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Changsha Broad Homes Industrial Group Co., Ltd.

長沙遠大住宅工業集團股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2163)

HISTORICAL CONNECTED TRANSACTIONS AND FRAMEWORK AGREEMENT WITH BROAD LINGMU IN RELATION TO EQUIPMENT PROCUREMENT

I. HISTORICAL CONNECTED TRANSACTIONS

During the preparation of the annual financial statements of the Company for the year ended December 31, 2022, the Board noted that from June 13, 2022 to December 31, 2022, the Group had entered into certain transactions with Broad Bathroom in relation to equipment procurement. The aggregate amount of the Historical Connected Transactions for the year ended December 31, 2022 was approximately RMB7,095,070.03.

Upon completion of the Broad Bathroom Disposal on June 13, 2022, Broad Bathroom ceased to be a subsidiary of the Company, and Broad Lingmu and Zhangjiajie Blue Harbor held 99% and 1% equity interest in Broad Bathroom, respectively, while Broad Lingmu and Mr. Liu Wenbao held 99% and 1% equity interest in Zhangjiajie Blue Harbor, respectively, and Mr. Zhang Jian held 100% equity interest in Broad Lingmu. According to Chapter 14A of the Listing Rules, from June 13, 2022 to the date of this announcement, Broad Bathroom constitutes an associate of Mr. Zhang Jian and thus a connected person of the Company, and each of the Historical Connected Transactions constitutes a connected transaction of the Company, respectively.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the aggregated amounts of the Historical Connected Transactions is more than 0.1% but less than 5%, the Historical Connected Transactions are subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. However, due to an inadvertent oversight, the Company did not timely monitor the relevant connected transactions after the completion of the Broad Bathroom Disposal, and as a result, the Company failed to properly comply with the reporting and announcement requirements under Chapter 14A of the Listing Rules in respect of the Historical Connected Transactions.

The Company has submitted the matters in relation to the Historical Connected Transactions to all Directors in writing. On March 31, 2023, the Board considered and approved the resolution in relation to the ratification, confirmation and approval of the Historical Connected Transactions. In addition, the Company will actively take remedial measures to strengthen the internal control procedures to ensure timely compliance with the requirements under the Listing Rules and to prevent recurrence of similar incidents.

II. FRAMEWORK AGREEMENT WITH BROAD LINGMU IN RELATION TO EQUIPMENT PROCUREMENT

The Company expects that the transactions in relation to the Equipment Procurement will continue to occur in the ordinary and usual course of business of the Group. Therefore, on March 31, 2023, the Company (for itself and on behalf of its subsidiaries) and Broad Lingmu (for itself and on behalf of its associates) entered into the Framework Agreement in relation to the Equipment Procurement. Pursuant to the Framework Agreement, the Company or its subsidiaries shall purchase equipment such as bathrooms, wall panels, decoration materials from Broad Lingmu or its associates, and the Company or its subsidiaries shall pay the purchase amount to Broad Lingmu or its associates.

As at the date of this announcement, Mr. Zhang Jian holds 100% equity interest in Broad Lingmu. According to Chapter 14A of the Listing Rules, Broad Lingmu constitutes an associate of Mr. Zhang Jian and thus a connected person of the Company, and the Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the proposed annual caps for the purchase amount under the Framework Agreement and the transactions contemplated thereunder exceeds 0.1% but is less than 5%, the Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

I. HISTORICAL CONNECTED TRANSACTIONS

During the preparation of the annual results announcement of the Company for the year ended December 31, 2022, the Board noted that from June 13, 2022 to December 31, 2022, the Group had entered into certain transactions with Broad Bathroom in relation to equipment procurement. The aggregate amount of the Historical Connected Transactions for the year ended December 31, 2022 was approximately RMB7,095,070.03.

(i) Details of the Historical Connected Transactions

Period:

From June 13, 2022 to December 31, 2022, and a total of 5 transactions

Parties:

Purchasers: the Company and certain wholly-owned subsidiaries (including Hunan Yanjia Construction Engineering Co., Ltd. (湖南延嘉建築工程有限公司), Changsha Broad Homes Mofang Technology Co., Ltd. (長沙遠大魔方科技有限公司), Lu An Broad Homes Industrial Co., Ltd. (六安遠大住宅工業有限公司))

Vendors: Broad Bathroom

Transaction Matter:

The Purchaser purchases equipment such as bathrooms, wall panels and decoration materials from the Vendor and the Purchaser pays the Vendor the purchase amount

Pricing Basis:

The procurement fees for the transactions in relation to the Equipment Procurement were determined after arm's length negotiations and on normal commercial terms with reference to the specifications, model, unit price, type and quality of the relevant equipment and the average price of similar equipment offered by independent third parties.

