention is drawn to the letter from the Independent Board Committee set out on page 15 of this circular. The Independent Board Committee, having taken into account the advice of Halcyon Capital Limited (the text of which is set out on pages 16 to 32 of this circular), considers that the New Engineering Construction Service 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 transactions contemplated thereunder are fair and reasonable, and in the interests of the Company and its Shareholders as a whole. The Independent Board Committee, as stated in its letter, recommends the Independent Shareholders to vote in favor of the resolution to approve the New Engineering Construction Service Framework Agreement and the transactions contemplated thereunder and the proposed annual caps for 2022, 2023 and 2024.

LETTER FROM THE BOARD

The Board of Directors (including the independent non-executive Directors having considered the advice of the Independent Financial Adviser) believes that the proposals mentioned above are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board of Directors recommend that Shareholders vote in favor of the resolutions at the EGM.

VI. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders and the letter from Halcyon Capital Limited to the Independent Board Committee and the Independent Shareholders as set out in this circular.

By order of the Board
Hebei Construction Group Corporation Limited
LI Baozhong
Chairman and Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



河北建設集團股份有限公司
HEBEI CONSTRUCTION GROUP CORPORATION LIMITED
(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1727)

8 December 2021

To the Independent Shareholders

Dear Sir or Madam,

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

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders in respect of the fairness and reasonableness of the New Engineering Construction Service Framework Agreement and its proposed annual caps, details of which are set out in the “Letter from the Board” in the circular dated 8 December 2021 (the “**Circular**”) to the Shareholders. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the advice of Halcyon Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the New Engineering Construction Service Framework Agreement and its proposed annual caps as set out in the “Letter from the Independent Financial Adviser” in the Circular. Having taken into account the advice of Halcyon Capital Limited, we consider that the New Engineering Construction Service 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 thereunder are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favor of the resolution to approve the New Engineering Construction Service Framework Agreement and its proposed annual caps at the EGM.

Yours faithfully

For and on behalf of the Independent Board Committee

SHEN Lifeng
*Independent
non-executive Director*

CHEN Xin
*Independent
non-executive Director*

CHAN Ngai Sang Kenny
*Independent
non-executive Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER



HALCYON CAPITAL LIMITED
11TH FLOOR
8 WYNDHAM STREET
CENTRAL
HONG KONG

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

We refer to our engagement as the independent financial adviser to the Independent Board Committee in respect of the terms of the New Engineering Construction 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 8 December 2021, 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 22 November 2021, the Company and Zhongming Zhiye entered into the New Engineering Construction Service Framework Agreement to renew the Engineering Construction Service Framework Agreement dated 17 May 2019, pursuant to which the Group would provide engineering 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 would 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 14.07A(4) of the Listing Rules. By virtue of the aforesaid relationship, the provision of labor subcontracting services under the New Engineering Construction Service Framework Agreement constitutes continuing connected transaction under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 New Engineering Construction Service Framework Agreement and its proposed annual caps (the “**Annual Caps**”) are conducted in ordinary and usual course of business of the Company, are on normal commercial terms which are fair and reasonable, and are in the interests of the Company and the Independent Shareholders as a whole; and (ii) how the Independent Shareholders should vote on the relevant resolutions regarding the New Engineering Construction Service Framework Agreement and the Annual Caps at the Extraordinary General Meeting.

Our role, as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the New Engineering Construction Service 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 New Engineering Construction Service 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 resolutions regarding the New Engineering Construction Service Framework Agreement and the Annual Caps at the Extraordinary General Meeting.

