

CONTINUING CONNECTED TRANSACTIONS

OVERVIEW

We have in the past conducted certain transactions with our connected persons. Such transactions will continue after the [REDACTED] and will therefore constitute our continuing connected transactions under the Listing Rules.

CONNECTED PERSONS

It is expected that upon the [REDACTED], we will have transactions with the members of SCIG Group who will be regarded as our connected persons under the Listing Rules.

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

Nature of transactions	Applicable Listing Rules	Waiver sought	Proposed annual cap (RMB million)		
			For financial year ending December 31,		
			2023	2024	2025
<i>Fully Exempt Continuing Connected Transactions</i>					
Trademark License Agreement	14A.76(1)	Not applicable	nil	nil	nil
Property Lease Framework Agreement	14A.76(1)	Not applicable	11.0	11.0	11.0
Testing Service Framework Agreement	14A.76(1)	Not applicable	2.0	2.5	3.0
Design services Framework Agreement	14A.76(1)	Not applicable	2.3	3.0	4.0
Cooperation Agreement for Energy Services	14A.76(1)	Not applicable	2.5	2.8	3.0
Machinery and Equipment Lease Framework Agreement	14A.76(1)	Not applicable	10.0	11.0	12.0
Labor Procurement Framework Agreement	14A.76(1)	Not applicable	6.5	8.5	10.0
Equipment Lease Framework Agreement	14A.76(1)	Not applicable	5.0	6.0	7.0







CONTINUING CONNECTED TRANSACTIONS

Nature of transactions	Applicable Listing Rules	Waiver sought	Proposed annual cap (RMB million)		
			For financial year ending December 31,		
			2023	2024	2025
<i>Partially Exempt Continuing Connected Transactions</i>					
Property Management Framework Agreement	14A.76(2)	Announcement requirement	12.0	13.0	14.0
Sales Framework Agreement	14A.76(2)	Announcement requirement	160.0	200.0	250.0
Financial Services Framework Agreement	14.76(2)	Announcement requirements	<i>Maximum comprehensive credit facility</i>		
			500.0	500.0	500.0
			<i>Fees for financial services</i>		
			7.0	7.0	7.0
<i>Non-exempt Continuing Connected Transactions</i>					
Bilateral Construction Services Framework Agreement	14A.35, 14A.36, 14A.46 and 14A.105	Announcement, circular and independent Shareholders' approval requirements	<i>For services provided by SCIG Group to our Group</i>		
			40.0	100.0	110.0
			<i>For services provided by our Group to SCIG Group</i>		
			750.0	800.0	850.0
Raw Materials Procurement Framework Agreement	14A.35, 14A.36, 14A.46 and 14A.105	Announcement, circular and independent Shareholders' approval requirements	1,000.0	1,200.0	1,400.0

CONTINUING CONNECTED TRANSACTIONS

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

Trademark License Agreement

During the Track Record Period, our Company has been using trademarks  and . On [●] 2023, our Company entered into a trademark license agreement (the “**Trademark License Agreement**”) with Shanxi CIG, pursuant to which, Shanxi CIG agreed to license our Group the non-exclusive use of  and  for the validity period of the trademark for nil consideration. For the details of the licensed trademarks  and , please refer to Appendix VI “Statutory and General Information – 2. Our Material Intellectual Property Rights – (b) Licensed trademarks”. We have been using the trademarks in connection with our business conducted over the years. As such, in order to maintain the consistency of our market image, we will continue to use the licensed trademark after the [REDACTED]. Our Directors are of the view that (i) the licensed trademarks are essential to our business, which, to a certain extent is built on brand recognition, and a longer duration of the license term will afford a greater degree of stability and continuity to our business; and (ii) it is normal business practice for license agreement of this type to be of a term equivalent to the validity period of the trademark.

Property Lease Framework Agreement

Our Group has leased certain properties to the members of SCIG Group during the Track Record Period and it is expected that our Group will continue to lease properties to SCIG Group from time to time after the [REDACTED]. On [●] 2023, our Company entered into a lease framework agreement (the “**Property Lease Framework Agreement**”) with Shanxi CIG commencing from the [REDACTED] and ending on December 31, 2025, pursuant to which, our Group shall lease properties to members of SCIG Group as office.