Transaction Amount:

The aggregate amount of the Historical Connected Transactions for the year ended December 31, 2022 is approximately RMB7,095,070.03, of which the transaction amount of each of the Historical Connected Transactions was determined after arm's length negotiations with reference to the average purchase price of similar equipment between the Group and other independent third parties.

Payment Method:

Payment shall be made by installments in cash or by bills based on the progress of each project.

(ii) Reasons for and Benefits of the Historical Connected Transactions

Prior to the completion of the Broad Bathroom Disposal, Broad Bathroom was originally a wholly-owned subsidiary of the Company. It was principally engaged in the research and development, production, sales and maintenance of integrated bathrooms and new environmentally friendly composite materials, and has been providing bathroom fixtures and decoration services for the modular building products of the Company for a long time. Based on the long-term cooperation relationship in the past, Broad Bathroom has a good understanding of the Group's business and can better ensure the quality, customization and after-sales service standards of the equipment to meet the needs of the Group. In addition, the prices and terms offered by Broad Bathroom to the Company are in line with or even better than normal commercial terms. The Historical Connected Transactions were conducted to meet the business needs of the Group. The Board considers that the Historical Connected Transactions are beneficial to the Group and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(iii) **Information on the Parties**

Information on the Company

The Company is a joint stock company incorporated in the PRC with limited liabilities and is mainly engaged in manufacturing of prefabricated buildings and relevant services, and its principal businesses include PC unit manufacturing, PC equipment manufacturing and modular integrated product manufacturing.

Information on Hunan Yanjia Construction Engineering Co., Ltd.

Hunan Yanjia Construction Engineering Co., Ltd. is a limited liability company incorporated in the PRC and is principally engaged in general contracting of construction projects. As at the date of this announcement, it is a wholly-owned subsidiary of the Company.

Information on Changsha Broad Homes Mofang Technology Co., Ltd.

Changsha Broad Homes Mofang Technology Co., Ltd. is a limited liability company incorporated in the PRC and is principally engaged in the research and development, production and sales of integrated houses, activity houses, integrated bathrooms, metal products, environmental protection materials and new environmentally friendly composite materials. As at the date of this announcement, it is a wholly-owned subsidiary of the Company.

Information on Lu An Broad Homes Industrial Co., Ltd.

Lu An Broad Homes Industrial Co., Ltd. is a limited liability company incorporated in the PRC and is principally engaged in the manufacture and sale of precast residential concrete components; concrete mixing and processing; development and consulting services of new construction materials, residential industrialized products and components technology. As at the date of this announcement, it is a wholly-owned subsidiary of the Company.

Information on Broad Bathroom

Broad Bathroom is a company incorporated in the PRC with limited liability and is principally engaged in the research and development, production, sales and maintenance of integrated bathrooms and new environmentally friendly composite materials. As at the date of this announcement, Broad Lingmu and Zhangjiajie Blue Harbor hold 99% and 1% equity interest in Broad Bathroom, respectively, Broad Lingmu and Mr. Liu Wenbao hold 99% and 1% equity interest in Zhangjiajie Blue Harbor, respectively, and Mr. Zhang Jian holds 100% equity interest in Broad Lingmu. Mr. Liu Wenbao is the father of Ms. Liu Hui, who is the spouse of Mr. Zhang Jian.

(iv) Listing Rules Implication

Upon completion of the Broad Bathroom Disposal on June 13, 2022, Broad Bathroom ceased to be a subsidiary of the Company, and Broad Lingmu and Zhangjiajie Blue Harbor held 99% and 1% equity interest in Broad Bathroom, respectively, while Broad Lingmu and Mr. Liu Wenbao held 99% and 1% equity interest in Zhangjiajie Blue Harbor, respectively, and Mr. Zhang Jian held 100% equity interest in Broad Lingmu. According to Chapter 14A of the Listing Rules, from June 13, 2022 to the date of this announcement, Broad Bathroom constitutes an associate of Mr. Zhang Jian and thus a connected person of the Company, and each of the Historical Connected Transactions constitutes a connected transaction of the Company, respectively.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the aggregated amounts of the Historical Connected Transactions is more than 0.1% but less than 5%, the Historical Connected Transactions are subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. However, due to an inadvertent oversight, the Company did not timely monitor the relevant connected transactions after the completion of the Broad Bathroom Disposal, and as a result, the Company failed to properly comply with the reporting and announcement requirements under Chapter 14A of the Listing Rules in respect of the Historical Connected Transactions.

