

HALCYON CAPITAL LIMITED

11TH FLOOR 8 WYNDHAM STREET CENTRAL HONG KONG

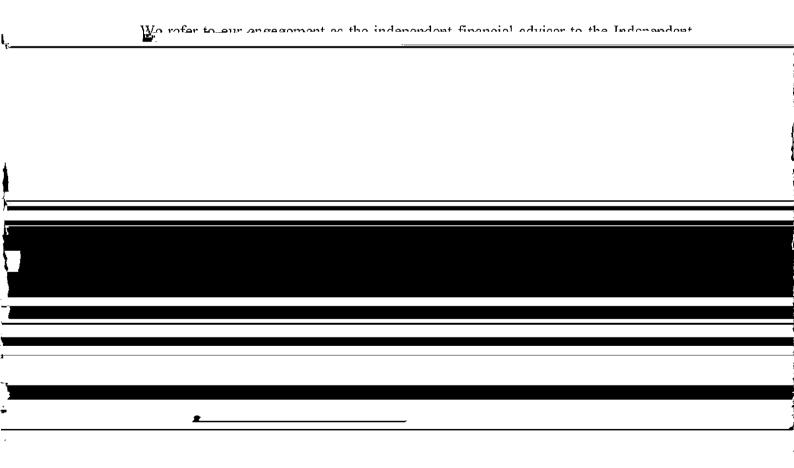
9 June 2022

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

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

INTRODUCTION



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 9 June 2022, 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.

The Independent Board Committee, comprising Ms. Shen Lifeng, Ms. Chen Xin and Mr. Chan Ngai Sang Kenny, being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to (i) the New Labor Subcontract Framework Agreement and its proposed annual caps (the "Annual Caps") are conducted in ordinary and usual course of business of the Group, are on normal commercial terms which are fair and time they were made and continue to be so as at the date of the Circular, has been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the management of the Group. The Directors have confirmed in the Circular that, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are

misleading and we have further been confirmed by the Company that no material facts have been omitted from the information supplied and representations expressed to us. We have reviewed, among other documents, the Labor Subcontract Framework Agreement, the New Labor Subcontract Framework Agreement, the financial statements of the Company, the

Principal business

	As	stated	in	the	2021	Annual	Report,	the	Group	is a	leading	non-stat	e owned
constru	actio	n group	o in	the :	PRC a	nd is prii	ncipally	engag	ged in c	onstru	action co	ntracting	business
and of	ther	busine	sses	in	cluding	g service	e conces	sion	arrang	emen	ts. The	Group	provides
constru	uctio	n contr	acti	ng s	ervices	s mainly	as a con	tracto	or for bu	aildin	g constru	ction pro	jects and

	asset impairment losses of approximate	asset impairment losses of approximately RMB679 million and RMB976 million, respectively,						
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	to the deteriora tion in the credit st	anding of certain customers of property developers.						
	Financial position							
	Sat out below is the highlight	of the financial position of the Group on at 21 December						
	2021 extracted from the 2021 Annual	of the financial position of the Group as at 31 December Report:						
		As at 31 December 2021						
		RMB' mil						
	Total assets	<u> </u>						
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	Total liabilities Net assets	61,075 5,873						
	* *** *******	5,075						

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normal commercial terms in the ordinary and usual course of business of the Group, are fair and reasonable, and in the interests of the Group and its Shareholders as a whole. We have obtained and reviewed the 2021 Annual Report and as stated, the Group was nonnandia fan anagaina ambagatanatana iz italian antanatana iz italian antanatan arabatan talian antanatan ara force for construction projects. As advised by the Group, labor subcontracting fee is one of the