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 New Engineering Construction Service 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 22 January 2020), 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 New Engineering Construction Service Framework Agreement and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 New Engineering Construction Service Framework Agreement, the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”), the interim report of the Company for the six months ended 30 June 2021 (the “**2021 Interim 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 New Engineering Construction Service 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 31 December		Six months ended 30 June	
	2020	2019	2021	2020
	<i>RMB'mil</i>	<i>RMB'mil</i>	<i>RMB'mil</i>	<i>RMB'mil</i>
Operating revenue	40,150	41,077	19,970	14,372
Operating costs	<u>(38,010)</u>	<u>(39,024)</u>	<u>(18,891)</u>	<u>(13,604)</u>
Implied gross profit (<i>Note</i>)	2,140	2,053	1,079	768
Profit before tax	936	1,209	282	317
Income tax expense	<u>(184)</u>	<u>(446)</u>	<u>(53)</u>	<u>(70)</u>
Profit for the year/period				
from continuing operations	<u>752</u>	<u>763</u>	<u>229</u>	<u>247</u>

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 construction business, with approximately 24.3% generated from infrastructure construction business.

The Group recorded similar level of gross profit margin in the first half of 2020 and 2021, while the improvement in gross profit was mainly driven by the improvement in revenue. The gross profit margin of the building construction business was approximately 4.7% for each of the first half 2020 and 2021, while the gross profit margin for the infrastructure construction business slightly increased from approximately 6.1% in the first half of 2020 to approximately 6.3% in the first half of 2021.

Despite the improvement in gross profit, the Group recorded a reduction in net profit from approximately RMB247 million in the first half of 2020 to approximately RMB229 million in the first half of 2021. The reduction was principally attributable to the increase in losses on asset impairment from approximately RMB31 million in the first half of 2020 to approximately RMB232 million in the first half of 2021, and the increase in administrative expenses and credit impairment losses.

For the year ended 31 December 2020, revenue of the Group slightly decreased by approximately 2.3%, or approximately RMB927 million from approximately RMB41,077 million in 2019 to RMB40,150 million in 2020, which was mainly due to the decrease in revenue from construction contracting segment of RMB692 million. During 2020, approximately 65.8% of revenue of the Group was generated from its building construction business, with approximately 22.7% generated from infrastructure construction business.

The Group recorded improvements in both gross profit and gross profit margin for 2020 which were principally attributable to the improvement in gross profit and gross profit margin from the construction contracting business. The gross profit margin of the construction contracting business improved from approximately 4.7% in 2019 to approximately 5.1% in 2020. According to the 2020 Annual Report, the new projects undertaken by the Group in recent years are more quality-oriented with higher gross profit for infrastructure construction projects, thus the Group has undertaken more such projects in recent years.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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
	<i>RMB'mil</i>
Total assets	60,572
Total liabilities	54,133
Net assets	6,439

The Group recorded total assets of approximately RMB60,572 million as at 30 June 2021 and over 90% of which were current assets. As at 30 June 2021, the current assets of the Group principally comprised contract assets of approximately RMB36,720 million, accounts receivable of approximately RMB6,139 million, currency funds of approximately RMB6,216 million.

The Group recorded total liabilities of approximately RMB54,132 million as at 30 June 2021 and over 95% of which were current liabilities. As at 30 June 2021, the current liabilities of the Group principally comprised trade payable of approximately RMB33,491 million, contract liabilities of approximately RMB5,284 million and other payables of approximately RMB5,208 million.

The Group recorded a relatively slight increase in net assets attributable to shareholders of the parent of the Company from approximately RMB6,246 million as at 31 December 2020 to approximately RMB6,248 million as at 30 June 2021 as the effect of dividend distribution of approximately RMB246 million during the period had substantially offset the effect of profit for the period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

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 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. Accordingly, we concur with the view of the Directors that the continuation of provision of contracting services 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 New Engineering Construction Service Framework Agreement

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

(1) Date

22 November 2021

(2) Parties

The Company (as the service provider); and

Zhongming Zhiye (as the service recipient).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(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

According to the New Engineering Construction Service Framework Agreement, the 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 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.

