

9 May 2024

*To the Independent Board Committee and  
the Independent Shareholders of Kin Pang Holdings Limited*

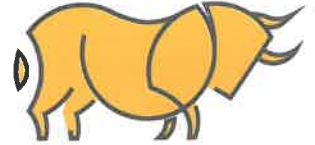
Dear Sirs/Madam,

## **CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE SUBCONTRACTING FRAMEWORK AGREEMENT**

### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Annual Caps, the terms of the Subcontracting Framework Agreement and the transactions contemplated thereunder, details of which are set out in the Letter from the Board (the “**Board Letter**”) of the circular issued by the Company dated 9 May 2024 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 18 April 2024, on 18 April 2024, Kin Pang Construction, an indirect wholly-owned subsidiary of the Company, and Construtor Civil Kong Kin I entered into the Subcontracting Framework Agreement, pursuant to which Construtor Civil Kong Kin I conditionally agreed to provide subcontracting services for construction and renovation works to the Group in accordance with the terms therein, subject to the approval by the Independent Shareholders at the AGM. According to the Subcontracting Framework Agreement, the Proposed Annual Caps is MOP10.0 million, MOP11.0 million and MOP12.0 million (equivalent to approximately HK\$9.7 million, HK\$10.7 million and HK\$11.7 million, respectively) for the year ending 31 December 2024, 2025 and 2026, respectively. The Subcontracting Framework Agreement will be effective from the Commencement Date to 31 December 2026 (both days inclusive).



## **LISTING RULES IMPLICATION**

Construtor Civil Kong Kin I is wholly owned by Mr. Kong, an executive Director and a controlling shareholder of the Company. Mr. Kong individually holds 14,950,000 Shares. Further, Mr. Kong and Ms. Choi owns 60% and 40% of Fortunate Year, respectively, which in turn holds 670,000,000 Shares. Accordingly, Mr. Kong is deemed to be interested in a total of 684,950,000 Shares, representing approximately 62.27% of the total issued share capital of the Company. Accordingly, Mr. Kong is a connected person of the Company and the transactions contemplated under the Subcontracting Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under the Listing Rules in respect of the Proposed Annual Caps exceeds 5% but are less than 25% and the Proposed Annual Caps are not less than HK\$10 million, the Subcontracting Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps) are subject to the reporting, annual review, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will comply with the annual review requirements under Rules 14A.55 to 14A.59 of the Listing Rules in relation to the Subcontracting Framework Agreement and the continuing connected transactions (including the Proposed Annual Caps).

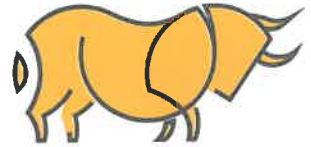
## **INDEPENDENT BOARD COMMITTEE**

An Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Cheung Wai Lun Jacky, Mr. Cheung Kin Wing and Mr. Zhao Zhipeng, has been established by the Company to consider the Proposed Annual Caps, the Subcontracting Framework Agreement and the transactions contemplated thereunder, and to advise the Independent Shareholders as to whether the terms of the Subcontracting Framework Agreement and the continuing connected transactions (including the Proposed Annual Caps) are on normal commercial terms or better and fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

We, Grande Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to the foregoing matters.

## **OUR INDEPENDENCE**

During the last two years immediately preceding to the Latest Practicable Date, we were not aware of any relationships or interest between Grande Capital and the Company, the counterparty of the Subcontracting Framework Agreements or their respective core connected persons or associates, or any parties that could be reasonably be regarded as hindrance to Grande Capital's 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 in respect of the Proposed Annual Caps, the Subcontracting Framework Agreement



and the transactions contemplated thereunder. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations. Apart from normal professional fees paid or payable to us in connection with the previous appointments mentioned above as well as this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. We are not aware of the existence of or change in any circumstances that would affect our independence. Grande Capital has not acted as a financial adviser to the Company in the last two years. Accordingly, we consider that we are eligible to give independent advice on the Proposed Annual Caps, the Subcontracting Framework Agreement and the transactions contemplated thereunder.

