

25 October 2024

To the Independent Board Committee and the Independent Shareholders

Dear Sir/Madam,

**(1) CONTINUING CONNECTED TRANSACTION IN RELATION TO
THE ENTERING INTO FRAMEWORK CONTRACTING AGREEMENT;
AND**

**(2) CONTINUING CONNECTED TRANSACTION IN RELATION TO
THE ENTERING INTO FRAMEWORK
SUBCONTRACTING AGREEMENT**

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Framework Contracting Agreement, the Framework Subcontracting Agreement and the transactions contemplated thereunder and as to voting, details of which are set out in the LETTER FROM THE BOARD (the "Letter from the Board") contained in the circular of the Company (the "Circular") to the Shareholders dated 25 October 2024, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 29 August 2024 (after trading hours), the Company (for and on behalf of itself and any of its subsidiaries) (as the contractor) and WHSE (as the subcontractor) entered into the Framework Contracting Agreement, pursuant to which the Company or any of its subsidiaries may engage WHSE as subcontractor from time to time in respect of the provision of contracting services in relation to the design, production and supply of precast concrete element for construction projects in Hong Kong.

On 29 August 2024 (after trading hours), WHSE (as the contractor) and the Company (for and on behalf of itself and any of its subsidiaries) (as the subcontractor) entered into the Framework Subcontracting Agreement, pursuant to which WHSE may engage the Company or any of its subsidiaries as subcontractor from time to time in respect of the provision of contracting services in relation to the manufacture and supply of prefabrication components for construction projects in Hong Kong.

As at the Latest Practicable Date, the entire issued shares of WHSE are wholly owned by Mr. LEUNG. On 29 August 2024, Mr. LEUNG and Bright Realm, a company owned indirectly as to 100% by Mr. NGAI, a controlling Shareholder, entered into the Sale and Purchase Agreement, pursuant to which, Mr. LEUNG agreed to sell as beneficial owner, and Bright Realm agreed to purchase, conditionally, 90% of the issued shares of WHSE. Prior to the Acquisition, WHSE contracted with the Company as an independent third party and the existing contracting arrangements between the parties have been in place and were entered into between the parties with agreed period and term. There will not be any variance of the terms for any existing contracting arrangement between the parties upon the completion of the Acquisition. As a result of the Acquisition and upon completion of the Acquisition, WHSE will be owned as to 10% by Mr. LEUNG and 90% by Bright Realm, and accordingly, being an associate of Mr. NGAI who is a connected person of the Company, become a connected person of the Company under Chapter 14A of the Listing Rules. Any newly entered contracting transactions between WHSE and the Group will constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As the respective applicable percentage ratios (as defined under the Listing Rules) in respect of (i) the largest proposed annual caps in respect of the subcontracting fees payable from the Group to WHSE under the Framework Contracting Agreement; and (ii) the largest proposed annual caps in respect of the subcontracting fees payable from WHSE to the Group under the Framework Subcontracting Agreement, are more than 5% and more than HK\$10 million, the entering of each of the Framework Contracting Agreement and the Framework Subcontracting Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and the transactions contemplated thereunder are therefore subject to the reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Framework Subcontracting Agreement, the Framework Contracting Agreement and the transactions contemplated thereunder. None of the members of the Independent Board Committee has any interest or involvement in the transactions contemplated under the Framework Agreements. We, Ample Capital Limited, has been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the Framework Subcontracting Agreement, the Framework Contracting Agreement and the transactions contemplated thereunder and as to voting.

OUR INDEPENDENCE

We are not associated or connected with the Group, the counterparty of the Framework Agreements or their respective core connected persons or associates. Pursuant to Rule 13.84 of the Listing Rules, we are independent of and not associated with the Company, its controlling shareholder(s) or connected person(s). As at the Latest Practicable Date, we did not have any relationships with or interests in the Group or any other parties that could reasonably be regarded as relevant to our independence. During the past two years immediately preceding the Latest Practicable Date, there has been no other engagement between the Company and Ample Capital Limited, apart from normal professional fees paid or payable to us in connection with the current engagement in relation to the Framework Subcontracting Agreement, the Framework Contracting Agreement and the transactions contemplated thereunder, no arrangement exists whereby we will receive any fees or benefits from the Company. As such, as at the Latest Practicable Date, there were no relationships or interests between the Group, the counterparty of the Framework Agreements or their respective core connected persons or associates and us that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders with respect to our engagement.

BASIS OF ADVICE

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of the Group.

The Directors have declared in a responsibility statement set out in the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular and that there are no other matters the omission of which would make any statement in the Circular misleading. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of the Group. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, the counterparty of the Framework Subcontracting Agreement and the Framework Contracting Agreement or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

A. BACKGROUND INFORMATION OF THE PARTIES

1. Information on the Group

The Group is principally engaged in building construction, repair, maintenance, alteration and addition works and sales of prefabricated construction units in Hong Kong.

Financial information of the Group (as extracted from the Group's annual report for the year ended 31 March 2024) is further discussed below.

a) Financial results of the Group

Set out below is a summary of the financial results of the Group for the years ended 31 March 2023 and 2024 ("FY2023" and "FY2024", respectively) as extracted from the respective financial reports.

	For the year ended 31 March	
	2023	2024
	(Audited) HK\$'000	(Audited) HK\$'000
Revenue	5,079,222	5,511,537
Contract works for building construction	5,079,222	5,406,064
Contract works for RMAA works	—	39,520
Sales of prefabricated construction units	—	65,953
Profit for the year	174,068	204,889

FY2023 vs FY2024

As set out in the annual report of the Company for FY2024 (the “Annual Report”), the Group’s revenue amounted to approximately HK\$5,511.5 million for FY2024, representing an increase of approximately 8.5% as compared to that for FY2023. With reference to the Annual Report, such increase in revenue was mainly due to (i) the increase in revenue recorded from the contract works for building construction and (ii) the increase in revenue recorded from sales of prefabricated construction units. The revenue recorded from the Group’s contract works for building construction amounted to approximately HK\$5,406.1 million for FY2024, representing an increase of approximately 6.4% as compared to that for FY2023. The revenue recorded from the Group’s sales of prefabricated construction units increased from nil for FY2023 to approximately HK\$65.9 million for FY2024.

As illustrated by the table above and with reference to the Annual Report, the Group recorded profit amounted approximately to HK\$204.9 million for FY2024. Such profit was increased by approximately 17.7% as compared to that for FY2023 mainly due to (i) the increase in revenue recorded from the contract works for building construction; (ii) the increase in revenue recorded from sales of prefabricated construction units; and (iii) the increase in other income and gains which was mainly due to an increase in interest income from fixed deposits.

b) *Financial position of the Group*

Set out below is a summary of the financial position of the Group as at 31 March 2024 as extracted from its Annual Report.

	As at 31 March 2024 (audited) HK\$'000
Non-current assets	1,728,193
Current assets	3,177,454
Non-current liabilities	1,872
Current liabilities	3,286,209
Net assets	1,617,566

As at 31 March 2024, total assets of the Group amounted to approximately HK\$4,905.6 million, which mainly comprised (i) property, plant and equipment of approximately HK\$1,612.7 million; (ii) contract assets of approximately HK\$814.2 million; (iii) account receivables of approximately HK\$75.8 million; (iv) prepayments, other receivables and other assets of approximately HK\$193.4 million; and (v) cash and cash equivalents of approximately HK\$2,077.9 million.

As at 31 March 2024, total liabilities of the Group amounted to approximately HK\$3,288.1 million, which mainly comprised (i) account payables of approximately HK\$1,074.2 million; (ii) interest-bearing bank loans of approximately HK\$486.7 million; and (iii) other payables and accruals and contract liabilities of approximately HK\$1,716.2 million.

As at 31 March 2024, the Group recorded net assets of approximately HK\$1,617.6 million.

2. Information on WHSE

WHSE is a company incorporated in Hong Kong with limited liability. It is principally engaged in manufacture, design and trading of professional products related to precast concrete elements in Hong Kong. As at the Latest Practicable Date, the entire issued shares of WHSE are wholly owned by Mr. LEUNG, and upon the completion of the Acquisition, it is owned as to 10% by Mr. LEUNG and 90% by Bright Realm.

To the best knowledge, information and belief of the Directors, Mr. Leung is an independent third party.

