
CONNECTED TRANSACTIONS

OVERVIEW

We have entered into a number of agreements with our connected persons (namely, various entities controlled by Mr. Wu, our Director and Controlling Shareholder). The transactions disclosed in this section are expected to continue after the [REDACTED] and will constitute one-off connected transactions or continuing connected transactions of our Group under Chapter 14A of the Listing Rules upon [REDACTED].

(A) ONE-OFF CONNECTED TRANSACTION

Project Management Services Agreement

We previously entered into a one-off connected transaction with the Remaining Group which will be completed after the [REDACTED]. On May 26, 2016, Zhongyuan Jianye and Sanmenxia Forest Peninsula Real Estate Co., Ltd* (三門峽森林半島置業有限公司) (a member of the Remaining Group) entered into a project management services agreement (the “**Project Management Services Agreement**”). Pursuant to the Project Management Services Agreement, we shall provide to such member of the Remaining Group the project management services, including preliminary management, planning and design management, cost management, construction management, marketing management, completion inspection and delivery management, customer service and coordination of property repair management work, preliminary property service supervision, file management, human resource management and administration management (the “**Project Management Services**”) in respect of a residential property located in Sanmenxia, Henan. Such project is expected to be completed by December 2022.

The fees in respect of the Project Management Services are determined based on arm’s length basis having regard to: (a) the estimated cost involved, including primarily the salaries, travel and accommodation expenses, benefits and bonuses for the personnel that our Group second to the project company of this one project, plus a mark-up taking into account the type and size of the property involved and the complexity of the project; and (b) comparable market prices for such Project Management Services provided by our Group to Independent Third Parties. Such fees have been set at RMB200.0 per sq.m., which is equivalent to our rate for various projects at that time entered into by us and Independent Third Parties. Further, we did not pay a trademark licensing fee during the Track Record Period as we were still a wholly-owned subsidiary of CCRE. Any benefit to our Group in light of any premium obtained by us in light of the “Jianye (建業)” brand will from [REDACTED] onwards be duly reflected by the Trademark Licensing Agreement. During the Track Record Period and up to the Latest Practicable Date, we adopted the same pricing basis to our transactions with all of our customers, whether being the Remaining Group (and its associates) or Independent Third Parties. In other words, we have not given any preferential pricing terms to the Remaining Group. Our Directors have confirmed that the fees in respect of the Project Management Services have been determined on the same basis for our fees charged to our independent third party customers.

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The revenue generated from the provision of Project Management Services for this one project amounted to RMB11.4 million, RMB8.7 million and RMB9.3 million for the years ended December 31, 2018, 2019 and 2020, respectively. We expect to receive the remaining fees by installments, namely RMB3.4 million by September 30, 2021, RMB2.0 million by December 31, 2021 and RMB2.0 million by March 31, 2022.

CCRE is indirectly held as to [69.21]% by Mr. Wu, our Director and Controlling Shareholder. Sanmenxia Forest Peninsula Real Estate Co., Ltd.* (三門峽森林半島置業有限公司) is a subsidiary of CCRE, and therefore will be Mr. Wu’s associate and our connected person under the Listing Rules.

Our provision of the Project Management Services will be regarded as a one-off connected transaction of our Company for the purposes of the Listing Rules. Accordingly, the reporting, announcement, annual review and independent shareholders’ approval requirements in Chapter 14A of the Listing Rules will not be applicable.

(B) FULLY EXEMPT CONTINUING CONNECTED TRANSACTION

Shared Administrative Services Framework Agreement

We have historically shared with the Remaining Group certain support administrative services such as information technology (the “**Shared Administrative Services**”) in our ordinary and usual course of business. We intend to continue such arrangement with the Remaining Group after the Spin-off and the [REDACTED]. On [May 12, 2021], our Company and CCRE entered into a shared administrative services framework agreement (the “**Shared Administrative Services Framework Agreement**”) for a term commencing from the [REDACTED] until December 31, 2023, pursuant to which the Remaining Group shall provide the Shared Administrative Services to us. The Shared Administrative Services will be charged to us on a cost basis, and the relevant costs must be identifiable and allocated to us based on the actual expenses incurred by us.

During the Track Record Period, the cost of such Shared Administrative Services was borne by CCRE given that we were its wholly-owned subsidiary. As such, the historical amounts incurred by us was nil during the Track Record Period.

