

2 June 2025

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**RENEWAL OF CONTINUING CONNECTED TRANSACTION IN RELATION
TO THE NEW LABOR SUBCONTRACT 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 Labor Subcontract 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 2 June 2025, 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 13 May 2025, the Company and Baoding Tianli entered into the New Labor Subcontract Framework Agreement to renew the Labor Subcontract Framework Agreement dated 26 May 2022, pursuant to which Baoding Tianli shall provide labor subcontract services to the Group in the ordinary course of business of the Group, including but not limited to contracting for building construction projects and infrastructure construction projects, for which Baoding Tianli will charge the Group subcontract fees (including subcontract service fees, labor wages and social insurance expenses, taxation, auxiliary materials and tools costs, and other fees).

Since Baoding Tianli is a wholly-owned subsidiary of Zhongming Zhiye, while Zhongming Zhiye is owned as to 92.5% and 7.5% by Zhongru Investment and Qianbao Investment, the controlling shareholders of the Company, respectively. Therefore, Baoding Tianli is a connected person under Rule 14A.07(4) of the Listing Rules. By virtue of the aforesaid relationship, the provision of labor subcontracting services under the New Labor Subcontract Framework Agreement constitutes continuing connected transaction under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising Ms. Shen Lifeng, Ms. Chen Xin and Mr. Chan Ngai Sang Kenny, being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to (i) the New Labor Subcontract Framework Agreement and the transactions contemplated thereunder and its proposed annual caps (the “**Annual Caps**”) are conducted in ordinary and usual course of business of the Group, are on normal commercial terms which are fair and reasonable, and are in the interests of the Group and the Independent Shareholders as a whole; and (ii) how the Independent Shareholders should vote on the relevant resolutions regarding the New Labor Subcontract Framework Agreement and the Annual Caps at the AGM.

Our role, as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the New Labor Subcontract Framework Agreement and the transactions contemplated thereunder, is to (i) provide the Independent Board Committee and the Independent Shareholders an independent opinion and recommendations as to whether the New Labor Subcontract Framework Agreement is 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 Labor Subcontract Framework Agreement and the Annual Caps at the AGM.

We are not associated with the Company, Baoding Tianli 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 Labor Subcontract 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 24 May 2024), there was no other engagement between the Group and Halcyon Capital in 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 Labor Subcontract Framework Agreement and the transactions contemplated thereunder.

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 reviewed, among other documents, the Labor Subcontract Framework Agreement, the New Labor Subcontract Framework Agreement, the financial statements of the Company, the estimation of the Annual Caps and relevant industry information as further elaborated in our letter. 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, we are not aware of any facts or circumstances which would render such information provided and representations made to us are untrue, inaccurate or misleading. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with note 1 to Rule 13.80 of the Listing Rules.

Our review and analysis were based upon, among others, the information provided by the Group including the New Labor Subcontract Framework Agreement, the annual report of the Company for the year ended 31 December 2023 and 2024 (the “**2023 Annual Report**”, and “**2024 Annual Report**”, respectively), 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 Labor Subcontract 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, Baoding Tianli 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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion for the New Labor Subcontract 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 2024 Annual Report, the Group is a leading non-state-owned construction group in the PRC and is principally engaged in the construction contracting business and other businesses including service concession arrangements. The Group provides construction project contracting services mainly as a general contractor for building construction projects and infrastructure construction projects, and over 95% of the revenue of the Group in 2024 was derived from the provision of construction contracting services.

According to the 2024 Annual Report, approximately 80.59% of the value of the new contracts of the Group's contracting construction business in year 2024 were attributable to Beijing-Tianjin-Hebei Region and approximately 58.77% of the value of the new contracts of the Group's contracting construction business were attributable to building construction, followed by specialized and other construction of approximately 22.55% and infrastructure construction of approximately 18.68%.