(v) Ratification, Confirmation and Approval of Historical Connected Transactions by Directors

The Company has submitted the matters in relation to the Historical Connected Transactions to all Directors in writing. On March 31, 2023, the Board considered and approved the resolution in relation to the ratification, confirmation and approval of the Historical Connected Transactions. As Broad Bathroom is an associate of Mr. Zhang Jian, Mr. Zhang Jian has abstained from voting on this resolution. Save as disclosed above, no other Directors are required to abstain from voting for considering and approving this resolution, and no other Directors are deemed to have material interests in the Historical Connected Transactions.

The Directors (including the independent non-executive Directors) of the Company are of the view that the Historical Connected Transactions are on normal commercial terms or better, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(vi) Remedial Measures

The Company deeply regrets its non-compliance with the requirements under Chapter 14A of the Listing Rules in relation to the Historical Connected Transactions and would like to stress that such non-compliance was inadvertent and unintentional. The Company will actively take remedial measures to strengthen the internal control procedures to ensure timely compliance with the requirements under the Listing Rules and to prevent recurrence of similar incidents. These remedial measures include:

- (1) strengthening internal training for all relevant personnel of the Company to enhance their understanding of the Listing Rules, in particular the applicability of Chapter 14A of the Listing Rules and matters that may occur at an early stage to prevent future transactions from re-occurrence of late disclosure;
- (2) circulating the relevant internal guidelines to remind the responsible staff, senior management and Directors and enhance their understanding to identify the circumstances which are expected to trigger an announcement and other reporting requirements under the Listing Rules;
- (3) if the counterparty(ies) or the subject company(ies) of the transaction may have any relationship with the Directors, substantial shareholders, chief executives of the Company and its subsidiaries, the relevant departments of the Company shall report any possible transactions in a timely manner to confirm the applicability of the Listing Rules; and
- (4) the Company will continue to strengthen the close cooperation with external advisers (financial and legal) before entering into any potential notifiable or connected transactions. Where necessary, the Company may also consult with the Stock Exchange on the proper handling of the proposed transactions.

II. FRAMEWORK AGREEMENT WITH BROAD LINGMU IN RELATION TO EQUIPMENT PROCUREMENT

The Company expects that the transactions in relation to the Equipment Procurement will continue to occur in the ordinary and usual course of business of the Group. Therefore, on March 31, 2023, the Company (for itself and on behalf of its subsidiaries) and Broad Lingmu (for itself and on behalf of its associates) entered into the Framework Agreement in relation to the Equipment Procurement.

(i) Details of the Framework Agreement

Date:

March 31, 2023

Parties:

Purchaser: the Company (for itself and on behalf of its subsidiaries)

Vendor: Broad Lingmu (for itself and on behalf of its associates)

Validity Period:

From January 1, 2023 to December 31, 2025 (both days inclusive)

Transaction Matter:

In the ordinary and usual course of business of the Group, the Company or its subsidiaries shall purchase equipment such as bathrooms, wall panels and decoration materials from Broad Lingmu or its associates, and the Company or its subsidiaries shall pay the purchase amount to Broad Lingmu or its associates.

Pricing Basis:

The procurement fees for the transactions in relation to the Equipment Procurement were determined after arm's length negotiations and on normal commercial terms with reference to the specifications, model, unit price, type and quality of the relevant equipment and the average price of similar equipment offered by independent third parties.

In order to ensure that the terms offered by Broad Lingmu or its associates are on normal commercial terms, for the purchase transactions under the Framework Agreement, the Group will obtain quotations from at least three independent suppliers of similar materials. The Group will consider the following factors in determining whether the proposed transactions are conducted on normal commercial terms: (i) the terms of quotations received, including but not limited to price/fee, transportation arrangement, acceptance arrangement, payment terms, warranty period, maintenance arrangement and response to the material requirements and specifications set by the Group; and (ii) the background of the participating suppliers and the historical business relationship between the Group and the participating suppliers. The management team will be responsible for reviewing and considering the quotations offered by all suppliers and will only enter into the relevant agreement with Broad Lingmu or its associates after confirming that the terms are on normal commercial terms.

