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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China State Construction Development Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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中國建築興業集團有限公司

CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 830)

**(I) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH
中國建築股份有限公司**

**(CHINA STATE CONSTRUCTION ENGINEERING
CORPORATION LIMITED)**

AND

**(II) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH
CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED**

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent Financial Adviser to
to the Independent Board Committee and the Independent Shareholders**



紅日資本有限公司

RED SUN CAPITAL LIMITED

A letter from the Board is set out on pages 7 to 30 of this circular and a letter from the Independent Board Committee is set out on pages 31 to 32 of this circular. A letter from Red Sun, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 33 to 64 of this circular.

A notice convening the EGM to be held at 16th Floor, Eight Commercial Tower, No. 8 Sun Yip Street, Chai Wan, Hong Kong on Friday, 11 December 2020 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and deposit the same with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM and any adjournment thereof (as the case may be) should you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

To safeguard the health and safety of Shareholders and to prevent the spreading of the Novel Coronavirus (COVID-19) epidemic, the following precautionary measures will be implemented at the EGM:

- (1) Compulsory body temperature checks
- (2) Wearing of surgical face mask
- (3) No refreshments and corporate gifts will be provided

Any attendee who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry to the meeting venue, at the absolute discretion of the Company as permitted by law.

For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the EGM by appointing the Chairman of the EGM as their proxy and to return their forms of proxy by the time specified above, instead of attending the EGM in person.

20 November 2020

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“30%-controlled companies”, “associates”, “connected persons”, “controlling shareholder” and “subsidiary(ies)”	each has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“COHL”	China Overseas Holdings Limited, a company incorporated in Hong Kong with limited liability, is a wholly-owned subsidiary of CSCECL and a holding company of both CSC and the Company;
“Company”	China State Construction Development Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Main Board of the Stock Exchange (stock code: 830);
“CSC”	China State Construction International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Main Board of the Stock Exchange (stock code: 3311), is a non-wholly owned subsidiary of CSCECL and a controlling shareholder of the Company;
“CSC Group”	CSC, its subsidiaries (excluding the Group) and 30%-controlled companies from time to time;
“CSC Works Cap(s)”	collectively, the Mechanical and Electrical Engineering Works Caps, Machineries Leasing Caps, Insurance Services and Surety Bonds Caps and Supply of Building Materials Caps;
“CSC Works Independent Shareholders”	Shareholder(s), other than CSC and its associates;
“CSC Works Transactions”	collectively, the Mechanical and Electrical Engineering Works Transactions, Machineries Leasing Transactions, Insurance Services and Surety Bonds Transactions, and Supply of Building Materials Transactions;
“CSCEC”	中國建築集團有限公司 (China State Construction Engineering Corporation*), a state-owned corporation organised and existing under the laws of the PRC, and the ultimate holding company of each of CSCECL, CSC and the Company;

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“CSCECL”	中國建築股份有限公司 (China State Construction Engineering Corporation Limited), a joint stock company established in the PRC and whose shares are listed on the Shanghai Stock Exchange (stock code: 601668), a controlling shareholder of each of CSC and the Company, and a non-wholly owned subsidiary of CSCEC;
“CSCECL Group”	CSCECL and its subsidiaries (excluding subsidiary(ies) listed on the Stock Exchange and their respective subsidiary(ies)) from time to time;
“CSCECL Works”	contracting and engineering works, project consultancy service and project management service for the CSCECL Group’s construction works;
“CSCECL Works Cap(s)”	the maximum total contract sum of the construction sub-contracts, project consultancy contracts and project management contracts that may be awarded by the CSCECL Group to the Group as subcontractor or service provider of the CSCECL Group (as the case may be) for each year under the New CSCD-CSCECL Sub-construction Engagement Agreement;
“CSCECL Works Independent Shareholders”	Shareholder(s), other than CSCECL and its associates;
“CSCECL Works Transactions”	the engagement of the Group by the CSCECL Group as subcontractor or service provider (as the case may be) for the CSCECL Works as described under the section headed “(I) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH CSCECL – NEW CSCD-CSCECL SUB-CONSTRUCTION ENGAGEMENT AGREEMENT – CSCECL Works Transactions” in the Letter from the Board of this circular;
“Director(s)”	the director(s) of the Company;

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“EGM”	the extraordinary general meeting of the Company to be held to consider and approve, among other things, the New CSCD-CSCECL Sub-construction Engagement Agreement, the New CSCD-CSC Operational Services Agreement and their respective transactions contemplated thereunder (together with the CSCECL Works Caps and CSC Works Caps);
“Group”	the Company and its subsidiaries from time to time;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors to advise the Independent Shareholders in respect of the New CSCD-CSCECL Sub-construction Engagement Agreement, the New CSCD-CSC Operational Services Agreement and their respective transactions contemplated thereunder (together with the CSCECL Works Caps and CSC Works Caps);
“Independent Financial Adviser” or “Red Sun”	Red Sun Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the New CSCD-CSCECL Sub-construction Engagement Agreement, the New CSCD-CSC Operational Services Agreement and their respective transactions contemplated thereunder (together with the CSCECL Works Caps and CSC Works Caps);
“Independent Shareholders”	CSCECL Works Independent Shareholders (in respect of the New CSCD-CSCECL Sub-construction Engagement Agreement) and/or CSC Works Independent Shareholders (in respect of the New CSCD-CSC Operational Services Agreement);

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“Insurance Services and Surety Bonds Cap(s)”	the maximum total premiums/fees for provision of insurance services to the Group and issuance of surety bonds for the Group’s construction works by the CSC Group for each year under the New CSCD-CSC Operational Services Agreement;
“Insurance Services and Surety Bonds Transactions”	the engagement of the CSC Group to provide insurance services to the Group and issue surety bonds for the Group’s construction works as described under the section headed “(II) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH CSC – NEW CSCD-CSC OPERATIONAL SERVICES AGREEMENT – (3) Insurance Services and Surety Bonds Transactions” in the Letter from the Board of this circular;
“Latest Practicable Date”	17 November 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein, as the case may be;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“Macau”	the Macao Special Administrative Region of the PRC;
“Machineries Leasing Cap(s)”	the maximum total rent for the leasing of machineries from the CSC Group to the Group for each year under the New CSCD-CSC Operational Services Agreement;
“Machineries Leasing Transactions”	the leasing of machineries from the CSC Group to the Group for the Group’s construction works as described under the section headed “(II) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH CSC – NEW CSCD-CSC OPERATIONAL SERVICES AGREEMENT – (2) Machineries Leasing Transactions” in the Letter from the Board of this circular;
“Mechanical and Electrical Engineering Works Cap(s)”	the maximum total contract sum of the contracts for provision of mechanical and electrical engineering works that may be awarded by the Group to the CSC Group (as subcontractor of the Group) for each year under the New CSCD-CSC Operational Services Agreement;

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“Mechanical and Electrical Engineering Works Transactions”	the engagement by the Group of the CSC Group as subcontractor of the Group for provision of mechanical and electrical engineering works for the Group’s construction works as described under the section headed “(II) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH CSC – NEW CSCD-CSC OPERATIONAL SERVICES AGREEMENT – (1) Mechanical and Electrical Engineering Works Transactions” in the Letter from the Board of this circular;
“New CSCD-CSC Operational Services Agreement”	the agreement entered into between CSC and the Company on 19 October 2020 in respect of the CSC Works Transactions;
“New CSCD-CSCECL Sub-construction Engagement Agreement”	the engagement agreement entered into between CSCECL and the Company on 19 October 2020 in respect of the CSCECL Works Transactions;
“PRC”	People’s Republic of China, and for the purpose of this circular excludes Hong Kong, Macau and Taiwan;
“Previous CSCD-CSC Operational Services Agreement”	the agreement entered into between CSC and the Company on 11 October 2017 in respect of (i) the provision of mechanical and electrical engineering works by the CSC Group to the Group for the Group’s construction works; (ii) the leasing of machineries from the CSC Group to the Group for the Group’s construction works; (iii) the provision of insurance services by the CSC Group to the Group; and (iv) the supply of building materials by the CSC Group to the Group for the Group’s construction works, for the period commenced from 1 January 2018 and ended on 31 December 2020;
“Previous CSCD-CSCECL Sub-construction Engagement Agreement”	the engagement agreement entered into between CSCECL and the Company on 11 October 2017 in respect of the engagement of the Group by the CSCECL Group as subcontractor for provision of contracting and engineering works, project consultancy service and project management service for the CSCECL Group’s construction works for the period commenced from 1 January 2018 and ended on 31 December 2020;

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of Share(s) from time to time;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Supply of Building Materials Cap(s)”	the maximum total sum for the supply of building materials by the CSC Group to the Group for each year under the New CSCD-CSC Operational Services Agreement;
“Supply of Building Materials Transactions”	the supply of building materials by the CSC Group to the Group for the Group’s construction works as described under the section headed “(II) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH CSC – NEW CSCD-CSC OPERATIONAL SERVICES AGREEMENT – (4) Supply of Building Materials Transactions” in the Letter from the Board of this circular; and
“%”	per cent.

* *for identification purpose only*

LETTER FROM THE BOARD



中國建築興業集團有限公司

CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 830)

Chairman and Non-executive Director:

Mr. ZHANG Haipeng

Executive Directors:

Mr. WU Mingqing

(Vice Chairman and Chief Executive Officer)

Mr. WANG Hai

Non-executive Director:

Mr. HUANG Jiang

Independent Non-executive Directors:

Mr. ZHOU Jinsong

Mr. HONG Winn

Ms. KWONG Sum Yee Anna

Registered office:

P.O. Box 309

Ugland House

Grand Cayman

KY1-1104

Cayman Islands

Head office and principal place

of business in Hong Kong:

16th Floor, Eight Commercial Tower

8 Sun Yip Street

Chai Wan

Hong Kong

20 November 2020

To the Shareholders

Dear Sir or Madam,

(I) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH

中國建築股份有限公司

**(CHINA STATE CONSTRUCTION ENGINEERING
CORPORATION LIMITED)**

AND

**(II) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH
CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED**

INTRODUCTION

Reference is made to the announcement jointly issued by CSC and the Company dated 19 October 2020 in respect of the entering into of the New CSCD-CSCECL Sub-construction Engagement Agreement between CSCECL and the Company on 19 October 2020 to renew the Previous CSCD-CSCECL Sub-construction Engagement Agreement. Pursuant to the New CSCD-CSCECL Sub-construction Engagement Agreement, the CSCECL Group may engage the Group as its subcontractor or service provider (as the case may be) for the provision of CSCECL Works from time to time for a term of three years commencing from 1 January 2021 and ending on 31 December 2023 subject to the CSCECL Works Caps.

LETTER FROM THE BOARD

Reference is also made to the announcement of the Company dated 19 October 2020 in respect of the entering into of the New CSCD-CSC Operational Services Agreement between CSC and the Company on 19 October 2020 to renew the Previous New CSCD-CSC Operational Services Agreement. Pursuant to the New CSCD-CSC Operational Services Agreement, for a term of three years commencing from 1 January 2021 and ending on 31 December 2023, (1) the Group may engage the CSC Group as subcontractor of the Group for provision of mechanical and electrical engineering works for the Group's construction works subject to the Mechanical and Electrical Engineering Works Caps; (2) the Group may lease machineries from the CSC Group for the Group's construction works subject to the Machineries Leasing Caps; (3) the Group may engage the CSC Group to provide insurance services to the Group and issue surety bonds for the Group's construction works subject to the Insurance Services and Surety Bonds Caps; and (4) the CSC Group may supply building materials to the Group subject to the Supply of Building Materials Caps.

The purpose of this circular is to provide you with, among other things:

- the particulars of (i) the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps); and (ii) the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps);
- the letter from the Independent Board Committee with its view on (i) the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps); and (ii) the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps); and
- the letter from Red Sun with its advice on (i) the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps); and (ii) the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps), to the Independent Board Committee and the Independent Shareholders,

as well as to seek the approval of the Independent Shareholders in respect of the entering into of (i) the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps); and (ii) the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps).

LETTER FROM THE BOARD

(I) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH CSCECL

Reference is made to the announcement jointly issued by CSC and the Company dated 11 October 2017, and the circular of the Company dated 1 November 2017 in relation to, among other things, the Previous CSCD-CSCECL Sub-construction Engagement Agreement entered into between CSCECL and the Company which will expire on 31 December 2020.

Reference is also made to the announcement jointly issued by CSC and the Company dated 19 October 2020 in respect of the entering into of the New CSCD-CSCECL Sub-construction Engagement Agreement between CSCECL and the Company on 19 October 2020 to renew the Previous CSCD-CSCECL Sub-construction Engagement Agreement, whereby the CSCECL Group may engage the Group as its subcontractor or service provider (as the case may be) for the provision of CSCECL Works from time to time for a term of three years commencing from 1 January 2021 and ending on 31 December 2023.

NEW CSCD-CSCECL SUB-CONSTRUCTION ENGAGEMENT AGREEMENT

Date

19 October 2020

Parties

1. CSCECL; and
2. the Company.

CSCECL Works Transactions

The Company expects that the CSCECL Group will continue to engage the Group as its subcontractor or service provider (as the case may be) for provision of contracting and engineering works, project consultancy service and project management service for the CSCECL Group's construction works from time to time. Accordingly, under the New CSCD-CSCECL Sub-construction Engagement Agreement, CSCECL and the Company agreed that, for a term of three years commencing from 1 January 2021 and ending on 31 December 2023:

- (a) any member of the Group may act as subcontractor or service provider (as the case may be) of the CSCECL Group for provision of CSCECL Works in accordance with the applicable tendering procedures of the CSCECL Group from time to time (the "CSCECL Works Transactions");

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- (b) the parties may from time to time enter into further specific contracts, which set out the detailed terms in relation to the engagement of the Group to act as subcontractor or service provider (as the case may be) of the CSCECL Group for provision of CSCECL Works, provided that the total contract sum that may be awarded by the CSCECL Group to the Group under the New CSCD-CSCECL Sub-construction Engagement Agreement for each of the three financial years ending 31 December 2023 shall not exceed HK\$1,000 million (i.e. the CSCECL Works Caps). The terms of the specific contracts will be negotiated on an arm's length basis between the parties; and
- (c) the fees payable by the CSCECL Group to the Group will be settled pursuant to the payment terms set out in the specific contracts.