As at the Latest Practicable Date, the Acquisition has not been completed. In accordance with the terms of the Sales and Purchase Agreement, the expected completion date of the Acquisition shall be within five (5) business days after the EGM in which the Framework Agreements are to be approved by the Shareholders.

B. CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE ENTERING INTO FRAMEWORK AGREEMENTS

1. Principal terms of the Framework Agreements

a) Principal terms of the Framework Contracting Agreement

On 29 August 2024 (after trading hours), the Company (for and on behalf of itself and any of its subsidiaries) (as the contractor) and WHSE (as the subcontractor) entered into the Framework Contracting Agreement, pursuant to which the Company or any of its subsidiaries may engage WHSE as subcontractor from time to time in respect of the provision of contracting services in relation to design, production and supply of precast concrete element for construction projects in Hong Kong.

Summarised below are the principal terms of the Framework Contracting Agreement:

Date: 29 August 2024

Parties: the Company (for and on behalf of itself and any of its subsidiaries) (as the contractor); and

WHSE (as the subcontractor)

Under the Framework Contracting Agreement, members of the Group may invite WHSE for quotations for the provision of the relevant subcontracting services. The Group will generally select the most suitable subcontractor(s) from the approved list of subcontractors based on their relevant skill sets, qualifications and experience, subject to their availability and fee quotation. The Group and its members are not bound to engage WHSE for quotations submitted by it and may engage other subcontractors.

In the event that any member of the Group accepts the quotations provided by WHSE, such member shall acknowledge its acceptance of the quotations from WHSE by written confirmation. WHSE shall carry out the works and the Group shall pay the subcontracting fees to WHSE in accordance with the relevant quotations accepted (the “Contracting Accepted Projects”).

Term

Subject to the fulfilment of the condition precedent set out below, the term of the Framework Contracting Agreement shall commence on the date the Framework Contracting Agreement becomes unconditional to 31 March 2027, unless terminated earlier in accordance with the terms of the Framework Contracting Agreement.

Condition

The Framework Contracting Agreement and the obligations of the parties thereunder shall not become effective or binding upon the parties unless and until, and in any event on or before the Long Stop Date, the passing of all resolutions by the Independent Shareholders (who are entitled to vote and not required to abstain from voting under the Listing Rules) at the EGM to approve the entering into the Framework Contracting Agreement by the Company (for and on its own behalf and any of its subsidiaries) and the performance of the transactions contemplated thereunder in accordance with the relevant provisions in the Listing Rules, the articles of association of the Company and the applicable laws and regulations in Hong Kong and other applicable jurisdictions. Such condition shall not be waived by any party.

If such condition is not fulfilled on or before the Long Stop Date, the Framework Contracting Agreement shall be of no effect without the necessity for either party thereunder giving any notice to that effect and there shall be no claim under or in accordance with the Framework Contracting Agreement by either party thereunder against the other.

Pricing Policy

Under the Framework Contracting Agreement, the subcontracting fees payable by the Group to WHSE shall be arrived at after arm's length negotiations on normal commercial terms and will be determined based on the quotation provided to the Group on a project-by-project basis. The quotation will be determined by among other things, the following factors:

- (a) the prevailing market prices of materials and relevant costs of subcontracting services at the time of tendering for the Contracting Accepted Projects based on the competitive quotations from suppliers and/or subcontractors of the Group which implicate the market standard on the pricing for projects of similar nature;
- (b) the scale, complexity and specifications of the Contracting Accepted Projects, nature and amount of works to be performed, the capacity of WHSE, the estimated time required to complete the works and other technical project requirements of the Contracting Accepted Projects;
- (c) the historical fees received from independent third party subcontractors (include both the historical quotations provided to the Group and the actual fee incurred/charged for other projects of similar nature) for similar scope of services performed for similar projects;
- (d) the fee level in the market and competitive conditions at the contract negotiation stage through regular review and analysis on all the fee quotations it receives/offers (as the case may be) from time to time for projects of similar nature;
- (e) the terms (including payment terms and terms of services) previously entered into with independent third party subcontractors for similar scope of services performed for similar projects; and

- (f) the level of risks involved in the Contracting Accepted Projects and the subcontracting services, including but not limited to, cost overruns as a result of unforeseen subcontractor expenses, delay in schedule and changes in project scope etc, in which a reasonable buffer will be evaluated and established considering the prevailing circumstances, operating environment and other pertinent factors and thereafter be factored into the calculation of the quotation.

Generally, the Group tends to select the subcontractor with the lowest tender amount, a factor that carries considerable weight in the Group's decision-making process. The Group will also conduct a comprehensive evaluation that takes into account factors such as market reputation, past performance, quality of service terms provided by the subcontractors and previous business relationship with the subcontractors as a whole. These additional considerations may outweigh the importance of the tender amount in the final decision-making process. Should the relevant member of the Group select WHSE as their subcontractor, the relevant member of the Group and WHSE shall separately negotiate the terms of each Contracting Accepted Projects on arm's length basis and enter into separate agreements in respect of each Contracting Accepted Projects, terms and conditions of which shall not be less favourable to the Group than those entered into with independent third party subcontractors for similar scope of services performed for similar projects.

The Group expects to pay any subcontracting fees incurred by the Group's internal resources.

Annual Caps

The annual caps for the transactions contemplated under the Framework Contracting Agreement for the relevant periods are as follows:

	For the year ending 31 March 2025	For the year ending 31 March 2026	For the year ending 31 March 2027
Annual caps (HK\$)	498,000,000 (Note 1)	766,000,000 (Note 2)	633,000,000

Notes:

- 1 Of which approximately HK\$372.1 million is estimated to be incurred from current existing Contracting Accepted Project entered into between WHSE and the Group prior to the Acquisition during the year ending 31 March 2025.
- 2 Of which approximately HK\$372.1 million is estimated to be incurred from current existing Contracting Accepted Project entered into between WHSE and the Group prior to the Acquisition during the year ending 31 March 2026.

Generally, in arriving at the above annual caps, the Company has considered:

- (a) the historical project size of the Group required for independent third party subcontractor in providing relevant services for the past two (2) financial years;
- (b) the historical transaction amount between the Group (as contractor) and WHSE (as subcontractor) for the past five (5) financial years which amounted to approximately HK\$502.8 million whereby a consistent upward trend is witnessed in the transaction volumes between the two parties over the years;
- (c) the estimated amount of final subcontracting fees to be payable by the Group under the Contracting Accepted Projects for the relevant period taking into account the existing subcontracting arrangements entered into by the Group with other third parties which allow the Company to project future expenses, demand for subcontracting services through assessing the capacity and capability of existing subcontractor;
- (d) the estimated demand from the Group for subcontracting services to be provided by WHSE for the relevant period taking into account the existing contracts, potential contracts and submitted tenders of the Group;
- (e) a buffer of 10% on the maximum annualised subcontracting fees estimated at approximately HK\$451.8 million, HK\$695.8 million and HK\$575.1 million for the year ending 31 March 2025, 31 March 2026 and 31 March 2027, respectively, based on the factors as set out herein for the relevant period; and
- (f) the economic growth rate.

Specifically:

- (i) for the proposed annual cap of HK\$498 million for the year ending 31 March 2025, the Group has:
 - (a) considered the existing four ongoing projects that had already engaged WHSE as subcontractor with total subcontracting fee of HK\$802.0 million, of which HK\$372.1 million are expected to be recognised for the year ending 31 March 2025;

- (b) estimated that the Group will engage WHSE as subcontractor in two new Contracting Accepted Projects with estimated total subcontracting fee of approximately HK\$398.7 million (being HK\$199.4 million per Contracting Accepted Project with reference to HK\$802.0 million subcontracting fee for four existing contracted projects with WHSE) commencing during the year ending 31 March 2025 to be recognized evenly throughout the estimated 30-month contract period; and
 - (c) included the 10% buffer on the maximum annualised subcontracting fees for the year ending 31 March 2025 aforementioned;
- (ii) for the proposed annual cap of HK\$766 million for the year ending 31 March 2026, the Group has:
 - (a) considered the existing contracted projects with WHSE of which HK\$372.1 million are expected to be recognised for the year ending 31 March 2026;
 - (b) considered the subcontracting fees carried from the ongoing Contracting Accepted Projects commenced in the year ending 31 March 2025;
 - (c) estimated that the Group will engage WHSE as subcontractor in three new Contracting Accepted Projects with estimated total subcontracting fee of approximately HK\$616.0 million (approximately HK\$205.3 million per Contracting Accepted Project, representing a 3% year-over-year growth of the estimated initial subcontracting fee of HK\$199.4 million per Contracting Accepted project in the year ending 31 March 2025) commencing during the year ending 31 March 2026 to be recognised evenly throughout the estimated 30-month contract period; and
 - (d) included the 10% buffer on the maximum annualised subcontracting fees for the year ending 31 March 2026 aforementioned;