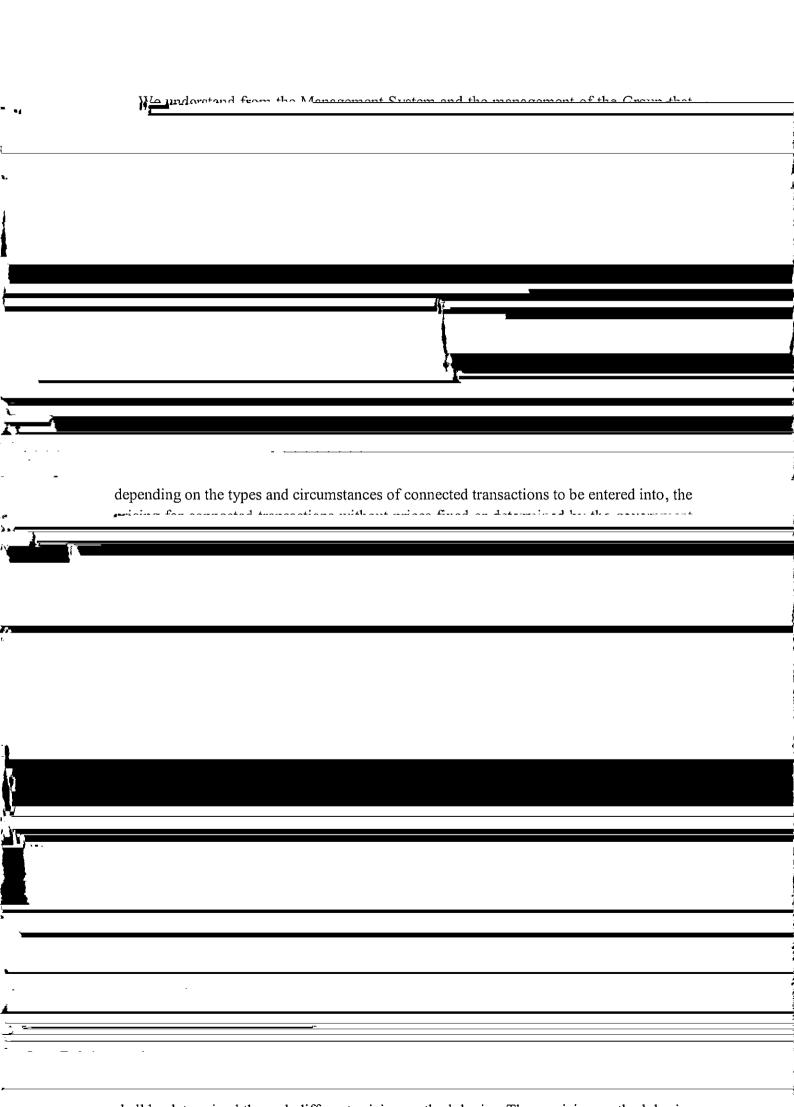
	construction projects and infrastructure construction projects, for which Baoding Tianli
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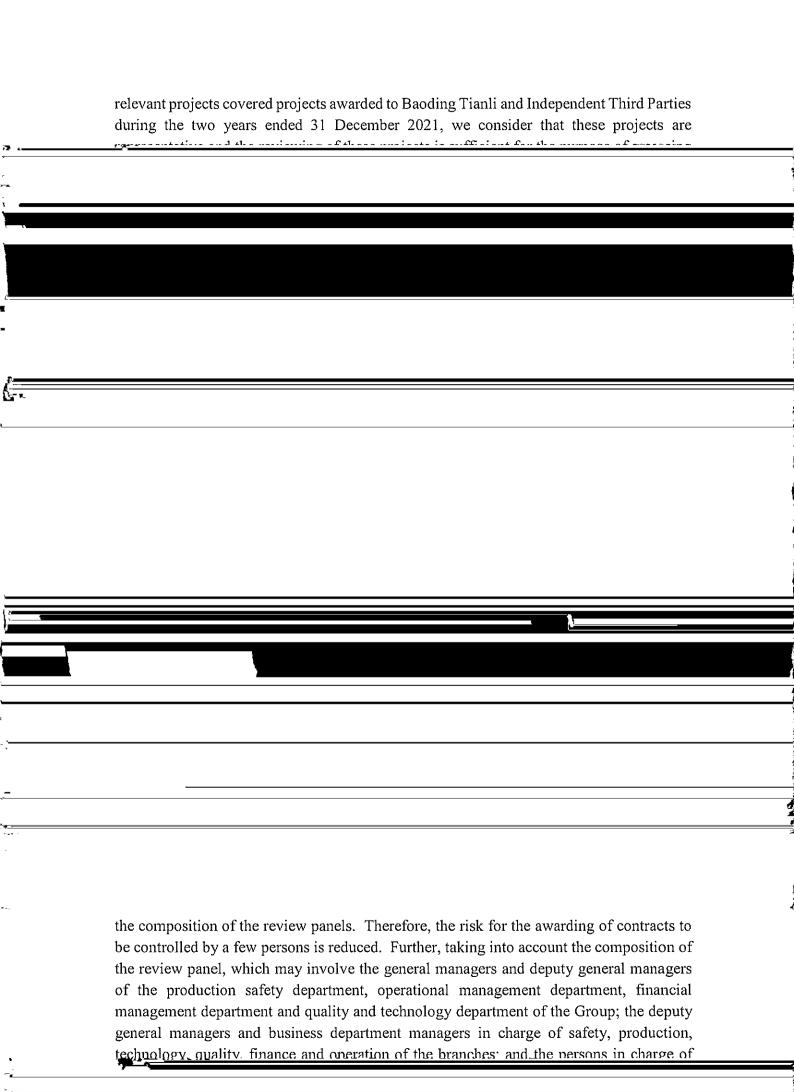
	The review panel will also take into consideration factors including, but not limited to,	
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	historical results, as well as make reference to prevailing market terms and prices. The bidder with the highest score comprehensively determined by the review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

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

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

•	The Audit Committee of the Board, the office of the Board and various internal departments of the Company (including but not limited to the finance department and the legal department) will also regularly review the implementation of such framework
⊶ .	agreement for the continuing connected transaction and the progress of the transaction
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	the pricing policy of such framework agreement for the continuing connected transaction on an annual basis;
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based on the combined score of the two parts mentioned above. We consider that our findings is in line with the pricing policy and the Management System.