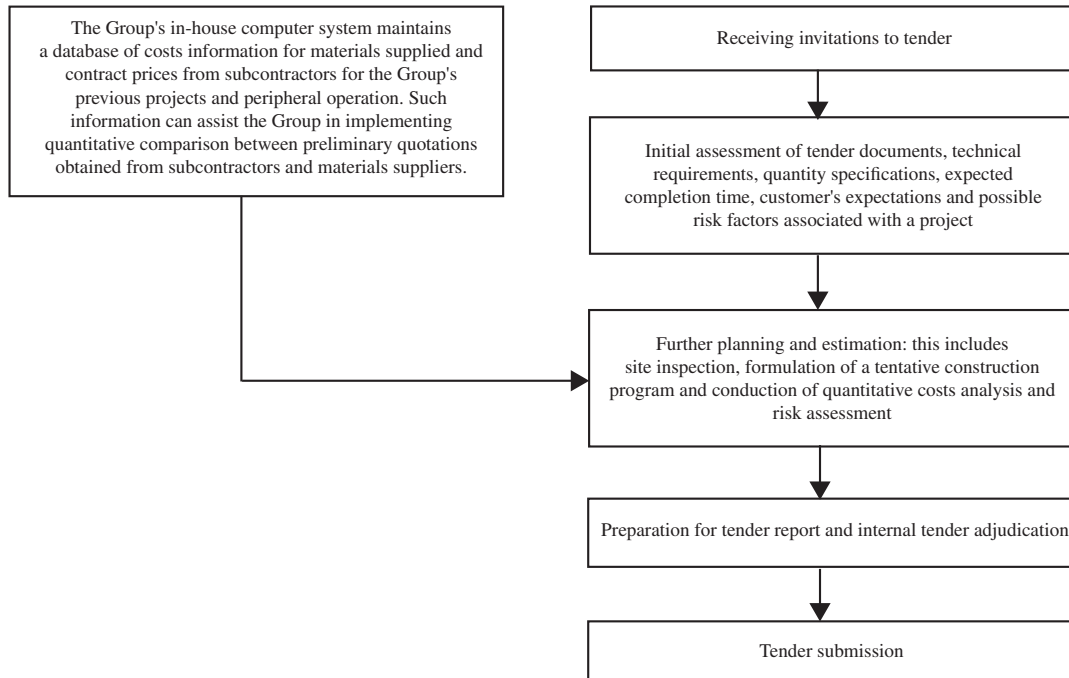
Pricing basis of the Group's tenders submitted to the CSCECL Group

As a general principle, the prices and terms of the contracts shall be determined in the ordinary course of business on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable to the CSCECL Group, and no less favourable to the Group, than those provided to independent third parties.

The Group will normally need to go through a tender or similar process before being selected and appointed as subcontractor for the provision of contracting and engineering works, or service provider of project consultancy service and project management service (as the case may be), of the CSCECL Group for the CSCECL Group's construction works. The prices and terms of the tenders submitted by the Group to the CSCECL Group for the CSCECL Works are subject to standard and systematic tender submission procedures maintained by the Group, which apply to tenders submitted to both connected persons and independent third parties, in order to ensure that the prices and terms of the proposed tenders submitted by the Group to the CSCECL Group are no more favourable to the CSCECL Group, and no less favourable to the Group, than those submitted to independent third parties.

The standard and systematic tender submission procedures generally involve (i) receiving invitations to tender; (ii) initial assessment of tender documents; (iii) further planning and estimation; (iv) preparation for tender report and internal tender adjudication; and (v) tender submission. The procedures, as illustrated in the following diagram, will enable the Group to review the feasibility and profitability of the tender to be submitted and to decide the contents and pricing terms of the tender to be submitted.

LETTER FROM THE BOARD



In preparing and assessing the tender documents, the Group will take into account factors including technical requirements, quantity specifications, expected completion time, customer's expectations and possible risk factors associated with a project. The Group will then perform site inspection, formulate a tentative construction program and conduct quantitative costs analysis and risk assessment.

In determining the pricing terms, the Group will review the costs information maintained by its in-house computer database for materials supplied and contract prices from subcontractors for the Group's previous projects and peripheral operation. Such information will assist the Group in implementing quantitative comparison between preliminary quotations obtained from sub-contractors and materials suppliers.

The Group will also review and compare previous tender prices submitted to both connected persons and independent third parties, so as to ensure that the tender price to be submitted is no more favourable to the CSCECL Group, and no less favourable to the Group, than those submitted to independent third parties.

Where the Group participates in a tender with all bidders (including independent third parties in the market), the Group will follow the above standard and systematic tender submission procedures and the winning bid of which will be the one with the lowest tender amount in accordance with the tender procedures of the CSCECL Group on the condition that the bidder also satisfies all other essential requirements (including but not limited to relevant experience, capability, historical relationship and track records) as set out in the bid invitation.

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Where the Group submits tender directly to the ultimate employer, the Group will follow the above standard and systematic tender submission procedures in determining the terms and price of the tender, and if the Group is nominated as subcontractor or service provider of the CSCECL Group (as the case may be) by the ultimate employer, consideration to the Group will be ascertained by the ultimate employer or its independent professional quantity surveyor.

Calculation of the CSCECL Works Caps

The CSCECL Works Cap:

- (a) for the financial year ending 31 December 2021 is determined with reference to (i) the total contract sums of the CSCECL Works provided by the Group of HK\$138,143,086 for the financial year ended 31 December 2018, HK\$164,185,993 for the financial year ended 31 December 2019 and HK\$50,505,812 for the six months ended 30 June 2020; and (ii) five tenders in relation to five residential/commercial construction projects submitted by the Group to the ultimate employers in the second half of 2020 for subcontract works with a total contract sum of HK\$552 million where the CSCECL Group is the main contractor of the projects and one tender in relation to a commercial construction project submitted by the Group to the CSCECL Group in the second half of 2020 for subcontract work with a contract sum of HK\$260 million, and where, upon successful tender, the contracts will be awarded to the Group in 2021;
- (b) for the financial year ending 31 December 2022 is determined with reference to (i) the CSCECL Group's construction works plan and the subcontract projects under negotiation with the CSCECL Group which the Group expects that six potential residential/commercial construction projects may be available for tender by the Group for subcontract works with an estimated total contract sum of HK\$840 million in 2021; and (ii) the current land reserves of the property developers in the PRC which the Group expects that four residential/commercial construction projects with an estimated total contract sum of HK\$508 million may be available for tender by the Group in 2021, and where, upon successful tender, the contracts will be awarded to the Group in 2021 and 2022; and
- (c) for the financial year ending 31 December 2023 is determined with reference to the Group's projection of the future growth and expansion of its businesses based on the historical contract sums of the CSCECL Works provided by the Group for the period between 1 January 2018 and 30 June 2020 and the potential projects available for tender by the Group as set out in paragraphs (a) and (b) above, which represents more than 80% and 130% of their respective annual caps and indicates an increasing trend in the potential projects available for tender by the Group and accordingly, the estimated total contract sums of the CSCECL Works.

The total contract sum in respect of the provision of contracting and engineering works, project consultancy service and project management service for the CSCECL Group's construction works that might be awarded by the CSCECL Group to the Group under the Previous CSCD-CSCECL Sub-construction Engagement Agreement for each of the three financial years ended 31 December 2020 should not exceed HK\$1,000 million (i.e. the previous annual cap).

LETTER FROM THE BOARD

Taking into account that (i) the estimated total contract sum for potential new construction projects, subject to successful tender, for the year ending 31 December 2021 accounts for approximately 81.2% of the CSCECL Works Cap for the year ending 31 December 2021; (ii) the estimated total contract sum for the potential new construction projects, subject to successful tenders, exceeds the CSCECL Works Cap for the year ending 31 December 2022 by approximately 34.8%; and (iii) the increasing trend as to the potential projects available for tender by the Group, in the event that the CSCECL Works Caps are exceeded, the Company will need to re-comply with Listing Rules or certain projects might need to roll-over to the following year (i.e. in the year ending 31 December 2023).

Notwithstanding the relatively low historical utilisation rates for the two years ended 31 December 2019 and the six months ended 30 June 2020, having considered (i) the potential projects which might engage the Group as subcontractor or service provider (as the case may be) of the CSCECL Group for the provision of CSCECL Works; (ii) the basis and assumption for the calculation of the CSCECL Works Caps, in particular, the estimated contract sums for the two years ending 31 December 2022, representing approximately 81.2% and 134.8% of the respective CSCECL Works Caps under the New CSCD-CSCECL Sub-construction Engagement Agreement; (iii) the CSCECL Works Caps for the three years ending 31 December 2023, if approved, would generate more revenue to the Group and facilitate the CSCECL Works Transactions to be conducted in an effective and efficient manner; and (iv) the basis for potential projects available for tender for the two years ending 31 December 2022 as set out above as basis for determining the CSCECL Works Cap for the year ending 31 December 2023, the Board considered that the CSCECL Works Caps are fair and reasonable.

Condition Precedent

The CSCECL Works Transactions contemplated under the New CSCD-CSCECL Sub-construction Engagement Agreement (together with the CSCECL Works Caps) are conditional upon the passing of the resolution by the CSCECL Works Independent Shareholders at the EGM approving the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps).

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE NEW CSCD-CSCECL SUB-CONSTRUCTION ENGAGEMENT AGREEMENT

The Directors consider that the transactions contemplated under the New CSCD-CSCECL Sub-construction Engagement Agreement will allow the Company to maximise profits and by being able to participate in the CSCECL Works upon successful tender, the Group can secure a more diverse base of customers, thereby expanding its market reach. As for the CSCECL Group, it can leverage on the Group's extensive experience and expertise in landmark facade projects of skyscrapers to increase construction efficiency. In addition, given the satisfactory cooperation between CSCECL and the Company pursuant to the Previous CSCD-CSCECL Sub-construction Engagement Agreement, the continuation of the longstanding and established business relationship between CSCECL and the Company will bring synergy effect to both CSCECL and the Company, thereby facilitating the expansion of the Group's businesses.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors whose views have been set out in this circular together with the advice of the Independent Financial Adviser) consider that the CSCECL Works Transactions contemplated under the New CSCD-CSCECL Sub-construction Engagement Agreement are expected to be entered into in the ordinary and usual course of business of the Group and on normal commercial terms after arm's length negotiations between the parties, and the terms of the CSCECL Works Transactions contemplated under the New CSCD-CSCECL Sub-construction Engagement Agreement (together with the CSCECL Works Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

CSCECL is an intermediate holding company of CSC which, in turn, is indirectly interested in approximately 74.06% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, members of the CSCECL Group are connected persons of the Company. The CSCECL Works Transactions contemplated under the New CSCD-CSCECL Sub-construction Engagement Agreement between members of the CSCECL Group on the one hand and members of the Group on the other hand, constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Since the applicable percentage ratios as defined in the Listing Rules in respect of the maximum total contract sum that may be awarded for each year under the New CSCD-CSCECL Sub-construction Engagement Agreement (i.e. the CSCECL Works Caps) exceed 5%, the CSCECL Works Transactions contemplated under the New CSCD-CSCECL Sub-construction Engagement Agreement are subject to the annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors has a material interest in the CSCECL Works Transactions contemplated under the New CSCD-CSCECL Sub-construction Engagement Agreement, no Director was required to abstain from voting on the Board resolutions approving the entering into of the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps). However, Mr. Zhang Haipeng, who is the chairman of the Board and a non-executive Director, the chief executive officer and an executive director of CSC, and a director of COHL, has voluntarily abstained from voting on the Board resolutions approving the entering into of the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps).

Shareholders should note that the CSCECL Works Caps represent the best estimates by the Directors of the amount of the relevant transaction based on the information currently available. The CSCECL Works Caps bear no direct relationships to, nor should be taken to have any direct bearings to, the Group's financial or potential financial performance.

LETTER FROM THE BOARD

(II) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH CSC

Reference is made to the announcement of the Company dated 11 October 2017 and the circular of the Company dated 1 November 2017 in relation to, among other things, the Previous CSCD-CSC Operational Services Agreement entered into between CSC and the Company which will expire on 31 December 2020.

Reference is also made to the announcement of the Company dated 19 October 2020 in respect of the entering into of the New CSCD-CSC Operational Services Agreement between CSC and the Company on 19 October 2020 to renew the Previous CSCD-CSC Operational Services Agreement, whereby for a term of three years commencing from 1 January 2021 and ending on 31 December 2023, (1) the Group may engage the CSC Group as subcontractor of the Group for provision of mechanical and electrical engineering works for the Group's construction works; (2) the Group may lease machineries from the CSC Group for the Group's construction works; (3) the Group may engage the CSC Group to provide insurance services to the Group and issue surety bonds for the Group's construction works; and (4) the CSC Group may supply building materials to the Group.