Proposed annual caps and basis of determination:

The Company estimates that the annual caps during the validity period of the Framework Agreement are:

	For the year ended December 31, 2023	For the year ended December 31, 2024	For the year ended December 31, 2025
Purchase amount (<i>RMB</i>)	30,515,503.38	42,721,704.73	55,538,216.14

The basis for determining the above annual caps includes:

- (1) Reference is made to the historical amounts set out below, including the actual purchase amounts from January 1, 2023 to the date of this announcement. Based on such actual purchase amount, considering the seasonality of the real estate and construction industries and the Chinese New Year holidays, the procurement in the first quarter tends to be small. Based on the Company's business development plan, the Group expects that the subsequent procurement demand will increase significantly as compared to the first quarter;

- (2) New business development led to a significant increase in demand for expected equipment procurement: the Company launched the modular building business in 2021 and the fully prefabricated construction EPC business in 2022. These new businesses will gradually commence mass delivery in the second half of 2022, and the Company's procurement of relevant equipment for Broad Bathroom will increase significantly accordingly. As shown in the paragraphs of the historical amounts below, the Company's equipment purchase amount in 2022 increased by approximately 145% as compared to 2021. In 2023, as China won a major decisive victory in epidemic prevention and control, the real estate industry regained its position as a pillar industry with continuous signs of recovery, and the industry regained its momentum. Accordingly, the Company plans to vigorously develop the fully prefabricated construction EPC business and the modular construction business in the next three years, and gradually build the second growth curve of Broad Homes, especially focusing on promoting the dormitory apartment market of campus and industrial parks. Taking into account the current orders data on hand and the market situation, the Company's demand for integrated bathrooms and related decoration materials will increase significantly as compared to the historical transaction amount; and
- (3) There is a buffer for the annual caps to cater for factors such as possible fluctuations in transactions and cost inflation in the future.

Accordingly, the Company reasonably estimates the purchase amount of related equipment in the next three years, specifically, the annual purchase volume in 2023 will be 4,844, and the annual purchase volume in 2024 will be 6,781 (reasonably estimated to increase by approximately 40% on the basis of the purchase volume in 2023), and it's expected that the annual purchase volume in 2025 will be 8,816 (reasonably estimated to increase by approximately 30% on the basis of the purchase volume in 2024). The above annual purchase volume is expected to be in line with the Company's development plan for the fully prefabricated construction and modular construction business in the next three years, and is estimated based on the average unit price of approximately RMB6,300 for each year (with reference to the average unit price of approximately RMB6,231.5 for the past three years and up to the date of this announcement).

Historical amounts:

	For the year ended December 31, 2020	For the year ended December 31, 2021	For the year ended December 31, 2022
Purchase amount (<i>RMB</i>)	42,829.10	3,563,620.40	8,718,715.25
– Purchase volume (<i>units</i>)	7	585	1,417
– Average unit price (<i>RMB</i>)	6,120.2	6,091.7	6,152.9

The purchase amounts for the year ending December 31, 2022 increased significantly as compared to the purchase amounts for the preceding two years due to the commencement of mass delivery of the Company's modular construction business and the fully prefabricated construction EPC business since the second half of 2022, which led to a significant increase in the Company's procurement of relevant equipment as compared to the preceding two years.

From January 1, 2023 to the date of this announcement, the actual purchase volume of relevant equipment by the Group from Broad Lingmu was 281 and the average unit price was approximately RMB6,561.1. The slight increase in such average unit price as compared to the historical amount was mainly due to the increase in the prices of equipment and raw materials. For the avoidance of doubt, the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the purchase amounts from January 1, 2023 to the date of this announcement is less than 0.1%, which is a fully exempt connected transaction.

Payment Method:

Payment shall be made by installments in cash or by bills based on the progress of each project, subject to the specific agreements to be entered into at that time.

(ii) Reasons for and Benefits of the Framework Agreement and the Transactions Thereunder

As mentioned before, Broad Bathroom (originally a wholly-owned subsidiary of the Company and currently a subsidiary of Broad Lingmu) has been providing bathroom fixtures and decoration for the modular building products of the Company for a long time. Based on the long-term cooperation relationship in the past, Broad Bathroom has a good understanding of the Group's business and can better ensure the quality, customization and after-sales service standards of the equipment to meet the needs of the Group. With the successive launch of the modular building business and the fully prefabricated construction EPC business by the Company, the Group's demand for integrated bathrooms and related decoration materials will increase significantly. In view of the historical long-term cooperation between Broad Lingmu and the Company and that the prices and terms offered by Broad Lingmu are in line with the prevailing market prices and conditions, the Company considers that the purchase of equipment from Broad Lingmu can meet the needs of the Group and is beneficial to the business development of the Group.

(iii) Information on the Parties

Information on the Company

The Company is a joint stock company incorporated in the PRC with limited liabilities and is mainly engaged in manufacturing of prefabricated buildings and relevant services, and its principal businesses include PC unit manufacturing, PC equipment manufacturing and modular integrated product manufacturing.