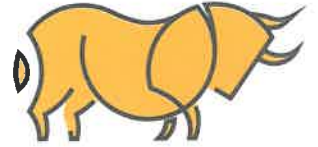
### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all statements, information and representations provided by the Directors and the management of the Company, for which they are solely and wholly responsible, were true and accurate at the time when they were provided and continued to be so as at the Latest Practicable Date.

We have also assumed that all statements of belief, opinion, expectation made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Directors and the management of the Company. We believe that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular, which includes particular given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all materials respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading.

This letter is issued for provision of the information to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Proposed Annual Caps, the Subcontracting Framework Agreement and the transactions contemplated



thereunder, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposed Annual Caps, the Subcontracting Framework Agreement and the transactions contemplated thereunder, we have taken into account the principal factors and reasons set out below:

### A. Background information of the Parties

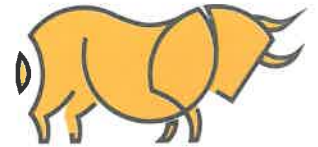
#### (a) Background information of the Group

The Company is an exempted company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange. The Group is an integrated construction contractor which provides building and ancillary services. The services are required in various building and construction projects in relation to hotel and casino resorts, infrastructures of electricity and water supply, and public amenities and utilities (such as carriageways, footpaths, drains and sewers). The Group's revenue was derived from Macau and Hong Kong and the Group was engaged in projects in both private and public sectors. Public sector projects refer to projects of which the project employer is the Macau Government, while private sector projects refer to projects that are not within the public sector. The Group's customers mainly included (i) hotel and casino owners or their main contractors; (ii) electricity and water utility companies; (iii) the Macau Government; and (iv) other private developers or their contractors.

Set out below are the audited consolidated financial information of the Group for the two years ended 31 December 2023 as extracted from the Company's annual report for the year ended 31 December 2023 (the "2023 Annual Report"):

	For the year ended 31 December 2023 MOP'000	For the year ended 31 December 2022 MOP'000	Year-on-year change %
Revenue	582,928	598,823	(2.7)
Gross profit	10,329	23,753	(56.5)
Loss for the year	(34,123)	(11,641)	193.1

As depicted from the table above, the Group's revenue decreased by approximately 2.7% from approximately MOP598.8 million for the year ended 31 December 2022 to approximately MOP582.9 million for the year ended 31 December



2023. With reference to the 2023 Annual Report, the decrease was due to the decrease in construction works performed by the Group during the year ended 31 December 2023. During the year ended 31 December 2023, 39 building and ancillary services projects with an aggregate contract sum of MOP727.7 million were awarded. The Group had completed 20 building and ancillary services projects during the year ended 31 December 2023. As at 31 December 2023, the Group's backlog consisted of 31 building and ancillary services projects, which exclude those completed but not certified with an aggregate outstanding contract sum of MOP722.1 million.

The Group's gross profit decreased by approximately 56.5% from approximately MOP23.8 million for the year ended 31 December 2022 to approximately MOP10.3 million for the year ended 31 December 2023. With reference to the 2023 Annual Report, the decrease was mainly attributable to the decrease in gross profit margin of the construction projects undertaken by the Group during the year ended 31 December 2023, coupled with an increase in construction costs due to inflation.

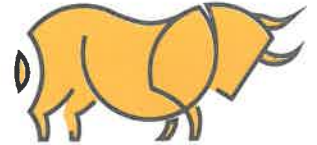
The Group's loss for the year was approximately MOP34.1 million for the year ended 31 December 2023 compared to loss for the year of approximately MOP11.6 million for the year ended 31 December 2022. With reference to the 2023 Annual Report, it was primarily attributable to (i) the decrease in gross profit margin of the construction projects undertaken by the Group in FY2023, coupled with an increase in construction costs due to inflation; (ii) the loss incurred by the Group in the amount of approximately MOP4.5 million, resulting from a suspected case of fraud in relation to machinery acquisition, details of which are set forth in the Company's announcement dated 7 November 2023; and (iii) provision for expected credit loss on the financial and contract assets which remained unsettled for more than a year.

