



20 November 2023

*To: The independent board committee and the independent shareholders
of Zensun Enterprises Limited*

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS 2024 MASTER SERVICES 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 2024 Master Services Agreement, the Transactions and the 2024-2026 Annual Caps, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 20 November 2023 issued by the Company to the Shareholders (the "**Circular**"), of which this letter of advice forms part. Capitalised terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed "Definitions" in the Circular unless the context requires otherwise.

References are made to the Company's announcement dated 21 October 2020 and its circular dated 18 November 2020 in relation to, among other things, the 2021 Master Services Agreement, the transactions contemplated thereunder and the 2021-2023 Annual Caps. As the 2021 Master Services Agreement is due to expire on 31 December 2023 and the Company intends to continue the transactions contemplated thereunder in order to cope with the need for the Contracting Services required in developing the Group's property projects, on 30 October 2023, the Company and Zensun Development entered into the 2024 Master Services Agreement pursuant to which the Group has conditionally agreed to engage Zensun Development Group as its service provider to continue to provide Contracting Services to the Group up to and including 31 December 2026. In addition, based on the Company's current estimation, it is proposed that the 2024-2026 Annual Caps be set at RMB2,330 million, RMB2,134 million and RMB1,516 million for each of the three years ending 31 December 2024, 2025 and 2026, respectively.

According to the Letter from the Board, the Transactions constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The 2024 Master Services Agreement, the Transactions and the 2024-2026 Annual Caps are therefore subject to the reporting, annual review, announcement and independent shareholders' approval requirements.

The Independent Board Committee comprising Mr. Liu Da, Mr. Ma Yuntao and Dr. Li Huiqun (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the 2024 Master Services Agreement (including the 2024-2026 Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the 2024 Master Services Agreement, the Transactions and the 2024-2026 Annual Caps at the EGM. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates. We consider ourselves independent to form our opinion in respect of the 2024 Master Services Agreement, the Transactions and the 2024-2026 Annual Caps pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion with regard to the 2024 Master Services Agreement, the Transactions and the 2024-2026 Annual Caps, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the announcements of the Company regarding the Transactions and the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the EGM. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group 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 Company, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent

Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider 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, conducted any independent investigation into the business and affairs or future prospects of the Group, Zensun Development Group or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the 2024 Master Services Agreement, the Transactions and the 2024-2026 Annual Caps. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we did not conduct any independent investigation into the accuracy and completeness of such information.

In addition, Shareholders should note that as the 2024-2026 Annual Caps are relating to future events and estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2026, and they do not represent forecasts of revenues or costs to be recorded from the 2024 Master Services Agreement. Consequently, we express no opinion as to how closely the actual revenue or cost to be recorded under the 2024 Master Services Agreement will correspond with the 2024-2026 Annual Caps.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the 2024 Master Services Agreement, the Transactions and the 2024-2026 Annual Caps, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the 2024 Master Services Agreement

Information on the Group

The Group is principally engaged in property development, property investment, project management and sales services, hotel operations and securities trading and investment.

As referred to in the Letter from the Board, as at 30 September 2023, the Group had 50 completed property projects and/or sub-phases and 48 on-going complex property projects on hand with 96 land parcels under development and planning, constituting the Group's land reserves with an aggregate site area of approximately 4.11 million sq.m. and an aggregate estimated gross floor area of approximately 8.09 million sq.m. in the PRC. The land reserves will bring to the Group an estimated saleable/leasable gross floor area under development of approximately 4.70 million sq.m. and estimated gross floor area under planning of approximately 3.52 million sq.m. After the land acquisitions completed in the past years, the Group built up and maintained strong land reserves for its property development business in the PRC for the next three years with a strong presence in Henan Province.

Information on Zensun Development Group

To the best of the Directors' knowledge, the principal business of Zensun Development Group includes Contracting Services and investment holdings in the PRC.