For the three years ended December 31, 2022 and the six months ended June 30, 2023, our Group received approximately RMB3.9 million, RMB8.3 million, RMB9.1 million and RMB4.3 million, respectively from SCIG Group in relation to the leases of properties and the annual caps of the Property Lease Framework Agreement for each of the three years ending December 31, 2025 are RMB11.0 million, RMB11.0 million and RMB11.0 million, respectively. In determining the above annual caps, our Directors have considered (i) the historical rents received; (ii) the trend in market rate of rent in similar locations and similar properties; and (iii) the potential needs of SCIG Group for office premises. The rent of the leasing of properties to members of SCIG Group has been/will be determined with reference to market rental.

Our Directors are of the view that the leasing of properties to members of SCIG Group is conducted in our Group’s ordinary and usual course of business and our Group will be able to secure long-term and stable tenants while generating stable income by leasing our properties to SCIG Group.

CONTINUING CONNECTED TRANSACTIONS

Testing Services Framework Agreement

Testing services are required for quality control during different stage of our construction project. During the Track Record Period, we have engaged certain members of SCIG Group for conducting construction tests and examinations. On [●] 2023, our Company entered into a testing services framework agreement (the “**Testing Services Framework Agreement**”) with Shanxi CIG commencing on the [REDACTED] and ending on December 31, 2025, pursuant to which relevant members of SCIG Group will provide testing and examination services to our Group.

For the three years ended December 31, 2022 and the six months ended June 30, 2023, our Group paid approximately RMB0.2 million, RMB0.1 million, RMB0.5 million and RMB1.4 million, respectively to SCIG Group as service fees and the annual caps of service fee for each of the three years ending December 31, 2025 are RMB2.0 million, RMB2.5 million and RMB3.0 million, respectively. In determining the above annual caps, our Directors have considered (i) the historical transaction amounts; (ii) the expected demand for the relevant services from our backlog projects; and (iii) the potential growth of business of our Group. The service fees for construction tests and examinations will be no less favorable than the service fees charged by Independent Third Party service providers.

Our Directors consider that relevant members of SCIG Group are well-qualified testing services providers specializing in providing testing service to construction project and with the established business relationship, SCIG Group can better understand the testing requirements, quality control and other requirements of our Group, our Group will benefit from the convenient and timely testing services provided by relevant members of SCIG Group.

Design Services Framework Agreement

As our Company possesses Grade A Qualifications for Chemical, Petrochemical and Pharmaceutical Industry Design and Municipal Engineering Industry Design, during the Track Record Period, we have provided design services to SCIG Group. On [●] 2023, our Company entered into a framework agreement for the provision of design services (the “**Design Services Framework Agreement**”) with Shanxi CIG commencing from the [REDACTED] and ending on December 31, 2025, pursuant to which our Company and relevant members of SCIG Group who need our design services will enter into separate contract for detailed scope of work.

For the three years ended December 31, 2022 and the six months ended June 30, 2023, our Group received approximately RMB1.0 million, RMB2.7 million, RMB3.1 million and RMB0.1 million, respectively from SCIG Group in relation to our design services provided to SCIG Group and the annual caps of the Design Services Framework Agreement for each of the three years ending December 31, 2025 are RMB2.3 million, RMB3.0 million and RMB4.0 million, respectively. In determining the above annual caps, our Directors have considered (i) the historical transaction amounts; and (ii) the expected increasing demands from SCIG Group for our design services. The fees for our design services will be determined at arm’s length negotiation with regards to the complexity of project and time constrains, but in any event, no less favorable than the design services provided by us to Independent Third Parties.

CONTINUING CONNECTED TRANSACTIONS

Our Directors consider that the design services provided under the Design Services Framework Agreement are conducted in our Group’s ordinary and usual course of business.

Cooperation Agreement for Energy Services

On January 1, 2020, Shanxi Shan’an Maode Distributed Energy Technology Company Limited* (山西山安茂德分布式能源科技有限公司, “**Shan’an Maode**”) entered into an energy management cooperation agreement (the “**Cooperation Agreement**”) with Shanxi CIG South East Jin Construction Industry Company Limited* (山西建投晉東南建築產業有限公司, a subsidiary of Shanxi CIG) (“**SE Jin Construction**”) in connection with (i) the installation of solar panel and sales of solar generated electricity to SE Jin Construction; (ii) the provision of heating and cooling to designated areas; and (iii) the management of energy conservation system (collectively the “**Energy Services**”).