As further stated under the New Engineering Construction Service 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 bidding 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 impacts of the project on the Company’s macro strategy.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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. Pricing policies and internal control measures regarding price determination for the continuing connected transactions under the New Engineering Construction Service 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 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 New Engineering Construction Service 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;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- 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 New Engineering Construction Service 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 New Engineering Construction Service 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 New Engineering Construction Service 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 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 no 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account the nature of the Construction 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 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 Services shall be based on reasonable cost plus a reasonable profit pursuant to the management system on connected transactions of the Group. According to the pricing policy under the New Engineering Construction Service Framework Agreement, the 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, 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 New Engineering Construction Service 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 2019 and 2020 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 2019 and 2020 were carried out in accordance with the terms of the relevant Engineering Construction Service Framework agreement. Moreover, we have obtained and reviewed the report from auditors of the Company confirming that, among other things, the relevant continuing connected transactions carried out in the years ended 31 December 2019 and 2020 were carried out in accordance with the terms of the relevant Engineering Construction Service Framework Agreement and the transactions carried out in the years ended 31 December 2019 and 2020 were in accordance with the pricing policies of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 Contract List**”) which contains the existing contracts with Zhongming Zhiye and its associates and the contracts expected to be entered into with Zhongming Zhiye and its associates in the three years ending 31 December 2021. We have selected the six largest revenue generating contracts during the three years ending 31 December 2021 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 ten 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 were expected to cover the three years ending 31 December 2021 (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. We consider that our finding is in line with the pricing policy and management system on connected transactions adopted by the Company.

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 Engineering Construction Services under the Engineering Construction Service Framework Agreement for each of the two years ended 31 December 2020 and the nine months ended 30 September 2021, the annual caps under the Engineering Construction Service Framework Agreement for each of the three years ended 31 December 2021 and the proposed Annual Caps for each of the three years ending 31 December 2024:

	For the year ended 31 December		Nine months ended
	2019	2020	30 September
	RMB'mil	RMB'mil	2021 RMB'mil
Actual amount	534.05	410.53	551.79
Annual cap	1,100	1,200	1,400 (Note)
Utilisation rate	48.6%	34.2%	52.6% (Note)

Note: The annual cap of the Construction Services under the Engineering Construction Service Framework Agreement for the year ending 31 December 2021 was RMB1,400 million and the utilisation rate for the nine months ended 30 September 2021 was annualised based on the actual transaction amount for the nine months ended 30 September 2021 multiplied by 4/3 and divided by the annual cap for the year ending 31 December 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Proposed Annual Caps		
For the year ending 31 December		
2022	2023	2024
<i>RMB'mil</i>	<i>RMB'mil</i>	<i>RMB'mil</i>
1,200	1,000	900

As stated in the Letter from the Board, the Annual Caps have been determined mainly with reference to: (i) the construction service 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 construction services; and (iv) new construction service projects in the next three years expected by the Group. In particular:

- (i) although the historical amounts of the Group's relevant engineering construction services with Zhongming Zhiye and its associates recorded a declining trend in the past few years, the Company estimates an increase in the annual caps of engineering construction service fees charged to Zhongming Zhiye and its associates for the coming three years. On the one hand, the Company's project backlog for the next three years records a significant increase from its historical level. During the period from 2019 to 2021, the Company completed seven projects and it is expected that 17 projects will be conducted from 2022 to 2024. On the other hand, the cost of construction contracting services has been on the rise in the past few years. According to Beijing Lange Steel and the price guidance for labor cost of construction work, from the first half of 2019 to the second half of 2021, the price of steel and labor increased by approximately 40% and 21%, respectively. Therefore, the prospective increase in construction costs was also taken into account in the formulation of the relevant annual caps. In addition, 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 service 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 Service 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 2024, 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 of similar projects. The prospective construction progress is estimated based on the Company's experience and the construction schedules in the previous similar projects;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) when the Company estimates the service fees that it may receive from the newly added construction 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 17 projects would be conducted from 2022 to 2024. Of such 17 projects, six are under construction, two have been acquired but yet to be commenced and another nine 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:

the transaction amount of the above six projects under construction is estimated based on the signed contract and the contract schedule, amongst which, three projects are currently expected to be completed by 31 December 2022, with a total contract amount of approximately RMB138.4 million, one project is currently expected to be completed by 31 December 2023, with a total contract amount of approximately RMB118.24 million, and another two projects are currently expected to be completed by 31 December 2024, with a total contract amount of approximately RMB119.01 million;

the transaction amount of the above remaining 11 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 2022, 2023 and 2024, the service fees expected to be charged by the Group under such projects for providing engineering construction services to Zhongming Zhiye and its associates are approximately RMB1,061.39 million, RMB872.58 million and RMB780.57 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 2024. Based on the Annual Caps Calculation and we are given to understand that for the proposed annual cap for the year ending 31 December 2022, approximately 58.5% based on the existing agreements of the projects under construction, approximately 25.2% based on contracts acquired but yet to be commenced and the remaining approximately 16.3% 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). We noted that amongst the six largest revenue generating contracts during the three years ending 31 December 2021 which we selected from the Connected Contract List, five of them are also included in the Annual Caps Calculation and we further noted that the relevant contract sum of these five contracts are consistent with the information as stated in the Annual Caps Calculation. Meanwhile, we noted that the respective proposed annual cap under the New Engineering Construction Service Framework Agreement for each of the year ending 31 December 2022, 2023 and 2024 only represented less than 3.5% of the total construction contracting segment revenue of the Group in 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 and the Company's estimation on the fee schedule based on the expected project progress over the duration of the New Engineering Construction Service 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 2024, the projected total contract value and the projected project progress.

We noted that the historical annual transaction amounts between the Group and Zhongming Zhiye and its associates in respect of the Construction Service for the year ended 31 December 2019 and 2020 and nine months ended 30 September 2021 was approximately RMB534 million, RMB411 million and RMB552 million, respectively, and the proposed Annual Caps for the year ending 31 December 2022 represented a considerable increase as compared to the transaction amount for the nine months ended 30 September 2021.

As advised by the management of the Company, the property development industry is cyclical with a relatively long development cycle. 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 2022 Winter Olympic which will be hosted in Beijing and the recent pandemic situation. As stated in the 2020 Annual Report, as the Company carries out construction and garden engineering business mainly in Northern China such as the Beijing-Tianjin-Hebei region where operations shall be suspended during winter time (normally November to the end of March) according to relevant national laws and regulations.

As advised by the management of the Company, the Annual Caps for the three years ending 31 December 2024 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 2020 and the nine months ended 30 September 2021 was below 60% and the major reason of that is attributable to (i) the actual commencement date of certain projects was later than the Group's expectation; and (ii) the estimated duration of work of certain projects was shorter than the actual duration. Based on information provided by the Company, the contracts of certain construction service performed during the nine months ended 30 September 2021 were executed in or before 2019 while certain of the projects are now expected to be completed after the year ending 31 December 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the management of the Company, the Annual Caps were determined 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 six projects are currently expected to complete in or after the year ending 31 December 2026.

On the other hand, we noted that the Annual Cap for the year ending 31 December 2022 represented an increase of approximately 63.1% of the annualised service fee pursuant to construction services provided by the Group to Zhongming Zhiye and its associates for the nine months ended 30 September 2021. As advised by the management of the Company, the cost of Construction Services had been increasing over the past years. As stated in the letter from the Board, from the first half of 2019 to the second half of 2021, the price of steel and labor increased by approximately 40% and 21%, respectively. We have obtained and reviewed the monthly construction price reports published by Beijing Municipal Commission of Housing and Urban-rural Development of the PRC and the Shanghai Construction Market Information Service Platform maintained by Shanghai Municipal Commission of Housing and Urban-rural Development of the PRC. We noted that during December 2018 to October 2021, (i) the salary range of general construction workers in Beijing increased by approximately 22.1% for the lower bound and 30.0% for the upper bound; (ii) the price of hot rolled round steel (type 16) in Beijing increased by approximately 42.3%; (iii) the salary range of general workers for construction and installation in Shanghai increased by approximately 23.0% for the lower bound and approximately 21.7% for the upper bound; and (iv) the price (exclusive of tax) of rebar (comprehensive) in Shanghai increased by approximately 47.3%.

