
CONNECTED TRANSACTIONS

CONNECTED PERSONS

Zhongtian Holdings is a company established in the PRC with limited liability and is an investment holding company. Zhongtian Holdings was the holding company which held approximately 74.97% of the share capital of Zhongtian Construction immediately before the Reorganisation. The shareholding of the shareholders of ZT (A) is proportional to their respective shareholding in Zhongtian Holdings immediately before the Reorganisation. Since (i) as part of our Reorganisation, ZT (A) was incorporated in the BVI to replace Zhongtian Holdings as the investment vehicle of the 79 individual shareholders to hold the Shares in our Company and Zhongtian Holdings ceased to hold any shares in Zhongtian Construction directly or indirectly after completion of our Reorganisation; and (ii) the shareholding in ZT (A) is disperse, with 79 shareholders, and Zhongtian Holdings was not a 30%-controlled company (with the meaning ascribed thereto under the Listing Rules) or a majority-controlled company (with the meaning ascribed thereto under the Listing Rules) of any connected person of our Company, Zhongtian Holdings does not fall within the definition of connected persons under the Listing Rules. In order to ensure the interests of our Shareholders as a whole are taken into account when we enter into transactions with Zhongtian Holdings and its associates after the [REDACTED], we will voluntarily deem Zhongtian Holdings and its associates as our connected persons which include the following entities and comply with Chapter 14A of the Listing Rules upon [REDACTED]:

<u>Name</u>	<u>Relationship with our Company</u>
Hengji Real Estate	Hengji Real Estate is a company established in the PRC with limited liability and principally engages in property development. As at the Latest Practicable Date, Hengji Real Estate was owned by Zhongtian Holdings as to approximately 85.82%. As discussed above, we will voluntarily deem Hengji Real Estate as our connected person.
Wuguang Investment	Wuguang Investment is a company established in the PRC with limited liability and principally engages in property development. As at the Latest Practicable Date, Wuguang Investment was wholly-owned by Hengji Real Estate. As discussed above, we will voluntarily deem Wuguang Investment as our connected person.
Fangge Intelligence	Fangge Intelligence is a company limited by shares established in the PRC and principally engages in the provision of ancillary building services. As at the Latest Practicable Date, Fangge Intelligence was owned by Zhongtian Holdings as to 70.00%. As discussed above, we will voluntarily deem Fangge Intelligence as our connected person.

CONNECTED TRANSACTIONS

Name	Relationship with our Company
Hangxiao Technology	Hangxiao Technology is a company limited by shares established in the PRC and principally engages in the design and manufacture of steel structure. As at the Latest Practicable Date, Hangxiao Technology was owned by Zhongtian Holdings as to 68.29%. As discussed above, we will voluntarily deem Hangxiao Technology as our connected person.
Puhui Commercial	Puhui Commercial is a company limited by shares established in the PRC and principally engages in property leasing. As at the Latest Practicable Date, Puhui Commercial was owned by Zhongtian Holdings as to approximately 74.97%. As discussed above, we will voluntarily deem Puhui Commercial as our connected person.

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

Prior to the [REDACTED], we have entered into certain transactions with the parties whom we will voluntarily deem as our connected persons upon [REDACTED]. Some of such transactions will continue after [REDACTED] and will constitute continuing connected transactions with our Company under the Listing Rules.

Transaction	Connected persons	Applicable Listing Rules	Waiver sought
Non-exempt continuing connected transactions			
Construction Services Framework Agreements	Hengji Real Estate, Wuguang Investment, Hangxiao Technology	14A.34, 14A.35, 14A.36, 14A.49, 14A.51-59, 14A.71, 14A.105	Announcement and independent Shareholders’ approval requirement
Procurement Framework Agreements	Fangge Intelligence, Hangxiao Technology	14A.34, 14A.35, 14A.36, 14A.49, 14A.51-59, 14A.71, 14A.105	Announcement and independent Shareholders’ approval requirement

CONNECTED TRANSACTIONS

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Provision of construction services under the Construction Services Framework Agreements

Parties

Engaging parties:

- (i) Hengji Real Estate (as property developer)
- (ii) Wuguang Investment (as property developer)
- (iii) Hangxiao Technology (as property owner)

Contractor: Zhongtian Construction

Principal terms

On [•], Zhongtian Construction entered into a construction services framework agreement (collectively the “**Construction Services Framework Agreements**”) with each of Hengji Real Estate, Wuguang Investment and Hangxiao Technology, respectively, pursuant to which Zhongtian Construction agreed to provide general building construction services and renovation and decoration building services to Hengji Real Estate, Wuguang Investment and Hangxiao Technology. The term of the Construction Services Framework Agreements shall commence on the [REDACTED] and end on 31 December 2025. Zhongtian Construction will enter into separate construction contracts with Hengji Real Estate, Wuguang Investment or Hangxiao Technology (as the case may be) which specify and record the terms and provisions of the specific project to be carried out in accordance with the principles and terms of the Construction Services Framework Agreements in all material aspects.