The Cooperation Agreement has a term of 20 years commenced from January 1, 2020 to December 31, 2039. For the three years ended December 31, 2022 and the six months ended June 30, 2023, our Group received approximately RMB1.3 million, RMB1.5 million, RMB0.9 million and RMB1.2 million, respectively, from SE Jin Construction in relation to the Energy Services. The drop in the energy services fee received in 2022 was mainly caused by the suspension of work in the relevant industrial parks due to COVID-19 which led to lower electricity consumption. It is expected that the level of electricity consumption will resume to normal as the epidemic situation improves in China. The annual caps of the Cooperation Agreement for each of the three years ending December 31, 2025 are RMB2.5 million, RMB2.8 million and RMB3.0 million, respectively. In determining the above annual caps, our Directors have considered (i) the historical transaction amounts; and (ii) the expected increasing demands in electricity, cooling and heating services of SE Jin Construction. The fees for the Energy Services are determined by referencing to the local electricity price during peak hours and the pricing policy on cooling and heating services published by local government.

Our Directors consider that the Energy Services provided under the Cooperation Agreement are conducted in our Group’s ordinary and usual course of business and the long contract term arrangement is in line with the normal business practise in new energy industry.

Machinery and Equipment Lease Framework Agreement

Our Group requires various types of machinery and equipment for conducting our business. As some of the machineries are expensive and require specific expertise to operate and maintain, during the Track Record Period, we leased those machineries and equipment from SCIG Group. On [●] 2023, our Company entered into a machinery and equipment lease framework agreement (the “**Machinery and Equipment Lease Framework Agreement**”) with Shanxi CIG, pursuant to which relevant members of SCIG Group will lease the relevant construction machineries and equipment to our Group.

CONTINUING CONNECTED TRANSACTIONS

For the three years ended December 31, 2022 and the six months ended June 30, 2023, our Group paid approximately RMB3.5 million, RMB9.2 million, RMB6.4 million and RMB3.6 million, respectively to SCIG Group in relation to the lease of machinery and equipment. The historical transaction amount for the year 2022 has excluded the transaction amounts with Yu’an Hengchuang in order to eliminate the fluctuation in the transaction amount as a result of the disposal of Yu’an Hengchuang to our Controlling Shareholder in December 2021 given that as of the Latest Practicable Date, Yu’an Hengchang is no longer a connected person of our Company. The annual caps of the Machinery and Equipment Lease Framework Agreement for each of the three years ending December 31, 2025 are RMB10.0 million, RMB11.0 million and RMB12.0 million, respectively. In determining the above annual caps, our Directors have considered: (i) the historical transaction amounts; (ii) the expected demand from our backlog projects; and (iii) the potential growth of business of our Group. The fees for the lease of machinery and equipment will be determined through bidding process in which relevant members of SCIG Group and other Independent Third Party service providers would be invited to submit their price and terms.

Our Directors consider that the lease of machineries and equipment under the Machinery and Equipment Lease Framework Agreement is conducted in our Group’s ordinary and usual course of business and is more cost-efficient than to purchase and own such machineries by ourselves. Moreover, our Directors are of the opinion that the safety, condition and performance of the machineries and equipment leased from SCIG Group can be guaranteed.

Labor Procurement Framework Agreement

On [●] 2023, our Company entered into a labor procurement framework agreement (the “**Labor Procurement Framework Agreement**”) with Shanxi CIG, pursuant to which members of SCIG Group shall provide labor subcontracting services to our Group to assist our daily business operation as and when required. The term of the Labor Procurement Framework Agreement shall commence on the [REDACTED] and end on December 31, 2025. Relevant members of our Group and relevant members of SCIG Group will enter into separate labor procurement contracts which specify the fees, term and hours of labor force required in accordance with the principles and terms set out in the Labor Procurement Framework Agreement in all material aspects.

The number of labors and hours of labor force required by our Group to carry out business varies from project to project and we may also require labors with particular skills and expertise from time to time to cope with special needs of projects. During the Track Record Period, our Group has engaged members of SCIG Group to provide labor subcontracting services to us from time to time. The total fees paid by our Group to SCIG Group in relation to labor subcontracting services for the three years ended December 31, 2022 and the six months ended June 30, 2023 were approximately RMB22.0 million, RMB67.7 million, RMB1.9 million and RMB0.7 million, respectively. The historical transaction amount for the year 2022 has excluded the transaction amounts with Yu’an Hengchuang in order to eliminate the fluctuation in the transaction amount as a result of the disposal of Yu’an Hengchuang to our

CONTINUING CONNECTED TRANSACTIONS

Controlling Shareholder in December 2021 given that as of the Latest Practicable Date, Yu’an Hengchang is no longer a connected person of our Company. Looking forward, we expect to obtain labor subcontracting services from other members of SCIG Group or from Independent Third Parties.