Financial highlights

Set out below is the summary of key financial information of the Group for each of the two years ended 31 December 2024 as extracted from the 2024 Annual Report:

	For the year ended 31 December	
	2024	2023
	RMB mil	RMB mil
Revenue	25,059	33,493
Cost of sales	(23,687)	(31,697)
Profit before tax	204	227
Income tax expenses	(45)	(69)
Net profit	159	158

As illustrated in the above table, the revenue of the Group for 2024 amounted to approximately RMB25,059 million, representing a decrease of approximately RMB8,434 million or approximately 25.2% as compared with the previous financial year, which was principally attributable to the decrease in revenue derived from the building construction business and infrastructure construction business. Although the Group recorded decreases in revenue in both building construction business and infrastructure construction business in 2024, as stated in the 2024 Annual Report, the gross profit rate of the building construction business remained unchanged as compared with last year, and the Group recorded improved gross profit rate in infrastructure construction business which amounted to approximately 7.1% for 2024 as compared to 6.7% in the previous financial year.

According to the 2024 Annual Report, the decrease in revenue from building construction business was mainly attributable to the property market remained in the doldrums, with a decrease in new projects and a slowdown in construction progress and the completion of certain large-scale projects certain such as the General Contracting of New Construction Project of High School Affiliated to Changzhou Institute of Educational Science and the Construction Project of Shengzhou Culture and Media Center, were completed during 2024, and the gross profit margin of the building construction business did not change significantly as compared to the previous financial year.

The net profit of the Group for the year ended 31 December 2024 amounted to approximately RMB159 million in 2024, representing a slight increase of approximately RMB1 million as compared with 2023.

Financial position

Set out below is the highlight of the financial position of the Group as at 31 December 2024 extracted from the 2024 Annual Report:

	As at 31 December 2024 RMB mil
Total assets	61,835
Total liabilities	55,445
Net assets	6,390

The Group recorded total assets of approximately RMB61,835 million as at 31 December 2024 and approximately 90% of which were current assets. As at 31 December 2024, the current assets of the Group principally comprised contract assets of approximately RMB38,266 million, accounts receivable of approximately RMB7,327 million, currency funds of approximately RMB5,750 million.

The Group recorded total liabilities of approximately RMB55,445 million as at 31 December 2024 and approximately 95% of which were current liabilities. As at 31 December 2024, the current liabilities of the Group principally comprised accounts payable of approximately RMB32,347 million, contract liabilities of approximately RMB6,101 million and other payables of approximately RMB4,917 million.

The Group recorded an increase in net assets attributable to shareholders of the parent of the Company from approximately RMB6,047 million as at 31 December 2023 to approximately RMB6,222 million as at 31 December 2024.

2. Reasons for and benefits of entering into of the New Labor Subcontract Framework Agreement

As stated in the Letter from the Board, Baoding Tianli and its associates have expertise in labor subcontract services and have established a good reputation for its high-quality services in the labor industry. Baoding Tianli and its associates have become familiar with the Group's business needs and operational requirements through their long-term cooperation with the Group and thus can provide the Group with a sufficient number of laborers who have the requisite expertise and experience for the Group's construction business, in a timely manner and in accordance with applicable laws and regulations. Accordingly, the Directors (including the independent non-executive Directors) are of the view that the New Labor Subcontract Framework Agreement and its proposed annual caps are entered into on normal commercial terms in the ordinary and usual course of business of the Group, are fair and reasonable, and in the interests of the Group and its Shareholders as a whole.

We have obtained and reviewed the 2024 Annual Report and as stated, the Group was also responsible for engaging subcontractors in providing construction services and the labor force for construction projects. As advised by the Group, labor subcontracting fee is one of the major costs of the Group, and, we understand from the prospectus of the Company dated 5 December 2017 that the provision of labor subcontract services by Baoding Tianli to the Group had already commenced prior to 2014. On the other hand, according to Hebei Construction Industry Association (河北省建築業協會) and The Building Market Development Research Association of HeBei Province (河北省建築市場發展研究會), Baoding Tianli was one of the top 10 enterprises on the 2024 Hebei Province "Yanzhao Construction" Gold Medal Construction Labor Service Enterprises List (2024年度河北省「燕趙建築」金牌建築勞動企業名單). We also noted that according to the pricing policy under the New Labor Subcontract Framework Agreement, when the Group subcontracts labor supply for the construction projects, public bidding procedures will be applied and the bidder with the highest score comprehensively determined by the review panel wins, and the bidding price offered by the bidder will be implemented. Accordingly, we concur with the view of the Directors that engaging Baoding Tianli and its associates for the provision of labor subcontracting services under the New Labor Subcontract Framework Agreement is in the ordinary and usual course of business of the Group and the continuation of provision of labor subcontracting services by Baoding Tianli to the Group is in the interests of the Group and the Independent Shareholders as a whole.