- (iii) for the proposed annual cap of HK\$633 million for the year ending 31 March 2027, the Group has:
 - (a) considered the subcontracting fees carried from the ongoing Contracting Accepted Projects commenced in the year ending 31 March 2025 and 31 March 2026;
 - (b) estimated that the Group will engage WHSE as subcontractor in three new Contracting Accepted Projects with estimated total subcontracting fee of approximately HK\$634.5 million (approximately HK\$211.5 million per Contracting Accepted Project, representing a 3% year-over-year growth of the estimated initial subcontracting fee of HK\$205.3 million per Contracting Accepted Project in the year ending 31 March 2026) commencing during the year ending 31 March 2027 to be recognised evenly throughout the estimated 30-month contract period; and
 - (c) included the 10% buffer on the maximum annualised subcontracting fees for the year ending 31 March 2027 aforementioned.

The calculation of the annual caps for the transactions contemplated under the Framework Contracting Agreement was based on the assumption that:

- (1) the economic growth rate of 3% in which the Group took into account, among other things, the potential increase in demand and tender amount in view of the long term development plan of the Hong Kong Government, the Hong Kong Government promotion of the application of modular integrated construction in construction industry, the economic growth and inflation projection according to 2023-2024 Budget of 3.7% and 2.5% per annum respectively from 2024-2027;
- (2) each contract will require 30 months to complete being the average duration of existing project in relation to modular integrated construction and the cost will be evenly distributed; and
- (3) when determining the estimated number of new Contracting Accepted Projects for each of the three years ending 31 March 2027, the Group took into account the ongoing Existing Contracted Projects in which there were three new projects over 12 months period. Accordingly, it is estimated that the Group will have three new Contracting Accepted Projects for each of the three years ending 31 March 2027.

b) *Principal terms of the Framework Subcontracting Agreement*

On 29 August 2024 (after trading hours), WHSE (as the contractor) and the Company (for and on behalf of itself and any of its subsidiaries) (as the subcontractor) entered into the Framework Subcontracting Agreement, pursuant to which WHSE may engage the Company or any of its subsidiaries as subcontractor from time to time in respect of the provision of contracting services in relation to the manufacture and supply of prefabrication components for construction projects in Hong Kong.

Summarised below are the principal terms of the Framework Subcontracting Agreement:

Date: 29 August 2024

Parties: WHSE (as the contractor); and
the Company (for and on behalf of itself and any of its subsidiaries) (as the subcontractor)

Under the Framework Subcontracting Agreement, WHSE may invite the Company or any members of the Group for quotations for the provision of the relevant subcontracting services. WHSE will generally select the most suitable subcontractor(s) from its approved list of subcontractors based on their relevant skill sets, qualifications and experience, subject to their availability and fee quotations. WHSE is not bound to engage the Group for quotations submitted by the Group and may engage other subcontractors.

In the event that WHSE accepts the quotation provided by the Company or member of the Group, WHSE shall acknowledge its acceptance of the quotations from such member by written confirmation. The relevant member of the Group shall carry out the works and WHSE shall pay the subcontracting fees to the relevant member of the Group in accordance with the relevant quotations accepted (the "Subcontracting Accepted Projects").

Term

Subject to the fulfilment of the condition precedent set out below, the term of the Framework Subcontracting Agreement shall commence on the date the Framework Subcontracting Agreement becomes unconditional to 31 March 2027, unless terminated earlier in accordance with the terms of the Framework Subcontracting Agreement.

Condition

The Framework Subcontracting Agreement and the obligations of the parties thereunder shall not become effective or binding upon the parties unless and until, and in any event on or before the Long Stop Date, the passing of all resolutions by the Independent Shareholders (who are entitled to vote and not required to abstain from voting under the Listing Rules) at the EGM to approve the entering into the Framework Subcontracting Agreement by the Company (for and on its own behalf and any of its subsidiaries) and the performance of the transactions contemplated thereunder in accordance with the relevant provisions in the Listing Rules, the articles of association of the Company and the applicable laws and regulations in Hong Kong and other applicable jurisdictions. Such condition shall not be waived by any party.

If such condition is not fulfilled on or before the Long Stop Date, the Framework Subcontracting Agreement shall be of no effect without the necessity for either party thereunder giving any notice to that effect and there shall be no claim under or in accordance with the Framework Subcontracting Agreement by either party thereunder against the other.

Pricing Policy

Under the Framework Subcontracting Agreement, the subcontracting fees payable to the Group shall be arrived at after arm's length negotiations on normal commercial terms and will be determined, based on the quotation provided to WHSE on a project-by-project basis. The quotation will be determined among other things, the following factors:

- (a) the prevailing market prices of materials and relevant costs of subcontracting services at the time of tendering for the Subcontracting Accepted Projects based on the competitive quotations from suppliers and/or subcontractors of WHSE which implicate the market standard on the pricing for projects of similar nature;
- (b) the scale, complexity and specifications of the Subcontracting Accepted Projects, nature and amount of works to be performed, the capacity of the relevant member of the Group, the estimated time required to complete the works and other technical project requirements of the Subcontracting Accepted Projects;
- (c) the historical fees received from independent third party subcontractors for similar scope of services performed for similar projects;

- (d) the fee level in the market and competitive conditions at the contract negotiation stage through (i) regular review and analysis by the procurement department of the Group on the fee quotations they receive/offer (as the case may be) from time to time; and (ii) the quotations the Group receives subcontracting projects in similar scale and nature;
- (e) the terms (including payment terms and terms of services) previously entered into with independent third party subcontractors for similar scope of services performed for similar projects; and
- (f) the level of risks involved in the Subcontracting Accepted Projects and the subcontracting services, in which a reasonable buffer will be evaluated and established considering the prevailing circumstances, operating environment and other pertinent factors and thereafter be factored into the calculation of the quotation.

WHSE and the relevant member of the Group shall separately negotiate the terms of each Subcontracting Accepted Projects on arm's length basis and enter into separate agreements in respect of each Subcontracting Accepted Projects.

Annual Caps

The annual caps for the transactions contemplated under the Framework Subcontracting Agreements for the relevant periods are as follows:

	For the year ending 31 March 2025	For the year ending 31 March 2026	For the year ending 31 March 2027
Annual caps (HK\$)	123,000,000 (Note 1)	202,000,000 (Note 2)	245,000,000

Notes:

- 1 Of which approximately HK\$75.7 million is estimated to be recognised from current existing Subcontracting Accepted Project entered into between WHSE and the Company prior to the Acquisition during the year ending 31 March 2025.
- 2 Of which approximately HK\$37.8 million is estimated to be recognised from current existing Subcontracting Accepted Projects entered into between WHSE and the Company prior to the Acquisition during the year ending 31 March 2026.

In arriving at the above annual caps, the Company has considered:

- (a) the historical project size of the Group in providing relevant services for the past one (1) financial year;
- (b) the historical transaction amount between WHSE (as contractor) and the Group (as subcontractor) for the past one (1) financial year which approximately amounted to HK\$66.0 million;
- (c) the estimated amount of final subcontracting fees to be received by the Group under the Subcontracting Accepted Projects for the relevant periods taking into account the existing subcontracting arrangements entered into by the Group with other third parties;
- (d) the estimated demand from WHSE for subcontracting services to be provided by the Group for the relevant periods taking into account the existing contracts, potential contracts and submitted tenders of WHSE;
- (e) a buffer of 10% on a maximum annualised subcontracting fees estimated at approximately HK\$111.6 million, HK\$183.6 million and HK\$221.9 million for the year ending 31 March 2025, 31 March 2026 and 31 March 2027, respectively, based on the factors as set out herein for the relevant period; and
- (f) the economic growth rate.