The annual caps for the labor subcontracting services provided under the Labor Procurement Framework Agreement for each of the three years ending December 31, 2025 are RMB6.5 million, RMB8.5 million and RMB10.0 million, respectively. In determining the above annual caps, our Directors have considered (i) the historical transaction amounts (without taking into account the transactions with Yu’an Hengchuang); and (ii) the expected demands for labor subcontracting services of our ongoing projects and future projects; and (iii) the availabilities of independent services providers in the labor market. The pricing for the labor subcontracting services to be obtained from members of SCIG Group shall be no less favorable than the price of same type of services and terms provided by Independent Third Parties under normal commercial terms and in the ordinary course of business. Our Group will seek and compare the quotations and terms of services from at least two other independent suppliers offering the same or comparable type of services against the quotation and terms of services provided by members of SCIG Group.

Our Directors consider that the transactions contemplated under the Labor Procurement Framework Agreement are conducted in our Group’s ordinary and usual course of business.

Equipment Lease Framework Agreement

During the Track Record Period, SCIG Group has leased construction equipment, such as aluminum formwork, from our Company and it is expected that such transactions will continue after the [REDACTED]. On [●] 2023, our Company entered into a framework agreement for lease of construction equipment (the “**Equipment Lease Framework Agreement**”) with Shanxi CIG commencing on the [REDACTED] and ending on December 31, 2025, pursuant to which, our Company will lease construction equipment to members of SCIG Group as and when required.

For the three years ended December 31, 2022 and the six months ended June 30, 2023, our Group received approximately RMB1.0 million, RMB6.9 million, RMB14.8 million and RMB0.3 million, respectively from SCIG Group for the lease of construction equipment. The substantial increase in the transaction amount during the Track Record Period was because our Group’s aluminum formwork production facility had commenced operation in May 2021 and had sufficient equipment to supply to SCIG Group. The historical transaction amount for the year 2022 has excluded the transaction amounts with Yu’an Hengchuang in order to eliminate the fluctuation in the transaction amount as a result of the disposal of Yu’an Hengchuang to our Controlling Shareholder in December 2021 given that as of the Latest Practicable Date, Yu’an Hengchang is no longer a connected person of our Company. The annual caps of fee of the Equipment Lease Framework Agreement for each of the three years ending December 31, 2025 are RMB5.0 million, RMB6.0 million and RMB7.0 million, respectively. In determining the above annual caps, our Directors have considered (i) the historical transaction amount; and (ii) the expected demands from SCIG Group for the construction equipment.

Our Directors are of the view that the lease of equipment to SCIG Group is conducted in our Group’s ordinary and usual course of business.

CONTINUING CONNECTED TRANSACTIONS

Listing Rules implications

As each of the applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of each of the transactions above is expected to be, on an annual basis, less than 0.1%, each of these transactions will be fully 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.76(1) of the Listing Rules.

PARTIALLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

Property Management Framework Agreement

Our Group has been using property management services (including property management, facilities and equipment maintenance, food and beverage services, gardening services and cleaning services) provided by Taiyuan Xie’an Property Service Company Limited* (太原諧安物業服務有限公司, “Xie’an Property”) during the Track Record Period and it is expected that our Group will continue to use their property management services after the [REDACTED]. As SCIG City Operation Group Company Limited* (山西建投城市營運集團有限公司, a wholly-owned subsidiary of Shanxi CIG) acquired 51% equity interest in Xie’an Property in February 2022 from an Independent Third Party, Xie’an Property became a non wholly-owned subsidiary of Shanxi CIG. The remaining 49% equity interest of Xie’an Property is owned by our Group. On [●] 2023, our Company entered into a property management framework agreement (the “Property Management Framework Agreement”) with Xie’an Property commencing from the [REDACTED] and ending on December 31, 2025, pursuant to which, our Company will enter into separate service agreement in respect of specific services required.

For the three years ended December 31, 2022 and the six months ended June 30, 2023, our Group paid approximately RMB6.6 million, RMB6.6 million, RMB9.6 million and RMB4.8 million, respectively to Xie’an Property as service fee and the annual caps of service fee for each of the three years ending December 31, 2025 are RMB12.0 million, RMB13.0 million and RMB14.0 million, respectively. In determining the above annual caps, our Directors have considered (i) the historical fees paid; and (ii) the anticipated local inflation rate.