CONNECTED TRANSACTIONS

Reasons for the transaction

We have been providing construction services to Hengji Real Estate, Wuguang Investment and Hangxiao Technology in the ordinary and usual course of our business during the Track Record Period. Our Directors consider that the provision of construction services to Hengji Real Estate, Wuguang Investment and Hangxiao Technology would benefit our Group for the following reasons:

- our Group has established a stable business relationship with Hengji Real Estate, Wuguang Investment and Hangxiao Technology and understand the business operations, construction requirements, quality control and other requirements of each other, which enable smooth cooperation and operation and help save costs; and
- price and terms of providing construction services to Hengji Real Estate, Wuguang Investment and Hangxiao Technology are no less favourable to us than those offered by us to Independent Third Parties.

Pricing Policy

In accordance with the Construction Services Framework Agreements, the construction services fee should be determined with reference to the pricing guidelines and methods as set out in the valuation guidelines published by the local housing and urban-rural construction bureaus. We will also consider factors such as project schedule, complexity and scale of the construction project, potential revision of the scope of work, geographical location and environmental conditions of the project site to ensure the prices and terms will be no less favourable to us than those offered by us to Independent Third Parties.

CONNECTED TRANSACTIONS

Historical transaction amounts

The table below sets out the construction services fee paid by Hengji Real Estate, Wuguang Investment and Hangxiao Technology in relation to the construction services provided by our Group during the Track Record Period:

	FY2019	FY2020	FY2021	3Q2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Hengji Real Estate	14,641	32,443	31,904	51,185
Wuguang Investment	251,187	254,367	325,089	170,660
Hangxiao Technology	62,650	25,321	10,746	1,482
Total	<u>328,478</u>	<u>312,131</u>	<u>367,739</u>	<u>223,327</u>

Proposed annual caps

The annual caps for construction services fee to be paid by Hengji Real Estate, Wuguang Investment and Hangxiao Technology in relation to the construction services under the Construction Services Framework Agreements for each of the three years ending 31 December 2025 are set out as follows:

	For the year ending 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Hengji Real Estate	50,000	30,000	50,000
Wuguang Investment	330,000	330,000	330,000
Hangxiao Technology	10,500	6,000	6,000
Total	<u>390,500</u>	<u>366,000</u>	<u>386,000</u>

In arriving at the above annual caps of the Construction Services Framework Agreements, our Directors have considered the following factors:

- the historical transaction amounts during the Track Record Period;
- the estimated revenue to be recognised under the existing construction contracts entered into with Hengji Real Estate, Wuguang Investment and Hangxiao Technology as at 30 September 2022 with reference to the remaining contract value for services to be rendered under such construction contracts as at 30 September 2022, including the estimated revenue to be recognised under (i) the construction

CONNECTED TRANSACTIONS

contract awarded by Hengji Real Estate in March 2020 with estimated contract sum of approximately RMB87.9 million which commenced works in June 2020; and (ii) the construction contract awarded by Wuguang Investment in March 2020 with estimated contract sum of approximately RMB666.1 million which commenced works in October 2020;

- the additional revenue expected to be recognised from the abovementioned construction contracts for ancillary and/or additional construction works as well as the estimated cost to be incurred due to any delay in the construction, which is expected to be approximately 10% of the estimated contract sum based on our experience in similar projects in the past, progress of the projects and the construction schedule;
- the estimated revenue to be recognised from construction contracts to be entered into with Hengji Real Estate and Wuguang Investment estimated with reference to (i) the business development plan and potential growth trend in our construction contracting business based on the growth in the revenue of our Group during the Track Record Period; (ii) the frequency of commencement of new projects by Hengji Real Estate and Wuguang Investment during the Track Record Period; (iii) the nature and scale of our construction projects of Hengji Real Estate and Wuguang Investment prior to and during the Track Record Period; (iv) the historical tender success rate in securing construction projects of Hengji Real Estate was approximately 50.0% for FY2020, and the historical tender success rate in securing construction projects of Wuguang Investment was approximately 60.0% and 56.0% for FY2019 and FY2020, respectively; and (v) the business plan of Hengji Real Estate and Wuguang Investment that we understood from Hengji Real Estate and Wuguang Investment;
- the estimated revenue to be recognised from the construction contract(s) to be entered with Hangxiao Technology for the construction of the second phase of its factory, which Hangxiao Technology is planning;
- the expected costs, including material costs and labour costs; and
- the relevant authorities’ pricing guidelines.