3. Principal terms of the New Labor Subcontract Framework Agreement

As set out in the Letter from the Board, the principal terms of the New Labor Subcontract Framework Agreement are set out below:

(1) Date

13 May 2025

(2) Parties

The Company (as contractor); and

Baoding Tianli (as sub-contractor).

(3) Principal terms

Baoding Tianli and its associates shall provide labor subcontract services to the Group in its ordinary course of business, including but not limited to contracting for building construction projects and infrastructure construction projects, for which Baoding Tianli will charge the Group subcontract fees (including subcontract service fees, labor wages and social insurance expenses, taxation, auxiliary materials and tools costs, and other fees). The term of the New Labor Subcontract Framework Agreement shall commence on 1 January 2026 and end on 31 December 2027 (both days inclusive). Subject to compliance with relevant laws and regulations and the Listing Rules, it can be renewed for another three years upon its expiry as agreed by relevant parties, upon which the Company will continue to comply with the applicable requirements under the Listing Rules. Relevant subsidiaries or associated companies of both parties will enter into separate specific agreements which will set out the specific terms and conditions according to the principles provided in the New Labor Subcontract Framework Agreement.

(4) Pricing policy

In accordance with the New Labor Subcontract Framework Agreement, the total subcontract fees to be paid by the Group to Baoding Tianli and its associates will be determined based on the following pricing policy:

When the Group subcontracts labor supply for the construction projects, public bidding procedures will be carried out in accordance with the relevant PRC laws and regulations and the relevant internal systems of the Group. Prior to the bidding procedures, the Group will publish announcements on its bidding invitation on public websites. There must be at least three Independent Third Party bidders attending the bidding procedures, otherwise the bidding will be canceled, and the Company will publish new bidding information and perform the bidding procedures again.

The review panel for any bidding consists of experts selected by the Group as well as the project manager, and the comparable quoted bidding price (including subcontract service fees, labor wages and social insurance expenses, taxation, auxiliary materials and tools costs, and other fees) is an important, but not the only, factor to be considered. The review panel shall consist of an odd number of three or more experts, all of whom are internal management personnel of the Group, including the general managers and deputy general managers of the production safety department, operational management department, financial management department and quality and technology department of the Group; the deputy general managers and business department managers in charge of safety, production, technology, quality, finance and operation of the branches; and the persons in charge of operation, technology, quality, production and finance of the project management department. The experts are selected by taking into account their professionalism, business competence, years of experience and other factors. To avoid conflict of interest, the management staff in charge of the tender project shall not participate in the evaluation as an expert member of the review panel for such tender project.

The review panel will also take into consideration factors including, but not limited to, the bidder's sufficient licenses and qualifications, business scale and capacities and its historical results, as well as make reference to prevailing market terms and prices. The bidder with the highest score comprehensively determined by the review panel wins, and the bidding price offered by such bidder will be implemented.