Our Directors are of the view that as Xie’an Property has been serving our Group for years, it is beneficial to our Group to continue to engage Xie’an Property in terms of price, efficiency, quality and reliability in the provision of such services.

CONTINUING CONNECTED TRANSACTIONS

Sales Framework Agreement

On [●] 2023, our Company entered into a sales framework agreement with Shanxi CIG (the “**Sales Framework Agreement**”), pursuant to which SCIG Group will purchase certain construction materials, including but not limiting to, ready mixed concrete and precasted concrete parts from our Group. The term of the Sales Framework Agreement shall commence on the [REDACTED] and end on December 31, 2025. Our Group and SCIG Group will enter into separate purchase orders in respect of each purchase in accordance with the principles and terms of the Sales Framework Agreement in all material aspects.

Reasons for the transaction

The main products we have been selling to SCIG Group are concrete related products. As the production facility of Shan’an Lide commenced trial production in April 2021, Shan’an Lide commenced to sell ready mixed concretes and pre-casted concrete products to SCIG Group who has stable needs for concrete products for its construction business. Our Directors consider that sales to SCIG Group would allow us to be benefited from the revenue generated from the sales of concrete related products.

Historical amounts

The total amount received by our Group from SCIG Group in relation to sales of construction materials for the three years ended December 31, 2022 and the six months ended June 30, 2023 were approximately RMB4.3 million, RMB95.5 million, RMB136.6 million and RMB51.3 million, respectively. The substantial increase in historical transaction amount for the year ended December 31, 2021 is due to the commencement of trial production of the concrete production facility of Shan’an Lide in 2021 and Shan’an Lide started to supply concrete products to SCIG Group.

Pricing policy

The price for each type of the construction materials will be determined with reference to: (i) the prevailing market price of such product; and (ii) the price of such product supplied by our Group to Independent Third Parties.

Annual caps

The annual caps for the total purchase from SCIG Group under the Sales Framework Agreement for each of the three years ending December 31, 2025 are RMB160.0 million, RMB200.0 million and RMB250.0 million, respectively.

CONTINUING CONNECTED TRANSACTIONS

Basis of annual caps

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

- (1) the historical purchase amounts by SCIG Group during the Track Record Period;
- (2) the obtaining of formal production permit by Shan’an Lide by the end of 2022;
- (3) the expected increasing demands from SCIG Group; and
- (4) the expected increase in production capacity of Shan’an Lide after obtaining formal production permit.

Financial Services Framework Agreement

On [●] 2023, our Company entered into a financial services framework agreement (the “**Financial Services Framework Agreement**”) with Shanxi CIG (for itself and on behalf of its subsidiaries), pursuant to which relevant members of SCIG Group will provide comprehensive credit facility services, settlement services, finance lease services and other financial services (collectively, the “**Financial Services**”) to our Group under the Financial Services Framework Agreement. The term of the Financial Services Framework Agreement shall commence on the [REDACTED] and end on December 31, 2025. Relevant members of our Group and SCIG Group will enter into separate agreements in respect of specific Financial Services required in accordance with the principles and terms of the Financial Services Framework Agreement in all material aspects.

Reasons for the transaction

We have been obtaining financial services from certain members of SCIG Group in the ordinary and usual course of our business during the Track Record Period. Having considered that (i) the interest rates on loans and facilities offered by relevant members of SCIG Group to our Group will be no less favorable than those offered by independent commercial banks and financial institutions in the PRC for similar amount and period; (ii) the financial service providers in SCIG Group have obtained necessary licenses (if required) in connection with the provision of the Financial Services to our Group; and (iii) the financial service providers in SCIG Group have better understanding of operations of our Group, so that they can develop practical financing solutions that closely align with our funding needs to provide credit facilities and loans to our Group in efficient manner, our Directors consider that the financial services contemplated under the Financial Services Framework Agreement will be able to meet the daily operation needs of our Group.

CONTINUING CONNECTED TRANSACTIONS

Historical amounts

The historical transaction amounts were as follows:

	For financial year ended December 31,			For the six months ended June 30,
	<i>(RMB million)</i>			
	2020	2021	2022	2023
Maximum daily balance of comprehensive credit facility services	310.0	310.0	510.0	447.9
Fees for settlement services, finance lease services and other financial services	0.7	–	6.9	–

Pricing policy

For comprehensive credit facility services, the credit interest rates and rates for loans to be provided to our Group by relevant members of SCIG Group shall be no higher than those available to our Group from other independent financial institutions in the PRC for the same period and of similar nature.