***(b) Background information of Construtor Civil Kong Kin I***

Construtor Civil Kong Kin I is a sole proprietorship registered by Mr. Kong, an executive Director and a controlling shareholder of the Company. Construtor Civil Kong Kin I is principally engaged in the provision of construction and renovation works in Macau.

**B. Reasons for and benefits of the Continuing Connected Transactions**

As disclosed in the Letter from the Board, the Group is an integrated construction contractor which provides building and ancillary services for building and construction projects in relation to hotel and casino resorts, infrastructures of electricity and water supply, and public amenities and utilities (such as carriageways, footpaths, drains and sewers). Most of the Group's revenue was generated in Macau. Macau has experienced remarkable economic recovery, especially in the gaming and tourism industries, since the subsidence of the COVID-19 pandemic, which largely contributed to the growth of the construction industry in Macau.



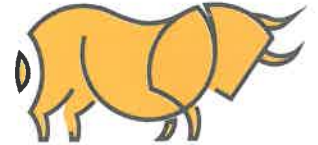
According to the Macau Statistics and Census Service (“MSCS”), the gross fixed capital formation (“GFCF”) of the construction industry increased significantly by approximately 70.4% on a year-on-year (“YoY”) basis during the second quarter of 2023. During the first three quarters of 2023, the output of the construction industry in Macau was supported by an improvement in the leisure and hospitality and infrastructure sectors. The tourism industry has also showed signs of improvement, supported by an increase in international tourist arrivals to Macau. According to the MSCS, the total number of tourist arrivals to Macau rose by 356.6% YoY during the nine months ended 30 September 2023, while the gross gaming revenue grew by 301.3% YoY during the corresponding period.

In early November 2023, the Macau government released its Five-Year Economic diversification Plan (2024–28), which focuses on developing key industries including tourism and leisure, healthcare, new technology development as well as culture and sports. Besides, the Macau government has also introduced the 2020–40 Urban Master Plan, which aims to meet the challenges of projected population growth, economic diversification, and greater integration with the PRC. The 2020–40 Urban Master Plan will provide approximately 3 km<sup>2</sup> of reclaimed land from the sea to create new housing, commercial, tourism, and public spaces. Being supported by the expected increase in investments in the Macau public infrastructures, tourism and leisure, housing and commercial industries as driven by various policies implemented by the Macau government, the Macau construction industry is projected to record an annual average growth of approximately 3.9% from 2024 to 2026.

As disclosed in the Letter from the Board, the Group has been exposed to an increase in business opportunities in recent years which is demonstrated by the increase in number of building and ancillary services projects awarded to the Group from 29 with an aggregate contract sum of approximately MOP480.3 million for the year ended 31 December 2022 to 39 with an aggregate contract sum of approximately MOP727.7 million for the year ended 31 December 2023. Further, the Group’s backlog has also increased from 12 building and ancillary services projects with an aggregate outstanding contract sum of approximately MOP336.1 million as at 31 December 2022 to 31 building and ancillary services projects with an aggregate outstanding contract sum of approximately MOP722.1 million as at 31 December 2023.

In view of (i) the projected growth in the Macau construction industry; and (ii) the Group’s business strategies in strengthening its market share in the public sector construction industry whilst expanding its market presence in the private sector construction industry in Macau, the Directors consider that it is imperative for the Group to secure sufficient and reliable labour resources to meet the expected increase in demand for the Group’s building and ancillary services as well as emergency repair services.