As advised by the Directors, Zensun Development Group possesses various required certifications, qualifications and registrations with abundant experience in carrying out Contracting Services in the PRC, which includes Special-grade Qualification for Construction Main Contractor* (建築工程施工總承包特級資質), being the highest construction qualification in the scope of construction main contractor recognised by the relevant government bureaus, and such qualifications and experience enable Zensun Development Group to take up large-scale non-municipal engineering construction projects without restrictions. Moreover, Zensun Development Group has been providing Contracting Services to the Group for over ten years, and thus is familiar with the Group's requirements and is able to accommodate the development plan of the Group's property projects. Accordingly, the Directors consider Zensun Development Group continues to be a competent candidate to tender or quote for the Contracting Services required for development of the Group's property projects.

For our due diligence purpose, we have requested and obtained (i) copies of the construction and engineering qualification certificate(s) possessed by Zensun Development Group; and (ii) information regarding the track record of Zensun Development Group in providing Contracting Services in the PRC.

Overview of the property market of the PRC and Henan Province

The PRC's property market

According to the latest statistics published by the National Bureau of Statistics of China in January 2023 at <http://www.stats.gov.cn>, the national property sector shrank with the total investment in real estate reaching approximately RMB13,289.5 billion in 2022, representing an approximate 10.0% decrease as compared to the prior year, among which the investment in residential properties reached approximately RMB10,064.6 billion, decreasing by approximately 9.5%. The total

floor space newly commenced construction in 2022 was approximately 1,205.9 million sq.m., down by approximately 39.4% as compared to the prior year, among which the floor space newly commenced construction of residential properties reached approximately 881.4 million sq.m., down by approximately 39.8%. The total floor space of commercial buildings sold in 2022 dropped by approximately 24.3% to approximately 1,358.4 million sq.m. The total sales of commercial buildings in 2022 also dropped by approximately 26.7% to approximately RMB13,330.8 billion.

The property market of Henan Province

According to the latest statistics released by the Henan Province Bureau of Statistics in March 2023 at <https://tjj.henan.gov.cn>, the property sector of Henan Province followed the downward moving momentum of the national market with total investment in real estate reaching approximately RMB679.3 billion in 2022, representing a decrease of approximately 13.7% as compared to the prior year, among which the investment in residential properties reached approximately RMB580.2 billion, down by approximately 13.4%. The total floor space newly commenced construction in 2022 was approximately 89.5 million sq.m., down by approximately 34.5% as compared to the prior year. The total floor space of commercial buildings sold in 2022 was approximately 111.4 million sq.m., down by approximately 16.1% compared to the prior year.

We noted from the above statistics that the property markets of the PRC and Henan Province are seemingly experiencing a downturn.

Reasons for the Transactions

As aforementioned, the Group is a property developer with a strong presence in Henan Province. Throughout the years, the Group has built up strong land reserves for its property development business in the PRC for the next three years.

As mentioned under the sub-section headed "Information on Zensun Development Group" of this letter of advice, Zensun Development Group possesses various required certifications, qualifications and registrations with abundant experience in carrying out Contracting Services in the PRC, and such qualifications and experience enable Zensun Development Group to take up construction projects of large scale without restrictions. Moreover, Zensun Development Group has been providing Contracting Services to the Group for over ten years, and thus is familiar with the Group's requirements and is able to accommodate the development plan of the Group's property projects. Accordingly, the Directors consider Zensun Development Group continues to be a competent candidate to tender or quote for the Contracting Services required for development of the Group's property projects.