Our Directors estimate the maximum amounts to be incurred by us under the Shared Administrative Services Framework Agreement for the years ending December 31, 2021, 2022 and 2023 will not exceed RMB240,000, RMB240,000 and RMB240,000, respectively. Despite the fact that costs of such Shared Administrative Services were historically borne by CCRE, such maximum amounts to be incurred by us under the Shared Administrative Services Framework Agreement will not have any material impact on our financial results due to their insignificant amount. For example, such annual caps represent merely 0.04% of our profit for the year ended December 31, 2020.

CCRE is indirectly held as to [69.21]% by Mr. Wu, our Director and Controlling Shareholder. As such, CCRE will be Mr. Wu’s associate and our connected person under the Listing Rules.

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As the Shared Administrative Services constitute the sharing of administrative services on a cost basis, and the costs will be identifiable and will be allocated to the parties on a fair and equitable basis, the transactions under the Shared Administrative Services Framework Agreement are exempt from all of the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.98 of the Listing Rules.

(C) PARTIALLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Trademark Licensing Agreement

We have historically used the Licensed Trademarks (as defined below) registered in the name of various subsidiaries of the Remaining Group. In anticipation of the Spin-off and to ensure that our Group will continue to be able to use the Licensed Trademarks, on [May 12, 2021], a trademark licensing agreement (the “**Trademark Licensing Agreement**”) was entered into between CCRE and our Company, pursuant to which CCRE agreed to grant to our Group the right to use certain trademarks of the Remaining Group registered in the PRC and Hong Kong (the “**Licensed Trademarks**”) for our business operations and investment activities, as well as the right to sub-lease the Licensed Trademarks to third parties solely for the purpose of business operation of our Group. The Trademark Licensing Agreement has a term of ten years commencing from the [REDACTED], unless otherwise terminated by both parties. Neither CCRE nor us has the right to unilaterally terminate the Trademark Licensing Agreement. Further, pursuant to the Trademark Licensing Agreement: (1) CCRE and us will commence discussions and negotiations in good faith regarding the renewal of such agreement at least two years before the expiry of such ten-year term; and (2) if at any time CCRE becomes reasonably certain that it will not renew such agreement, CCRE must notify us as soon as practicable. Details of the Licensed Trademarks are set forth in “Appendix IV — B. Further Information about our Business — 2. Intellectual Property Rights of our Group” to this document.

Our Directors believe that it is highly unlikely that the Trademark Licensing Agreement will be early terminated or that we will fail to renew such agreement, taking into account: (1) we have a good relationship with the Remaining Group and the fact that neither CCRE nor us has the right to unilaterally terminate the Trademark Licensing Agreement, coupled with the 10-year term of such agreement, is indicative of both parties’ intention to maintain a long term arrangement; (2) the licensing arrangement is highly beneficial to both CCRE and us, with our Group being allowed to continue to use the Licensed Trademarks for our project management business, and the Remaining Group being able to receive a license fee for a line of business (i.e. project management) which the Remaining Group will not be involved in. Further, as set out in detail in “Relationship with our Controlling Shareholders”, our project management business does not compete with the businesses of the Remaining Group. In other words, such license fee represents a source of income that the Remaining Group would not otherwise receive and which would not adversely impact the Remaining Group’s business. Further, in light of the above as well as our track record of providing quality project management services under the “Jianye (建業)” brand, our continued success in our project management business while utilizing the Licensed Trademarks will inherently enhance the brand recognition, image and value of the Licensed Trademarks (in particular, the “Jianye (建業)” brand) in the real estate industries, which would in turn ultimately be highly beneficial to CCRE as the registered proprietor; and (3) we have implemented

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certain control measures designed to enhance protection of the “Jianye (建業)” brand from unauthorized use by our Project Owners, as set out in “Business — Our Project Management Business — Use of The “Jianye (建業)” Brand”. In the highly unlikely event that we will fail to renew the Trademark Licensing Agreement after its 10-year term, our Group should by then have been in the project management industry for around 15 years with an even stronger customer base. We would have a decade’s track record of operating under a corporate structure that is independent from the Remaining Group. We will assess our appropriate branding options at the time, including exploring the feasibility of leveraging such extensive experience and customer relationships to develop our own project management brand.