CONNECTED TRANSACTIONS

Implications under the Listing Rules

Upon [REDACTED], the Construction Services Framework Agreements will constitute continuing connected transactions of our Company under the Listing Rules and are subject to the reporting, annual review, announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

2. Procurement of raw materials and services under the Procurement Framework Agreements

Parties

Suppliers:

- (i) Fangge Intelligence
- (ii) Hangxiao Technology

Purchaser: Zhongtian Construction

Principal terms

On [•], Zhongtian Construction entered into a procurement framework agreement (the “**Procurement Framework Agreements**”) with each of Fangge Intelligence and Hangxiao Technology, respectively, pursuant to which (i) Fangge Intelligence agreed to provide ancillary building services in relation to insulation, installation of surveillance system and intelligent system etc. to Zhongtian Construction; and (ii) Hangxiao Technology agreed to provide prefabricated steel structure products and processing services for prefabricated steel structure products to Zhongtian Construction. The term of the Procurement Framework Agreements shall commence on the [REDACTED] and end on 31 December 2025. Zhongtian Construction will enter into separate contracts with Fangge Intelligence or Hangxiao Technology (as the case may be) which specify and record the terms and provisions of the specific procurement transaction to be carried out in accordance with the principles and terms of the Procurement Framework Agreements in all material aspects.

CONNECTED TRANSACTIONS

Reasons for the transaction

We have been procuring raw materials and services from Fangge Intelligence and Hangxiao Technology in the ordinary and usual course of our business during the Track Record Period. Our Directors consider that the procurement of raw materials and services from Fangge Intelligence and Hangxiao Technology would benefit our Group for the following reasons:

- our Group has established a stable business relationship with Fangge Intelligence and Hangxiao Technology and understand the business operations, construction requirements, quality control and other requirements of each other, which enable smooth cooperation and operation and help save costs;
- Fangge Intelligence had years of experience in provision of ancillary building services and Hangxiao Technology has expertise in design and manufacture of prefabricated steel structure, together with their established teams, Fangge Intelligence and Hangxiao Technology are capable of supplying our Group with raw materials and services with sufficient quantity, reliable quality and in a timely manner, which will ensure smooth business operation of our Group;
- Zhongtian Construction has entered into a strategic EPC Tripartite Framework Agreement with Hangxiao Technology and Hunan Design Institute to form a business alliance in developing prefabricated steel structure building system for residential properties under the EPC model, pursuant to which Hunan Design Institute will provide comprehensive design services, while Hangxiao Technology will be responsible for the provision of prefabricated steel structure products, and our Group will handle the implementation of prefabricated steel structure construction works, as well as the provision of warranty services. For a summary of the material terms of the EPC Tripartite Framework Agreement, please refer to the section headed “Business — Our business operations — Contracting models” in this document; and
- the prices and terms for the procurement of raw materials and services by the Group from Fangge Intelligence and Hangxiao Technology would be no less favourable to our Company than those provided by suppliers who are Independent Third Parties.

CONNECTED TRANSACTIONS

Pricing Policy

In accordance with our procurement policy and approval system for our suppliers, our procurement of raw materials are typically conducted (i) through a bidding process if the amount of the procurement exceed RMB2,000,000 or (ii) directly from suppliers selected from a list of qualified suppliers for our principal raw materials if the amount of the procurement is below RMB2,000,000. Selection of the qualified suppliers is based on various criteria, including price, quality, delivery schedule, after-sale services, location, supply capacity, credit standing, client base and customer service based on previous experience.

In accordance with the Procurement Framework Agreements, the fee to be paid by our Group should be determined as follows:

With respect to ancillary building services in relation to insulation, installation of surveillance system and intelligent system etc. to be provided by Fangge Intelligence:

- the pricing guidelines and methods as set out in the valuation guidelines published by the local housing and urban-rural construction bureaus; and
- the price will take into account factors such as project schedule, complexity and scale of the construction project, potential revision of the scope of work, geographical location and environmental conditions of the project site to ensure the prices and terms will be no less favourable to us than those provided by suppliers who are Independent Third Parties.