Taking into account (i) the Group's principal business activities; and (ii) the solid background of Zensun Development Group and its prolonged business relationship with the Group, we concur with the Directors that the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the 2024 Master Services Agreement

Summarised below are the principal terms of the 2024 Master Services Agreement as extracted from the Letter from the Board:

Date:	30 October 2023
Parties:	(1) The Company; and (2) Zensun Development as service provider
Term:	The 2024 Master Services Agreement shall commence on 1 January 2024, and shall continue up to and including 31 December 2026, unless terminated earlier in accordance with the terms of the 2024 Master Services Agreement.
Subject matter:	Pursuant to the 2024 Master Services Agreement, the Group has conditionally agreed to engage Zensun Development Group as its service provider to provide Contracting Services to the Group during the Term. Relevant members of the Group may from time to time enter into Individual Agreement(s) with relevant members of Zensun Development Group in relation to the provision of Contracting Services during the Term. The Individual Agreement(s) shall be on the basis of the service plans prepared by the Group and confirmed by the Group and Zensun Development Group and the terms of the Individual Agreement(s) shall be subject to the terms and conditions of the 2024 Master Services Agreement. All transactions under the existing agreements between relevant members of the Group and relevant members of Zensun Development Group in respect of the Contracting Services to be rendered on or after 1 January 2024 will be governed by the 2024 Master Services Agreement as from the Effective Date and subject to the 2024-2026 Annual Caps.

Services to be provided:

Pursuant to the 2024 Master Services Agreement, Zensun Development Group shall provide Contracting Services to the Group which shall be construction, engineering and related services, including but not limited to, building and general construction, civil engineering, building exterior and interior design, building repair, renovation, maintenance, consultancy and other services, demolition, piling and foundation, building and property fitting out and decoration work, construction and project management, supply of construction and building equipment and materials, electrical and mechanical engineering works, supply and - installations of air-conditioning, heating and ventilation systems, fire services systems, plumbing and drainage systems, lift repair and maintenance services and electrical systems.

Pricing policy

As a matter of good corporate governance, the Group adopted internal control measures in its procurement process of contracting services (the “**Internal Procurement Process**”).

For contracts in relation to procurement of contracting services with contract sum of RMB2 million or above, the Group shall issue tender invitations to at least three construction contractors on the list of authorised contractors (including Independent Third Parties and Zensun Development Group) (the “**Authorised Contractors List**”) maintained by the tendering and procurement department of the Group with the required qualifications and capability to undertake construction projects as well as good reputation and credibility. Shareholders may refer to the paragraph headed “Pricing Policy” of the Letter from the Board for details regarding the selection criteria of those construction contractors on the Authorised Contractors List.

For contracts in relation to procurement of contracting services with contract sum of less than RMB2 million, the Group shall obtain quotations from at least three construction contractors with the required qualifications and capability as well as good reputation and credibility.

The Assessment Committee will assess the tenders or quotations submitted in respect of the contracting services with the following principal assessment criteria (the “**Criteria**”):

- (i) the pricing of the tender or quotation (in particular, in respect of a quotation or tender submitted by Zensun Development Group, the service fees and terms shall be no less favourable to the Group than the fees quoted by and terms available from Independent Third Parties);
- (ii) the technical specifications of the tender including construction planning, technical skills, quality and construction schedule; and

- (iii) the evaluation of the service provider considering the background and qualification, industry reputation, track record and previous work experience with the Group (if any).

In the event that the Company fails to receive enough bids or quotations at its satisfaction, the Company may reassess the scope of services required or revisit the design requirements and relaunch the tender or seek revised quotations.

Bidders assessed with the highest score based on the above Criteria will be awarded the Individual Agreement(s) for the relevant contracting services to the Group. If a member of Zensun Development Group is considered by the Assessment Committee to have achieved the highest score based on the Criteria, an Individual Agreement will be entered into, where the fees for the contracting services will be the pricing bid or quotation placed by the relevant member of Zensun Development Group.