Construtor Civil Kong Kin I is a construction contractor in Macau with over 17 years of experience in construction and renovation works. Construtor Civil Kong Kin I is one of the approved subcontractors of the Group. Throughout the years, Construtor Civil Kong Kin I has been able to accommodate to the Group’s needs and consistently deliver high quality



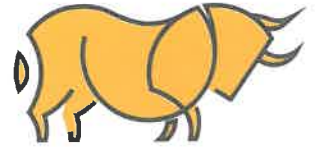
subcontracting services, fulfil the Group's customers' specifications and adhere to the Group's safety and quality standards. Besides, the pricing for subcontracting services offered by Construtor Civil Kong Kin I to the Group is generally comparable to or lower than that offered by other independent third party subcontractors. Taking into account (i) the extensive industry knowledge and established experience of Construtor Civil Kong Kin I in the construction industry; (ii) the track record of Construtor Civil Kong Kin I in providing quality subcontracting services to the Group; (iii) the historical pricing offered by Construtor Civil Kong Kin I to the Group; and (iv) the expected increase in demand for subcontracting services of the Group, the Directors consider that it is in the interests of the Group to enter into the Subcontracting Framework Agreement with Construtor Civil Kong Kin I. We have obtained the certificate of incorporation of Construtor Civil Kong Kin I and its relevant business licences and noted that Construtor Civil Kong Kin I was incorporated in 2006. We have also reviewed the project list of Construtor Civil Kong Kin I for the year ended 31 December 2021, 2022 and 2023 and noted that Construtor Civil Kong Kin I has been actively undertaken construction and renovation projects in Macau.

### **C. Principal terms of the Subcontracting Framework Agreement**

On 18 April 2024, Kin Pang Construction, an indirect wholly-owned subsidiary of the Company, and Construtor Civil Kong Kin I entered into the Subcontracting Framework Agreement, pursuant to which Construtor Civil Kong Kin I conditionally agreed to provide subcontracting services for construction and renovation works to the Group in accordance with the terms therein, subject to the approval by the Independent Shareholders at the AGM.

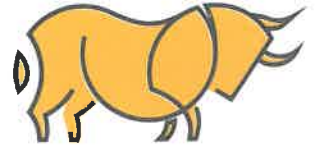
The principal terms of the Subcontracting Framework Agreement are set forth as follows:

<b>Date</b>	:	18 April 2024
<b>Parties</b>	:	(i) Kin Pang Construction; and (ii) Construtor Civil Kong Kin I
<b>Duration</b>	:	From the Commencement Date to 31 December 2026 (both days inclusive) or until terminated by either party to the Subcontracting Framework Agreement by serving not less than one (1) month's written notice, whichever is earlier.



- Subject matter** : Pursuant to the Subcontracting Framework Agreement, Construtor Civil Kong Kin I conditionally agreed to provide subcontracting services for construction and renovation works to the Group in accordance with the terms therein, subject to the approval by the Independent Shareholders at the AGM.
- Pricing** : The Group shall obtain quotation from Construtor Civil Kong Kin I prior to placing purchase order(s), detailing the scope of subcontracting services and pricing of each type of work, with Construtor Civil Kong Kin I.
- Pursuant to the Subcontracting Framework Agreement, the subcontracting fees payable by the Group to Construtor Civil Kong Kin I are to be determined after arm's-length negotiations and taking into account the following factors:
- (i) the anticipated operational costs of Construtor Civil Kong Kin I for the provision of subcontracting services to the Group under the Subcontracting Framework Agreement;
  - (ii) the current market prices offered by independent third parties, which provide services similar to those provided by Construtor Civil Kong Kin I under the Subcontracting Framework Agreement, on normal commercial terms and in the ordinary and usual course of business; and
  - (iii) current market prices offered by Construtor Civil Kong Kin I to independent third parties for services similar to those provided by Construtor Civil Kong Kin I under the Subcontracting Framework Agreement.
- Payment term** : Construtor Civil Kong Kin I shall submit progress payment application to the Group setting out the details of the completed subcontracting works on a monthly basis. The Group shall settle the monthly progress payment payable to Construtor Civil Kong Kin I within 90 days from its approval.

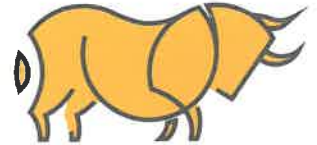




**Renewal** : The Subcontracting Framework Agreement is subject to renewal by mutual agreement of the parties thereto and compliance with the requirements under Chapter 14A of the Listing Rules and all other applicable laws and regulations.