NEW CSCD-CSC OPERATIONAL SERVICES AGREEMENT

Date

19 October 2020

Parties

1. CSC; and
2. the Company.

(1) Mechanical and Electrical Engineering Works Transactions

The Company expects that the Group will continue to engage the CSC Group as its subcontractor for provision of mechanical and electrical engineering works for the Group's construction works from time to time. Accordingly, under the New CSCD-CSC Operational Services Agreement, CSC and the Company agreed that, for a term of three years commencing from 1 January 2021 and ending on 31 December 2023:

- (a) any member of the CSC Group may act as subcontractor of the Group for provision of mechanical and electrical engineering works for the Group's construction works in accordance with the applicable subcontracting procedures of the Group from time to time (the "**Mechanical and Electrical Engineering Works Transactions**");

LETTER FROM THE BOARD

- (b) the parties may from time to time enter into further specific contracts, which set out the detailed terms in relation to the engagement of the CSC Group to act as subcontractor of the Group for provision of mechanical and electrical engineering works for the Group's construction works, provided that the total contract sum that may be awarded by the Group to the CSC Group under the New CSCD-CSC Operational Services Agreement for each of the three financial years ending 31 December 2023 shall not exceed HK\$450 million (i.e. the Mechanical and Electrical Engineering Works Caps). The terms of the specific contracts will be negotiated on an arm's length basis between the parties; and
- (c) the fees payable by the Group to the CSC Group will be settled pursuant to the payment terms set out in the specific contracts.

Pricing basis of the contracts awarded by the Group to the CSC Group

As a general principle, the prices and terms of the contracts with respect to the Mechanical and Electrical Engineering Works Transactions shall be determined in the ordinary course of business on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable to the CSC Group than those awarded to independent third party subcontractors of the Group.

Where the CSC Group is nominated as subcontractor of the Group by the ultimate employer, consideration to the CSC Group will be determined by the independent professional quantity surveyor appointed by the ultimate employer.

Where the Group has the right to select contractor(s), consideration to such contractor(s) will be ascertained under the supervision of an in-house qualified professional quantity surveyor. The Group maintains a list of pre-approved contractors (which is subject to periodic review and update by its management to ensure contractors' quality standards). Contractors on the list include those with or without prior working relationship with the Group. Contractors with prior working relationship with the Group will be subject to suitability assessment following completion of every project of the Group. Contractors can only be retained on the list if they meet the minimum criteria for retention in the suitability assessment, otherwise they will be removed from the list. Contractors without prior working relationship with the Group will be subject to qualification evaluation and review to ascertain if they are suitable for inclusion in the list. The Group will take into account factors including contractors' financial stability, size and scale, relevant experience, professional qualification, reputation and past performance on similar projects.

LETTER FROM THE BOARD

For the selection of contractors to be invited for tenders, the suitability of a contractor is assessed with reference to the selection criteria including but not limited to the contractor's qualification grade, financial stability, technical capability, cooperation record, project management ability, quality of work and business management capability. Depending on the scale of a project and the estimated value of the sub-construction contract, the Group will conduct a vetting process to shortlist at least three contractors from its own list of pre-approved contractors to be invited to tender based on the general selection criteria as set out above and any specific criteria as required for the project, following which the invitation for tender letters will be issued. If the contractors on the Group's list of pre-approved contractors are not suitable to provide mechanical and electrical engineering works due to the scale of the project which is substantially different from the scale of the projects undertaken by the Group previously, the CSC Group will participate in a tender with all bidders (including independent third parties in the market). The winning bid will be the one with the lowest tender amount in accordance with the Group's internal tender procedures on the condition that the bidder also satisfies all other essential requirements (including but not limited to relevant experience, capability and historical relationship and track records) as set out in the bid invitation.

Calculation of the Mechanical and Electrical Engineering Works Caps

The Mechanical and Electrical Engineering Works Cap:

- (a) for the financial year ending 31 December 2021 is determined with reference to the general contracting work contract in the amount of HK\$1,766 million being secured by the Group in the first half of 2020 and two potential private residential/commercial construction projects available from property developers in Hong Kong with an estimated total contract sum of HK\$2.8 billion that the Group may tender for in the second half of 2020 and where, upon successful tender, contracts for the provision of mechanical and engineering works may be tendered by, and awarded to, prospective subcontractors of the Group in 2021;
- (b) for the financial year ending 31 December 2022 is determined with reference to the current land reserves of the property developers in Hong Kong which the Group expects that four potential private residential/commercial construction projects with an estimated total contract sum of HK\$6.0 billion may be available for tender by the Group in 2021 and where, upon successful tender, contracts for the provision of mechanical and engineering works may be tendered by, and awarded to, prospective subcontractors of the Group in 2022; and
- (c) for the financial year ending 31 December 2023 is determined with reference to (i) the current land reserves of the property developers in Hong Kong which the Group expects that one potential commercial construction project with an estimated contract sum of HK\$1.2 billion may be available for tender by the Group in 2022 and where, upon successful tender, contract for the provision of mechanical and engineering works may be tendered by, and awarded to, prospective subcontractors of the Group in 2023; and (ii) the government's initiative to increase the housing land supply and the assessment of the annual average completion of about 18,800

LETTER FROM THE BOARD

private residential units from 2019 to 2023 as stated in the Chief Executive's 2019 Policy Address which the Group expects that the demand for private housing construction will remain steady.

The total contract sum in respect of the provision of mechanical and electrical engineering works for the Group's construction works that might be awarded by the Group to the CSC Group under the Previous CSCD-CSC Operational Services Agreement for each of the three financial years ended 31 December 2020 should not exceed HK\$450 million (i.e. the previous annual cap).

The Mechanical and Electrical Engineering Works Caps are determined with reference to the estimated contract sum of the mechanical and electrical engineering works which is calculated based on a percentage of the estimated contract sum of the new construction projects of the Group. Assuming 50% of the tenders for new construction projects will be secured by the Group (which is determined with reference to the general contracting work contract in the amount of HK\$1,766 million already secured by the Group for the first half of 2020, representing approximately 39% of the contract sum of construction projects tendered by the Group in 2020, and taking into account uncertainties about the actual time for project tender as well as contract award and the suitability of the Group as contractor for the projects), and with reference to the costs of mechanical and electrical engineering works incurred/estimated from previous completed or yet to be completed projects of a similar nature, which is in a range of 5% to 20% of the total contract sum, depending on the scale and complexity of the projects, the Mechanical and Electrical Engineering Works Caps for each of the three financial years ending 31 December 2023 is set at HK\$450 million. In the event that the Mechanical and Electrical Engineering Works Caps are exceeded, the Company will need to re-comply with Listing Rules or certain projects might need to roll-over to the following year. Accordingly, the Mechanical and Electrical Engineering Works Cap for the year ending 31 December 2023 is determined with reference to the estimated contract sums for the provision of mechanical and electrical engineering works for the two years ending 31 December 2022.

The CSC Group was not engaged by the Group to provide any mechanical and electrical engineering works in the two financial years ended 31 December 2019 and in the period from 1 January 2020 to 30 June 2020 as the CSC Group had neither identified any suitable projects from the Group's construction works nor successfully been nominated by ultimate employers as nominated subcontractor through tenders submitted directly to the ultimate employers during the said period.

Notwithstanding, the CSC Group was not engaged by the Group to provide any mechanical and electrical engineering works for the two years ended 31 December 2019 and in the period from 1 January 2020 to 30 June 2020, the Mechanical and Electrical Engineering Works Caps are fair and reasonable due to the fact that (i) mechanical and electrical engineering works will be a furtherance to the Group's business; (ii) it would provide the Group the flexibility but not the obligation to engage the CSC Group for mechanical and electrical works; and (iii) it would avoid undue delay in the mechanical and electrical engineering works which the Group wishes to engage the CSC Group.

LETTER FROM THE BOARD

(2) **Machineries Leasing Transactions**

The Company expects that the Group will continue to lease machineries from the CSC Group for the Group's construction works from time to time. Accordingly, under the New CSCD-CSC Operational Services Agreement, CSC and the Company agreed that, for a term of three years commencing from 1 January 2021 and ending on 31 December 2023:

- (a) any member of the Group may lease machineries from the CSC Group for the Group's construction works from time to time (the "**Machineries Leasing Transactions**");
- (b) the parties may from time to time enter into further specific contracts, which set out the detailed terms in relation to the leasing of machineries from the CSC Group to the Group for the Group's construction works, provided that the total rent for the leasing of machineries under the New CSCD-CSC Operational Services Agreement for each of the three financial years ending 31 December 2023 shall not exceed HK\$25 million (i.e. the Machineries Leasing Caps). The terms of the specific contracts will be negotiated on an arm's length basis between the parties; and
- (c) the rent payable by the Group to the CSC Group will be settled pursuant to the payment terms set out in the specific contracts.

Pricing basis of the leasing of machineries from the CSC Group

As a general principle, the prices and terms of the contracts with respect to the Machineries Leasing Transactions shall be determined in the ordinary course of business on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable to the CSC Group than those paid to independent third party vendors of the Group.

The Group will obtain at least three quotations from its own list of pre-approved vendors (which is subject to periodic review and update by its management to ensure vendors' machineries and equipment are in good operational conditions).

Vendors on the list include those with or without prior working relationship with the Group. Vendors with prior working relationship with the Group will be subject to suitability assessment following completion of every project of the Group. Vendors can only be retained on the list if they meet the minimum criteria for retention in the suitability assessment, otherwise they will be removed from the list. Vendors without prior working relationship with the Group will be subject to qualification evaluation and review to ascertain if they are suitable for inclusion in the list. The Group will take into account factors including vendors' financial stability, size and scale, machinery and equipment specification and condition, price, reputation and past performance on similar projects. All vendors who provide quotations for the Group's projects are selected from vendors on the list of pre-approved vendors.

LETTER FROM THE BOARD

For the selection of a vendor, the lowest quotation will be selected on the condition that the vendor also satisfies all other essential requirements (including but not limited to the specification and condition of the machinery and equipment).

Calculation of the Machineries Leasing Caps

The Machineries Leasing Cap:

- (a) for the financial year ending 31 December 2021 is determined with reference to (i) the total rents in relation to the leasing of machineries paid by the Group to the CSC Group of HK\$6,998,329 for the financial year ended 31 December 2018, HK\$6,042,996 for the financial year ended 31 December 2019 and HK\$1,443,118 for the six months ended 30 June 2020; and (ii) the general contracting work contract in the amount of HK\$1,766 million being secured by the Group in the first half of 2020 and two potential private residential/commercial construction projects available from property developers in Hong Kong with an estimated total contract sum of HK\$2.8 billion that the Group may tender for in the second half of 2020 and where, upon successful tender, the construction works that require the leasing of machineries will be carried out by the Group in 2021;
- (b) for the financial year ending 31 December 2022 is determined with reference to the current land reserves of the property developers in Hong Kong which the Group expects that four potential private residential/commercial construction projects with an estimated total contract sum of HK\$6.0 billion may be available for tender by the Group in 2021 and where, upon successful tender, the construction works that require the leasing of machineries will be carried out by the Group in 2022; and
- (c) for the financial year ending 31 December 2023 is determined with reference to (i) the current land reserves of the property developers in Hong Kong which the Group expects that one potential commercial construction project with an estimated contract sum of HK\$1.2 billion may be available for tender by the Group in 2022 and where, upon successful tender, the construction works that require the leasing of machineries will be carried out by the Group in 2023; and (ii) the government's initiative to increase the housing land supply and the assessment of the annual average completion of about 18,800 private residential units from 2019 to 2023 as stated in the Chief Executive's 2019 Policy Address which the Group expects that the demand for private housing construction will remain steady.

The total rent in relation to the leasing of machineries from the CSC Group to the Group for the Group's construction works under the Previous CSCD-CSC Operational Services Agreement for each of the three financial years ended 31 December 2020 should not exceed HK\$25 million (i.e. the previous annual cap).

LETTER FROM THE BOARD

The Machineries Leasing Caps are determined with reference to the estimated costs in respect of leasing of machineries which are calculated based on a percentage of the estimated contract sum of the new construction projects of the Group. Assuming 50% of the tenders for new construction projects will be secured by the Group (which is determined with reference to the general contracting work contract in the amount of HK\$1,766 million already secured by the Group for the first half of 2020, representing approximately 39% of the contract sum of construction projects tendered by the Group in 2020, and taking into account uncertainties about the actual time for project tender as well as contract award and the suitability of the Group as contractor for the projects), and with reference to the costs of leasing machineries incurred/estimated from previous completed or yet to be completed projects of a similar nature, which is in a range of 1% to 3% of the total contract sum, the Machineries Leasing Cap for each of the three financial years ending 31 December 2023 is set at HK\$25 million. In the event that the Machineries Leasing Caps are exceeded, the Company will need to re-comply with Listing Rules or certain projects might need to roll-over to the following year. Accordingly, the Machineries Leasing Cap for the year ending 31 December 2023 is determined with reference to the estimated contract sum for the provision of leasing of machineries for the two years ending 31 December 2022.

(3) Insurance Services and Surety Bonds Transactions

The Company expects that the Group will continue to engage the CSC Group to provide insurance services (including but not limited to Public Liability Employees' Compensation insurance and Contractors' All Risks insurance) to the Group and issue surety bonds for the Group's construction works from time to time. Accordingly, under the New CSCD-CSC Operational Services Agreement, CSC and the Company agreed that, for a term of three years commencing from 1 January 2021 and ending on 31 December 2023:

- (a) any member of the CSC Group may provide insurance services to the Group and issue surety bonds for the Group's construction works from time to time (the "**Insurance Services and Surety Bonds Transactions**");
- (b) the parties may from time to time enter into further specific contracts, which set out the detailed terms in relation to the engagement of the CSC Group to provide insurance services and issue surety bonds, provided that the total premiums/fees payable for the provision of insurance services and the issuance of surety bonds under the New CSCD-CSC Operational Services Agreement for each of the three financial years ending 31 December 2023 shall not exceed HK\$70 million (i.e. the Insurance Services and Surety Bonds Caps). The terms of the specific contracts will be negotiated on an arm's length basis between the parties; and
- (c) the premiums/fees payable by the Group to the CSC Group will be settled pursuant to the payment terms set out in the specific contracts.