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

4. Pricing policies and internal control measures regarding price determination for the continuing connected transactions under the New Labor Subcontract 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 Labor Subcontract Framework Agreement, the Group has adopted the following internal control measures (the “**Internal Control Measures**”) and will apply these measures while determining the price of products in respect of the continuing connected transactions under the New Labor Subcontract Framework Agreement:

- The Company has established a clear set of contractual standards and terms to ensure the New Labor Subcontract Framework Agreement meets at least those standards. These standards are consistent with best practice in the marketplace and take into account the Company's risk tolerance and business needs;
- The Company conducts regular market research on a semi-annual basis to understand the terms and conditions offered to Independent Third Parties in similar framework agreements to ensure the competitiveness of the Company's terms and conditions;

- The Company uses a professional negotiating team (management, legal, and technical experts of the branches and subsidiaries) in the negotiation process to ensure that the Company's interests are fully protected and that the terms are at least on par with those of third-party agreements in the market;
- The Company has adopted and implemented a set of connected transaction management system (“**Management System**”). According to the Management 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, 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 Labor Subcontract Framework Agreement, especially the pricing policies of such transactions; the market operation department, the production safety department and the finance management department are responsible for the approval of the annual caps and its fairness under such transactions;
- The Company's production safety department, financial management department and operational management department are responsible for calculating the current and cumulative amounts of connected transactions on a monthly basis, and controlling the number of transactions conducted with connected persons when it is expected to reach the annual caps on connected transactions;
- 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 Labor Subcontract Framework Agreement, and the progress of the transactions semi-annually and quarterly, respectively. In addition, the Board will regularly review the pricing policies of the New Labor Subcontract 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 Labor Subcontract Framework Agreement in accordance with the Listing Rules and provide annual confirmations to confirm that the transactions are conducted in accordance with the terms of the agreements and in accordance with normal commercial terms and pricing policies; and

- When considering the provision of actual subcontracting fees by the Group to the connected persons, the finance management department of the Company will continue to regularly study the prevailing market conditions and practices on a semi-annual basis and refer to the pricing and terms of similar transactions concluded between the Group and Independent Third Parties to ensure that the pricing and terms provided by the above mentioned connected persons through the bidding process or mutual commercial negotiation (as the case may be) are fair and reasonable, and not inferior to those provided to Independent Third Parties. In particular, for the New Labor Subcontract Framework Agreement, the procurement department of the Group will collect price information in the market at the end of each year and from time to time, by attending national labor service seminars (such as the annual meeting organized by the labor branch of China Construction Industry Association) and by collecting data from Yuncai Network, a business-to-business online procurement platform that provides nationwide services to construction companies and suppliers in China.

Meanwhile, we also obtained and reviewed The Bidding Law of the PRC, according to which if there are less than three bidders, the tenderer shall re-bid in accordance with the law.

Taking into account the nature of services to be provided by Baoding Tianli under the New Labor Subcontract Framework Agreement, and having further confirmed with the management of the Company, in determining the pricing of the labor subcontracting services, and in accordance with the pricing policy under the New Labor Subcontract Framework Agreement, public bidding procedures will be applied and there shall be at least three bidders which was consistent with the requirement under the Bidding Law of the PRC. The bidding procedure will involve the review panel taking into consideration factors including, but not limited to, the comparable quoted bidding prices, the bidder's licenses and qualifications, business scale and capacities and its historical results in evaluating the bids. We concur with the management of the Company that the pricing policy under the New Labor Subcontract Framework Agreement is consistent with the Management System.