5. Rationale for determining the Annual Caps

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

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

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

Notes:

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

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(i	The pandemic and 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
(i	The pandemic and 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

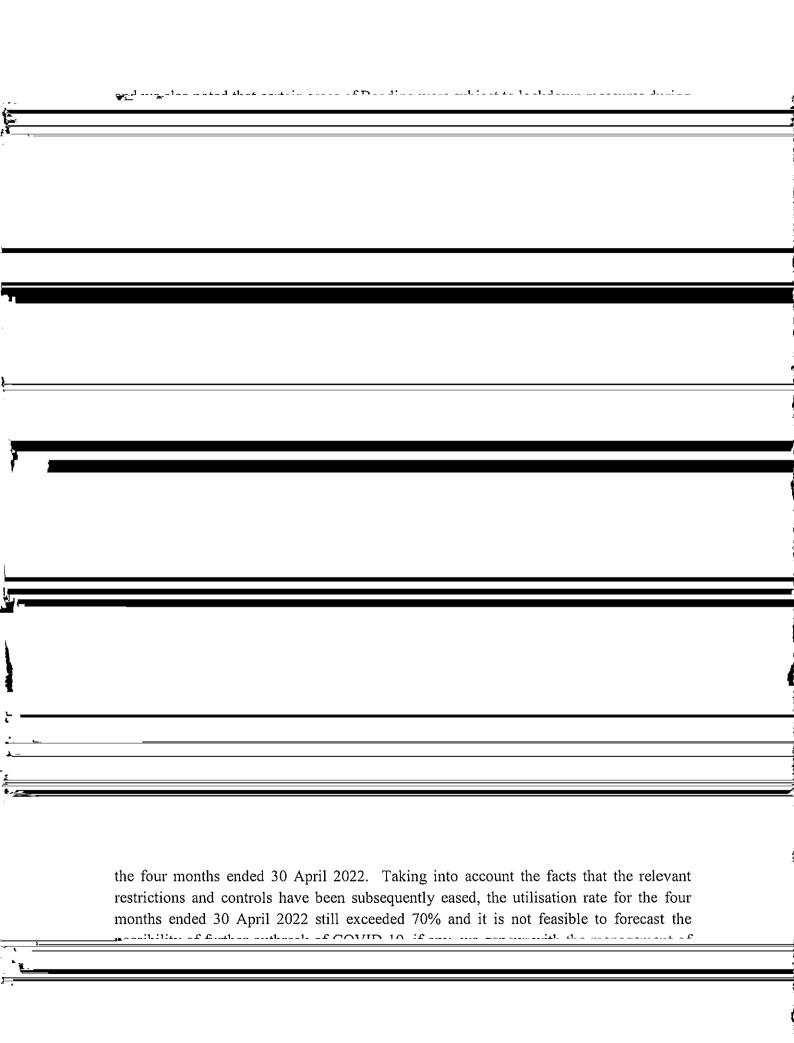
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To assess the fairness and reasonableness of the Annual Caps, we have discussed with the management of the Company and reviewed the calculation in relation thereto. We are given to understand that the proposed annual cap for the year ending 31 December 2023 was principally determined based on (i) the labor costs of the Group which is expected to remain stable; (ii) the Group's decision and consideration of supply chain safety which aims to proactively control the proportion of a single labor service provider in the overall subcontracting fees to be paid to Baoding Tianli and its associates as a percentage of the

yield real-estate bonds have become uninvestable for funds with strict mandates, and the

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default rate of real estate developers would also increase the credit risk for receivables from
 real estate developers. Taking into account the continuous worsening of default rate of real
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On the other hand, we noted the Group's decision and consideration of supply chain safety which aims to proactively control the proportion of a single labor service provider in the overall labor costs and reduce its reliance on a single labor service provider. In assessing the reasonableness for the implementation of such control, we have obtained and recent years and noted that the growth rate for 2018 was approximately 6.7%, and was reduced to approximately 5.9% in 2019 and 2.3% in 2020. Although the PRC has recorded a rebound in real GDP growth for 2021 to approximately 8.1% following the low GDP



Yours faithfully, for and on behalf of

HALCYON CAPITAL LIMITED

	Dab/	bta 6:
	Derek C.O. Chan	Barton Lai
	Chairman	Director
	Mr. Chan is a licensed person registered with the Secur of Halcyon Capital Limited, which is licensed under the regulated activities Mr. Chan has participated in the r	SFO to carry out Type 6 (advising on corporate finance)
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