LETTER FROM THE BOARD

Pricing basis of the provision of insurance services and issuance of surety bonds by the CSC Group

As a general principle, the prices and terms of the contracts with respect to the Insurance Services and Surety Bonds Transactions shall be determined in the ordinary course of business on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable to the CSC Group than those paid to third party insurers of the Group.

The Group will obtain at least three quotations from independent insurers (directly or indirectly through insurance brokers) and the CSC Group. For the selection of the insurers, the lowest quotation will be selected on the condition that the insurer also satisfies other essential requirements (including but not limited to paying ability, financial strength, specialisation, historical relationship and record of claim refusal).

Calculation of the Insurance Services and Surety Bonds Caps

The Insurance Services and Surety Bonds Cap:

- (a) for the financial year ending 31 December 2021 is determined with reference to (i) the total premiums/fees in relation to the provision of insurance services paid by the Group to the CSC Group of HK\$24,791,710 for the financial year ended 31 December 2018, HK\$13,083,998 for the financial year ended 31 December 2019 and HK\$7,197,844 for the six months ended 30 June 2020; and (ii) the general contracting work contract in the amount of HK\$1,766 million being secured by the Group in the first half of 2020 and two potential private residential/commercial construction projects available from property developers in Hong Kong with an estimated total contract sum of HK\$2.8 billion that the Group may tender for in the second half of 2020 and where, upon successful tender, the construction works that require insurance coverage and/or surety bonds will be carried out by the Group in 2021;
- (b) for the financial year ending 31 December 2022 is determined with reference to the current land reserves of the property developers in Hong Kong which the Group expects that four potential private residential/commercial construction projects with an estimated total contract sum of HK\$6.0 billion may be available for tender by the Group in 2021 and where, upon successful tender, the construction works that require insurance coverage and/or surety bonds will be carried out by the Group in 2022; and
- (c) for the financial year ending 31 December 2023 is determined with reference to (i) the current land reserves of the property developers in Hong Kong which the Group expects that one potential commercial construction project with an estimated contract sum of HK\$1.2 billion may be available for tender by the Group in 2022 and where, upon successful tender, the construction works that require insurance coverage and/or surety bonds will be carried out by the Group in 2023; and (ii) the government's initiative to increase the housing land supply and the assessment of the annual average completion of about 18,800 private residential units from 2019 to 2023 as stated in the Chief Executive's 2019 Policy Address which the Group expects that the demand for private housing construction will remain steady.

LETTER FROM THE BOARD

The total fees in relation to the provision of insurance services by the CSC Group to the Group under the Previous CSCD-CSC Operational Services Agreement for each of the three financial years ended 31 December 2020 should not exceed HK\$70 million (i.e. the previous annual cap).

The Insurance Services and Surety Bonds Caps are determined with reference to the insurance costs which are calculated based on a percentage of the estimated contract sum of the new construction projects of the Group. Assuming 50% of the tenders for new construction projects will be secured by the Group (which is determined with reference to the general contracting work contract in the amount of HK\$1,766 million already secured by the Group for the first half of 2020, representing approximately 39% of the contract sum of construction projects tendered by the Group in 2020, and taking into account uncertainties about the actual time for project tender as well as contract award and the suitability of the Group as contractor for the projects), and with reference to insurance expenses incurred/estimated from previous completed or yet to be completed projects of a similar nature, each being less than 3% of the total contract sum, the Insurance Services and Surety Bonds Caps for each of the three financial years ending 31 December 2023 is set at HK\$70 million. In the event that the Insurance Services and Surety Bonds Caps are exceeded, the Company will need to re-comply with Listing Rules or certain projects might need to roll-over to the following year. Accordingly, the Insurance Services and Surety Bonds Cap for the year ending 31 December 2023 is determined with reference to estimated contract sum for the construction works that require insurance coverage and/or issuance of surety bonds for the two years ending 31 December 2022.

(4) Supply of Building Materials Transactions

The Company expects that the CSC Group will continue to supply building materials to the Group for the Group's construction works from time to time. Accordingly, under the New CSCD-CSC Operational Services Agreement, CSC and the Company agreed that, for a term of three years commencing from 1 January 2021 and ending on 31 December 2023:

- (a) any member of the CSC Group may supply building materials to the Group for the Group's construction works from time to time (the "**Supply of Building Materials Transactions**");
- (b) the parties may from time to time enter into further specific contracts, which set out the detailed terms in relation to the supply of building materials by the CSC Group to the Group for the Group's construction works, provided that the total sum for the supply of building materials under the New CSCD-CSC Operational Services Agreement for each of the three financial years ending 31 December 2023 shall not exceed HK\$150 million (i.e. the Supply of Building Materials Caps). The terms of the specific contracts will be negotiated on an arm's length basis between the parties; and
- (c) the amount payable by the Group to the CSC Group will be settled pursuant to the payment terms set out in the specific contracts.

LETTER FROM THE BOARD

Pricing basis of the supply of building materials to the Group by the CSC Group

As a general principle, the prices and terms of the contracts with respect to the Supply of Building Materials Transactions shall be determined in the ordinary course of business on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable to the CSC Group than those paid to independent third party suppliers of the Group.

The Group will obtain at least three quotations from its own list of pre-approved suppliers (which is subject to periodic review and update by its management to ensure a portfolio of best in class suppliers is available for use). Suppliers on the list include those with or without prior working relationship with the Group. Suppliers with prior working relationship with the Group will be subject to suitability assessment following completion of every project of the Group. Suppliers can only be retained on the list if they meet the minimum criteria for retention in the suitability assessment, otherwise they will be removed from the list. Suppliers without prior working relationship with the Group will be subject to qualification evaluation and review to ascertain if they are suitable for inclusion in the list. The Group will take into account factors including suppliers' financial stability, size and scale, products offered and specification, production capacity and facility, professional qualification, reputation and past performance on similar projects. All suppliers provided quotations for the Group's projects are selected from suppliers on the list of pre-approved suppliers.

For the selection of a supplier, the lowest quotation will be selected on the condition that the supplier also satisfies all other essential requirements (including but not limited to relevant experience, qualities and specifications of materials and track records).

Calculation of the Supply of Building Materials Caps

The Supply of Building Materials Cap:

- (a) for the financial year ending 31 December 2021 is determined with reference to (i) the total sums in relation to the supply of building materials paid by the Group to the CSC Group of HK\$5,451,797 for the financial year ended 31 December 2018, HK\$5,613,971 for the financial year ended 31 December 2019 and HK\$3,318,114 for the six months ended 30 June 2020; and (ii) the general contracting work contract in the amount of HK\$1,766 million being secured by the Group in the first half of 2020 and two potential private residential/commercial construction projects available from property developers in Hong Kong with an estimated total contract sum of HK\$2.8 billion that the Group may tender for in the second half of 2020 and where, upon successful tender, the construction works that require the supply of building materials will be carried out by the Group in 2021;
- (b) for the financial year ending 31 December 2022 is determined with reference to the current land reserves of the property developers in Hong Kong which the Group expects that four potential private residential/commercial construction projects with an estimated total contract sum of HK\$6.0 billion may be available for tender by the Group in 2021 and where, upon successful tender, the construction works that require the supply of building materials will be carried out by the Group in 2022; and

LETTER FROM THE BOARD

- (c) for the financial year ending 31 December 2023 is determined with reference to (i) the current land reserves of the property developers in Hong Kong which the Group expects that one potential commercial construction project with an estimated contract sum of HK\$1.2 billion may be available for tender by the Group in 2022 and where, upon successful tender, the construction works that require the supply of building materials will be carried out by the Group in 2023; and (ii) the government's initiative to increase the housing land supply and the assessment of the annual average completion of about 18,800 private residential units from 2019 to 2023 as stated in the Chief Executive's 2019 Policy Address which the Group expects that the demand for private housing construction will remain steady.

The total fees in relation to the supply of building materials by the CSC Group to the Group for the Group's construction works under the Previous CSCD-CSC Operational Services Agreement for each of the three financial years ended 31 December 2020 should not exceed HK\$150 million (i.e. the previous annual cap).

The Supply of Building Materials Caps are determined with reference to the estimated building materials costs which are calculated based on a percentage of the estimated contract sum of the new construction projects of the Group. Assuming 50% of the tenders for new construction projects will be secured by the Group (which is determined with reference to the general contracting work contract in the amount of HK\$1,766 million already secured by the Group for the first half of 2020, representing approximately 39% of the contract sum of construction projects tendered by the Group in 2020, and taking into account uncertainties about the actual time for project tender as well as contract award and the suitability of the Group as contractor for the projects), and with reference to building materials costs incurred/estimated from previous completed or yet to be completed projects of a similar nature, each being less than 6% of the total contract sum, the Supply of Building Materials Caps for each of the three financial years ending 31 December 2023 is set at HK\$150 million. In the event that the Supply of Building Materials Caps are exceeded, the Company will need to re-comply with Listing Rules or certain projects might need to roll-over to the following year. Accordingly, the Supply of Building Materials Cap for the year ending 31 December 2023 is determined with reference to the estimated contract sums for the construction works that require the supply of building materials for the two years ending 31 December 2022.

Condition Precedent

The CSC Works Transactions contemplated under the New CSCD-CSC Operational Services Agreement (together with the CSC Works Caps) are conditional upon the passing of the resolution by the CSC Works Independent Shareholders at the EGM approving the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps).

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE NEW CSCD-CSC OPERATIONAL SERVICES AGREEMENT

The CSC Works Transactions contemplated under the New CSCD-CSC Operational Services Agreement are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group, as well as the CSC Group.

The CSC Group with profound experience in building construction and solid financial standing have demonstrated itself as professional and reliable contractor and supplier to its customers and the maintenance of a strategic business relationship with the CSC Group will allow the Group to secure a more diverse base of contractors and suppliers and by having diverse contractors/suppliers in the network, the Group can earn competitive advantages by ensuring its contractors/suppliers offer more competitive pricing and services, reducing the risk of delay in project delivery, and boosting the performance of the contractors/suppliers to meet complex and demanding business needs, thereby facilitating the expansion of the Group's businesses.

The Directors (including the independent non-executive Directors whose views have been set out in this circular together with the Independent Financial Adviser) consider that the CSC Works Transactions contemplated under the New CSCD-CSC Operational Services Agreement are expected to be entered into in the ordinary and usual course of business of the Group and on normal commercial terms after arm's length negotiations between the parties, and the terms of the CSC Works Transactions contemplated under the New CSCD-CSC Operational Services Agreement (together with the CSC Works Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

As at the Latest Practicable Date, CSC is indirectly interested in approximately 74.06% of the issued share capital and is a controlling shareholder of the Company. Accordingly, members of the CSC Group are connected persons of the Company. The CSC Works Transactions contemplated under the New CSCD-CSC Operational Services Agreement between members of the CSC Group on the one hand and members of the Group on the other hand, constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Since the applicable percentage ratios as defined in the Listing Rules in respect of the CSC Works Caps exceed 5%, the CSC Works Transactions contemplated under the New CSCD-CSC Operational Services Agreement are subject to the annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

None of the Directors has a material interest in the CSC Works Transactions contemplated under the New CSCD-CSC Operational Services Agreement, no Director was required to abstain from voting on the Board resolutions approving the entering into of the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps). However, Mr. Zhang Haipeng, who is the chairman of the Board and a non-executive Director, the chief executive officer and an executive director of CSC, and a director of COHL; Mr. Wu Mingqing, who is a vice chairman of the Board, an executive Director and the chief executive officer of the Company, and a director of the subsidiaries of CSC; and Mr. Huang Jiang, who is a non-executive Director and a director of the subsidiaries of CSC, have voluntarily abstained from voting on the Board resolutions approving the entering into of the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps).

Shareholders should note that the CSC Works Caps represent the best estimates by the Directors of the amount of the relevant transaction based on the information currently available. The CSC Works Caps bear no direct relationships to, nor should be taken to have any direct bearings to, the Group's financial or potential financial performance.

GENERAL

CSCECL is a contractor which is principally engaged in construction works in various cities in the PRC and various countries around the world.

The CSC Group is principally engaged in construction business, infrastructure investments and prefabricated constructions.

The Group is principally engaged in general contracting business, facade contracting business (including design, engineering, manufacture and installation of curtain wall systems) and operating management business.

CSCEC is the ultimate holding company of each of CSCECL, CSC and the Company. Its principal businesses are building construction, international contracting, real estate development and investment, infrastructure construction and investment and design and prospecting.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders in respect of the terms of (i) the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps); and (ii) the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps). Red Sun has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this connection.

LETTER FROM THE BOARD

EGM

A notice convening the EGM to be held at 16th Floor, Eight Commercial Tower, No. 8 Sun Yip Street, Chai Wan, Hong Kong on Friday, 11 December 2020 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. Ordinary resolutions will be proposed to the Independent Shareholders at the EGM to consider and, if thought fit, to approve (i) the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps); and (ii) the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps).

A form of proxy for the EGM is enclosed with this circular. Whether or not you will be able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and deposit the same with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM and any adjournment thereof (as the case may be) should you so wish.

In accordance with Rule 13.39(4) of the Listing Rules, voting at the EGM will be conducted by poll. As at the Latest Practicable Date, CSC, through its wholly-owned subsidiary Add Treasure Holdings Limited, held 1,596,403,279 Shares, representing approximately 74.06% of the issued share capital of the Company. CSC is a direct non-wholly owned subsidiary of COHL which, in turn, is a direct wholly-owned subsidiary of CSCECL and CSCECL is a direct non-wholly owned subsidiary of CSCEC. CSCEC and its associates will abstain from voting at the EGM on the resolutions relating to (i) the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps); and (ii) the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps).