Specifically,

- (i) for the proposed annual cap of HK\$123 million for the year ending 31 March 2025, the Group has:
 - (a) considered the existing seven ongoing projects that WHSE had already engaged member of the Group as subcontractor with total subcontracting fee of HK\$179.5 million of which HK\$75.7 million are expected to be recognised for the year ending 31 March 2025;

- (b) estimated that WHSE will engage member of the Group as subcontractor in seven new Subcontracting Accepted Projects with estimated total subcontracting fee of approximately HK\$179.5 million (HK\$25.6 million per Subcontracting Accepted Project with reference to HK\$179.5 million subcontracting fee for seven existing subcontracted projects) commencing during the year ending 31 March 2025 to be recognised evenly throughout the estimated 30-month contract period; and
 - (c) included the 10% buffer on the maximum annualised subcontracting fees for the year ending 31 March 2025 aforementioned;
- (ii) for the proposed annual cap of HK\$202 million for the year ending 31 March 2026, the Group has:
 - (a) considered the existing subcontracted projects of which HK\$37.8 million are expected to be recognised for the year ending 31 March 2026;
 - (b) considered the subcontracting fees carried from the ongoing Subcontracting Accepted Projects commenced in the year ending 31 March 2025;
 - (c) estimated that WHSE will engage member of the Group as subcontractor in seven new Subcontracting Accepted Projects with estimated total subcontracting fee of approximately HK\$184.9 million (approximately HK26.4 million per Subcontracting Accepted Project, representing a 3% year-over-year growth of the estimated initial subcontracting fee of HK\$25.6 million per Subcontracting Accepted Project in the year ending 31 March 2025) commencing during the year ending 31 March 2026 to be recognised evenly throughout the estimated 30-month contract period; and
 - (d) included the 10% buffer on the maximum annualised subcontracting fees for the year ending 31 March 2026 aforementioned;

- (iii) for the proposed annual cap of HK\$245 million for the year ending 31 March 2027, the Group has:
 - (a) considered the subcontracting fees carried from the ongoing Subcontracting Accepted Projects commenced in the year ending 31 March 2025 and 31 March 2026;
 - (b) estimated that WHSE will engage member of the Group as subcontractor in seven new Subcontracting Accepted Projects with estimated total subcontracting fee of approximately HK\$190.4 million (approximately HK\$27.2 million per Subcontracting Accepted Project, representing a 3% year-over-year growth of the estimated initial subcontracting fee of HK\$26.4 million per Subcontracting Accepted Project in the year ending 31 March 2026) commencing during the year ending 31 March 2027 to be recognised evenly throughout the estimated 30-month contract period; and
 - (c) included the 10% buffer on the maximum annualised subcontracting fees for the year ending 31 March 2027 aforementioned.

The calculation of the annual caps for the transactions contemplated under the Framework Contracting Agreement was based on the assumption that:

- (1) the economic growth rate of 3% in which the Group took into account, among other things, the potential increase in demand and tender amount in view of the long term development plan of the Hong Kong Government, the Hong Kong Government promotion of the application of modular integrated construction in construction industry, the economic growth and inflation projection according to 2023-2024 Budget of 3.7% and 2.5% per annum respectively from 2024-2027;
- (2) each contract will require 30 months the complete being the average duration of existing project in relation to modular integrated construction and the cost will be evenly distributed; and
- (3) The Group will obtain seven (7) projects from WHSE a year having considered that there had been seven new projects over the past 12 months period.

C. HISTORICAL TRANSACTION AMOUNTS

The table below sets out the historical transaction amounts of (i) the service fees payable by the Group to WHSE for WHSE's provision of subcontracting services, and (ii) the service fees payable by WHSE to the Group for the Group's provision of subcontracting services, for the past three (3) financial years ending 31 March 2022, 31 March 2023 and 31 March 2024:

	For the year ended 31 March 2022 (HK\$)	For the year ended 31 March 2023 (HK\$)	For the year ended 31 March 2024 (HK\$)
Service fees payable by the Group to WHSE for WHSE's subcontracting services	98,124,000	112,572,000	164,619,000
Service fees payable by WHSE to the Group for the Group's subcontracting services	–	–	65,953,000

For the period from 1 April 2024 and up to the Latest Practicable Date, the service fees incurred for WHSE's subcontracting services to the Group amounted to approximately HK\$73.7 million while the services fees payable by WHSE to the Group for its subcontracting services amounted to approximately HK\$35.0 million.

D. REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE FRAMEWORK AGREEMENTS

After the Group's acquisition of Gain Capital Limited which involved a newly set up pre-fabrication factory (the "Factory") in May 2022, the Factory has recently commenced production during the financial year ended 31 March 2024. The Factory supplied the free-standing integrated modules to the projects of the Group and other contractors in order to meeting the demand for modular integrated construction.

According to the 2024-25 Budget, the Hong Kong Government will make available land for the production of no less than 80,000 private housing units in the coming five years and has identified sufficient land for meeting the supply target of 308,000 public housing units over the next ten years (from 2024/25 to 2033/34). Among which, as at the end of 2023, construction of about 105,000 units under the Hong Kong Housing Authority has commenced with satisfactory progress.

In light of the above development, the Board is optimistic about the medium to long-term outlook for the construction industry in Hong Kong. In anticipation of the expected increasing demand for civil engineering work, there will likely be a growing need for pre-fabricated components.

By leveraging the operations of the Factory, the Group has significantly enhanced its manufacturing capabilities for such prefabricated components. This expansion serves not only internal needs but also positions the Group to broaden its business scope in this field, thereby optimising the Factory's value and capitalising on the anticipated business prospects arising from the evolving landscape of the building industry in Hong Kong. In addition, such vertical integration strategy is expected to maximise the profit margin and Shareholders' return, particularly with assurance of product quality, product availability, better cost management and increased capacity by shortening the construction time for the Group's projects.

Additionally, the Group's collaboration with WHSE, a company principally engaged in, among other things, production and supply of precast concrete elements, allows the Group to benefit by cross-referring opportunities with WHSE. While the Group and WHSE are not bound to engage the other party for the provision of subcontracting services, as noted from WHSE, the Group is on the approved subcontractors list of WHSE allowing WHSE to seek quotation from, and vice versa. Being on each other's list of approved subcontractors fosters a collaborative framework and a structured approach to subcontractor engagement which allow parties to explore synergies and mutual benefits in pursuing business prospects on one hand, while retaining the flexibility in engaging other third parties based on factors such as quotation price, reputation or other specific considerations on the other hand. This allows the Group to expand its customer base without diversifying much of its resources in developing the business in this aspect. Under such cross-subcontracting arrangement, the Group may, depending on the capacity and productivity of the Factory, subcontract WHSE for the provision of, in particular, the design, production and supply of precast concrete element for the construction program procured by the Group under the Framework Contracting Agreement, while WHSE may subcontract the Group for the manufacture and supply of prefabricated components for WHSE's client under the Framework Subcontracting Agreement. The Framework Agreements also serve to regulate the transactions contemplated thereunder in compliance with the Listing Rules.

The Directors are of the view that the entering into each of the Framework Contracting Agreement and the Framework Subcontracting Agreement is in the interests of the Group, and the terms of each of the Framework Contracting Agreement (including but not limited to the proposed annual caps in respect of the subcontracting fees payable to WHSE) and the Framework Subcontracting Agreement (including but not limited to the proposed annual caps in respect of the subcontracting fees payable to the Group) are on normal commercial terms, which are fair and reasonable and in the interests of the Shareholders as a whole.

E. ANALYSIS

1. Market adoption of MiC in construction industry

According to the Development Bureau (DEVB)¹, Hong Kong's construction industry has been facing with several challenges, such as declining productivity, high costs, and an ageing workforce. Since 2017, the Government has been proactively encouraging the use of Modular Integrated Construction (MiC) to address these issues, aiming to boost the industry's productivity and cost-effectiveness. A study by the University of Hong Kong on two completed MiC pilot projects revealed that MiC method can reduce construction time by 30 to 50 percent and cut costs by around 10 percent compared to traditional methods and demonstrates superior performance in productivity, workmanship, environmental protection, and safety. To promote the adoption of MiC, in 2022 Policy Address Indicators for Specified Tasks², all public housing projects from 2023-24 to 2027-28 are required to adopt the Design for Manufacture and Assembly (DfMA) approach, including MiC. Furthermore, at least half of the public housing projects from 2028-29 to 2032-33 must adopt MiC, with the remaining projects implementing DfMA. With the support and promotion effort by the Hong Kong Government, the construction market is expected to see an increasing adoption and application of MiC in the coming years.