In order to determine if the terms of the Subcontracting Framework 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 factor:

- (a) the Subcontracting Framework Agreement enables the Group to invite Construtor Civil Kong Kin I for quotations or tender for the provision of the relevant subcontracting services. As there is no minimum commitment, it would provide flexibility to the Group when sourcing the most suitable subcontractors with favourable terms from the 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. The Group is not bound to engage Construtor Civil Kong Kin I for quotations or tender submitted by it and may engage other subcontractors;
- (b) the pricing policy of the Subcontracting Framework Agreement is designed to ensure that the prices and terms offered by Construtor Civil Kong Kin I to the Group are based on arm's 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 policy, we have randomly selected and reviewed projects which the Group has subcontracted certain works to Construtor Civil Kong Kin I during the year ended 31 December 2023 and up to the Latest Practicable Date. In this regard, we noted that the price and terms offered by Construtor Civil Kong Kin I to the Group were more favorable or comparable to that offered by other independent third party subcontractors which provided similar scope of works to the Group. In particular, we noted that the credit terms offered by Construtor Civil Kong Kin I were comparable to that offered by other subcontractors of the Group. Given the above and the internal control measures discussed in the section headed "Internal control measures" in this Letter, we consider that the pricing policy adopted in the Subcontracting Framework Agreement can ensure that the terms of each individual transactions to be conducted will be not less favourable than those offered by independent third party subcontractors.



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

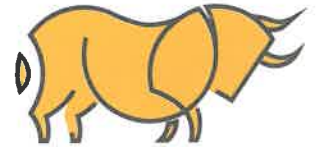
#### **D. Proposed Annual Caps**

In accordance with Rule 14A.53 of the Listing Rules, the Company is required to set an annual cap on the total amount of transaction fees under the Subcontracting Framework Agreement.

With reference to the Letter from the Board, the Proposed Annual Caps on the aggregate transaction amount under the Subcontracting Framework Agreement payable to Construtor Civil Kong Kin I for the financial year ending 31 December 2024, 2025 and 2026 are MOP10.0 million, MOP11.0 million and MOP12.0 million, respectively (equivalent to approximately HK\$9.7 million, HK\$10.7 million and HK\$11.7 million, respectively).

In determining the Proposed Annual Caps, the Directors have taken into consideration the following factors:

- (i) the Group recorded a significant increase in the backlog from 12 building and ancillary services projects with an aggregate outstanding contract sum of approximately MOP336.1 million as at 31 December 2022 to 31 building and ancillary services projects with an aggregate outstanding contract sum of approximately MOP722.1 million as at 31 December 2023;
- (ii) increase in demand for the Group's building and ancillary services driven by the subsidence of the COVID-19 pandemic and recovery of the overall economy, especially the gaming and tourism industries in Macau;
- (iii) the Group's business strategies in strengthening its market share in the public sector construction industry whilst expanding its market presence in the private sector construction industry in Macau;
- (iv) the estimated number and scale of building and ancillary services projects expected to be undertaken by the Group for the three years ending 31 December 2026;
- (v) the current market prices offered by independent third parties, which provide services similar to those provided by Construtor Civil Kong Kin I under the Subcontracting Framework Agreement;

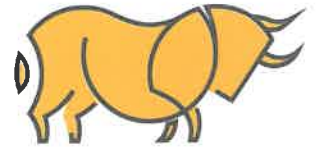


- (vi) general inflation and fluctuations in labour costs and subcontracting fees in Macau; and
- (vii) general assumption that there will not be any material adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group or Construtor Civil Kong Kin I during the projected period.