If indeed we believe we need to develop our own project management brand, our Directors will work closely with our dedicated brand management department and sales and marketing department, in conjunction with public relations consultants and other advisers as necessary. We will leverage our 15 year track record in the project management industry (with 10 years having been operated under our independent corporate structure) in order to formulate a suitable brand, such as “Zhongyuan”. As mentioned above, pursuant to the Trademark Licensing Agreement, CCRE and us will commence discussions and negotiations in good faith regarding the renewal of such agreement at least two years before its expiration, and in any event, CCRE is required to notify us if at any time it becomes reasonably certain that it will not renew such agreement. Our Directors believe that these terms ensure that we will have sufficient time in order to formulate an appropriate brand strategy that is in the best interests of our Company and our Shareholders. Further, our Directors believe that, taking into account that the vast majority of our customers are Independent Third Parties and that by that time we will have operated independently from the Remaining Group for 10 years, it will be feasible for our Company to develop an appropriate brand strategy within such timeframe.

During the Track Record Period, no licensing fee had been paid by our Company to CCRE given that we were a wholly-owned subsidiary of CCRE. Pursuant to the Trademark Licensing Agreement, the licensing fee payable by us to CCRE from [REDACTED] onwards will be: (1) for the first three years: RMB15 million per year; (2) for the fourth to sixth year: RMB20 million per year; and (3) for the seventh to tenth year: RMB25 million per year. Such licensing fee will be calculated on a pro-rated basis for less than an entire calendar year.

The licensing fees have been arrived at after arm’s length negotiations between our Company and CCRE after taking into account (among others): (1) the brand value and intended use of the Licensed Trademarks, particularly for further expansion of our project management business. In particular, according to the brand valuation prepared by CIA which also estimates the total net income that could be derived from the “Jianye (建業)” brand as a whole (i.e. the “Total Net Income Attributable to Brand”), (a) the average % of the trademark licensing fee as compared to Total Net Income Attributable to Brand in 2021 and 2022 is close to (b) the average % of revenue of our Group as compared to the total revenue of CCRE Group during the Track Record Period. See the below paragraph for more details on such brand value; (2) the potential for further expansion of our project management business which will continue to use the Licensed Trademarks; (3) the abovementioned mutual benefits of such licensing arrangement to both CCRE and us (including the fact that our continued provision of high quality project management services while utilizing the Licensed Trademarks will inherently enhance

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the brand recognition, image and value of the Licensed Trademarks in the real estate industries, and that such licensing fees represent an additional revenue stream for the Remaining Group); and (4) the licensing fees to be paid by us as a percentage of our total revenue (being 1.3% to 2.2%, calculated based on the low-end of the licensing fees (i.e. RMB15 million) and the high-end of the licensing fees (i.e. RMB25 million) over our total revenue for the year ended December 31, 2020), which is comparable to that of certain other companies listed on the Stock Exchange. We also consider that the gradual increase in the licensing fees is in line with our expected growth and development in the coming period, and also provides us with certainty on the amount payable.

CIA has prepared an independent valuation on the brand of the Licensed Trademarks (i.e. the “Jianye (建業)” brand as a whole). It is prepared based on discounting the estimated perpetual income that could be derived by the effect of brand name each year to its present value, applying the appropriate growth rate, risk factor, discount rate and other factors that CIA considered appropriate. The Joint Sponsors understand from CIA that: (1) it has been engaged in brand valuation research on property developers in the PRC for more than ten years; (2) the 2020 “Jianye (建業)” brand value was prepared by CIA using the same methodology that has been consistently applied by CIA for more than 10 years; (3) the methodology and assumptions used by CIA inevitably have their own limitations which involves subjective assessment by CIA; and (4) there is no international standardised brand valuation approach. The determination of the trademark licensing fee and service fee of the Group has taken into account a number of qualitative and quantitative factors. While brand value is only one of the factors being considered, it is considered more qualitatively in the sense that customers are attracted to engage us due to the market reputation of the properties we developed and the track record and professional experiences of our personnel as implied by the “Jianye (建業)” brand, but neither the determination of trademark licensing fee nor the service fee is calculated directly from the brand value.

Having considered the assumptions, methodology and parameters used by CIA, our Directors consider that, and the Joint Sponsors concur that: (1) the brand valuation by CIA corroborates that the licensing fees under the Trademark Licensing Agreement are fair and reasonable; and (2) while the brand reputation does attract our customers to engage us to provide management services, the service fees are largely substantiated by the service actually provided by our Group and are not substantially or merely by the effect of the brand.