As mentioned in the Letter from the Board, the Group believes, and we concur, that with the continue support from Hong Kong Government, the medium to long term outlook for the construction industry is positive and sustainable and there will be increasing demand for prefabricated components under the trend of adoption of MiC. As a result, it is currently a good opportunity for the Company to collaborate with WHSE to broaden its business scope in MiC field, to expand and diversify its capabilities in providing prefabricated-related services as a main contractor or sub-contractor of civil engineering works as well as where the construction industry in Hong Kong shows consistent increase in the number of construction works with the HKSAR Government that adopt the use of MiC. It is also beneficial for the Group to enhance and expand customer base in related areas to maximize the utilization of its Factory.

¹ https://www.devb.gov.hk/en/sdev/press/index_id_11061.html

² https://www.policyaddress.gov.hk/2023/public/pdf/measure/measure-08_en.pdf

Taking into account of (i) the positive prospect of construction industry and adoption of MiC with the Hong Kong Government and the increased in revenue experienced by the Group during FY2024; and (ii) the increasing contracting transaction amount between the Group and WHSE, we concur with the management's view that the entering into for the Framework Agreements enables the Company to capture the anticipated growing market opportunities in a timely manner.

The Group considers, and we concur, that it would be beneficial for the Group to enter into each of the Framework Contracting Agreement and the Framework Subcontracting Agreement so as to cooperate with WHSE and cross-referring opportunities to each other, as well as to provide a framework to regulate the transactions contemplated thereunder in compliance with the Listing Rules.

2. Terms of the Framework Agreements

In order to determine if the terms of each of the Framework Contracting Agreement and the Framework Subcontracting Agreement are on normal commercial terms, which are fair and reasonable and in the interests of the Shareholders as a whole, we have reviewed and discussed with the management of the Group the following factors:

- (a) the Framework Contracting Agreement enables members of the Group to invite WHSE for quotations or tender for the provision of the relevant subcontracting services. While Framework Subcontracting Agreement enables WHSE to invite the members of the Group for quotations or tender for the provision of the relevant subcontracting services. As there is no minimum commitment, it would provide flexibility to members of the Group and WHSE when sourcing the most suitable subcontractors with favourable terms from their respective approved list of subcontractors based on their relevant skill sets, qualifications and experience, subject to their availability and fee quotations or tender documents received in the future. Each of the Group and WHSE is not bound to engage each other for quotations or tender submitted by them and may engage other subcontractors;
- (b) the pricing policies of the Framework Contracting Agreement and the Framework Subcontracting Agreement are designed to ensure that the prices and terms offered by WHSE to members of the Group and by members of the Group to WHSE respectively are based on arms' length negotiations on normal commercial terms which are determined, on a project-by-project basis with reference to various market and competitive conditions; and

- (c) in order to assess the fairness and reasonableness of the pricing policies, we have obtained a schedule of existing main contractor projects of a total of 17 projects with commencement date since October 2018 from the Company and have randomly selected and reviewed seven existing projects in which the Group has subcontracted precast related works to independent subcontractors. As the samples taken were randomly selected to encompass a variety of project size involving precast related work, we consider the sampling is sufficient and appropriate for the assessment purpose. We noted the following procedures are in place: (i) the Group invites at least three subcontractors on their list of approved subcontractors to provide quotation (which partly form the Comparative Information, as defined below); (ii) the Group provides information of the subcontracting services required, including scale, complexity and specifications of the projects, nature and amount of works to be performed, the estimated time required to complete the works and other technical project requirements for the invited subcontractors to prepare for their quotation; (iii) after closure of the tender, the procurement department conducts an overall assessment considering, including but not limited to, (a) the tender amount offered in the quotations or tenders; (b) market reputation, past performance, relevant experiences and technical competencies of the subcontractors; (c) quality of service terms offered by the subcontractors; and (d) previous business relationship with the subcontractors, etc. to determine which candidate offers the most favourable package to the Group; and (iv) based on the assessment result, pricing terms are reviewed and signed off by the procurement department, directors (except those with any conflict of interest) and other senior management involved in the project prior to awarding the works.

The procedure of the procurement department of the Group collecting and reviewing quotations from independent third parties in relation to subcontracting of precast work to independent third parties, together with the prices or quotations prepared by the Company for ongoing projects engaged by independent third parties relating to prefabricated work, provide the Group with the information to assess the prevailing market price of precast concrete element and prefabrication components in relation to the Framework Agreements, which form the basis to compare and reference (“Comparative Information”) when assessing received quotations from subcontractors or preparing reasonable and competitive quotations respectively, to ensure that (a) the subcontracting fees charged by WHSE pursuant to the Framework Contracting Agreement and (b) the subcontracting fees charged by the Group pursuant to the Framework Subcontracting Agreement will be fair and reasonable and on normal commercial terms, with reference to the internal control policy of the Company as further detailed in the below section and as discussed with the management of the Company.

We noted that the pricing policy of the projects reviewed are similar to that of the Framework Contracting Agreement and the Framework Subcontracting Agreement. The prevailing services fees from Comparative Information is one of the important indicators (for the Company as contractor) in reviewing subcontractors' tender/quotation from subcontractors (for the Company as a subcontractor) and in preparation of tender/quotation to be submitted to contractors. While the roles of the Company as contractor and subcontractor are different, the Comparative Information obtained as a contractor serve as valid indicators and references for the Company as a subcontractor in preparing quotations, as the Comparative Information serves as a benchmark for the Company to evaluate including but not limited to the latest pricing, delivery schedule, terms and conditions accepted by the recent market.

Given the above, the existing projects provide the Company with market understanding and knowledge of the prevailing services fees to ensure (a) the subcontracting fees charged by WHSE pursuant to the Framework Contracting Agreement; and (b) the subcontracting fees charged by the Group pursuant to the Framework Subcontracting Agreement, will be fair and reasonable, on normal commercial terms while competitive and favourable to the Company as a whole. Furthermore, among the existing seven ongoing projects that WHSE had already engaged member of the Group as subcontractor for prefabricated work ("Existing Subcontracted Projects"), we have further selected randomly and reviewed three projects and noted that the Comparative Information is considered in preparing and determining the quotation as mentioned in the pricing policy. As the samples taken were randomly selected to encompass Existing Subcontracted Projects with a variety of project size, we consider the sampling is sufficient and appropriate for the assessment purpose.

Given (1) the above, (2) the standard procedure guideline followed by project team required approval from non-conflicting management, which we considered that the internal control policy are appropriately monitored and conducted to safeguards and ensure the pricing and other terms in the quotations or tenders in relation to Framework Agreements are on normal commercial terms and on the same (or better) terms and not less favourable than those offered by independent third parties as a whole, and (3) the internal control measures discussed in the section headed "Internal control measures" in this letter, we consider that the pricing policy adopted in the Framework Contracting Agreement and the Framework Subcontracting Agreement are taken place to ensure that the terms of each individual transactions to be conducted will be not less favourable than those offered by independent third parties subcontractors.

In light of the above analysis, we are of the view that the transaction contemplated under the Framework Subcontracting Agreement and the Framework Contracting Agreement are conducted on normal commercial terms, which are fair and reasonable and in the interests of the Shareholders as a whole.

3. Basis of the proposed annual caps for the Framework Agreements

With reference to the Letter from the Board, the annual caps for the Framework Agreements for the three years ending 31 March 2027 were projected after taking into account of various factors. Details of proposed annual caps and basis of determination are set out above the sections headed “Annual Caps”.

Our analysis

With reference to the Letter from the Board, we have reviewed the annual caps calculation schedule for the Framework Agreements for the three years ended 31 March 2027. With a view to assess as a whole the fairness and reasonableness of the annual caps for the Framework Agreements for the three years ending 31 March 2027, we conducted the following analysis.