To the extent that the Directors are aware having made all reasonable enquiries, as at the Latest Practicable Date:

- (i) there was no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon CSCEC;
- (ii) CSCEC was not subject to any obligation or entitlement whereby it had or it might have temporarily or permanently passed control over the exercise of the voting right in respect of its shares in the Company to a third party, either generally or on a case-by-case basis; and

LETTER FROM THE BOARD

- (iii) it was not expected that there would be any discrepancy between CSCEC's beneficial shareholding interest in the Company as disclosed in this circular and the number of Shares in respect of which it would control or would be entitled to exercise control over the voting right at the EGM.

The results of the voting will be announced in the manner prescribed under Rule 13.39(5) of the Listing Rules after the EGM.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of members who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 8 December 2020 to Friday, 11 December 2020, both days inclusive, during which period no transfers of shares will be effected.

In order to qualify for attending and voting at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 7 December 2020.

RECOMMENDATION

Your attention is drawn to the letter of advice from the Independent Board Committee set out on pages 31 to 32 in this circular which contains its recommendation to the Independent Shareholders in relation to (i) the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps); and (ii) the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps).

Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages 33 to 64 in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to (i) the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps); and (ii) the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps).

The Directors (including the independent non-executive Directors whose views have been set out in this circular together with the advice of the Independent Financial Adviser) consider that (i) the New CSCD-CSC Operational Services Agreement (together with the CSCECL Works Caps); and (ii) the New CSCD-CSC Operational Services Agreement (together with the CSC Works Caps) have been entered into on normal commercial terms after arm's length negotiations between the parties, and the terms of (i) the CSCECL Works Transactions contemplated under the New CSCD-CSCECL Sub-construction Engagement Agreement; and (ii) the CSC Works Transactions contemplated under the New CSCD-CSC Operational

LETTER FROM THE BOARD

Services Agreement are expected to be entered into in the ordinary and usual course of business of the Group and on normal commercial terms after arm's length negotiations between the parties, and the terms of (i) the CSCECL Works Transactions contemplated under the New CSCD-CSCECL Sub-construction Engagement Agreement (together with the CSCECL Works Caps); and (ii) the CSC Works Transactions contemplated under the New CSCD-CSC Operational Services Agreement (together with the CSC Works Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular and the notice of the EGM.

Yours faithfully,

By Order of the Board

China State Construction Development Holdings Limited

ZHANG Haipeng

Chairman and Non-executive Director



中國建築興業集團有限公司

CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 830)

20 November 2020

To the Independent Shareholders

Dear Sir or Madam,

(I) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH

中國建築股份有限公司

**(CHINA STATE CONSTRUCTION ENGINEERING
CORPORATION LIMITED)**

AND

**(II) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH
CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED**

We refer to the circular dated 20 November 2020 (the “**Circular**”) issued by the Company to the Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether, in its opinion, the terms of (i) the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps), and (ii) the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps) are fair and reasonable, are on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. Red Sun has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps), and (ii) the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps).

We wish to draw your attention to the letter from the Board, as set out on pages 7 to 30 of the Circular and the text of a letter of advice from Red Sun, as set out on pages 33 to 64 of the Circular, both of which provide details of (i) the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps), and (ii) the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps).

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered (i) the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps), (ii) the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps); (iii) the advice of Red Sun; and (iv) the relevant information contained in the letter from the Board, we are of the opinion that the terms of (a) the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Caps); and (b) the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the CSC Works Caps) are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

Yours faithfully,

For and on behalf of

**The Independent Board Committee of
China State Construction Development Holdings Limited**

ZHOU Jinsong
Independent
Non-executive Director

HONG Winn
Independent
Non-executive Director

KWONG Sum Yee Anna
Independent
Non-executive Director

LETTER FROM RED SUN

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders in respect of the New CSCD-CSCECL Sub-construction Engagement Agreement and the New CSCD-CSC Operational Services Agreement and their respective transactions contemplated thereunder (together with the CSCECL Works Caps and CSC Works Caps) for inclusion in this circular.



20 November 2020

*To: The Independent Board Committee and the Independent Shareholders
of China State Construction Development Holdings Limited*

Dear Sirs,

**(I) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH
中國建築股份有限公司
(CHINA STATE CONSTRUCTION ENGINEERING CORPORATION LIMITED)
AND
(II) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH
CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED**

I. INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of (i) the New CSCD-CSCECL Sub-construction Engagement Agreement; and (ii) the New CSCD-CSC Operational Services Agreement (together the “**Agreement(s)**”), and their respective transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company (the “**Circular**”) to the Shareholders dated 20 November 2020, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 19 October 2020, CSCECL and the Company entered into the New CSCD-CSCECL Sub-construction Engagement Agreement to renew the Previous CSCD-CSCECL Sub-construction Engagement Agreement. Pursuant to the New CSCD-CSCECL Sub-construction Engagement Agreement, the CSCECL Group may engage the Group as its subcontractor or service provider (as the case may be) for provision of CSCECL Works from time to time for a term of three years commencing from 1 January 2021 and ending on 31 December 2023 subject to the CSCECL Works Caps.

LETTER FROM RED SUN

On 19 October 2020, CSC and the Company entered into the New CSCD-CSC Operational Services Agreement to renew the Previous CSCD-CSC Operational Services Agreement. Pursuant to the New CSCD-CSC Operational Services Agreement, for a term of three years commencing from 1 January 2021 and ending on 31 December 2023, (1) the Group may engage the CSC Group as subcontractor of the Group for provision of mechanical and electrical engineering works for the Group's construction works subject to the Mechanical and Electrical Engineering Works Caps; (2) the Group may lease machineries from the CSC Group for the Group's construction works subject to the Machineries Leasing Caps; (3) the Group may engage the CSC Group to provide insurance services to the Group and issue surety bonds for the Group's construction works subject to the Insurance Services and Surety Bonds Caps; and (4) the CSC Group may supply building materials to the Group subject to the Supply of Building Materials Caps.

CSCECL is an intermediate holding company of CSC, which, in turn, is indirectly interested in approximately 74.06% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, members of the CSCECL Group and the CSC Group are connected persons of the Company, respectively.

Since the applicable percentage ratios as defined in the Listing Rules in respect of the maximum total contract sum that may be awarded for each year under the New CSCD-CSCECL Sub-construction Engagement Agreement (i.e. the CSCECL Works Caps) exceed 5%, the CSCECL Works Transactions contemplated under the New CSCD-CSCECL Sub-construction Engagement Agreement are subject to the annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since the applicable percentage ratios as defined in the Listing Rules in respect of the CSC Works Caps exceed 5%, the CSC Works Transactions contemplated under the New CSCD-CSC Operational Services Agreement are subject to the annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

II. THE INDEPENDENT BOARD COMMITTEE

The Board comprises Mr. Zhang Haipeng as Chairman and Non-executive Director; Mr. Wu Mingqing as Vice Chairman, Chief Executive Officer and Executive Director, Mr. Wang Hai as Executive Director, Mr. Huang Jiang as Non-executive Director, and Mr. Zhou Jinsong, Mr. Hong Winn and Ms. Kwong Sum Yee Anna as Independent Non-executive Directors.

The Independent Board Committee comprising all the above-mentioned Independent Non-executive Directors has been established to advise the Independent Shareholders in respect of the New CSCD-CSCECL Sub-construction Engagement Agreement, the New CSCD-CSC Operational Services Agreement and their respective transactions contemplated thereunder (together with the CSCECL Works Caps and CSC Works Caps), are in the interests of the Company and the Shareholders as a whole, respectively.

LETTER FROM RED SUN

We, Red Sun, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in these respects and to give our opinion in relation to the New CSCD-CSCECL Sub-construction Engagement Agreement, the New CSCD-CSC Operational Services Agreement and their respective transactions contemplated thereunder (together with the CSCECL Works Caps and CSC Works Caps), for the Independent Board Committee's consideration when making their recommendation to the Independent Shareholders.

III. OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, CSCECL, CSC and their respective shareholders, directors or chief executives, or any of their respective associates and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the New CSCD-CSCECL Sub-construction Engagement Agreement, the New CSCD-CSC Operational Services Agreement and their respective transactions contemplated thereunder (together with the CSCECL Works Caps and CSC Works Caps).

As at the Latest Practicable Date, we did not have any relationship with or interest in the Group or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have acted as the independent financial adviser to the then independent board committee and the then independent shareholders of the Company, details of which are set out in the relevant circulars dated (i) 22 February 2019 in relation to a discloseable and connected transaction; (ii) 22 November 2019 in relation to a major and connected transaction and continuing connected transactions; and (iii) 17 April 2020 in relation to continuing connected transactions.

In addition, we have also acted as the independent financial adviser for the previous two years to the then independent board committee and the then independent shareholders of CSC, details of which are set out in the relevant circular dated (i) 10 July 2019 in relation to continuing connected transactions; and (ii) 23 March 2020 in relation to continuing connected transactions.

Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

LETTER FROM RED SUN

IV. BASIS OF OUR ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group, the CSCECL Group and the CSC Group and their respective shareholders and management contained in the Circular and the information and representations provided to us by the Group and/or its senior management (the “**Management**”) and/or the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular (including this letter) or otherwise provided or made or given by the Group and/or the Management and/or the Directors and for which it is/they are solely responsible were true and accurate, and valid and complete in all material respects at the time they were made and given and continue to be true and accurate, and valid and complete in all material respects as at the date of the Circular. We have assumed that all the opinions, beliefs and representations for matters relating to the Group, the CSCECL Group and the CSC Group made or provided by the Management and/or the Directors contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or the Management and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and the Management has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group and/or the Management and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group, the CSCECL Group, the CSC Group and their respective shareholder(s) and subsidiaries or affiliates, and their respective histories, experience and track records, or the prospects of the markets in which they respectively operate.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the New CSCD-CSCECL Sub-construction Engagement Agreement, the New CSCD-CSC Operational Services Agreement and their respective transactions contemplated thereunder (together with the CSCECL Works Caps and CSC Works Caps), 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.

LETTER FROM RED SUN

V. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the New CSCD-CSCECL Sub-construction Engagement Agreement, the New CSCD-CSC Operational Services Agreement and their respective transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group, the CSCECL Group and the CSC Group

1.1 Principal business and the financial information of the Group

The Group is principally engaged in general contracting business, facade contracting business (including design, engineering, manufacture and installation of curtain wall systems) and operating management business.

Set out below is a summary of the Group's operating results extracted from the Company's published interim report for the six months ended 30 June 2020 (the "2020 Interim Report") and annual report for the year ended 31 December 2019 (the "2019 Annual Report"):

	For the year ended 31 December		For the six months ended 30 June	
	2018 <i>(audited and restated) (Note 1) HK\$'000</i>	2019 <i>(audited) HK\$'000</i>	2019 <i>(unaudited and restated) (Note 2) HK\$'000</i>	2020 <i>(unaudited) HK\$'000</i>
Revenue	4,243,167	4,619,412	2,355,514	1,960,725
– Facade contracting works	2,518,261	2,785,753	1,430,001	1,312,453
– General contracting works	850,553	940,564	459,078	173,602
– Operating management	874,353	893,095	466,435	474,670

Notes:

- The Group has acquired 100% of equity interests in Shenyang Huanggu Thermoelectricity Company Limited ("Shenyang Huanggu") from Ever Power Group Limited for a cash consideration of approximately HK\$674 million. The acquisition was treated as common control combination and merger accounting was adopted as if Shenyang Huanggu had been combined from the date when Shenyang Huanggu first came under the control of the controlling party. The comparative figures of the consolidated financial statements for the year ended 31 December 2018 have been restated.
- The transfer of the entire equity interests in China Overseas Public Utility Investment Limited ("COPUI") and the 0.31% equity interests in Shenyang Huanggu held by 深圳海豐德投資有限公司 (Shenzhen Haifengde Investment Co. Ltd.*) ("Shenzhen Haifengde") (together with COPUI, the "Acquired Group") was regarded as business combination under common control. Accordingly, the acquisition has been accounted for based on the principles of merger accounting in accordance with Accounting Guideline 5 Merger Accounting for Common Control Combinations issued by the HKICPA, as if the Acquired Group had been combined from the date when it first came under the control of the controlling party of the Group and the Acquired Group. The comparative figures of the unaudited condensed consolidated statement of comprehensive income for the six months ended 30 June 2019 have been restated accordingly.

LETTER FROM RED SUN

Based on the 2019 Annual Report, revenue for the year ended 31 December 2018 and 2019 was approximately HK\$4.2 billion and HK\$4.6 billion, respectively, representing a growth rate of approximately 8.9%. Such increase was mainly attributable to the increase in revenue generated from the Group's provision of facade contracting works from approximately HK\$2.5 billion for the year ended 31 December 2018 to approximately HK\$2.8 billion for the year ended 31 December 2019. Revenue generated from facade contracting works, general contracting works and operating management accounted for approximately 60.3%, 20.4% and 19.3% of the Group's total revenue for the year ended 31 December 2019, respectively.

Based on the 2020 Interim Report, revenue for the six months ended 30 June 2019 and 2020 was approximately HK\$2.4 billion and HK\$2.0 billion, respectively, representing a decrease of approximately 16.8%. Such decrease was mainly attributable to (i) the decrease in revenue generated from the Group's provision of general contracting works from approximately HK\$459.1 million for the six months ended 30 June 2019 to approximately HK\$173.6 million for the six months ended 30 June 2020; and (ii) the decrease in revenue generated from the Group's provision of facade contracting works from approximately HK\$1,430.0 million for the six months ended 30 June 2019 to approximately HK\$1,312.5 million for the six months ended 30 June 2020. Revenue generated from facade contracting works, general contracting works and operating management accounted for approximately 66.9%, 8.9% and 24.2% of the Group's total revenue for the six months ended 30 June 2020, respectively.

1.2 Principal activities of the CSCECL Group

As stated in the Letter from the Board, CSCECL is a contractor which is principally engaged in construction works in various cities in the PRC and various countries around the world.