Information on Broad Lingmu

Broad Lingmu is a company incorporated in the PRC with limited liability and is principally engaged in the manufacture of refrigeration and air-conditioning equipment. As at the date of this announcement, Mr. Zhang Jian holds 100% equity interest in Broad Lingmu.

(iv) Listing Rules Implication

As at the date of this announcement, Mr. Zhang Jian holds 100% equity interest in Broad Lingmu. According to Chapter 14A of the Listing Rules, Broad Lingmu constitutes an associate of Mr. Zhang Jian and thus a connected person of the Company, and the Framework Agreement and the transactions thereunder constitute continuing connected transactions of the Company. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the proposed annual caps for the purchase amount under the Framework Agreement and the transactions thereunder exceeds 0.1% but is less than 5%, the Framework Agreement and the transactions thereunder are subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

(v) Confirmation of Directors

The Company has submitted the matters in relation to the Framework Agreement to all Directors in writing. On March 31, 2023, the Board considered and approved the resolution in relation to the Framework Agreement in relation to Equipment Procurement with Broad Lingmu. As Mr. Zhang Jian holds 100% equity interest in Broad Lingmu, Mr. Zhang Jian has abstained from voting on this resolution. Save as disclosed above, no other Directors are required to abstain from voting for considering and approving this resolution, and no other Directors are deemed to have material interests in the Framework Agreement.

The Directors (including the independent non-executive Directors) of the Company are of the view that the Framework Agreement and the transactions thereunder are on normal commercial terms or better, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

III. DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Board”	the board of Directors of the Company
“Broad Bathroom”	Changsha Broad Bathroom Co., Ltd. (長沙遠大整體浴室有限公司)
“Broad Bathroom Disposal”	<p>the disposal of 99% and 1% equity interest in Broad Bathroom by the Company to Broad Lingmu and Zhangjiajie Blue Harbor pursuant to an equity transfer agreement entered into between the Company and Broad Lingmu and Zhangjiajie Blue Harbor on May 20, 2022. The change of industrial and commercial registration for the equity transfer was completed on 13 June 2022, and Broad Bathroom ceased to be a subsidiary of the Company</p> <p>For the avoidance of doubt, as the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Broad Bathroom Disposal is less than 0.1%, the Broad Bathroom Disposal is fully exempt from the reporting, announcement, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules</p>
“Broad Lingmu”	Hunan Broad Lingmu House Equipment Co., Ltd. (湖南遠大鈴木住房設備有限公司)
“Company”	Changsha Broad Homes Industrial Group Co., Ltd. (長沙遠大住宅工業集團股份有限公司), which was established in the PRC as a joint stock company with limited liability and is mainly engaged in manufacturing of prefabricated buildings and relevant services
“Director(s)”	the director(s) of the Company
“Framework Agreement” or “Framework Agreement in relation to Equipment Procurement”	the Framework Agreement in relation to Equipment Procurement entered into between the Company (for itself and on behalf of its subsidiaries) and Broad Lingmu (for itself and on behalf of its associates) on March 31, 2023, pursuant to which the Company or its subsidiaries shall purchase equipment such as bathrooms, wall panels and decoration materials from Broad Lingmu or its associates, and the Company or its subsidiaries shall pay the purchase amount to Broad Lingmu or its associates
“Group”	the Company and its subsidiaries

“Historical Connected Transactions”	certain transactions in relation to Equipment Procurement conducted between the Group and Broad Bathroom from June 13, 2022 to December 31, 2022. The aggregate amount of the Historical Connected Transactions up to December 31, 2022 was approximately RMB7,095,070.03
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent third party(ies)”	an independent third party not connected with the Company and its subsidiaries, their respective directors, chief executives and substantial shareholders and any of their associates (as defined under the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mr. Zhang Jian”	Mr. Zhang Jian, a controlling shareholder, an executive Director and the chairman of the Company
“PRC”	the People’s Republic of China, which for the purposes of this announcement only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

On behalf of the Board of Directors
Changsha Broad Homes Industrial Group Co., Ltd.
Zhang Jian
Chairman

Changsha, March 31, 2023

As at the date of this announcement, the Board comprises Mr. Zhang Jian, Ms. Tang Fen, Mr. Hu Shengli, Ms. Shi Donghong, Mr. Zhang Kexiang and Mr. Tan Xinming as executive Directors; Mr. Zhang Quanxun as non-executive Director; and Mr. Chen Gongrong, Mr. Li Zhengnong, Mr. Wong Kai Yan Thomas and Mr. Zhao Zhengting as independent non-executive Directors.