With respect to prefabricated steel structure products and processing services for prefabricated steel structure products to be provided by Hangxiao Technology:

- the price shall be generally in line with the relevant market price at which the same type of raw materials and the processing services provided to us by suppliers who are Independent Third Parties on normal commercial terms. We will conduct market research and regularly contact our suppliers (including both Hangxiao Technology and Independent Third Parties) to understand the market conditions and determine the prevailing market rate of the relevant type of raw materials and the processing services; and
- where bidding process is applied for the procurement of the relevant raw materials and the processing services, the price shall be determined based on the results of such process in accordance with our internal regulations and rules applicable to all suppliers of the same type of raw materials. Pursuant to such regulations and rules,

CONNECTED TRANSACTIONS

if Hangxiao Technology wins the bid, their terms offered, including the price quoted, shall be no less favourable than those offered by any suppliers who are Independent Third Parties that participates in the bidding process.

Historical transaction amounts

The table below sets out the transaction amount with Fangge Intelligence and Hangxiao Technology for raw materials and services during the Track Record Period:

	FY2019	FY2020	FY2021	3Q2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fangge Intelligence	8,787	8,008	642	6,571
Hangxiao Technology	16,261	22,172	92,270	55,720
Total	<u>25,048</u>	<u>30,180</u>	<u>92,912</u>	<u>62,291</u>

Proposed annual caps

The annual caps for procurement of raw materials and services from Fangge Intelligence and Hangxiao Technology under the Procurement Framework Agreements for each of the three years ending 31 December 2025 are set out as follows:

	For the year ending 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fangge Intelligence	10,000	10,000	10,000
Hangxiao Technology	150,000	150,000	150,000
Total	<u>160,000</u>	<u>160,000</u>	<u>160,000</u>

In arriving at the above annual caps of the Procurement Framework Agreements, our Directors have considered the following factors:

- the historical transaction amounts during the Track Record Period;
- the existing contracts entered into with Fangge Intelligence and Hangxiao Technology, respectively, as at 30 September 2022, and the remaining contract value for raw materials to be provided or services to be rendered under such contracts as at 30 September 2022;

CONNECTED TRANSACTIONS

- the estimated procurement demand for two construction projects in Hunan Province with a total estimated contract sum of approximately RMB650.1 million (excluded VAT) which require the procurement of prefabricated steel structure products, based on our past experience in projects that adopted prefabricated steel structure building system, the estimated construction area of the said projects and the average market price of prefabricated steel structure products;
- the expected procurement demand of upcoming projects that would require raw materials or services from Fangge Intelligence and Hangxiao Technology as at the Latest Practicable Date;
- the expected procurement demand for potential projects that our Group may engage Fangge Intelligence or Hangxiao Technology, together with the historical tender success rate of Fangge Intelligence or Hangxiao Technology (where applicable), taking into account the business plan of Fangge Intelligence that we understood Fangge Intelligence shifted its business focus to software development in FY2021 and the estimated need of such services in our construction projects;
- the expected procurement demand estimated with reference to (i) the potential growth of the business of our Group based on the growth in the revenue of our Group during the Track Record Period; (ii) the long-term good cooperation between our Group and Fangge Intelligence and Hangxiao Technology, in particular (i) Fangge Intelligence is experienced in developing household intellectual solutions, and (ii) Hangxiao Technology is licensed to use a series of patent relating to “Steel Structural Residential System” (鋼結構住宅體系) owned by Hangxiao Steel Structure for producing prefabricated steel structure raw materials that can provide us with a stable and sufficient supply of such materials; and (iii) our business strategies to develop prefabricated steel structure building system and apply results of our R&D projects into prefabricated steel structure construction projects, which is expected to increase our demand for prefabricated steel structure products and processing services accordingly. For details, please refer to the section headed “Business — Business strategies” in this document; and
- market information from industry consultant, such as increase in costs or growth in the market.