According to the annual report of CSCECL for the year ended 31 December 2019 (the "**CSCECL 2019 Annual Report**"), revenue for the year ended 31 December 2018 and 2019 was approximately RMB1,199.3 billion and RMB1,419.8 billion, respectively, representing a growth rate of approximately 18.4%. Such increase was mainly attributable to (i) the increase in revenue from construction contracts; and (ii) the increase in revenue from infrastructure investment projects.

According to the interim report of CSCECL for the six months ended 30 June 2020, revenue for the six months ended 30 June 2019 and 2020 was approximately RMB685.4 billion and RMB728.2 billion, respectively, representing a growth rate of approximately 6.2%. Such increase was mainly attributable to (i) the increase in revenue from construction contracts; and (ii) the increase in revenue from real estate development and investment.

LETTER FROM RED SUN

1.3 Principal activities of the CSC Group

As stated in the Letter from the Board, the CSC Group is principally engaged in construction business, infrastructure investments and prefabricated constructions.

According to the annual report of CSC for the year ended 31 December 2019, revenue for the year ended 31 December 2018 and 2019 was approximately HK\$55.6 billion and HK\$61.7 billion, respectively, representing a growth rate of approximately 11.0%. Such increase was mainly attributable to (i) the increase in revenue generated from the CSC Group's infrastructure investment projects from approximately HK\$29.3 billion for the year ended 31 December 2018 to approximately HK\$31.0 billion for the year ended 31 December 2019; and (ii) the increase in revenue generated from the CSC Group's construction contracts from approximately HK\$22.0 billion for the year ended 31 December 2018 to approximately HK\$26.3 billion for the year ended 31 December 2019.

According to the interim report of CSC for the six months ended 30 June 2020, revenue for the six months ended 30 June 2019 and 2020 was approximately HK\$27.5 billion and HK\$28.0 billion, respectively, representing a growth rate of approximately 1.8%. Such increase was mainly attributable to the increase in revenue generated from the CSC Group's infrastructure investment projects from approximately HK\$12.9 billion for the six months ended 30 June 2019 to approximately HK\$13.8 billion for the six months ended 30 June 2020. Revenue generated from construction contracts and infrastructure investment projects accounted for approximately 43.5% and 49.4% of the CSC Group's total revenue for the six months ended 30 June 2020, respectively.

Based on the respective annual reports, the CSCECL Group derived its revenue mainly from the PRC and the CSC Group derived its revenue largely from the PRC and Hong Kong.

1.4 Overview of the economy and building construction activities

The PRC

As extracted from the data of The World Bank, the gross domestic product (the "GDP") of the PRC recorded a year-on-year increase of approximately 6.8% and 6.6% in 2017 and 2018, respectively. As extracted from the website of the National Bureau of Statistics of China (the "NBS") at <http://data.stats.gov.cn>, the total output value of the construction industry in the PRC has increased year-on-year by approximately 10.5% and 9.9% in 2017 and 2018, respectively.

LETTER FROM RED SUN

The table below shows a summary of the PRC's urbanisation levels from 2015 to 2019:

	2015	2016	2017	2018	2019
Total population (in millions)	1,347.6	1,382.7	1,390.1	1,395.4	1,400.1
Urban population (in millions)	771.2	793.0	813.5	831.4	848.4
Urbanisation rate (%)	56.1%	57.3%	58.5%	59.6%	60.6%

Source: NBS

The table below shows a summary of the PRC's disposable income of urban households per capita from 2015 to 2019:

	2015	2016	2017	2018	2019
Per Capita Disposable Income of Urban Households (RMB)	31,195	33,616	36,396	39,251	42,359

Source: NBS

According to the information set out in the website of the NBS, the annual disposable income per capita of urban households in the PRC increased from approximately RMB36,396 in 2017 to approximately RMB39,251 in 2018 and further increased to approximately RMB42,359 in 2019, representing a year-on-year increase of approximately 7.8% and 7.9%, respectively.

In addition, we also noted that promotion of urbanisation remains one of the main objectives of the PRC government under its thirteenth five-year plan (十三五規劃), which sets out the overall direction of PRC governmental policies from 2015 to 2020. Pursuant to the thirteenth five-year plan, the PRC government has set the target for the percentage of permanent urban residents at 60% by 2020, an increase from approximately 56.1% recorded at the beginning of the thirteenth five year. The urbanisation rate reached 60.6% in 2019 according to the NBS.

The urbanisation rate and income per capita in the PRC have increased steadily in recent years, which, in turn, has contributed towards a sustainable growth potential of PRC's construction industry.

Hong Kong

In Hong Kong, according to data published by the Census and Statistics Department of the Hong Kong Government, the GDP recorded year-on-year growth of approximately 6.9% and 6.9% in 2017 and 2018, respectively. The gross value of construction works performed by main contractors increased by 3.7% in nominal terms in the second quarter of 2019 compared with the first quarter of 2019. It further increased by 5.0% in the third quarter of 2019 compared with the second quarter of 2019.

LETTER FROM RED SUN

Public and private sector demand for residential buildings is the key driver of the construction industry in Hong Kong. According to the Chief Executive's 2019 Policy Address (the "**Policy Address**"), the government will set aside HK\$5 billion to increase the number of transitional housing projects substantially to provide a total of 10,000 units within the next three years. Furthermore, the Housing Authority established a Housing Construction Program from 2019/20 to 2023/24 to produce 95,300 public residential units. As a result, the supply of residential buildings is expected to increase. As for the private property sector, it has been benefited from the raising cap on the value of the properties eligible for a mortgage loan of maximum cover of 90% loan-to-value ratio from HK\$4 million to HK\$8 million for first-time home buyers under the Mortgage Insurance Program of the Hong Kong Mortgage Corporation Insurance Limited, which is also part of the housing policy of the Policy Address. Moreover, based on the statistics by the Rating and Valuation Department, the provisional figures of completions of private domestic unit for the eight months ended 31 August 2020 is 13,076 units while the completions of private domestic unit for the year ended 31 December 2019 is 13,600 units.

2. New CSCD-CSCECL Sub-construction Engagement Agreement

2.1 Principal terms of the New CSCD-CSCECL Sub-construction Engagement Agreement

Pursuant to the New CSCD-CSCECL Sub-construction Engagement Agreement, the CSCECL Group may engage the Group as its subcontractors or service provider (as the case may be) for provision of CSCECL Works from time to time for a term of three years commencing from 1 January 2021 and ending on 31 December 2023 subject to the CSCECL Works Caps.

Details of the terms of the New CSCD-CSCECL Sub-construction Engagement Agreement, including the pricing basis of the Group's tenders submitted to the CSCECL Group, are set out in the section headed "New CSCD-CSCECL Sub-construction Engagement Agreement" in the Letter from the Board.

2.2 Reasons for and benefits of entering into the New CSCD-CSCECL Sub-construction Engagement Agreement

The Directors consider that the transactions contemplated under the New CSCD-CSCECL Sub-construction Engagement Agreement will allow the Company to maximise profits and by being able to participate in the CSCECL Works upon successful tender, the Group can secure a more diverse base of customers, thereby expanding its market reach. As for the CSCECL Group, it can leverage on the Group's extensive experience and expertise in landmark facade projects of skyscrapers to increase construction efficiency. In addition, given the satisfactory cooperation between CSCECL and the Company pursuant to the Previous CSCD-CSCECL Sub-construction Engagement Agreement, the continuation of the longstanding and established business relationship between CSCECL and the Company will bring synergy effect to both CSCECL and the Company, thereby facilitating the expansion of the Group's businesses.

LETTER FROM RED SUN

The Directors consider that the CSCECL Works Transactions contemplated under the New CSCD-CSCECL Sub-construction Engagement Agreement are expected to be entered into in the ordinary and usual course of business of the Group and on normal commercial terms after arm's length negotiations between the parties, and the terms of the CSCECL Works Transactions contemplated under the New CSCD-CSCECL Sub-construction Engagement Agreement (together with the CSCECL Works Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We understand from the Management that the Company expects that the CSCECL Group will continue to engage the Group as its subcontractor or service provider (as the case may be) for provision of CSCECL Works from time to time.

Taking into account the principal businesses of the Group and the CSCECL Group and to ensure the continuation for the CSCECL Group to engage the Group as its subcontractor for provision of CSCECL Works from time to time, we concur with the Management that the entering into the New CSCD-CSCECL Sub-construction Engagement Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

2.3 Internal procedures and pricing basis

In connection with our works performed on assessing whether the terms under the New CSCD-CSCECL Sub-construction Engagement Agreement are fair and reasonable, we have reviewed the internal standard and systematic tender procedures of the Group governing the tendering process (市場營銷管理工作程序) which set out, among others, standard procedures for tenders covering areas, such as (i) receiving invitations to tender; (ii) initial assessment of tender documents; (iii) further planning and estimation; (iv) preparation for tender report and internal tender adjudication; and (v) tender submission (the “**Tender Submission Procedures**”).

In preparing and assessing the tender documents, the Group will take into account factors including technical requirements, quantity specifications, expected completion time, customer's expectations and possible risk factors associated with a project. The Group will then perform site inspection, formulate a tentative construction program and conduct quantitative costs analysis and risk assessment.

In determining the pricing terms, the Group will review the costs information maintained by its in-house computer database for materials supplied and contract prices from subcontractors for the Group's previous projects and peripheral operation. Such information will assist the Group in implementing quantitative comparison between preliminary quotations obtained from subcontractors and materials suppliers.

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The Group will also review and compare previous tender prices submitted to both connected persons and independent third parties, so as to ensure that the tender price to be submitted is no more favourable to the CSCECL Group, and no less favourable to the Group, than those submitted to independent third parties.

Where the Group participates in a tender with all bidders (including independent third parties in the market), the Group will follow the above standard and systematic Tender Submission Procedures and the winning bid of which will be the one with the lowest tender amount in accordance with the tender procedures of the CSCECL Group on the condition that the bidder also satisfies all other essential requirements (including but not limited to relevant experience, capability, historical relationship and track records) as set out in the bid invitation.

We have discussed with the Management and reviewed five random sample sets of preliminary analysis for tender and formal tenders submitted for the year ended 31 December 2019 taking into account the following factors, including (i) relatively sizeable tender sum being exceeded HK\$35 million; (ii) the subject construction projects being carried out in the PRC; and (iii) the tenders submitted by the Group being within the three-year term commencing from 1 January 2018 and ending 31 December 2020 under the Previous CSCD-CSCECL Sub-construction Engagement Agreement, among which, three sample sets of preliminary analysis for tender and formal tenders were submitted to connected persons while the remaining two sample sets of preliminary analysis for tender and formal tenders were submitted to independent third parties. Based on our review of the aforesaid sample tenders submitted, we noted that the sampled tenders submitted to connected persons were reviewed against the stated procedures under the Tender Submission Procedures, being the same prescribed procedures applicable to the sampled tenders submitted to independent third parties.

As set out in the 2019 Annual Report, the Group will continue to adopt the operational strategy of “big markets, big landlords, big projects”, adhere to the business philosophy of “closely focusing on high-end markets and providing high-quality services”, integrate advantageous resources, improve its operational and management and control models by taking into consideration the features of various markets, and optimise business deployment. It will further dive into the Hong Kong and Macau markets and participate in the competition in the North America and Mainland China markets with sustainable strategies. The Group will sharpen its integrated competitive edges in its curtain wall business. We also noted from the 2019 Annual Report that the newly awarded contract value of the Group’s core curtain wall business reached a record high, while the general contracting business developed steadily and the operating management business in the PRC progressed smoothly.

As set out in the CSCECL 2019 Annual Report, CSCECL ranked 21st on Fortune Magazine’s Top 500 companies. Given the profile and reputation of CSCECL, a sizeable and established PRC construction company, the shares of which are listed on the Shanghai Stock Exchange, the Management is of the view that given the size of CSCECL’s projects, the Group, if continue to be engaged as a subcontractor by CSCECL, is likely to participate in more sizeable and upscale projects.

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Having considered that (i) the Group's intention to tender for provision of CSCECL Works from time to time; (ii) the engagement as a subcontractor by CSCECL will enable the Group to participate in sizeable projects; and (iii) the pricing basis under the New CSCD-CSCECL Sub-construction Engagement Agreement, in particular, the prices and terms of the tenders shall follow the Tender Submission Procedures, which also applies to the tenders to independent third party, we concur with the Directors' view that the entering into the New CSCD-CSCECL Sub-construction Engagement Agreement is in the ordinary and usual course of business of the Group, the terms of which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

2.4 Basis for determining the CSCECL Works Caps

Set out below are (i) the historical contract sums of the CSCECL Works provided by the Group for each of the two years ended 31 December 2019 and the six months ended 30 June 2020 and the utilisation rate of the annual caps pursuant to the Previous New CSCD-CSCECL Sub-construction Engagement Agreement; and (ii) the CSCECL Works Cap for each of the three years ending 31 December 2023:

Historical Contract Sum^(Note 1)			CSCECL Works Cap		
For the year ended		For the six	For the year ending		
31 December		months ended	31 December		
2018	2019	30 June	2021	2022	2023
2018	2019	2020	2021	2022	2023
HK\$138.1	HK\$164.2	HK\$50.5	HK\$1,000	HK\$1,000	HK\$1,000
million	million	million	million	million	million
13.8% of the	16.4% of the	5.1% of the			
annual cap	annual cap	annual cap			
<i>(Note 2)</i>	<i>(Note 2)</i>	<i>(Note 2)</i>			

Notes:

1. The historical contract sums of the CSCECL Works provided by the Group under the Previous CSCD-CSCECL Sub-construction Engagement Agreement;
2. The utilisation rate is based on the respective annual cap for the three years ending 31 December 2020 of HK\$1,000 million under the Previous CSCD-CSCECL Sub-construction Engagement Agreement.