For settlement services and finance lease services, the fees charged by relevant members of SCIG Group for the provision of such services to our Group shall be no less favorable than those available to our Group from independent financial institutions in the PRC.

For other financial services, the fees charged shall be in compliance with the fees standard prescribed by the People’s Bank of China or the China Banking Regulatory Commission in respect of such services and shall in no event be no less favorable than those charged by independent financial institutions in the PRC for the same period and of similar nature.

CONTINUING CONNECTED TRANSACTIONS

Annual caps

The annual caps under the Financial Services Framework Agreement are as follows:

	Proposed annual cap		
	<i>(RMB million)</i>		
	For financial year ending		
	December 31,		
	2023	2024	2025
Maximum daily balance of comprehensive credit facility services	500.0	500.0	500.0
Fees for settlement services, financial lease services and other financial services	7.0	7.0	7.0

Basis of annual caps

The above annual caps of comprehensive credit facility services have been determined by our Group taking into account (i) the maximum daily balance of facilities and loans provided by members of SCIG Group to our Group during the Track Record Period; and (ii) our expectation that the demand for facilities and loans will increase in line with our business development.

In determining the annual caps of fees for settlement services, financial lease services and other financial services, our Group has considered (i) the service fees paid by us the Track Record Period in respect of each type of the Financial Services; (ii) our Group’s future business demand for the Financial Services; and (iii) the expected global interest rate rising environment.

Listing Rules Implications

As the applicable percentage ratios (other than the profit ratio) under the [REDACTED] Rules in respect of the transactions contemplated under each of the Property Management Framework Agreement, the Sales Framework Agreement and the Financial Services Framework Agreement are expected to be, on an annual basis, more than 0.1% but less than 5%, the transactions will be subject to the reporting, annual review, announcement requirements but exempt from the circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.76(2) of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Bilateral Construction Services Framework Agreement

On [●] 2023, our Company entered into a bilateral construction services framework agreement (the “**Bilateral Construction Services Framework Agreement**”) with Shanxi CIG, pursuant to which our Group may engage members of SCIG Group to provide construction services while SCIG Group may engage members of our Group to provide construction services (including industrial equipment installation) as and when required. The term of the Bilateral Construction Services Framework Agreement shall commence on the [REDACTED] and end on December 31, 2025. Relevant members of our Group and relevant members of SCIG Group will enter into separate construction services contracts which specify the scope of construction services, standards and specifications, contract sum and contract term of specific projects to be carried out in accordance with the principles and terms of the Bilateral Construction Services Framework Agreement in all material aspects.

Reasons for the transaction

We have been providing construction services to SCIG Group in the ordinary and usual course of our business during the Track Record Period. Our Directors consider that the provision of construction services to SCIG Group would benefit our Group for the reasons that (i) our Group, as a member of SCIG Group, has established a stable business relationship with SCIG Group and understand the business operations, construction requirements, quality control and other requirements of SCIG Group, which enable smooth cooperation and reducing operational costs; and (ii) the price and terms of providing construction services to SCIG Group are no less favorable to us than those offered by us to Independent Third Parties.

We have also subcontracted construction works to SCIG Group in the ordinary and usual course of our business during the Track Record Period. Our Directors consider that the subcontracting of construction work to SCIG Group would benefit our Group for the same reasons that there is a stable business relationship between SCIG Group and our Group and the price and terms of providing construction services to us by SCIG Group are no less favorable than those offered to us by Independent Third Parties.

Historical amounts

The total amount paid by our Group to SCIG Group for the construction services provided to us for the three years ended December 31, 2022 and the six months ended June 30, 2023 were approximately RMB16.4 million, RMB4.3 million, RMB79.8 million and RMB12.6 million, respectively.

The total amount received by our Group from SCIG Group for the construction services provided to SCIG Group for the three years ended December 31, 2022 and the six months ended June 30, 2023 were approximately RMB286.9 million, RMB469.8 million, RMB674.5 million and RMB331.3 million, respectively.

CONTINUING CONNECTED TRANSACTIONS

Pricing policy

Construction services provided under the Bilateral Construction Services Framework Agreement, the contract sum 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 price and terms will be no less favorable to us than those offered by Independent Third Parties.