Furthermore, as advised by the management of the Company, given the planning of some projects under Connected Contract List had not been formally approved, the amount of Construction 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 and material costs, location and duration of the project. Meanwhile, we noted that a buffer of not more than RMB20 million had been included in determining the Annual Caps for each of the two years ending 31 December 2024, to cater for potential changes in contract values of the projects which cannot be reasonably ascertained currently, which represent less than 2.0% and 2.3%, respectively, of the Annual Caps for the two years ending 31 December 2024.

Taking into account of the aforesaid and the fact that the proposed annual cap under the New Engineering Construction Service Framework Agreement for each of the years ending 31 December 2022, 2023 and 2024 only represented less than 3.5% of the total construction contracting segment revenue of the Group in 2020, we consider that the proposed Annual Caps are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 Independent Shareholders as a whole.

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 proposed at the Extraordinary General Meeting to approve the New Engineering Construction Service Framework Agreement and the Annual Caps.

Yours faithfully,
for and on behalf of

HALCYON CAPITAL LIMITED

Derek C.O. Chan
Chairman

Barton Lai
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) regulated activities. Mr. Chan has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.

Mr. Lai 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. Lai has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, 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.

2. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, the interests and short positions of the Directors, the Supervisors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (as defined in Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept under Section 352 of the SFO; or (iii) required to be notified to the Company and the Stock Exchange pursuant to the Model Code are as follows:

(1) Interests and Short Positions of Directors, Supervisors and Chief Executives in the Shares of the Company

Name of the Directors, Supervisors and Chief Executives	Capacity	Number of Shares interested	Class of Shares	Nature of interest	Approximate percentage of shareholding in the relevant class of Shares as at the Latest Practicable Date	Approximate percentage of shareholding in the total issued share capital of the Company as at the Latest Practicable Date
Mr. Li Baoyuan ^{1,2}	Interest in controlled corporation	1,300,000,000	Domestic Shares	Long position	100%	73.8%

Notes:

- As at the Latest Practicable Date, Qianbao Investment directly holds 5.54% of the equity interests in the Company and 39.61% of the equity interests in Zhongru Investment. In addition, each of the 146 individuals holding in aggregate the remaining 60.39% of the equity interests in Zhongru Investment has respectively undertaken that they have followed since the establishment of Zhongru Investment or when each of them became a shareholder of Zhongru Investment, and will continue to follow Qianbao Investment in exercising their voting powers at shareholders' general meetings of Zhongru Investment and all other rights of shareholders of Zhongru Investment. Therefore, Qianbao Investment is deemed to be interested in 100% of the equity interests in Zhongru Investment and thus be interested in the 1,202,500,000 Shares held by Zhongru Investment for the purpose of Part XV of the SFO. As at the Latest Practicable Date, Mr. Li Baoyuan directly holds 90% of the equity interests in Qianbao Investment, which is deemed to be directly and indirectly holding 100% of the equity interests in Zhongru Investment and directly holding 5.54% of the equity interests in the Company. Therefore, Mr. Li Baoyuan is deemed to be interested in 100% of the equity interests, or 255,000,000 shares, in Zhongru Investment and thus be interested in the 1,300,000,000 Shares directly or indirectly held by Qianbao Investment for the purpose of Part XV of the SFO.
- As at the Latest Practicable Date, the number of individual shareholders in Zhongru Investment was 146, the total share capital is 255,000,000 shares.