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As set out in the Letter from the Board, the CSCECL Works Cap is calculated with reference to, amongst others, the following factors:

- (a) for the financial year ending 31 December 2021 is determined with reference to (i) the total contract sums of the CSCECL Works provided by the Group of HK\$138,143,086 for the financial year ended 31 December 2018, HK\$164,185,993 for the financial year ended 31 December 2019 and HK\$50,505,812 for the six months ended 30 June 2020; and (ii) five tenders in relation to five residential/commercial construction projects submitted by the Group to the ultimate employers in the second half of 2020 for subcontract works with a total contract sum of HK\$552 million where the CSCECL Group is the main contractor of the projects and one tender in relation to a commercial construction project submitted by the Group to the CSCECL Group in the second half of 2020 for subcontract work with a contract sum of HK\$260 million, and where, upon successful tender, the contracts will be awarded to the Group in 2021;
- (b) for the financial year ending 31 December 2022 is determined with reference to (i) the CSCECL Group's construction works plan and the subcontract projects under negotiation with the CSCECL Group which the Group expects that six potential residential/commercial construction projects may be available for tender by the Group for subcontract works with an estimated total contract sum of HK\$840 million in 2021; and (ii) the current land reserves of the property developers in the PRC which the Group expects that four residential/commercial construction projects with an estimated total contract sum of HK\$508 million may be available for tender by the Group in 2021, and where, upon successful tender, the contracts will be awarded to the Group in 2021 and 2022; and
- (c) for the financial year ending 31 December 2023 is determined with reference to the Group's projection of the future growth and expansion of its businesses based on the historical contract sums of the CSCECL Works provided by the Group the period between 1 January 2018 and 30 June 2020 and the potential projects available for tender by the Group as set out in paragraphs (a) and (b) above, which represents more than 80% and 130% of their respective annual caps and indicates an increasing trend in the potential projects available for tender by the Group and accordingly, the estimated total contract sums of the CSCECL Works.

We noted that the historical contract sum paid by CSCECL to the Group in relation to the provision of CSCECL Works for the two years ended 31 December 2019 and six months ended 30 June 2020 amounted to approximately HK\$138.1 million, HK\$164.2 million and HK\$50.5 million, representing an utilisation rate of approximately 13.8%, 16.4% and 5.1% of the respective cap of HK\$1,000 million under the Previous CSCD-CSCECL Sub-construction Engagement Agreement. Based on our discussion with the Management, we were advised that the low utilisation rate for the year ended 31 December 2019 and six months ended 30 June 2020 was mainly due to the fact that (i) the tenders in relation to the provision of CSCECL Works submitted to CSCECL by the Group reduced; and (ii) the contract sum of the construction projects in relation to the CSCECL works which were successfully tendered by the Group reduced, which together, reduced works opportunities for the Group, to act as subcontractor of the CSCECL Group for the provision of CSCECL Works.

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In assessing the fairness and reasonableness of the CSCECL Works Cap, we have reviewed and discussed with the Management a schedule setting out a list of potential new construction projects tendered/to be tendered by the Group for the second half of 2020 to 31 December 2021, which upon successful tender, the contracts will be awarded to the Group in 2021 and 2022, for the provision of CSCECL Works under the New CSCD-CSCECL Sub-construction Engagement Agreement. The aforesaid schedule includes six potential projects for tender in the second half of 2020, assuming the tenders of the potential projects are accepted by the CSCECL Group or the ultimate employers (as the case may be), the contracts will be awarded to the Group in 2021. Among these six potential projects, (i) three projects had an estimated contract amount below RMB100 million; (ii) two projects had an estimated contract amount between RMB100 million and RMB200 million; and (iii) the remaining one project had an estimated contract amount exceeding RMB200 million, with an aggregate contract sum to be awarded or tendered for of approximately HK\$812 million, representing approximately 81.2% of the CSCECL Works Cap for the year ending 31 December 2021 which forms the basis to determine the annual cap for the year ending 31 December 2021.

The aforesaid schedule also includes ten potential projects for tender for the year ending 31 December 2021, assuming the tenders of the potential projects are accepted by the CSCECL Group or the ultimate employers (as the case may be), the contracts will be awarded to the Group in 2021 and 2022. Among these ten potential projects, (i) four projects had an estimated contract amount below RMB100 million; (ii) five projects had an estimated contract amount between RMB100 million and RMB200 million; and (iii) the remaining one project had an estimated contract amount exceeding RMB200 million, with an aggregate contract sum to be awarded or tendered for of approximately HK\$1.3 billion, representing more than 130% of the CSCECL Works Cap for the year ending 31 December 2022, exceeding the annual cap for the year ending 31 December 2022. We also understand from the Management that the CSCECL Works Cap for the year ending 31 December 2023 are determined based on the CSCECL Works Caps for the year ending 31 December 2021 and 2022.

Besides, the schedule for the list of potential new construction projects tendered/to be tendered by the Group for the second half of 2020 to 31 December 2021 under which the contracts will be awarded to the Group in 2021 and 2022, is not exhaustive. Hence, the schedule setting out the potential new construction projects is only based on information currently available to the Group.

Whilst there is no available data to compile a meaningful list of potential construction projects which the Group may or may not tender for the year ending 31 December 2022, under which the contracts will be awarded to the Group in 2022 and 2023, based on our discussions with the Management, it is common in the construction industry to invite potential main contractors/sub-contractors to tender construction projects within one to two years prior to the commencement of work in the construction sites. Based on the past experience of the Management, for potential new construction projects to commence work for the year ending 31 December 2023, such projects will be available for tenders at a later stage (i.e. in 2021 or 2022).

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Having considered the general nature of the timing for tendering progress in the construction industry as mentioned above as well as taking into the basis to determine the CSCECL Works Caps, in particular, the estimated total contract sums for potential new construction projects for the two years ending 31 December 2022 already represent more than 80% and 130% of the respective annual caps, we concur with the Management that that it is reasonable to determine the CSCECL Works Cap for each of the three years ending 31 December 2023 should be consistently set at HK\$1,000 million.

Taking into account that (i) the estimated total contract sum for potential new construction projects, subject to successful tender, for the year ending 31 December 2021 already reaches more than 80% of the annual cap for the year ending 31 December 2021; (ii) the estimated total contract sum for the potential new construction projects, subject to successful tenders, already more than 30.0% of annual cap for the year ending 31 December 2022 whereas we understand from the Management that in the event that all tenders of the potential new construction projects are accepted by the CSCECL Group or the ultimate employers (as the case may be), the Company will need to re-comply with Listing Rules or certain projects might need to roll-over to the following year (i.e. in the year ending 31 December 2023); and (iii) the increasing trend as to the potential projects available for tender by the Group, accordingly, we concur with the Management that it is reasonable to use the estimated contract sums of potential projects available for the two years ending 31 December 2022 as the basis to determine the annual cap for the year ending 31 December 2023.

We also note that the estimation of which is based on the expected scope and scale of works as well as the prevailing market prices of relevant construction materials and subcontracting charges. We understand from the Management that aforesaid potential construction projects are currently subject to successful tenders or negotiation, accordingly, the Group may or may not be awarded with any of the contracts. As such, the utilisation of the CSCECL Works Caps shall depend on, among others, the relevant contracts being awarded and undertaken by the Group during the relevant period.

Notwithstanding the relatively low historical utilization rates for the two years ended 31 December 2019 and the six months ended 30 June 2020, having considered (i) the potential projects which might engage the Group as subcontractor or service provider (as the case maybe) of the CSCECL Group for the provision of CSCECL Works; (ii) the basis and assumption for the calculation of the CSCECL Works Caps, in particular, the estimated contract sums for the two years ending 31 December 2022, representing approximately 81.2% and 134.8% of the respective annual caps under the New CSCD-CSCECL Sub-construction Engagement Agreement; (iii) the proposed annual caps for the three years ending 31 December 2021, 2022 and 2023, if approved, would generate more revenue to the Group and facilitate the CSCECL Works Transactions to be conducted in an effective and efficient manner; and (iv) the estimated contract sum for potential projects available for the two years ending 31 December 2022 as the basis for determining the CSCECL Works Cap for the year ending 31 December 2023, we concur with the Management that the CSCECL Works Cap is fair and reasonable.

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Nevertheless, the Shareholders are advised that the CSCECL Works Caps represent the best estimates by the Directors of the amount of the relevant transaction based on the information currently available. The CSCECL Works Caps bear no direct relationships to, nor should be taken to have any direct bearings to, the Group's financial or potential financial performance.

3. New CSCD-CSC Operational Services Agreement

3.1 Principal terms of the New CSCD-CSC Operational Services Agreement

Pursuant to the New CSCD-CSC Operational Services Agreement, (1) the Group may engage the CSC Group as subcontractor of the Group for provision of mechanical and electrical engineering works for the Group's construction works subject to the Mechanical and Electrical Engineering Works Caps; (2) the Group may lease machineries from the CSC Group subject to the Machineries Leasing Caps; (3) the Group may engage the CSC Group to provide insurance services to the Group and issue surety bonds for the Group's construction works subject to the Insurance Services and Surety Bonds Caps; and (4) the CSC Group may supply building materials to the Group subject to the Supply of Building Materials Caps.

The New CSCD-CSC Operational Services Agreement shall commence from 1 January 2021 and ending on 31 December 2023.

Details of the terms of the New CSCD-CSC Operational Services Agreement, including the pricing basis, are set out in the section headed "New CSCD-CSC Operational Services Agreement" in the Letter from the Board.

3.2 Reasons for and benefits of entering into the New CSCD-CSC Operational Services Agreement

As stated in the Letter from the Board, the CSC Works Transactions contemplated under the New CSCD-CSC Operational Services Agreement are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group, as well as the CSC Group.

The CSC Group with profound experience in building construction and solid financial standing have demonstrated itself as professional and reliable contractor and supplier to its customers and the maintenance of a strategic business relationship with the CSC Group will allow the Group to secure a more diverse base of contractors and suppliers and by having diverse contractors/suppliers in the network, the Group can earn competitive advantages by ensuring its contractors/suppliers offer more competitive pricing and services, reducing the risk of delay in project delivery, and boosting the performance of the contractors/suppliers to meet complex and demanding business needs, thereby facilitating the expansion of the Group's businesses.

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3.3 *Internal procedures and pricing basis*

In connection with our works performed on assessing whether the terms under the New CSCD-CSC Operational Services Agreement are fair and reasonable, we have reviewed the pricing policy of the New CSCD-CSC Operational Services Agreement and the material procurement standard procedures (物資採購工作程序) of the Group (the “**Material Procurement Standard Procedures**”), which sets out the requirement that at least three contractors/vendors/service providers/suppliers should be shortlisted from a list of pre-approved contractors/vendors/service providers/suppliers and that the contract should be awarded to the contractors/vendors/service providers/suppliers with the lowest quotation provided that such contractors/vendors/service providers/suppliers satisfy all other essential requirements (including but not limited to relevant experience, qualities and specifications of materials and track records).

In addition, we have obtained and reviewed a total of 13 random samples of historical tender award approval forms (分判工程定判審批表), which contained analysis on tenders/quotations submitted by independent third parties and/or connected persons to the Group under the Previous CSCD-CSC Operational Services Agreements (the “**Samples**”), taking into account the following factors, including (i) the subject construction projects being carried out in Hong Kong; and (ii) the tenders/quotations submitted to the Group being within the three-year term commencing from 1 January 2018 and ending 31 December 2020 under the Previous CSCD-CSC Operational Services Agreement. The Samples covered historical transactions in relation to (i) the provision of mechanical and electrical engineering works; (ii) the leasing of machineries; (iii) the provision of insurance services; and (iv) the supply of building materials. Based on the Samples reviewed, we noted that the Samples involving analysis on tenders/quotations submitted by connected persons were reviewed against the stated procedures under the Material Procurement Standard Procedures, being the same prescribed procedures applicable to the Samples involving analysis on tenders/quotations submitted by independent third parties.

Having considered that (i) it is the Group’s stated strategy to explore general contracting projects opportunities; (ii) the transactions contemplated under the New CSCD-CSC Operational Services Agreement would continue to facilitate the Group’s existing businesses; (iii) the quality of works and/or services to be provided by the CSC Group would be of a satisfactory standard to the Group; and (iv) the stated pricing basis under the New CSCD-CSC Operational Services Agreement, in particular, the prices and terms of the contracts to be awarded by the Group to the CSC Group under the New CSCD-CSC Operational Services Agreement shall be at prices and on terms no more favourable than those awarded to the independent third parties, we concur with the Directors’ view that the entering into the New CSCD-CSC Operational Services Agreement is in the ordinary and usual course of business of the Group, the terms of which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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3.4 Basis for determining the CSC Works Caps

Set out below are (i) the historical transaction amounts in connection with the transactions contemplated under the Previous CSCD-CSC Operational Services Agreement for each of the two years ended 31 December 2019 and the six months ended 30 June 2020 and the utilisation rate of their respective annual caps; and (ii) the CSC Works Caps for each of the three years ending 31 December 2023:

	Historical Transaction Amounts ^(Note 1)			CSC Works Cap		
	For the year ended		For the six	For the year ending		
	31 December	31 December	months ended	31 December		
	2018	2019	30 June	2021	2022	2023
- Mechanical and Electrical Engineering Works Caps	-	-	-	HK\$450 million	HK\$450 million	HK\$450 million
- Machineries Leasing Caps	HK\$7.0 million	HK\$6.0 million	HK\$1.4 million	HK\$25 million	HK\$25 million	HK\$25 million
	28.0% of the annual cap <i>(Note 2)</i>	24.0% of the annual cap <i>(Note 2)</i>	5.6% of the annual cap <i>(Note 2)</i>			
- Insurance Services and Surety Bonds Caps	HK\$24.8 million	HK\$13.1 million	HK\$7.2 million	HK\$70 million	HK\$70 million	HK\$70 million
	35.4% of the annual cap <i>(Note 3)</i>	18.7% of the annual cap <i>(Note 3)</i>	10.3% of the annual cap <i>(Note 3)</i>			
- Supply of Building Materials Caps	HK\$5.5 million	HK\$5.6 million	HK\$3.3 million	HK\$150 million	HK\$150 million	HK\$150 million
	3.7% of the annual cap <i>(Note 4)</i>	3.7% of the annual cap <i>(Note 4)</i>	2.2% of the annual cap <i>(Note 4)</i>			

Notes:

- The historical transaction amounts under the Previous CSCD-CSC Operational Services Agreement.
- The utilisation rate is based on the respective annual cap for the three years ending 31 December 2020 of HK\$25 million under the Previous CSCD-CSC Operational Services Agreement.
- The utilisation rate is based on the respective annual cap for the three years ending 31 December 2020 of HK\$70 million under the Previous CSCD-CSC Operational Services Agreement.
- The utilisation rate is based on the respective annual cap for the three years ending 31 December 2020 of HK\$150 million under the Previous CSCD-CSC Operational Services Agreement.