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We have been using the Licensed Trademarks in the business of our Group since the commencement of our project management business. We intend to continue to use the Licensed Trademarks in such connection after the [REDACTED]. Our Directors consider that entering into a trademark licensing agreement for a duration longer than three years is reasonable and justifiable to ensure the stability of our operations. Our Directors consider that the “Jianye (建業)” brand is a highly recognizable brand in central China for high quality project management services in respect of property development projects and represents our consistent aspiration to deliver high quality properties to our customers, and that such existing brand image allows us to resonate with our customers and facilitate our market and business expansion. The ten-year term of the Trademark Licensing Agreement ensures our ongoing operations are not interrupted and is a usual business practice. Our Directors consider the Trademark Licensing Agreement to be beneficial to the interests of our Company and our Shareholders as a whole. On the basis that (i) the Trademark Licensing Agreement is necessary to our business to align brand image and to promote our services; and (ii) a longer duration of the license term will provide a greater degree of stability and continuity to our business, our Directors and the Joint Sponsors are of the view that the duration of longer than three years is in line with normal business practice for agreements of this type.

Upon expiry of such ten-year term, the Trademark Licensing Agreement will need to be renewed. Any such renewal would be subject to our negotiations with CCRE, as well as compliance with relevant laws and regulations, including the Listing Rules, and may hence be subject to approval by independent Shareholders in the future. The interests of CCRE may not align with our interests, and therefore there is no guarantee that we will be able to renew such agreement in a timely manner, or at favorable terms, or at all, in the future. In the event that we fail to renew or encounter significant delays in renewing such agreement, we may not be able to undertake certain project management projects or allow the Project Owners to use or continue to use the “Jianye (建業)” brand as part of our project management services, and therefore our business, financial condition and results of operations may be adversely affected.

CCRE is indirectly held as to [69.21]% by Mr. Wu, our Director and Controlling Shareholder. As such, CCRE will be Mr. Wu’s associate and our connected person under the Listing Rules.

As one/each of the applicable percentage ratios under the Listing Rules in respect of the annual caps of the Trademark Licensing Agreement is expected to be at least 0.1% but less than 5%, the transactions under the Trademark Licensing Agreement constitute partially exempt de minimis continuing connected transactions of our Company which are subject to the written agreement, announcement, annual reporting, terms of an agreement, annual caps, changes to cap or terms of agreement and annual review requirements, but exempt from the shareholders’ approval and circular (including independent financial advice) requirements under Chapter 14A of the Listing Rules, pursuant to Rule 14A.76(2) of the Listing Rules.

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Property Management Services Framework Agreement

Central China New Life has historically provided us property management services at our place of business and headquarter in Zhengzhou and other branch offices (the “**Property Management Services**”) in our ordinary and usual course of business. We intend to continue such arrangement with Central China New Life after the [REDACTED]. On [May 12,] 2021, our Company and Central China New Life entered into a property management services framework agreement (the “**Property Management Services Framework Agreement**”) for a term commencing from [REDACTED] to December 31, 2023, pursuant to which Central China New Life shall provide the Property Management Services to us. The Property Management Services Framework Agreement was agreed upon on normal commercial terms after arm’s length negotiations, and the property management fees were determined based on the (i) number, nature, category and location of the properties; (ii) GFA of the properties; (iii) rate generally offered by Central China New Life to Independent Third Parties in respect of comparable services; (iv) anticipated staff costs of Central China New Life; and (v) prevailing market prices for comparable services by obtaining quotations from at least two Independent Third Parties for the provision of similar services to determinate if the terms offered by Central China New Life are fair and reasonable and comparable to those offered by Independent Third Parties. To our Directors’ best knowledge and belief, the fees for the Property Management Services are no more favourable than those charged by Central China New Life to its independent third-party customers. With respect to each property, the relevant members of Central China New Life and our Group will further enter into an individual separate agreement that prescribes the specific terms and conditions of each property.

The fees paid by us for the Property Management Services amounted to RMB0.1 million, RMB1.1 million and RMB2.4 million for the years ended December 31, 2018, 2019 and 2020, respectively.