- a. Calculation of the proposed annual caps for the Framework Contracting Agreement and Framework Subcontracting Agreement

(I) The proposed annual caps pursuant to the Framework Contracting Agreement are determined as follows:

- (i) *for the proposed annual cap of HK\$498 million for the year ending 31 March 2025: (a) having considered the existing four ongoing projects that had already engaged WHSE as subcontractor with total subcontracting fee of HK\$802.0 million (“Existing Contracted Projects”) of which HK\$372.1 million are expected to be recognized for the year ending 31 March 2025; (b) having estimated that the Group to engage WHSE as subcontractor in two new Contracting Accepted Projects with estimated total subcontracting fee of approximately HK\$398.7 million (HK\$199.4 million per Contracting Accepted Project with reference to HK\$802 million subcontracting fee for four Existing Contracted Projects) commencing during the year of 31 March 2025 to be recognised evenly throughout the estimated 30-month contract period; and (c) including a 10% buffer on the maximum annualised subcontracting fees of approximately HK\$451.8 million as mentioned from (a) and (b) for the year ending 31 March 2025;*

- (ii) *for the proposed annual cap of HK\$766 million for the year ending 31 March 2026: (a) having considered the Existing Contracted Projects of which HK\$372.1 million are expected to be recognized for the year ending 31 March 2026; (b) having considered the subcontracting fees carried from the ongoing Contracting Accepted Projects commenced in the year ending 31 March 2025; (c) having estimated that the Group engage WHSE as subcontractor in three new Contracting Accepted Projects with estimated total subcontracting fee of approximately HK\$616.0 million (approximately HK\$205.3 million per Contracting Accepted Project, representing a 3% year-over-year growth of the estimated initial subcontracting fee of HK\$199.4 million per Contracting Accepted Project in FY2025) commencing during the year ending 31 March 2026 to be recognised evenly throughout the estimated 30-month contract period and (d) including a 10% buffer on the maximum annualised subcontracting fees of approximately HK\$695.8 million as mentioned from (a), (b), and (c) to be recognized for the year ending 31 March 2026; and*
- (iii) *for the proposed annual cap of HK\$633 million for the year ending 31 March 2027: (a) having considered the subcontracting fees carried from the ongoing Contracting Accepted Projects commenced in the year ending 31 March 2025 and 31 March 2026; (b) having estimated that the Group engage WHSE as subcontractor in three new Contracting Accepted Projects with estimated total subcontracting fee of approximately HK\$634.5 million (approximately HK\$211.5 million per Contracting Accepted Project, representing a 3% year-over-year growth of the estimated initial subcontracting fee of HK\$205.3 million per Contracting Accepted Project in FY2026) commencing during the year ending 31 March 2027 to be recognised evenly throughout the estimated 30-month contract period and (c) including a 10% buffer on the maximum annualised subcontracting fees of approximately HK\$575.1 million as mentioned from (a) and (b) to be recognized for the year ending 31 March 2027.*

(II) The proposed annual caps pursuant to the Framework Subcontracting Agreement are determined as follows:

- (i) *for the proposed annual cap of HK\$123 million for the year ending 31 March 2025: (a) having considered the seven Existing Subcontracted Projects that WHSE had already engaged member of the Group as subcontractor with total subcontracting fee of HK\$179.5 million of which HK\$75.7 million are expected to be recognized for the year ending 31 March 2025; (b) having estimated that WHSE to engage member of the Group as subcontractor in seven new Subcontracting Accepted Projects with estimated total subcontracting fee of approximately HK\$179.5 million (HK\$25.6 million per Subcontracting Accepted Project with reference to HK\$179.5 million subcontracting fee for seven Existing Subcontracted Projects) commencing during the year ending 31 March 2025 to be recognised evenly throughout the estimated 30-month contract period; and (c) including a 10% buffer on the maximum annualised subcontracting fees of approximately HK\$111.6 million as mentioned from (a) and (b) for the year ending 31 March 2025;*
- (ii) *for the proposed annual cap of HK\$202 million for the year ending 31 March 2026: a) having considered the Existing Subcontracted Projects of which HK\$37.8 million are expected to be recognized for the year ending 31 March 2026; (b) having considered the subcontracting fees carried from the ongoing Subcontracting Accepted Projects commenced in the year ending 31 March 2025; (c) having estimated that WHSE to engage member of the Group as subcontractor in seven new Subcontracting Accepted Projects with estimated total subcontracting fee of approximately HK\$184.9 million (approximately HK\$26.4 million per Subcontracting Accepted Project, representing a 3% year-over-year growth of the estimated initial subcontracting fee of HK\$25.6 million per Subcontracting Accepted Project in FY2025) commencing during the year ending 31 March 2026 to be recognised evenly throughout the estimated 30-month contract period and (d) including a 10% buffer on the maximum annualised subcontracting fees of approximately HK\$183.6 million as mentioned from (a), (b), and (c) to be recognized for the year ending 31 March 2026; and*

(iii) *for the proposed annual cap of HK\$245 million for the year ending 31 March 2027: (a) the subcontracting fees carried from the ongoing Subcontracting Accepted Projects commenced in the year ending 31 March 2025 and 31 March 2026; (b) having estimated that WHSE to engage member of the Group as subcontractor in seven new Subcontracting Accepted Projects with estimated total subcontracting fee of approximately HK\$190.4 million (approximately HK\$27.2 million per Subcontracting Accepted Project, representing a 3% year-over-year growth of the estimated initial subcontracting fee of HK\$26.4 million per Subcontracting Accepted Project in FY2026) commencing during the year ending 31 March 2027 to be recognised evenly throughout the estimated 30-month contract period and (c) including a 10% buffer on the maximum annualised subcontracting fees of approximately HK\$221.9 million as mentioned from (a) and (b) to be recognized for the year ending 31 March 2027.*

b. Analysis of the proposed annual caps for the Framework Contracting Agreement and Framework Subcontracting Agreement

(I) Subcontracting fee

When determining the estimated subcontracting fee of HK\$199.4 million per Contracting Accepted Project for the year ending 31 March 2025, the Group took into account the average of the aggregate HK\$802.0 million subcontracting fee for four ongoing Existing Contracted Projects. As a result, we considered that the estimated subcontracting fee of HK\$199.4 million per Contracting Accepted Project for the year ending 31 March 2025 is justifiable.

When determining the estimated subcontracting fee of HK\$25.6 million per Subcontracting Accepted Project for the year ending 31 March 2025, the Group took into account the average of the aggregate HK\$179.5 million subcontracting fee for seven ongoing Existing Subcontracted Projects. As a result, we considered that the estimated subcontracting fee of HK\$25.6 million per Subcontracting Accepted Project for the year ending 31 March 2025 is justifiable.

(II) The estimated number of new Contracting Accepted Projects and Subcontracting Accepted Projects

When determining the estimated number of new Contracting Accepted Projects for each of the three years ending 31 March 2027, the Group took into account the ongoing Existing Contracted Projects which there were new three projects over 12 months period. Accordingly, it is estimated that the Group will have three new Contracting Accepted Projects for each of the three years ending 31 March 2027. However, for the year ending 31 March 2025, given one new project had already engaged WHSE in 2024, only two Contracting Accepted Projects are forecasted for the year ending 31 March 2025. Given the above, we consider the estimated number of new Contracting Accepted Projects for each of the three years ending 31 March 2027 is reasonable.

When determining the estimated number of new Subcontracting Accepted Projects for each of the three years ending 31 March 2027, the Group took into account the ongoing Existing Subcontracted Projects which there were seven new projects over 12 months period. Accordingly, it is estimated that the members of the Group will be engaged by WHSE for seven new Subcontracting Accepted Projects for each of the three years ending 31 March 2027. Given the above, we consider the estimated number of new Subcontracting Accepted Projects for each of the three years ending 31 March 2027 is reasonable.

(III) Project duration

Regarding the assumption that all the Contracting Accepted Projects and Subcontracting Accepted Projects would be completed in a period of 30 months assuming services rendered evenly during the contract period, the Group took into account the Existing Contracting Projects duration in relation to MiC which ranges from 27-37 months and applied the average duration of 30 months. Given the duration applied is based on the average Existing Contracting Projects which are in relation to MiC, we consider that the assumption of 30 months to be justifiable.

(IV) Year-over-year growth rate

When determining the year-over-year growth rate of 3% for Contracting Accepted Projects and Subcontracting Accepted Projects subcontracting fee for the year ended 31 March 2026 and 2027, the Group took into account the potential increase in demand and tender amount in view of the long term development plan of the Hong Kong Government, the Hong Kong Government promotion of the application of MiC in construction industry, the economic growth and inflation projection according to 2023-2024 Budget of 3.7% and 2.5% per annum respectively from 2024-2027 and the subcontracting fee contracted between the Group and WHSE. As a result, we consider the year-over-year growth rate of 3% for Subcontracting Accepted Projects contract sum for the year ended 31 March 2026 and 2027 is prudent and justifiable.