(2) **Interests and Short Positions of Directors, Supervisors and Chief Executives in the Shares of Associated Corporations of the Company**

Name of the Directors, Supervisors and Chief Executives	Name of associated corporation	Capacity	Number and class of shares interested	Nature of Interest	Approximate percentage of issued share capital of associated corporation as at the Latest Practicable Date
Mr. Li Baoyuan ¹	Qianbao Investment ²	Beneficial owner	45,000,000	Long position	90.00%
	Zhongru Investment ³	Interest in controlled corporation	255,000,000	Long position	100.00%
Mr. Li Baozhong	Qianbao Investment ²	Beneficial owner	5,000,000	Long position	10.00%
Mr. Cao Qingshe	Zhongru Investment ³	Beneficial owner	5,000,000	Long position	1.97%
Mr. Shang Jinfeng	Zhongru Investment ³	Beneficial owner	1,000,000	Long position	0.39%
Mr. Liu Yongjian	Zhongru Investment ³	Beneficial owner	2,000,000	Long position	0.79%
Mr. Zhao Wensheng	Zhongru Investment ³	Beneficial owner	1,000,000	Long position	0.39%
Mr. Yu Xuefeng	Zhongru Investment ³	Beneficial owner	1,000,000	Long position	0.39%
Ms. Feng Xiujian	Zhongru Investment ³	Beneficial owner	1,000,000	Long position	0.39%
Mr. Wang Feng	Zhongru Investment ³	Beneficial owner	1,000,000	Long position	0.39%
Mr. Liu Jingqiao	Zhongru Investment ³	Beneficial owner	500,000	Long position	0.20%
Mr. Yue Jianming	Zhongru Investment ³	Beneficial owner	500,000	Long position	0.20%

Notes:

- As at the Latest Practicable Date, Mr. Li Baoyuan directly holds 90% of the equity interests in Qianbao Investment, and Qianbao Investment directly holds 39.61% of the equity interests in Zhongru Investment. In addition, each of the 146 individuals holding in aggregate the remaining 60.39% of the equity interests in Zhongru Investment has respectively undertaken that they have followed since the establishment of Zhongru Investment or when each of them became a shareholder of Zhongru Investment, and will continue to follow Qianbao Investment in exercising their voting powers at shareholders' general meeting of Zhongru Investment and all other rights of shareholders of Zhongru Investment. Therefore, Mr. Li Baoyuan (through Qianbao Investment) is deemed to be interested in 100% of the equity interests, or 255,000,000 shares, in Zhongru Investment.
- As at the Latest Practicable Date, the total share capital of Qianbao Investment is 50,000,000 shares.
- As at the Latest Practicable Date, the total share capital of Zhongru Investment is 255,000,000 shares.
- As at the Latest Practicable Date, the number of individual shareholders in Zhongru Investment was 146, the total share capital is 255,000,000 shares.

Save as disclosed above, so far as any Directors, Supervisors or chief executives of the Company are aware, as at the Latest Practicable Date, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (as defined in Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept under Section 352 of the SFO; or (iii) required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

3. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware of, none of the Directors and their respective associates had any interest in a business which competes or is likely to compete with the business of the Group.

4. INTERESTS OF DIRECTORS

- (i) As of the Latest Practicable Date, the following Directors held directorship or were employees of another company which had interests or short positions in the Shares and underlying Shares of the Company which fell to be disclosable in accordance with the provisions of Divisions 2 and 3 of Part XV of the SFO.

Name	Position in the entity which fell to be disclosable in accordance with the provisions of Divisions 2 and 3 of Part XV of the SFO
Li Baoyuan	Chairman of Zhongru Investment, executive director and general manager of Qianbao Investment
Li Baozhong	Director of Zhongru Investment and supervisor of Qianbao Investment
Cao Qingshe	Vice Chairman of Zhongru Investment

- (ii) As of the Latest Practicable Date, none of the Directors held material interests in any contracts or arrangements entered into with the Group that were still in existence and material to the Group.
- (ii) Save as disclosed above, as of the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets acquired or sold or leased or proposed to be acquired or sold or leased by any member of the Group since 31 December 2020 (i.e. the settlement date of the latest audited consolidated financial statements issued by the Group).

5. MATERIAL LITIGATIONS

As of the Latest Practicable Date, the Company and any member of the Group had not involved in any material litigation or claims. To the knowledge of the Directors, no member of the Group had any pending or threatened material litigation or claims.