Our Directors estimate the maximum annual fees to be paid by us under the Property Management Services Framework Agreement for the years ending December 31, 2021, 2022 and 2023 will not exceed RMB3.0 million, RMB3.5 million and RMB4.0 million, respectively.

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical transaction amounts for provision of Property Management Services during the Track Record Period;
- the expected increase in fees payable for our premises that currently require Property Management Services (being our headquarters and seven branch offices) due to anticipated gradual increases in operation costs of Central China New Life (primarily staff costs and administration costs), with such increase being approximately RMB300,000 for each of the years ending December 31, 2021, 2022 and 2023; and

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- the expected expansion and opening of branch offices which will require additional Property Management Services in the amount of approximately RMB200,000 for each of the years ending December 31, 2021, 2022 and 2023.

Central China New Life is a company listed on the Stock Exchange (stock code: 9983) and is indirectly held as to 67.46% by Mr. Wu, our Director and Controlling Shareholder. As such, Central China New Life will be Mr. Wu’s associate and our connected person under the Listing Rules.

As one/each of the applicable percentage ratios under the Listing Rules in respect of the annual caps of the Property Management Services Framework Agreement is expected to be at least 0.1% but less than 5%, the transactions under the Property Management Services Framework Agreement constitute partially exempt de minimis continuing connected transactions of our Company which are subject to the written agreement, announcement, annual reporting, terms of an agreement, annual caps, changes to cap or terms of agreement and annual review requirements, but exempt from the shareholders’ approval and circular (including independent financial advice) requirements under Chapter 14A of the Listing Rules, pursuant to Rule 14A.76(2) of the Listing Rules.

(D) APPLICATION FOR WAIVER

The transactions described under the paragraph “—(C) Partially-exempt Continuing Connected Transactions” in this section constitute our continuing connected transactions under the Listing Rules, which are subject to the written agreement, announcement, annual reporting, terms of an agreement, annual caps, changes to cap or terms of agreement and annual review requirements, but exempt from the shareholders’ approval and circular (including independent financial advice) requirements under Chapter 14A of the Listing Rules, pursuant to Rule 14A.76(2) of the Listing Rules.

As the transactions described under the paragraph “— (C) Partially-exempt Continuing Connected Transactions” above are and will continue to be entered into in the ordinary and usual course of business of our Group on a continuing and recurring basis and are expected to extend over a period of time, our Directors are of the view that compliance with the announcement requirement under Rule 14A.35 of the Listing Rules would impose unnecessary administrative costs and burden to our Group and would at times be impracticable.

Accordingly, in accordance with Rules 14A.102 and 14A.105 of the Listing Rules, we have applied to the Stock Exchange, and the Stock Exchange has granted, a waiver from strict compliance with the announcement requirements under Rule 14A.35 of the Listing Rules. The waiver is valid provided that the total amounts received by us under these partially-exempt continuing connected transactions do not exceed their respective annual caps for the relevant periods set out above. After the expiry of the respective term of these partially-exempt continuing connected transactions, we will comply with the applicable provisions under Chapter 14A of the Listing Rules as amended from time to time or apply for a new waiver.

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(E) VIEWS OF OUR DIRECTORS AND THE JOINT SPONSORS

Our Directors (including our independent non-executive Directors) and the Joint Sponsors consider that: (i) the partially-exempt continuing connected transactions described above have been and will be entered into in the ordinary and usual course of our business and on normal commercial terms or better; (ii) the terms of such partially-exempt continuing connected transactions are fair, reasonable and in the interests of our Group and our Shareholders as a whole; and (iii) the annual caps for such partially-exempt continuing connected transactions are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

(F) ADDITIONAL OPINION OF OUR INDEPENDENT NON-EXECUTIVE DIRECTORS

Our independent non-executive Directors are of the opinion that: (1) the pricing mechanism and the terms under the Trademark Licensing Agreement and the Property Management Services Framework Agreement described above and the transactions contemplated thereunder are clear and specific; (2) the proposed annual caps of such partially-exempt continuing connected transactions described above is reasonable taking into account historical transaction and management projections; (3) the methods and procedures established by us are sufficient to ensure that such partially-exempt continuing connected transactions will be conducted on normal commercial terms and not prejudicial to the interests of our Company and our minority Shareholders; (4) appropriate internal control procedures are in place, and our internal audit will review these transactions; and (5) they are provided by the management of our Company with sufficient information for the discharge of their duties.