(V) Buffer

The Group applied a buffer of 10% on the maximum annualised subcontracting fees for each of the three years ending 31 March 2027 catering for the potential change in costs for the Contracting Accepted Projects and Subcontracting Accepted Projects. In this regard, the Group took into account the fluctuation, provisional sums or contingencies the Group had on projects in relation to MiC subcontracted to WHSE which was up to 13% as the result of the variance on the scope of work, materials required, complexity of the work, contract period, etc. as well as the increased subcontracting fee contracted by the Group to WHSE. Given the above, we consider that the application of a buffer of 10% to be acceptable.

c. Independent Review and Assessment

Further to the abovementioned factors and considerations, we have reviewed and assessed in relation to the assumptions and calculations of the annual caps of the Framework Agreements.

(I) Assumption of the calculation of annual caps

Having discussed with the management of the Company and based on our further independent research, we noted that there are major developments in the Company's operating environment, namely, the post pandemic recovery growth since 2023, the Hong Kong MiC development trend in 2023 with government support, and the Group's acquisition of a factory which has began operation in first quarter of 2023 which increased the Group's exposure to the MiC development.

1. We have independently researched and noted that the Hong Kong Government initiated the relaxation of Covid-19 restriction measures in December 2022³. Following this development the Hong Kong economy has commenced its recovery phase. According to Census and Statistics Department, HKSAR, Hong Kong recorded real GDP growth of -3.5% in 2022 and 3.2% in 2023⁴, and the Hong Kong economy continued to record growth in the second quarter of 2024, with real GDP increased by 3.3% year-on-year basis⁵. Given the above, we noted that the Hong Kong economy has materially improved in the post pandemic era since 2023.
2. We have independently researched and noted the Hong Kong government has made supporting policies to promote the adoption of MiC. In 2022 Policy Address Indicators for Specified Tasks⁶, all public housing projects from 2023-24 to 2027-28 are required to adopt the Design for Manufacture and Assembly (DfMA) approach, including MiC. Furthermore, at least half of the public housing projects from 2028-29 to 2032-33 shall adopt MiC, with the remaining projects implementing DfMA. As such, we noted a new trend of adopting MiC for public projects has emerged since 2023.
3. We independently researched and reviewed the MiC market projection released by Construction Industry Council⁷. We noted that the overall MiC market demand in the building sectors is estimated to reach 50,300 modules (with about 596,000 m² of CFA by MiC) by the end of 2024 and 241,100 modules (with about 2,821,600 m² of CFA by MiC) by the end of 2029, representing a 36% growth per annum of MiC demand.

³ [https://www.info.gov.hk/gia/general/202212/20/P2022122000646.htm#:~:text=The%20Government%20announced%20today%20\(December,has%20recently%20reached%20a%20plateau.tk](https://www.info.gov.hk/gia/general/202212/20/P2022122000646.htm#:~:text=The%20Government%20announced%20today%20(December,has%20recently%20reached%20a%20plateau.tk)

⁴ <https://research.hktdc.com/en/article/MzIwNjkzNTY5>

⁵ https://www.censtatd.gov.hk/en/press_release_detail.html?id=5443

⁶ https://www.policyaddress.gov.hk/2023/public/pdf/measure/measure-08_en.pdf

⁷ https://www.cic.hk/files/page/10389/CIC_Reference%20Material_MiC%20Market%20Analysis%20Report.pdf

4. With reference to the Letter from the Board, after the Group's acquisition of Gain Capital Limited which involved a newly set up pre-fabrication factory (the "Factory") in May 2022, the Factory has recently commenced production during the financial year ended 31 March 2024. The Factory supplied the free-standing integrated modules to the projects of the Group and other contractors in order to meeting the demand for modular integrated construction.

In view of the post pandemic recovery growth of the Hong Kong economy since 2023, the new government initiative in promoting MiC in public projects starting in 2023 and the Group's investment of the Factory to embrace the development of MiC which began operation in first quarter of 2023, the Directors consider, and we concur, that historical track record and operation data for the past 12 months' period is a reasonable basis for estimating future projects to be conducted between the Group and WHSE and are appropriate and representative reference for estimating the annual caps. Accordingly, given the ongoing Existing Contracted Projects and ongoing Existing Subcontracted Projects are actual MiC related projects, the Directors consider, and we concur, they are realistic, sufficient and relevant reference for estimating the annual cap. On such basis, the Directors are of the view, and after reviewing a schedule prepared by the management of the Company showing the contract sum, commencement date and duration period of all the Group's ongoing Existing Contracted Projects and Existing Subcontracted Projects (together, "Existing Projects"), we concur that,

1. the average of the aggregate HK\$802.0 million subcontracting fee for the four ongoing Existing Contracted Projects and the average of the aggregate HK\$179.5 million subcontracting fee for the seven ongoing Existing Subcontracted Projects are up-to-date and appropriate benchmark for estimating the subcontracting fee per Subcontracting Accepted Projects;
2. the average number of all Existing Projects commenced in a 12-month time period to estimate the annual number of new Contracting Accepted Projects and Subcontracting Accepted Projects for each of the three years ending 31 March 2027 is justifiable; and

3. the average duration of the Existing Projects is appropriate benchmark in estimating the project duration of Contracting Accepted Projects and Subcontracting Accepted Projects.

In relation to all Existing Projects and the expected amount to be recognized for each of the year ended 31 March 2025, 2026 and 2027 for the calculation of the annual caps, we have reviewed the schedule provided by the Company, the relevant contracts and discussed with the management of the Company, we noted that the amount is derived from remaining contract amount of Existing Projects evenly distributed in accordance with the average duration period of the Existing Projects.

We independently reviewed the Hong Kong economic growth and inflation projection according to 2023-2024 Budget of 3.7% and 2.5% per annum respectively from 2024-2027. We independently researched and reviewed the MiC market projection released by Construction Industry Council. We noted that the overall MiC market demand in the building sectors is estimated to reach 50,300 modules (with about 596,000 m² of CFA by MiC) by the end of 2024 and 241,100 modules (with about 2,821,600 m² of CFA by MiC) by the end of 2029, representing a 36% growth per annum of MiC demand. As such, we consider the growth rate of 3% for the Accepted Projects are prudent.

We obtained from the management of the Company the schedule of projects consisting of an exhaustive list of completed MiC work that the Group sub contracted to WHSE with commencement date since 2019 with a total of six projects. We compared the initial contract sum against the final incurred cost paid by the Group to WHSE to assess the fluctuation, provisional sums or contingencies the Group had on projects in relation to MiC and noted the variance is up to 13%. In addition, we have conducted, on a best effort basis, independent research on 26 circulars in relation to continuing connected transactions published in during period from 1 July 2024 to 31 August 2024 on the Main Board of the Stock Exchange. We noted that among all continuing connected transactions we reviewed, 9 of the continuing connected transactions apply a buffer of range from 10% to 30% when determining the annual cap for the continuing connected transaction, with an average of 12.6%. Given the actual cost variance of projects in relation to MiC due to fluctuation, provisional sums or contingencies the Group had was up to 13%. This factor served as a primary reference and we also noted that it is not uncommon for recent annual cap of continuing connected transaction to have a buffer ranging from 10% to 30% with an average of 12.6%. Hence, we consider that the application of a 10% buffer is in line with Company operation pattern and reasonable.

(II) Reasonableness of the calculation of annual caps

In assessing the reasonableness of the annual caps, we have considered the followings:

1. the Group recorded increasing subcontracting fee paid to WHSE from approximately HK\$98.1 million for FY2022 to approximately HK\$164.6 million for FY2024. The Group recorded subcontracting fee received from WHSE from nil for FY2022 and FY2023 to approximately HK\$66.0 million for FY2024;
2. we noted that the ongoing Existing Contracted Projects accounted for approximately 74.7% for the Framework Contracting Agreement annual cap, and ongoing Existing Subcontracted Projects accounted for approximately 61.5% for the Framework Subcontracting Agreement annual cap, for FY2025, which represent a significant portion of the annual cap for FY2025;
3. we noted the government's supporting policy to promote the adoption of MiC, which according to in 2022 Policy Address Indicators for Specified Tasks, all public housing projects from 2023-24 to 2027-28 are required to adopt the Design for Manufacture and Assembly (DfMA) approach, including MiC. Furthermore, at least half of the public housing projects from 2028-29 to 2032-33 must adopt MiC, with the remaining projects implementing DfMA. As such, we noted that a new trend of adopting MiC for public projects has emerged since 2023; and
4. we further reviewed the schedule of current awarded project backlog of the Group as main contractor and noted that there are estimated HK\$336 million of MiC work to be subcontracted. In additional, we reviewed a list of public contracts from Housing Authority available for tendering by the Group and noted there are continuing new public projects for tendering.