6. MATERIAL CONTRACTS

During the two years prior to the date of this circular, none of the Group's members had entered into any material contracts (except those entered into in the Group's daily business).

7. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at the Latest Practicable Date, the following persons (not being the Directors, Supervisors or chief executives of the Company) had interests or short positions in the Shares or underlying Shares of the Company which, to the knowledge of any Director, fell to be disclosable in accordance with the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Capacity	Number of Shares interested	Class of Shares	Nature of interest	Approximate	Approximate
					percentage of shareholding in the relevant class of Shares as at the Latest Practicable Date	percentage of shareholding in total issued share capital of the Company as at the Latest Practicable Date
Zhongru Investment	Beneficial owner	1,202,500,000	Domestic Shares	Long position	92.50%	68.27%
Qianbao Investment ¹	Interest in controlled corporation	1,202,500,000	Domestic Shares	Long position	92.50%	68.27%
	Beneficial owner	97,500,000	Domestic Shares	Long position	7.50%	5.54%

Notes:

- As at the Latest Practicable Date, Qianbao Investment directly holds 5.54% of the equity interests in the Company and 39.61% of the equity interests in Zhongru Investment. In addition, each of the 146 individuals holding in aggregate the remaining 60.39% of the equity interests in Zhongru Investment has respectively undertaken that they have followed since the establishment of Zhongru Investment or when each of them became a shareholder of Zhongru Investment, and will continue to follow Qianbao Investment in exercising their voting powers at the shareholders' general meetings of Zhongru Investment and all other rights of shareholders of Zhongru Investment. Therefore, Qianbao Investment is deemed to be interested in 100% of the equity interests in Zhongru Investment and thus be interested in the 1,202,500,000 Domestic Shares held by Zhongru Investment for the purpose of Part XV of the SFO.
- As at the Latest Practicable Date, the number of individual shareholders in Zhongru Investment was 146, the total share capital is 255,000,000 shares.

Save as disclosed above, as at the Latest Practicable Date, to the best knowledge of the Directors, there were no other persons who had interests or short positions in the Shares or underlying Shares of the Company, which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

8. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or was proposing to enter into any service contracts with the Company or any of its subsidiaries, excluding contracts expiring or terminable within one year without payment of compensation other than statutory compensation.

9. EXPERT'S DISCLOSURE OF INTEREST AND CONSENTS

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Halcyon Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO

- As at the Latest Practicable Date, the above expert did not have any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- As at the Latest Practicable Date, the above expert did not have any direct or indirect interests in any assets which have been acquired or disposed of by or leased to or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020, being the date to which the latest published audited consolidated accounts of the Company were prepared.
- Halcyon Capital Limited issued a letter dated 8 December 2021 for the purpose of incorporation in this circular in connection with its recommendation to the Independent Board Committee and the Independent Shareholders.
- The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its expert's opinions and reference to its name in the form and context in which they appear.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be displayed from the date of this circular up to and including the date of the EGM on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.hebjs.com.cn):

- the New Engineering Construction Service Framework Agreement;
- the letter from the Independent Board Committee to the Independent Shareholders as set out on page 15 of this circular;
- the letter from Halcyon Capital Limited to the Independent Board Committee and the Independent Shareholders as set out on pages 16 to 32 of this circular;
- the written consents referred to in paragraph 9 of this appendix; and
- this circular.

11. GENERAL

- As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the Group's financial or trading position since 31 December 2020, being the date on which the latest published audited consolidated accounts of the Company were prepared.
- The registered office of the Company is No. 125 Lugang Road, Jingxiu District, Baoding City, Hebei Province, the PRC and the postal code is 071000.
- The H Share Registrar of the Company is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- The joint company secretaries of the Company are Mr. Li Wutie and Ms. Wong Wai Ling. Ms. Wong Wai Ling is an associate member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.
- If there is any discrepancy between the English text and Chinese text of this circular, the English text shall prevail.