Meanwhile, as compared to hiring of subcontractors directly, public biddings enable the Group to select the most suitable subcontractor for a given project among the bidders through direct comparison in price, technical and historical performance. Moreover, we noted that the evaluation of bidders is conducted by the review panel (which shall consist of an odd number of three or more internal management personnel of the Group). In this regard, we have obtained and reviewed the documents regarding the result of the bid evaluations of the bid review panel for (i) the labor subcontracting contract granted to Baoding Tianli with the largest contract value and (ii) the labor subcontracting contract granted to Independent Third Party with the largest contract value (which Baoding Tianli has participated, in but not winning, in the relevant bid), for each of the six months ended (a) 30 June 2023; (b) 31 December 2023; (c) 30 June 2024; and (d) 31 December 2024, and noted that the composition of the review panels of these eight projects was in line with the Management System. Taking into account the contract value of relevant projects, the relevant projects covered projects awarded to Baoding Tianli and Independent Third Parties during the two years ended 31 December 2024, we consider that these projects are representative and the reviewing of these projects is sufficient for the purpose of assessing the composition of the review panels. We noted that the composition of the review panels of these projects is in line with the pricing policy and the Management System. The risk for the awarding of contracts to be controlled by a few persons is reduced when the composition of review panel members is not fixed for all projects. Further, the composition of the review panel may involve the general managers and deputy general managers of the production safety department, operational management department, financial management department and quality and technology department of the Group; the deputy general managers and business department managers in charge of safety, production, technology, quality, finance and operation of the branches; and the persons in charge of operation, technology, quality, production and finance of the project management department, and we are advised by the management of the Group that the members are selected by taking into account their professionalism, business competence, years of experience and other factors. Accordingly, we are of the view that the review panel involves people with different expertise which enables the review panel to evaluate the bid from various angles. Taking into account the aforesaid, we are of the view that the pricing policy under the New Labor Subcontract Framework Agreement, being public bidding, is fair and reasonable.

In addition, we have obtained and reviewed the 2023 Annual Report and 2024 Annual Report, based on which the auditors and the 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 each of the years ended 31 December 2023 and 2024 were carried out in the accordance with the terms of the relevant Labor Subcontract Framework Agreement. Moreover, as stated in the 2023 Annual Report and 2024 Annual Report, the auditors of the Company confirmed that, among other things, the relevant continuing connected transactions carried out in the years ended 31 December 2023 and 2024 were carried out in the accordance with the terms of the relevant Labor Subcontract Framework Agreement and the transactions carried out in the years ended 31 December 2023 and 2024 were conducted in accordance with the pricing policies of the Company.

Meanwhile, we have obtained and reviewed the documents regarding the result of the bid evaluations of the bid review panel regarding (i) the labor subcontracting contract granted to Baoding Tianli with the largest contract value and (ii) the labor subcontracting contract granted to Independent Third Party with the largest contract value (which Baoding Tianli has participated, but not winning, in the relevant bid), for each of the six months ended (a) 30 June 2023; (b) 31 December 2023; (c) 30 June 2024; and (d) 31 December 2024. As set out in the bid evaluation forms, the assessment of each bidder would be conducted by way of a scoring system for two main parts, being (i) the competitiveness of the bidding price offered, and (ii) the technical skills and track record of the bidders (including the quality and technicality of the proposed construction plan, feasibility of the implementation of the scheduled project timetable, possession of relevant experiences in other similar projects and etc.). We have also reviewed the bidding price of the relevant bidders for each of the selected projects and noted that bidders with higher bidding price got lower score and vice versa, and the result of the bids was determined based on the combined score of the two parts mentioned above. We consider that our findings are in line with the pricing policy and the Management System.

5. Rationale for determining the Annual Caps

The table below sets out the (i) historical transaction amounts between the Group and Baoding Tianli in respect of the labor subcontract services under the Labor Subcontract Framework Agreement for each of the two years ended 31 December 2024; (ii) the annual caps under the Labor Subcontract Framework Agreement for each of the three years ending 31 December 2025; (iii) the utilisation rates of the actual total subcontracting fees paid by the Group to Baoding Tianli and its associates for the two years ended 31 December 2023 and 2024 and the three months ended 31 March 2025; and (iv) the proposed Annual Caps for each of the two years ending 31 December 2027:

	For the year ended 31 December		For the three months ended
	2023	2024	31 March 2025
	RMB mil	RMB mil	RMB mil
Actual amount	2,970	1,987	401
Annual cap	4,000	4,000	4,000 (Note 1)
Utilisation rate	74.25%	49.68%	40.10% (Note 2)

Notes:

1. The annual cap of RMB4,000 million represents the annual cap for the year ending 31 December 2025.
2. The utilization rate for the three months ended 31 March 2025 is calculated by dividing the actual total subcontracting fees paid during that period by 1/4 of the annual cap for the year ending 31 December 2025.