*Our analysis*

In determining the fairness and reasonableness of the proposed annual caps under the Subcontracting Framework Agreement for the three years ending 31 December 2026, we discussed with the management of the Group and conducted the following analysis:

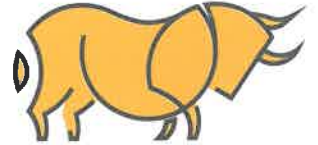
- (a) We have obtained the project list of the Group for the year ended 31 December 2022 and 2023 and noted that there has been an increase in demand for the Group's building and ancillary services as evidenced by a significant increase in the Group's backlog from 12 building and ancillary services projects with an aggregate outstanding contract sum of approximately MOP336.1 million as at 31 December 2022 to 31 building and ancillary services projects with an aggregate outstanding contract sum of approximately MOP722.1 million as at 31 December 2023. In addition, we noted that from the voluntary announcement of the Company dated 22 January 2024, Kin Pang Construction received a letter of award dated 19 December 2023 from the government of Macau which expresses its intent to award a construction contract in relation to the construction works of a flyover in Macau (the "**Contract Works**") to Kin Pang Construction and a Macau construction company (the "**Joint Operator**"), being a third party independent of the Company and its connected persons, as joint operators to carry out the Contract Works. The total contract sum of such project is expected to be approximately MOP223 million. On 27 December 2023, Kin Pang Construction and the Joint Operator entered into a joint operation arrangement, pursuant to which Kin Pang Construction and the Joint Operator shall establish a joint operation, which shall be owned as to 60% and 40% by Kin Pang Construction and the Joint Operator, respectively. Such project is expected to commence in the second quarter of 2024 and to be completed in or around the fourth quarter of 2025. We concur with the management of the Group that such significant increase in demand for the Group's building and ancillary services was driven by the subsidence of the COVID-19 pandemic and recovery of the overall economy in Macau as well as various policies implemented by the Macau government as discussed in the Letter from the Board. We noted that according to the Macau Statistics and Census Service, the GDP of Macau has increased from approximately MOP197.3 billion for 2022 to MOP379.5 billion for 2023, with a growth of



approximately 92.3%, representing a significant improvement in the Macau overall economy. In light of the above analysis, we are of the view that the Proposed Annual Caps on the aggregate transaction amount under the Subcontracting Framework Agreement payable to Construtor Civil Kong Kin I for the financial year ending 31 December 2024, 2025 and 2026 of MOP10.0 million, MOP11.0 million and MOP12.0 million, respectively (equivalent to approximately HK\$9.7 million, HK\$10.7 million and HK\$11.7 million, respectively), are fair and reasonable.

- (b) We noted that the Group has experienced fluctuation in labour costs and subcontracting fees. According to the 2023 Annual Report, the decrease in the Group's gross profit was mainly attributable to the decrease in gross profit margin of the construction projects undertaken by the Group during the year ended 31 December 2023, coupled with an increase in construction costs due to inflation. Therefore, it is expected that the transaction amount under the Subcontracting Framework Agreement payable to Construtor Civil Kong Kin I will be increased. Meanwhile, we understand from the management of the Group that the pricing for subcontracting services offered by Construtor Civil Kong Kin I to the Group is generally comparable to or lower than that offered by other independent third party subcontractors. We have randomly selected and reviewed projects which the Group has subcontracted certain works to Construtor Civil Kong Kin I during the year ended 31 December 2023 and up to the Latest Practicable Date, and compared with the price and terms offered by other independent third party subcontractors with similar scope of works. We noted that the price offered by Construtor Civil Kong Kin I are generally comparable to or lower than that offered by other independent third party subcontractors. In light of the inflation and fluctuations in labour costs and subcontracting fees, we understand and concur with the management of the Group that it is in the interests of the Group to enter into the Subcontracting Framework Agreement with Construtor Civil Kong Kin I so that (i) the Group can engage a subcontractor with extensive industry knowledge and established experience and with proven track record but offering a comparable or lower price than other subcontractors and (ii) increases the Group's flexibility of engaging Constructor Civil Kong Kin I as interim measure when other independent third party subcontractors are fully occupied or are not offering a competitive pricing to the Group.

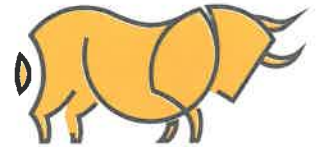
Based on the above, we are of the view that the annual caps for the Subcontracting Framework Agreement are determined based on reasonable estimation and after due and careful consideration and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.