Annual caps

The annual caps for the construction services based on contract value under the Bilateral Construction Services Framework Agreement for each of the three years ending December 31, 2025 are as follows:

	Proposed annual cap <i>(RMB million)</i> For financial year ending December 31,		
	2023	2024	2025
Contract value construction services to be provided by SCIG Group to our Group	40.0	100.0	110.0
Contract value construction services to be provided by our Group to SCIG Group	750.0	800.0	850.0

Basis of annual caps

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

- (1) the historical transaction amounts of the construction services provided to and received from SCIG Group during the Track Record Period. In particular, the historical transaction amounts for the construction received from SCIG Group the steady growth in the mutual needs of our Group and SCIG Group for the construction services provided by the other party during the Track Record Period which is consistent with the increasing trend of the value of the construction projects in our backlog;

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- (2) the plan of The People’s Government of Shanxi Province to establish:
 - (i) Taiyuan-Xinzhou Integrated Economic Zone (太忻一體化經濟區) with a target total investment amount of approximately RMB533.7 billion for 2022 alone; and
 - (ii) several industrial zones in Shanxi Province. The aforesaid plans present a major development opportunities for construction companies headquartered in Shanxi Province, including SCIG Group. With our position in industry installation, we believe our Group will also be benefited from the aforesaid development plan;
- (3) the highest annual cap for the construction services provided to SCIG Group for the three years ending December 31, 2025 of RMB850.0 million represents less than 7.0% of the Group’s revenue for the year ended December 31, 2022;
- (4) our business development plan and expected growth trend in our principal business;
- (5) the expected costs, including material costs and labor costs; and
- (6) the relevant authorities’ pricing guidelines.

Listing Rules implications

As the highest applicable percentage ratio of the transactions under the Bilateral Construction Services Framework Agreement for each of the three years ending December 31, 2025 calculated for the purpose of Chapter 14A of the Listing Rules is expected to be more than 5% on an annual basis. Accordingly, such transactions will, upon [REDACTED], constitute continuing connected transactions of the Company which will be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Raw Materials Procurement Framework Agreement

On [●] 2023, our Company entered into a raw materials procurement framework agreement with Shanxi CIG (the “**Raw Materials Procurement Framework Agreement**”), pursuant to which our Group will purchase certain raw materials, including but not limiting to, steel, and precasted and prefabricated parts. The term of the Raw Materials Procurement Framework Agreement shall commence on the [REDACTED] and end on December 31, 2025. Our Group and SCIG Group will enter into separate purchase orders in respect of each purchase which specify types of raw material, standards and specifications, quantity and payment term in accordance with the principles and terms of the Raw Materials Procurement Framework Agreement in all material aspects.

CONTINUING CONNECTED TRANSACTIONS

Reasons for the transaction

We have been purchasing certain raw materials from SCIG Group in the ordinary and usual course of our business during the Track Record Period. Our Directors consider that purchasing from SCIG Group would allow us to be benefited from the lower price and more favorable terms offered by the suppliers of relevant raw materials to SCIG Group due to the bulk quantities it purchases. Even though SCIG Group would charge handling fees on top of the original prices of relevant raw materials, the overall prices could still be lower than those we obtained for similar quantities and delivery terms in the market.

Historical amounts

The total amount paid by our Group to SCIG Group in relation to purchases of raw materials for the three years ended December 31, 2022 and the six months ended June 30, 2023 were approximately RMB142.3 million, RMB525.0 million, RMB1,131.4 million and RMB442.8 million, respectively.

Pricing policy

The price for each type of raw materials will be determined with reference to: (i) the prevailing market price of such product; and (ii) the price of such product supplied by Independent Third Parties to SCIG Group. For the purpose of ascertaining market prices, the procurement team of our Group will obtain quotation from at least two suppliers which are Independent Third Parties. In any event, the terms for each transaction with SCIG Group will be no less favorable than the terms which can be obtained from Independent Third Party suppliers for purchasing products of comparable quality, quantity and specifications.

Annual caps

The annual caps for the purchase from SCIG Group under the Raw Materials Procurement Framework Agreement for each of the three years ending December 31, 2025 are RMB1,000.0 million, RMB1,200.0 million and RMB1,400.0 million, respectively.