Therefore, given (1) the increasing historical transactions between members of the Group and WHSE showing that the engagement in MiC projects is on positive trend which serves as a reasonable base reference for the annual caps estimation, (2) the subcontracting fee of Existing Projects accounted for significant portion of the annual cap for the year ending 31 March 2025, (3)

the emerging trend of adoption of MiC as support by the government policy, and (4) the backlog and potential projects of the Group being a valid basis and reference, we are of the view that, the annual caps of the Framework Agreements are projected with reasonable prudence and are fair and reasonable.

Having considered the above, we consider the proposed annual caps under Contracting Accepted Projects and Subcontracting Accepted Projects for each of the years ending 31 March 2025, 31 March 2026 and 31 March 2027 fair and reasonable.

4. Internal control measures

To ensure that (a) the subcontracting fees charged by WHSE pursuant to the Framework Contracting Agreement and (b) the subcontracting fees charged by the Group pursuant to the Framework Subcontracting Agreement will be fair and reasonable and on normal commercial terms, the procurement department of the Group will review Comparative Information. Such information compiled by the procurement department will assist the Group in implementing quantitative comparison on the pricing terms charged by third party subcontractors.

When determining the subcontracting fees to be charged by WHSE pursuant to the Framework Contracting Agreement, the procurement department will review all the submitted tenders or quotations (including those from WHSE and other Independent Third Party subcontractors) to choose the most suited subcontractor for the job based on the proposed pricing and other terms, the experience and capacity. All the independent quotations or tenders submitted and the Comparative Information together forms the basis of the prevailing market price for such project. It is only when the price and terms offered by WHSE is on same (or better) terms and are more favourable to the relevant member of the Group than the packages offered by Independent Third Parties and the prevailing market price that the relevant member of the Group would consider awarding the works to WHSE. Pricing and other terms will be subject to review and sign off by the senior management and a director (except those with any conflict of interest) prior to awarding the works to WHSE.

When determining the subcontracting fees to be charged by any member of the Group pursuant to the Framework Subcontracting Agreement, the Group will assess a number of factors as disclosed in the pricing policy of Framework Subcontracting Agreement, including but not limited to the scale, complexity, specifications of the project, amount of work to be performed, the capacity of the relevant member of the Group, and refer to the Comparative Information, so as to ensure the pricing and other terms and conditions in the quotations or tenders to be submitted on a project-by-project basis by such member to WHSE is on the same (or better) terms and not less favourable to the Group than the Comparative

Information. Such pricing terms will be reviewed and signed off by a director (except those with any conflict of interest) and the senior management prior to the submission of any quotations or tenders or proposals on the pricing terms to WHSE. While each tender/quotation are submitted by the member of the Group on a project-by-project basis, given the standard procedure guideline followed by project team, and the procedure required approval from non-conflicting management, we are of the view that the internal control policy are appropriately monitored and conducted to safeguards and ensure the pricing and other terms in the quotations or tenders to be submitted by such member of the Group to WHSE are on normal commercial terms and on the same (or better) terms and not less favourable than those offered by Group to independent third parties as a whole.

Furthermore, in addition to the Group's compliance with the requirements on annual review by external auditors and independent non-executive Directors under the Listing Rules in respect of the Group's continuing connected transactions, to ensure that the transactions contemplated under each of the Framework Agreements do not exceed the respective annual caps, the procurement department of the Group provide actual service fees incurred and latest estimation on the yearly transaction amounts for the continuing connected transactions at least quarterly. In the event that any of (a) the subcontracting fees charged or to be charged by WHSE pursuant to the Framework Contracting Agreement and (b) the subcontracting fees charged or to be charged by members of the Group pursuant to the Framework Subcontracting Agreement is expected to reach the respective annual caps, the procurement department will follow up forthwith by reporting and proposing a response to the management of the Group, and in case that an amendment to such annual cap is required, report particulars to the Board and hold a Board meeting for considering the matters thereabout to ensure compliance with the requirements under the Listing Rules.

The Company also arranges compliance trainings for the Directors, senior management and staff from the relevant departments of the Company and its subsidiaries annually, primarily focusing on the rules relating to connected transactions and continuing connected transactions under Chapter 14A of the Listing Rules.

In light of the above, we consider that the aforementioned internal control measures could ensure that (a) the subcontracting fees charged by WHSE pursuant to the Framework Contracting Agreement and (b) the subcontracting fees charged by the Group pursuant to the Framework Subcontracting Agreement will be fair and reasonable and on normal commercial terms and not less favorable than those offered to or by the Independent Third Parties.

We have assessed the internal control policy for continuing connected transaction of the Group by discussing with the management of the Group in relation to the internal control procedures and reviewing the internal control policy documents, and noted that the above measures will be implemented. Based on the above and the seven samples of existing projects and the three samples of Existing Subcontracted Projects we reviewed as mentioned in the section headed “Principal Terms of the Framework Agreements” in this Letter, we consider that the internal control measures to be implemented by the Group are sufficient to safeguard the interests of the Company and the Shareholders as a whole.

5. Conclusion of Analysis

After considering, (i) it would be beneficial to the Group to further broaden its business scope and customer-base in relation to MiC field by cooperating with WHSE, either as the contractor under the Framework Contracting Agreement or as the subcontractor under the Framework Subcontracting Agreement; (ii) as there is no minimum commitment under the Framework Agreements, it would provide flexibility to the Group and WHSE when sourcing the most suitable subcontractors with favourable terms from their respective approved lists of subcontractors based on their relevant skill sets, qualifications and experience, subject to their availability and fee quotations or tender documents received in the future; (iii) the pricing policies of the Framework Agreements are designed to ensure that the prices and terms to be agreed between the relevant members of the Group and WHSE on each project are based on arms’ length negotiations on normal commercial terms; (iv) the annual caps for the Framework Agreements are determined based on reasonable estimation; and (v) with reference to the Letter from the Board, the Group has adopted various internal control policies to supervise the potential continuing connected transactions. With the internal control policies of the Group as well as the stipulated requirements for continuing connected transaction of the Listing Rules shall be in place, the continuing connected transaction will be monitored and hence the interest of the Independent Shareholders can be safeguarded.

Having taken the above principal factors and reasons, we considered that (i) the transactions contemplated under each of the Framework Agreements are in the ordinary and usual course of business of the Group; (ii) the terms of each of the Framework Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (iii) the entering into of each of the Framework Agreements is in the interests of the Company and the Shareholders as a whole; and (iv) the proposed annual caps in respect of each of the Framework Agreements and the continuing connected transactions contemplated thereunder for the three years ending 31 March 2027 are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM approving each of the Framework Agreements and the continuing connected transactions contemplated thereunder and their respective annual caps.

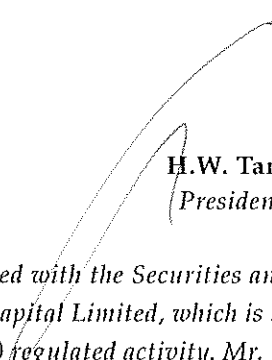
F. CONCLUSION AND RECOMMENDATIONS

Having considered the above principal factors and reasons, we are of the view that:


- (i) the transactions contemplated under the Framework Contracting Agreement are in the ordinary and usual course of business of the Group, the terms of the Framework Contracting Agreement (including the proposed annual caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole; and
- (ii) the transactions contemplated under the Framework Subcontracting Agreement are in the ordinary and usual course of business of the Group, the terms of the Framework Subcontracting Agreement (including the proposed annual caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM in relation to (i) the Framework Subcontracting Agreement; and (ii) the Framework Contracting Agreement.

Yours faithfully,
for and on behalf of
Ample Capital Limited



H.W. Tang
President



Jenny Law
Vice President

Mr. H.W. Tang is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Ample Capital Limited, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity. Mr. Tang has over 20 years' experience in the corporate finance industry.

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