Proposed Annual Caps
For the year ending 31 December

2026	2027
<i>RMB mil</i>	<i>RMB mil</i>
2,200	2,200

As stated in the Letter from the Board, the Annual Caps were determined mainly with reference to: (i) the Group's output forecast for the next two years; (ii) the labour costs of the Group; (iii) the Group's supply chain security decision-making considerations and labor subcontracting optionality; (iv) the estimated percentage of the total subcontracting fees payable to Baoding Tianli and its associates to the Group's labor costs; and (v) the historical transaction amounts with Baoding Tianli and its associates. Details are as follows:

- (i) The traditional housing construction market is expected to stabilize, and the demand for new infrastructure, urban renewal and overseas reconstruction will form a scale effect, driving the industry into a "moderate growth" cycle. It is expected that the rate of decline in construction area will narrow in the next two years, and the new construction area will continue to fall but the rate of growth may turn positive. Accordingly, it is expected that the Group's business output will be the same as that of 2024 in the next two years;
- (ii) For the three years ended 31 December 2022, 2023 and 2024, the Group's labor costs amounted to RMB9,882 million, RMB7,778 million and RMB6,257 million respectively. Based on the development trend of the Group's regional layout in the market nationwide, the Group's labor costs are expected to remain stable compared to those of 2024 in the next two years;
- (iii) The supply-side reform in the PRC have led to an increase in the Group's supply chain risks. In order to enhance its resistance to the Group's overall business risks arising from supply chain risks, the Group will proactively control the proportion of a single labor service provider in the overall labor costs and reduce its reliance on a single labor service provider. The Group will consider using local labor service providers for its labor service business in other provinces. There has also been an increase in the selectivity of labor subcontracting in Hebei Province, and the Group has purposefully selected other high-quality labor service providers in the employment of labor; and

- (iv) The actual total subcontracting fees paid by the Group to Baoding Tianli and its associates for the three years ended 31 December 2022, 2023 and 2024 were RMB2,825 million, RMB2,970 million and RMB1,987 million respectively, representing 28.59%, 38.18% and 31.76% of the Group's labor costs respectively (the **"Baoding Tianli Transaction to Labor Cost Ratio"**), with an average figure of 32.84%. Among them, the decrease in the total subcontracting fees actually paid by the Group to Baoding Tianli and its associates in 2024 was mainly attributable to the impact of the macro-economy, the continuous downturn in the construction contracting market, the decrease in new projects and the slowdown in the progress of the construction works, which resulted in a decrease in the revenue of the Group's construction contracting segment by approximately 25.80% in 2024, which in turn led to a decrease in the Group's actual transaction amount with Baoding Tianli and its associates accordingly. As set out in (i), in the expectation that the Group's business output over the next two years will be at the same level as in 2024, the total subcontracting fees to be paid to Baoding Tianli and its associates as a percentage of the Group's labor costs for the next two years are expected to be the same as or will decrease slightly as compared to the above average figure.

Due to the above reasons, it is expected that the total subcontracting fees to be paid to Baoding Tianli and its associates will decrease to RMB2.2 billion in the next two years.

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 in relation thereto. We are given to understand that the proposed annual cap for the year ending 31 December 2026 was principally determined based on (i) the Group's business output is expected to be the same as 2024 in the next two years; (ii) the Group's labor costs are expected to remain stable compared to 2024 in the next two years; (iii) the Group has purposefully selected other high-quality labor service providers in the employment of labor to reduce the reliance on a single labor services provider; and (iv) the total subcontracting fees paid to Baoding Tianli and its associates as a percentage of the Group's labor costs for the next two years are expected to be the same as or will decrease slightly as compared to the above average figure.

Such expectations principally assumed that (i) the Group's business output is expected the same as 2024 in the next two years; (ii) the Group's labor costs are expected to remain stable compared to 2024 in the next two years; and (iii) the Baoding Tianli Transaction to Labor Cost Ratio is expected to remain stable or slightly decrease for the next two years.