In relation to the aforesaid Internal Procurement Process, we have (i) requested the Company to provide us with copies of the relevant internal control policy of the Group and the Authorised Contractors List; and (ii) discussed with the Directors regarding the implementation of the entire process. Based on the documents we obtained and our discussion with the Directors, we understand that there are nearly 350 qualified and competent construction contractors on the Authorised Contractors List from which the Group can select to issue tender invitations for contracts in relation to procurement of various kinds of contracting services with contract sum of RMB2 million or more. For each kind of contracting services, there are at least five construction contractors on the Authorised Contractor List. As for contracts with contract sum of less than RMB2 million, the Group shall obtain quotations from at least three construction contractors with the required qualifications and capability as well as good reputation and credibility. The Group has set up the Assessment Committee, whose members shall (a) be nominated by a Board committee consisting of Mr. Zhang and Mr. Zhang Guoqiang, the executive Directors, and Mr. Liu Da, the chairman of the audit committee of the Company and an independent non-executive Director; and (b) include the heads of the Group's tendering and procurement department, the general managers of the Group's regional companies and the project managers of the Group's property development projects, to assess the tenders or quotations submitted in respect of the relevant contracting services based on the standard objective Criteria as highlighted above.

To substantiate the Internal Procurement Process, we have further requested and obtained from the Company three sets of walk through documents illustrating the Internal Procurement Process which the Group had previously carried out. In addition, we have reviewed (i) around ten individual agreements entered into between the Group (as recipient of service) and Zensun Development Group (as service provider) during the period between 2021 and 2023 regarding the provision of Contracting Services pursuant to the 2021 Master Services Agreement; and (ii) around ten similar individual agreements entered into between the Group (as

recipient of service) and other independent service providers, and we noted that the major terms (such as the terms on payment and warranties) of those agreements are similar to each other.

In light of the above, we are of the opinion that the terms of the 2024 Master Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. The 2024-2026 Annual Caps

The table below demonstrates the 2024-2026 Annual Caps for each of the three years ending 31 December 2024, 2025 and 2026, respectively:

	For the year ending 31 December		
	2024	2025	2026
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
The 2024-2026 Annual Caps	2,330	2,134	1,516

As advised by the Company, the 2024-2026 Annual Caps were determined taking into account:

- (i) the historical transaction amounts under the 2021 Master Services Agreement;
- (ii) the forecasted amounts of the Transactions for each of the three years ending 31 December 2024, 2025 and 2026 in relation to land parcels under development with an aggregate site area of approximately 2.53 million sq.m. held by the Group that have completed their tender or quotation process and have been awarded to Zensun Development Group (the “**Tendered Land Parcels**”);
- (iii) the forecasted amounts of the Transactions for each of the three years ending 31 December 2024, 2025 and 2026 in relation to land parcels under development and planning with an aggregate site area of approximately 1.27 million sq.m. held by the Group that are subject to the future tender or quotation process (the “**Land Parcels to be Tendered**”, together with the Tendered Land Parcels, the “**Land Parcels**”); and
- (iv) an additional 10% buffer on the forecasted amounts of the Transactions as possible variance of the costs arising from inflation in respect of the Contracting Services for development of the Land Parcels.

To assess the fairness and reasonableness of the 2024-2026 Annual Caps, we have enquired into the Directors for the basis of determining the 2024-2026 Annual Caps and independently reviewed the relevant calculations. We have requested and obtained from the Company the complete lists of the Tendered Land Parcels and the Land Parcels to be Tendered. We noted that the relevant tender or quotation process of the Tendered Land Parcels has been completed in accordance with the Internal Procurement Process, Zensun Development Group scored the highest and has been awarded and engaged by the Group as service provider for Contracting Services for construction of the Tendered Land Parcels and development of the relevant property projects. As for the Land Parcels to be Tendered, it is expected that Zensun Development Group would from time to time be the successful tenderer given its competence, experience and past history of being able to accommodate the development plan of the Group's property projects.