CONNECTED TRANSACTIONS

Implications under the Listing Rules

Upon [REDACTED], the Procurement Framework Agreements will constitute continuing connected transactions of our Company under the Listing Rules and are subject to 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 under the Construction Services Framework Agreements and Procurement Framework Agreements for the continuing connected transactions are fair and reasonable, or no less favourable than terms available to or from Independent Third Parties, and are carried out on normal commercial terms, we have adopted the following internal control procedures:

- We have adopted and implemented a management system on connected transactions. Under such system, the audit committee of our Company is responsible for review on compliance with relevant laws, regulations, our policies and the Listing Rules in respect of the continuing connected transactions. In addition, the audit committee of our Company, the Board and various internal departments of our Company (including but not limited to the finance department and legal department) are jointly responsible for evaluating the terms under framework agreements for the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps under each transaction.
- The audit committee of our Company, the Board and various internal departments of our Company also regularly monitor the transaction under the Construction Services Framework Agreements and Procurement Framework Agreements. In addition, the management of our Company also regularly reviews the pricing policies of the Construction Services Framework Agreements and Procurement Framework Agreements.
- Our independent non-executive Directors and auditors will conduct annual reviews of the continuing connected transactions under the Construction Services Framework Agreements and Procurement Framework Agreements and provide annual confirmation to ensure that, in accordance with the Listing Rules, the transactions are conducted in accordance with the terms of the agreements, on normal commercial terms and in accordance with the pricing policy.
- When considering the prices for transactions with our connected persons, we will continue to regularly research in prevailing market conditions and practices and make reference to the pricing and terms between our Group and Independent Third Parties for similar transactions, to ensure that the pricing and terms offered by our connected

CONNECTED TRANSACTIONS

persons, either from bidding procedures or mutual commercial negotiations (as the case may be), are fair, reasonable and are no less favourable than those offered to Independent Third Parties.

APPLICATION FOR WAIVERS

We have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, a waiver from strict compliance with the announcement and independent Shareholders' approval requirements of the Listing Rules in respect of the continuing connected transactions under each of the (i) Construction Services Framework Agreements and (ii) Procurement Framework Agreements, subject to the condition that the aggregate amounts of each of the (i) Construction Services Framework Agreements and (ii) Procurement Framework Agreements for each of the three years ending 31 December 2025 will not exceed their respective annual caps.

DIRECTORS' VIEW

Our Directors, including our independent non-executive Directors, consider that the Construction Services Framework Agreements and Procurement Framework Agreements together with the respective annual caps set forth above are fair and reasonable, and that they have been entered into in the ordinary and usual course of our business, on normal commercial terms that are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

SOLE SPONSOR'S VIEW

The Sole Sponsor is of the view that the Construction Services Framework Agreements and Procurement Framework Agreements together with the respective annual caps set forth above are fair and reasonable, and they have been entered into in the ordinary and usual course of our business, on normal commercial terms that are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

TRANSACTIONS ENTERED INTO BEFORE THE [REDACTED] WHICH WOULD OTHERWISE CONSTITUTE CONNECTED TRANSACTIONS

We have entered into certain transactions with Puhui Commercial. These transactions with Puhui Commercial were entered into before the [REDACTED] and are accounted as one-off in nature under HKFRS 16. If these transactions were entered into after the [REDACTED], such transactions would have constituted connected transactions of our Group. Details of such transactions are set out below in order to facilitate potential investors to anticipate that we have, before the [REDACTED], entered into transactions which would otherwise be considered as connected transactions should our Company be [REDACTED] on the Stock Exchange at the time of the relevant transactions.

CONNECTED TRANSACTIONS

Tenancy Agreements

As at the Latest Practicable Date, our Group has entered into tenancy agreements (the “**Tenancy Agreements**”) with Puhui Commercial for lease of certain properties (collectively, the “**Properties**”), details of which are set out as follows:

Date of tenancy agreements	Property address	Parties	Gross floor area under the current tenancy agreement (sq.m.)	Total rental per year (RMB)	Term	Use of the property
1. (a) 18 December 2021 (“ Tenancy Agreement 1 ”) (b) 20 November 2022 (“ Renewed Tenancy Agreement 1 ”)	1st Floor Office Area, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	Landlord: Puhui Commercial	78.54	45,240	(a) 1 January 2022 to 31 December 2022	Office
					(b) 1 January 2023 to 31 December 2023	
2. (a) 18 December 2021 (“ Tenancy Agreement 2 ”) (b) 20 November 2022 (“ Renewed Tenancy Agreement 2 ”)	Portion of the 2nd Floor, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	Landlord: Puhui Commercial	37.29	8,052	(a) 1 January 2022 to 31 December 2022	Office
					(b) 1 January 2023 to 31 December 2023	
3. (a) 18 December 2021 (“ Tenancy Agreement 3 ”) (b) 20 November 2022 (“ Renewed Tenancy Agreement 3 ”)	Portion of the 2nd Floor, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	Landlord: Puhui Commercial	72.64	15,696	(a) 1 January 2022 to 31 December 2022	Office
					(b) 1 January 2023 to 31 December 2023	
4. (a) 18 December 2021 (“ Tenancy Agreement 4 ”) (b) 20 November 2022 (“ Renewed Tenancy Agreement 4 ”)	Portion of the 2nd Floor, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	Landlord: Puhui Commercial	197.69	42,696	(a) 1 January 2022 to 31 December 2022	Office
					(b) 1 January 2023 to 31 December 2023	
5. (a) 18 December 2021 (“ Tenancy Agreement 5 ”) (b) 20 November 2022 (“ Renewed Tenancy Agreement 5 ”)	Portion of the 2nd Floor, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	Landlord: Puhui Commercial	200	43,200	(a) 1 January 2022 to 31 December 2022	Office
					(b) 1 January 2023 to 31 December 2023	
6. (a) 18 December 2021 (“ Tenancy Agreement 6 ”) (b) 20 November 2022 (“ Renewed Tenancy Agreement 6 ”)	Portion of the 2nd Floor and 3rd Floor Office Area, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	Landlord: Puhui Commercial	1,372.78	296,520	(a) 1 January 2022 to 31 December 2022	Office
					(b) 1 January 2023 to 31 December 2023	