Basis of annual caps

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

- (1) the historical transaction amounts for the raw materials purchased from SCIG Group during the Track Record Period;
- (2) our business development plan and expected growth trend in our principal business. For the three years ended December 31, 2022 and the six months ended June 30, 2023, the total purchases of raw material amounted to approximately RMB3,627.0 million, RMB5,897.6 million, RMB5,769.7 million and RMB2,023.2 million, respectively. It is expected that the amount for purchases of raw materials will continue to increase with the expected growth of our business; and

CONTINUING CONNECTED TRANSACTIONS

- (3) the fact SCIG Group has established centralized procurement platform for its members (including our Group) and as the platform grows, most types of raw materials can be purchased through it. Therefore, it is expected that our Group's purchases for more types of raw materials could be conducted through such centralized procurement platform to enjoy the benefits of bulk purchase, as a result, it is expected that a higher proportion of our total purchase of raw material would be made through such platform.

Listing Rules implications

As the highest applicable percentage ratio of the transactions under the Raw Materials Procurement Framework Agreement for each of the three years ending December 31, 2025 calculated for the purpose of Chapter 14A of the Listing Rules is expected to be more than 5% on an annual basis. Accordingly, such transactions will, upon [REDACTED], constitute continuing connected transactions of the Company which will be 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 relevant framework agreements for the continuing connected transactions are fair and reasonable, or no less favorable than terms available to or from Independent Third Parties, and are carried out under 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 is responsible for reviewing compliance with relevant laws, regulations, our policies and the Listing Rules in respect of the continuing connected transactions. Further, the Audit Committee, the Board and various internal departments of our Company (including but not limited to the financial assets department and the compliance 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 agreement;
- the Audit Committee, the Board and various other internal departments of our Company (including but not limited to the financial assets department and the compliance and legal department) will also regularly monitor the fulfillment status and the transaction updates under the framework agreements. In addition, our management also regularly reviews the pricing policies of the framework agreements;

CONTINUING CONNECTED TRANSACTIONS

- our independent non-executive Directors and auditors will conduct annual review of the continuing connected transactions under the framework agreements and provide annual confirmation to ensure that in accordance with Rules 14A.55 and 14A.56 of the Listing Rules that the transactions are conducted in accordance with the terms of the agreements, on normal commercial terms and in accordance with the relevant pricing policies;
- when considering the actual rental and other charges and service fees for the services to be provided to our Group by the connected persons, we will constantly research into prevailing market conditions and practices and make reference to the pricing and terms between our Group and Independent Third Parties for similar transactions, to make sure that the pricing and terms offered by the above connected persons from mutual commercial negotiations (as the case may be), are fair, reasonable and are no less favorable than those offered to Independent Third Parties; and
- when considering any renewal or revisions to the framework agreements after [REDACTED], the interested Directors and Shareholders will abstain from voting on the resolutions to approve such continuing connected transactions at the relevant board meetings or shareholders' meetings (as the case may be), and the terms of the proposed renewal or revisions of the framework agreements will be considered by our independent Directors and independent Shareholders have the right to consider if the terms of the non-exempt continuing connected transactions (including the proposed annual caps) are fair and reasonable, and on normal commercial terms and in the interests of our Company and our Shareholders as a whole.

CONFIRMATION FROM OUR DIRECTORS

Our Directors (including the independent non-executive Directors) are of the view that the continuing connected transactions as set out above have been and will be entered into in the ordinary and usual course of our business and on normal commercial terms or better, and are fair and reasonable and in the interest of our Company and the Shareholders as a whole, and the proposed annual cap in respect of such transactions is fair and reasonable and in the interest of our Company and the Shareholders as a whole.

CONFIRMATION FROM THE JOINT SPONSORS

Based on the documentation and data provided by our Company, the Joint Sponsors are of the view that the abovementioned continuing connected transactions have been and will be entered into in the ordinary and usual course of our business and on normal commercial terms or better, and are fair and reasonable and in the interest of our Company and the Shareholders as a whole, and the proposed annual cap in respect of such transactions is fair and reasonable and in the interest of our Company and the Shareholders as a whole.

CONTINUING CONNECTED TRANSACTIONS

WAIVERS FROM THE STOCK EXCHANGE

We have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, a waiver pursuant to Rule 14A.105 of the Listing Rules from strict compliance with the announcement, circular and shareholders’ approval requirements in respect of the transactions described under the sub-section headed “Non-exempt Continuing Connected Transactions”.

The independent non-executive Directors and auditors of our Company will review whether the transactions under the above continuing connected transactions have been entered into pursuant to the principal terms and pricing policies under the relevant framework agreements as disclosed in this section. The confirmation from our independent non-executive Directors and our auditors will be disclosed annually according to the requirements of the Listing Rules.

Our Company will comply with the applicable requirements under the Listing Rules if any of the proposed annual caps set out above are exceeded, or when there is a material change in the terms of these transactions.