#### **E. Internal control measures**

The Group will implement the following internal control measures to monitor the continuing connected transactions under the Subcontracting Framework Agreement:

- (a) the Group's accounting and finance department staff will monitor the prices and terms of the Subcontracting Framework Agreement by obtaining price quotations from at least two subcontractors (including Construtor Civil Kong Kin I) and compare the pricing and other terms offered by such subcontractors before placing purchase orders for the procurement of subcontracting services;
- (b) the Group's accounting and finance department staff together with the accounting and finance department manager will ensure that the transactions contemplated under the Subcontracting Framework Agreement are conducted on normal commercial terms and at prices and terms no less favourable than those offered by independent third parties to the Group;
- (c) the Group's accounting and finance department staff, and the accounting and finance department manager will prepare the relevant information in relation to the transactions between the Group and Construtor Civil Kong Kin I and the financial controller will conduct checks once every three months and half year to review and assess whether the transactions are conducted in accordance with the terms of the Subcontracting Framework Agreement;
- (d) the Group's accounting and finance department staff and the accounting and finance department manager will prepare the relevant information and the financial controller will monitor the monthly transaction amounts between the Group and Construtor Civil Kong Kin I under the Subcontracting Framework Agreement and report to the management of the Group to ensure that the transaction amounts will not exceed the Proposed Annual Caps. In particular, a master log will be maintained to keep track of all purchase orders issued by the Group to Construtor Civil Kong Kin I so that the financial controller will have timely information as to the utilisation status of the Proposed Annual Caps during the relevant financial year;
- (e) the accounting and finance department is required to present a summary of continuing connected transactions of the Group to the internal control and compliance department for review. The internal control and compliance department shall assess whether such transactions will constitute any disclosure and approval requirements in accordance with the Listing Rules. The continuing connected transactions report is required to be submitted to the audit committee of the Company for review during every six months period and as at year end;



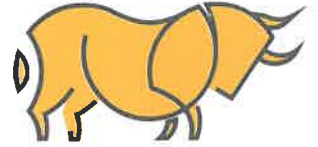
- (f) the independent non-executive Directors will review the continuing connected transactions every year and confirm that the transactions have been conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, and in accordance with the Subcontracting Framework Agreement which are on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- (g) the Company will engage its auditors to report on the continuing connected transactions every year. The auditors of the Company will review and confirm in the annual report of the Company whether the transactions (i) have been approved by the Board; (ii) were entered into, in all material respects, in accordance with the Subcontracting Framework Agreement; and (iii) have not exceeded the Proposed Annual Caps.

The Directors consider that the personnel authorised to implement the above internal control measures possess relevant experience and expertise in relation thereto, and the above internal control measures can ensure that the transactions contemplated under the Subcontracting Framework Agreement (including the Proposed Annual Caps) will be conducted on normal commercial terms in a manner not prejudicial to the interests of the Company and its Shareholders.

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. We have reviewed the past transaction records between Construtor Civil Kong Kin I and the Group and understand from the management of the Group that the financial controller has monitored the transactions between Construtor Civil Kong Kin I and the Group from time to time, including but not limited to the terms, prices and transaction amounts. We have also reviewed the board meeting minutes in relation to the continuing connected transactions and the annual reports of the Group and noted that the relevant internal control measures in relation to the past continuing connected transactions have been properly and effectively implemented. Based on the above, 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.

## **RECOMMENDATION**

Having taken into consideration the principal factors discussed above, we are of the view that the Proposed Annual Caps, the Subcontracting Framework Agreement and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, and the



Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the AGM to approve the Proposed Annual Caps, the Subcontracting Framework Agreement and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Grande Capital Limited**

**Sumwing Shum**  
*Managing Director*

*Mr. Sumwing Shum is licensed under the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity and is currently a responsible officer and sponsor principal of Grande Capital. Mr. Shum has over 9 years of experience in the corporate finance industry.*