NOTICE OF 2021 FIRST EXTRAORDINARY GENERAL MEETING



河北建設集團股份有限公司

HEBEI CONSTRUCTION GROUP CORPORATION LIMITED

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1727)

NOTICE OF 2021 FIRST EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2021 first extraordinary general meeting (the “EGM”) of Hebei Construction Group Corporation Limited (the “Company”) will be held at Meeting Room No. 1, 3/F, No. 125 Lugang Road, Jingxiu District, Baoding City, Hebei Province, the People’s Republic of China (the “PRC”) at 8:30 a.m. on Tuesday, 28 December 2021 to consider and, if thought fit, approve, among others, the following resolution (with or without modification).

ORDINARY RESOLUTION

1. The New Engineering Construction Service Framework Agreement and transactions contemplated thereunder and the proposed annual caps for 2022, 2023 and 2024

Details of the above resolution is set out in the circular of the Company dated 8 December 2021.

By order of the Board

Hebei Construction Group Corporation Limited

LI Baozhong

Chairman and Executive Director

Hebei, the PRC, 8 December 2021

NOTICE OF 2021 FIRST EXTRAORDINARY GENERAL MEETING

Notes:

- (1) The register of members of the Company will be closed from Wednesday, 22 December 2021 to Tuesday, 28 December 2021 (both days inclusive), during which period no transfer of shares of the Company will be registered. Shareholders whose names appear on the register of members of the Company on Tuesday, 28 December 2021 will be eligible to attend the EGM. In order to qualify for attending and voting at the EGM, holders of H Shares of the Company shall deliver all duly completed and signed transfer documents together with the relevant share certificates to the Company's H Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 21 December 2021.
- (2) Shareholder entitled to attend and vote at the EGM can complete the proxy form provided by the Company to appoint one or more person to attend and vote on his/her/its behalf at the EGM. A proxy need not be a shareholder of the Company. For shareholder who appoints more than one proxy, his/her/its proxies can only exercise the voting right in a poll.
- (3) A shareholder shall appoint his/her/its proxy by an instrument in writing under the hand of the shareholder or of his/her/its attorney duly authorized in writing. If the shareholder is a corporation, the instrument in writing shall be either under its common seal or under the hand of its authorized representative or an attorney duly authorized. If the instrument in writing is signed by an attorney of the shareholder, the power of attorney authorizing the attorney to sign, or other authorization documents must be notarized.
- (4) In order to be valid, the proxy form and the related notarized power of attorney (if any) and other authorization documents (if any) referred in note (3) above must be lodged to the Company's H Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares of the Company), or to the Company's registered office in the PRC at No. 125 Lugang Road, Jingxiu District, Baoding City, Hebei Province, the PRC (for holders of Domestic Shares of the Company), not less than 24 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be) (i.e. no later than 8:30 a.m. on Monday, 27 December 2021). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting in person should you so wish. If you attend and vote at the EGM, the authority of your proxy will be revoked.
- (5) Shareholders or their proxy(ies) should produce identification documents when attending the EGM. If the shareholder is a corporation, its authorized representative or the person authorized by its board of directors or other authorities shall produce the copy of the authorization documents appointing him/her to attend the meeting issued by the board of directors or other authorities of such corporate shareholder.
- (6) The EGM is expected to last for no more than half day. Shareholders who attend the EGM shall bear their own travelling and accommodation expenses.
- (7) Contact information of the Board office is set out below:

Address: No. 125 Lugang Road, Jingxiu District, Baoding City, Hebei Province, the PRC
Post code: 071000
Contact person: Li Wutie
Tel: (86) 312 331 1028
Fax: (86) 312 301 9434

As of the date of this notice, the executive Directors are Mr. LI Baozhong, Mr. SHANG Jinfeng, Mr. LIU Yongjian and Mr. ZHAO Wensheng; the non-executive Directors are Mr. LI Baoyuan and Mr. CAO Qingshe; and the independent non-executive Directors are Ms. SHEN Lifeng, Ms. CHEN Xin and Mr. CHAN Ngai Sang Kenny.