The 2024-2026 Annual Caps were estimated with reference to the construction plans of the Land Parcels, which specify the development time schedule of the respective property projects as well as the budgeted construction and engineering costs to be incurred and payable to Zensun Development Group at each stage of the construction. We have requested and obtained from the Company the said construction plans, and discussed with the Directors with regard to the construction scale and breakdown of the budgeted construction and engineering costs. For each of the three years ending 31 December 2024, 2025 and 2026, the estimated construction and engineering costs to be incurred and payable to Zensun Development Group amounted to approximately RMB2,118 million, RMB1,940 million and RMB1,378 million, respectively. Based on our discussion with the Directors, we understand that the construction of a majority of the Land Parcels has commenced/is expected to commence (as the case may be) in 2023/2024 and will be completed in 2026/2027. Regarding the expected development schedule of the property projects throughout the respective construction period of the Land Parcels, the Directors advised us that substantial Contracting Services will be required during the first 15 months of the construction period, which is expected to fall from 2023 to 2025. With this being the case, we concur with the Directors that it is reasonable that the 2024-2026 Annual Caps, which were calculated primarily based on the budgeted total construction and engineering costs to be incurred and payable to Zensun Development Group for Contracting Services from 2024 to 2026, to be the highest in 2024, and reducing thereafter.

For instance, we noted that the 2024-2026 Annuals Caps are much higher than the actual transaction amount of approximately RMB1,280.9 million for the nine months ended 30 September 2023 under the 2021 Master Services Agreement but lower than the 2021-2023 Annual Caps. Upon our enquiry with the Directors, we understand that amidst the downturn of the property markets of the PRC and Henan Province in 2022, the Group has been sensibly prudent in carrying out its existing and new property project development in 2023. As a result, the construction progress of some of the Group's existing property projects were slowed down and there were fewer new property projects commencing development in 2023, leading to a reduction in the actual transaction amount under the 2021 Master Services Agreement. In the coming future, the Directors advised us that the Group will take a cautiously optimistic approach in its property development strategy and it is its current intention to gradually resume the momentum of its property project development by focusing on developing the existing and new property projects from its land reserves on hand. Hence, it is expected that there would be an increase in

demand for Contracting Services from Zensun Development Group during the 2024-2026 period as compared to 2023, but the 2024-2026 Annual Caps are lower than the 2021-2023 Annual Caps which were determined at the time the property markets of the PRC and Henan Province were showing an expansion trend.

On the other hand, given that the construction period is of medium to long term, the actual construction and engineering costs may vary from the budgets due to inflation and/or potential increase in market price and any unforeseeable factors. Hence, we concur with the Directors that it is reasonable to set aside an additional buffer when calculating the 2024-2026 Annual Caps and we consider 10% to be acceptable.

In view of the above basis of determination of the 2024-2026 Annual Caps, we are of the view that the 2024-2026 Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

4. Relevant Listing Rules' requirements

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 and 14A.55 of the Listing Rules pursuant to which (i) the amounts of the Transactions must be restricted by the 2024-2026 Annual Caps for the years concerned under the 2024 Master Services Agreement; (ii) the terms of the 2024 Master Services Agreement (together with the 2024-2026 Annual Caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the 2024 Master Services Agreement (together with the 2024-2026 Annual Caps) must be included in the Company's subsequent published annual reports and financial accounts. As also stipulated under Rule 14A.56 of the Listing Rules, auditors of the Company must provide a letter to the Board confirming, among other things, that the Transactions are carried out in accordance with the pricing policies of the Company, and the 2024-2026 Annual Caps are not being exceeded. In the event that the total amounts of the Transactions exceed the 2024-2026 Annual Caps, or that there is any material amendment to the terms of the 2024 Master Services Agreement, the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

With the aforesaid stipulated requirements for continuing connected transactions of the Listing Rules in place, the Transactions will be monitored and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the 2024 Master Services Agreement (including the 2024-2026 Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the 2024 Master Services Agreement, the Transactions and the 2024-2026 Annual Caps, and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
VBG Capital Limited



Doris Sing
Managing Director

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 18 years of experience in corporate finance industry.