In assessing the reasonableness of the key assumptions as stated above, we noted that as stated in the 2024 Annual Report, since 2024, the central government has promptly introduced a package of incremental policies and unprecedented debt reduction measures, adjusting the monetary policy to “moderately loose” for the first time in over a decade. The signs of evolution in our country’s economy from bottoming out, to stabilizing, and then to recovery, are becoming increasingly evident. We have further noted from an article published in Bloomberg in March 2025 that China’s construction activity is showing early signs of improvement as local-government debt stress eases, in a potential boost for commodities including steel. We noted that the total labor costs of the Group represented a relatively stable percentage of revenue which ranged from approximately 23.2% to 25.0% of revenue of the Group during the year ended 31 December 2022, 2023 and 2024.

On the other hand, we noted the Group’s decision and consideration of supply chain safety which aims to proactively control the proportion of a single labor service provider in the overall labor costs and reduce its reliance on a single labor service provider. We are being advised by the management of the Group that the Group has purposefully selected other high-quality labor service providers in the employment of labor to reduce the reliance on a single labor services provider. Furthermore, as advised by the management of the Group, the Group had over 120 labor subcontractors in 2024, and the Group has maintained strategic resilience and realize the intensive development of branches (subsidiaries) outside Hebei Province, it has a great incentive to engage other high-quality labor service providers that focused on refined management and high-quality, large-scale, precise and advanced engineering projects with its good reputation in the industry outside Hebei Province. Taking into account the aforesaid, we concur with the management of the Company that it is reasonable for the Group to implement such control to reduce concentration risk without causing material disruption to the operation of the Group. In this regards, we concur with the Company that it is reasonable to assume that the Baoding Tianli Transaction to Labor Cost Ratio is expected to remain stable or slightly decrease for the next two years.

In addition, we note that total subcontracting fees paid by the Group to Baoding Tianli and its associates for the year ended 31 December 2024 was approximately RMB1,987 million (representing an utilisation rate of approximately 49.7% as stated above). We are being advised by the management of the Group that the low utilisation rate for the year ended 31 December 2024 was principally attributable to the decrease in revenue of the Group. According to the 2024 Annual Report, the revenue of the Group for 2024 amounted to approximately RMB25,059 million, representing a decrease of approximately 25% as compared with the previous financial year while the annual caps for 2024 was the same as 2023, leading to a relatively lower utilisation rate for 2024.

Taking into account the aforesaid and the fact that the proposed annual cap under the New Labor Subcontract Framework Agreement for each of the year ending 31 December 2026 and 2027 would represent approximately 35.16% of the labor costs of the Group in 2024 which was within the range to the actual Baoding Tianli Transaction to Labor Cost Ratio in 2022 to 2024, we consider that the proposed Annual Caps are fair and reasonable.

6. Conclusion

Taking into account the aforesaid, we concur with the view of the Directors that engaging Baoding Tianli and its associates for the provision of labor subcontracting services under the New Labor Subcontract Framework Agreement is in the ordinary and usual course of business of the Group, the New Labor Subcontract Framework Agreement is entered into on normal commercial terms and the terms and the proposed annual caps of the continuing connected transactions contemplated thereunder are fair and reasonable, and in the interests of the Group and its Independent Shareholders as a whole.

RECOMMENDATION

Having considered the factors and analyses above, we consider that (i) the engaging of Baoding Tianli and its associates to provide labor subcontracting services under the New Labor Subcontract Framework Agreement is part of the ordinary and usual course of business of the Group; (ii) the terms of New Labor Subcontract Framework Agreement are on normal commercial terms; (iii) the entering into of the New Labor Subcontract 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 Labor Subcontract 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 AGM to approve the New Labor Subcontract Framework Agreement and the Annual Caps.

Yours faithfully,
for and on behalf of

HALCYON CAPITAL LIMITED

A handwritten signature in black ink, appearing to be "Terry Chu", written over a horizontal line.

Terry Chu
Managing Director

A handwritten signature in black ink, appearing to be "Barton Lai", written over a horizontal line.

Barton Lai
Director

Mr. Chu 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. Chu 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.