CONNECTED TRANSACTIONS

Basis in determining the rental payable

The rents were on normal commercial terms determined after arm's length negotiations based on the prevailing market rents no less favourable to those offered by Independent Third Parties for comparable properties in similar locations. The Independent Valuer has reviewed the Tenancy Agreements with reference to the asking rentals of comparable properties in the market and compared the differences of various factors of the Properties and the selected comparable properties such as location, quality, size, asking rent and time etc.. The rents of comparable properties under Tenancy Agreement 1 range from RMB42.9 per sq.m. to RMB70.0 per sq.m. and that of comparable properties under Tenancy Agreements 2 to 6 range from RMB18.0 per sq.m. to RMB24.0 per sq.m.. The rents of comparable properties under Renewed Tenancy Agreement 1 range from RMB47.7 per sq.m. to RMB54.0 per sq.m. and that of comparable properties under Renewed Tenancy Agreements 2 to 6 range from RMB17.0 per sq.m. to RMB23.1 per sq.m.. The rentals under Tenancy Agreement 1 and Renewed Tenancy Agreement 1 was RMB48 per sq.m., while the rentals under Tenancy Agreements 2 to 6 and Renewed Tenancy Agreements 2 to 6 were RMB18 per sq.m. respectively. According to the Independent Valuer, the rents under the Tenancy Agreements are within the range of rents of their respective comparable properties. As such, the rents of the Properties under the Tenancy Agreements were fair and reasonable and consistent with the market rent of comparable properties, and the terms of the Tenancy Agreements are on normal commercial terms under prevailing market conditions and are considered as fair and reasonable. Having considered the view of the Independent Valuer, the Directors are of the view that the terms of the Tenancy Agreements are on normal commercial terms.

Reasons for the transactions

We have historically been using the Properties under the Tenancy Agreements as our offices. Having considered that the rents of the Properties under the Tenancy Agreements are comparable to the prevailing market rents of comparable properties in similar locations, and the Tenancy Agreements have been entered into in the ordinary and usual course of business, on terms no less favourable to us than from those available to Independent Third Parties, our Directors consider that the terms of the Tenancy Agreements are fair and reasonable and it is in the interests of our Company and our Shareholders as a whole to continue using the Properties as our offices.

Accounting treatment of the Tenancy Agreements

Our Group has adopted HKFRS 16 for the accounting period beginning on 1 January 2017, pursuant to which, for the accounting period beginning on 1 January 2017, our Group as lessee shall recognise a liability to make lease payments and an asset representing the right to use the

CONNECTED TRANSACTIONS

underlying asset during the lease term. Accordingly, the lease transactions under the Tenancy Agreements would be regarded as acquisitions of assets by the tenants for the purpose of the Listing Rules.

Implication under the Listing Rules

As the leasing of the Properties were entered into within a 12-month period and the landlord was Puhui Commercial, the transactions contemplated under the Tenancy Agreements are required to be aggregated pursuant to Rules 14.22 and 14A.81 of the Listing Rules. As each of the relevant percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules in respect of the aggregated value of the right-of-use of the Properties was less than 5% and the aggregated value of the right-of-use was less than HK\$3.0 million, the relevant transactions would constitute de minimis connected transactions under Rules 14A.76 of the Listing Rules and would be fully exempt from the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules should our Company be [REDACTED] on the Stock Exchange at the time of the relevant transactions.