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3.4.1 Mechanical and Electrical Engineering Works Caps

As set out in the Letter from the Board, the Mechanical and Electrical Engineering Works Caps are calculated with reference to the following factors:

- (a) for the financial year ending 31 December 2021 is determined with reference to the general contracting work contract in the amount of HK\$1,766 million being secured by the Group in the first half of 2020 and two potential private residential/commercial construction projects available from property developers in Hong Kong with an estimated total contract sum of HK\$2.8 billion that the Group may tender for in the second half of 2020 and where, upon successful tender, contracts for the provision of mechanical and engineering works may be tendered by, and awarded to, prospective subcontractors of the Group in 2021;
- (b) for the financial year ending 31 December 2022 is determined with reference to the current land reserves of the property developers in Hong Kong which the Group expects that four potential private residential/commercial construction projects with an estimated total contract sum of HK\$6.0 billion may be available for tender by the Group in 2021 and where, upon successful tender, contracts for the provision of mechanical and engineering works may be tendered by, and awarded to, prospective subcontractors of the Group in 2022; and
- (c) for the financial year ending 31 December 2023 is determined with reference to (i) the current land reserves of the property developers in Hong Kong which the Group expects that one potential commercial construction project with an estimated contract sum of HK\$1.2 billion may be available for tender by the Group in 2022 and where, upon successful tender, contract for the provision of mechanical and engineering works may be tendered by, and awarded to, prospective subcontractors of the Group in 2023; and (ii) the government's initiative to increase the housing land supply and the assessment of the annual average completion of about 18,800 private residential units from 2019 to 2023 as stated in the Chief Executive's 2019 Policy Address which the Group expects that the demand for private housing construction will remain steady.

The CSC Group was not engaged by the Group to provide any mechanical and electrical engineering works in the two financial years ended 31 December 2019 and in the period from 1 January 2020 to 30 June 2020 as the CSC Group had neither identified any suitable projects from the Group's construction works nor successfully been nominated by ultimate employers as nominated subcontractor through tenders submitted directly to the ultimate employers during the said period.

As set out in the Letter from the Board, the Mechanical and Electrical Engineering Works Caps are determined with reference to the estimated contract sum of the mechanical and electrical engineering works which is calculated based on a percentage of the estimated contract sum of the new construction projects of the Group.

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In this connection, in addition to the new general contracting work awarded to the Group (where the provision of mechanical and electrical engineering works will be required) with contract value of HK\$1,766 million in the first half of 2020 as mentioned above, we have reviewed and discussed with the Management a schedule setting out a list of potential new construction projects tendered/to be tendered by the Group for the second half of 2020 and two years ending 31 December 2022 (the “**Schedule**”). We understand from the Management that the projects set out in the Schedule require provision of mechanical and electrical engineering works, assuming the projects set out in the Schedule will be subsequently awarded to the Group by the relevant property developers, the contract for the provision of mechanical and engineering works may be tendered by, and awarded to, prospective subcontractors of the Group from 2021 to 2023. The Schedule includes (i) two potential projects with an aggregate estimated total contract amount of approximately HK\$2.8 billion for the second half of 2020, which upon successful tender, assuming that contracts for the provision of mechanical and engineering works may be tendered by and awarded to the respective subcontractors of the Group in 2021; (ii) four potential projects with an aggregate estimated total contract amount of approximately HK\$6.0 billion for the year ending 31 December 2021, which upon successful tender, assuming that contracts for the provision of mechanical and engineering works may be tendered by and awarded to the respective subcontractors of the Group in 2022; and (iii) one potential project with an estimated contract amount of approximately HK\$1.2 billion for the year ending 31 December 2022, which upon successful tender, assuming that contracts for the provision of mechanical and engineering works may be tendered by and awarded to the respective subcontractors of the Group in 2023, which forms the basis to determine the CSC Works Caps.

As set out in the Letter from the Board, assuming 50% of the tenders for new construction projects will be secured by the Group (which is determined with reference to the general contracting work contract in the amount of HK\$1,766 million already secured by the Group for the first half of 2020, representing approximately 39% of the contract sum of construction projects tendered by the Group in 2020, and taking into account uncertainties about the actual time for project tender as well as contract award and the suitability of the Group as contractor for the projects), and with reference to the costs of mechanical and electrical engineering works incurred/estimated from previous completed or yet to be completed projects of a similar nature, which is in a range of 5% to 20% of the total contract sum, depending on the scale and complexity of the projects, the Mechanical and Electrical Engineering Works Caps for each of the three financial years ending 31 December 2023 is set at HK\$450 million. In the event that the Mechanical and Electrical Engineering Works Caps are exceeded, the Company will need to re-comply with Listing Rules or certain projects might need to roll-over to the following year. Accordingly, the Mechanical and Electrical Engineering Works Cap for the year ending 31 December 2023 is determined with reference to the estimated contract sums for the provision of mechanical and electrical engineering works for the two years ending 31 December 2022.

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Based on our discussion with the Management, the Schedule for the list of potential new construction projects tendered/to be tendered by the Group for the second half of 2020 to 31 December 2022, is not exhaustive. Hence, the Schedule setting out the potential new construction projects is only based on information currently available to the Group. In addition, on a prudent basis, the Management has applied a 50% of the tenders to be secured by the Group for new constructions projects as the basis to calculate the estimated contract sum.

Given (i) the general contracting work contract in the amount of HK\$1,766 million already secured by the Group for the first half of 2020, representing approximately 39% of the contract sum of construction projects tendered/to be tendered by the Group in 2020; and (ii) two potential projects with an aggregate estimated contract amount of approximately HK\$2.8 billion for the second half of 2020, and by applying a 50% of the tenders to be secured, i.e. HK\$1.4 billion, which upon successful tender, representing approximately 31% of the contract sum of construction projects tendered/to be tendered by the Group in 2020, in aggregate, representing approximately 70% of the contract sum of construction projects tendered/to be tendered by the Group in 2020, we concur with the Management that applying 50% of the tenders for new construction projects to be secured by the Group, on a prudent basis, to be reasonable.

We noted that the estimated contract sum of the mechanical and electrical engineering works, which is calculated based on a percentage of the estimated contract sum of the new construction projects of the Group. As discussed with the Management, the Management determined such percentage with reference to the costs of mechanical and electrical engineering works incurred/estimated from previous completed or yet to be completed projects of a similar nature, being historical total cost of mechanical and electrical engineering works incurred/estimated from subcontractors divided by the total contract sum of the projects of the Group which required mechanical and electrical engineering works from subcontractors for the three years ended 31 December 2019, which ranged from in range of 5% to 20% of the total contract sum, depending on the scale and complexity of the projects. The Management advised that such range is attributable to the nature of the respective scope of the contracts. We have reviewed a schedule setting out the aforesaid reference of the costs of mechanical and electrical engineering works incurred/estimated from previous completed or yet to be completed projects of a similar nature of the Group and noted that the range for such projects is in line with the above-mentioned range of 5% to 20% estimated by the Management.

Taking into account that (i) the estimated contract sums for the provision of mechanical and engineering works may be awarded to the respective subcontractors of the Group for the three years ending 31 December 2023; (ii) 50% of the tenders for new construction projects is estimated to be secured by the Group on a prudent basis; and (iii) the percentage on costs of mechanical and electrical engineering works incurred/estimated from previous completed or yet to be completed projects of a similar nature, we note that the estimated contract sum for the provision of mechanical and engineering works is in line with the Mechanical and Electrical Engineering Works Caps.

In addition, as set out in the Letter from the Board, in the event that the Mechanical and Electrical Engineering Works Caps are exceeded, the Company will need to re-comply with Listing Rules or certain projects might need to roll-over to the following year, accordingly, we concur with the Management that it is reasonable to use the estimated contract sums for the provision of mechanical and electrical engineering works for the two years ending 31 December 2022 as the basis to determine the Mechanical and Electrical Engineering Works Cap for the year ending 31 December 2023.

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Notwithstanding the CSC Group was not engaged by the Group to provide any mechanical and electrical engineering works for the two years ended 31 December 2019 and in the period from 1 January 2020 to 30 June 2020, we concur with the Management that the Mechanical and Electrical Engineering Works Caps are fair and reasonable due to the fact that (i) mechanical and electrical engineering works will be a furtherance to the Group's business; (ii) the aggregate estimated contract amount of potential new construction projects tendered/to be tendered by the Group for the second half of 2020 and two years ending 31 December 2022 as set out in the Schedule is approximately HK\$10.0 billion; (iii) 50% of the tenders for new construction projects is estimated to be secured by the Group on a prudent basis; (iv) it would provide the Group the flexibility but not the obligation to engage the CSC Group for mechanical and electrical works; and (v) it would avoid undue delay in the mechanical and electrical engineering works which the Group wishes to engage the CSC Group. We understand from the Management that aforesaid potential new construction projects are currently subject to successful tenders or negotiation, accordingly, the Group may or may not be awarded with any of the contracts. As such, the utilisation of the Mechanical and Electrical Engineering Works Caps shall depend on, among others, the relevant contracts being awarded and undertaken by the Group during the relevant period.

3.4.2 Machineries Leasing Caps

As set out in the Letter from the Board, the Machineries Leasing Caps are calculated with reference to the following factors:

- (a) for the financial year ending 31 December 2021 is determined with reference to (i) the total rents in relation to the leasing of machineries paid by the Group to the CSC Group of HK\$6,998,329 for the financial year ended 31 December 2018, HK\$6,042,996 for the financial year ended 31 December 2019 and HK\$1,443,118 for the six months ended 30 June 2020; and (ii) the general contracting work contract in the amount of HK\$1,766 million being secured by the Group in the first half of 2020 and two potential private residential/commercial construction projects available from property developers in Hong Kong with an estimated total contract sum of HK\$2.8 billion that the Group may tender for in the second half of 2020 and where, upon successful tender, the construction works that require the leasing of machineries will be carried out by the Group in 2021;
- (b) for the financial year ending 31 December 2022 is determined with reference to the current land reserves of the property developers in Hong Kong which the Group expects that four potential private residential/commercial construction projects with an estimated total contract sum of HK\$6.0 billion may be available for tender by the Group in 2021 and where, upon successful tender, the construction works that require the leasing of machineries will be carried out by the Group in 2022; and

LETTER FROM RED SUN

- (c) for the financial year ending 31 December 2023 is determined with reference to (i) the current land reserves of the property developers in Hong Kong which the Group expects that one potential commercial construction project with an estimated contract sum of HK\$1.2 billion may be available for tender by the Group in 2022 and where, upon successful tender, the construction works that require the leasing of machineries will be carried out by the Group in 2023; and (ii) the government's initiative to increase the housing land supply and the assessment of the annual average completion of about 18,800 private residential units from 2019 to 2023 as stated in the Chief Executive's 2019 Policy Address which the Group expects that the demand for private housing construction will remain steady.

As set out in the Letter from the Board, the Machineries Leasing Caps are determined with reference to the estimated costs in respect of leasing of machineries which are calculated based on a percentage of the estimated contract sum of the new construction projects of the Group.

In addition to the new general contracting work awarded to the Group (where the machineries leasing will be required) with contract value of HK\$1,766 million in the first half of 2020 as mentioned above, we have reviewed and discussed with the Management in relation to the Schedule, setting out a list of potential new construction projects tendered/to be tendered by the Group for the second half of 2020 and two years ending 31 December 2022. We understand from the Management that the projects set out in the Schedule require the leasing of machineries, assuming the projects set out in the Schedule will be subsequently awarded to the Group by the relevant property developers, the construction works that require the leasing of machineries will be carried out by the Group from 2021 to 2023.

As set out in the Letter from the Board, assuming 50% of the tenders for new construction projects will be secured by the Group (which is determined with reference to the general contracting work contract in the amount of HK\$1,766 million already secured by the Group for the first half of 2020, representing approximately 39% of the contract sum of construction projects tendered by the Group in 2020, and taking into account uncertainties about the actual time for project tender as well as contract award and the suitability of the Group as contractor for the projects), and with reference to the costs of leasing machineries incurred/estimated from previous completed or yet to be completed projects of a similar nature, which is in a range of 1% to 3% of the total contract sum, the Machineries Leasing Cap for each of the three financial years ending 31 December 2023 is set at HK\$25 million. In the event that the Machineries Leasing Caps are exceeded, the Company will need to re-comply with Listing Rules or certain projects might need to roll-over to the following year. Accordingly, the Machineries Leasing Cap for the year ending 31 December 2023 is determined with reference to the estimated contract sum for the provision of leasing of machineries for the two years ending 31 December 2022.

LETTER FROM RED SUN

Based on our discussion with the Management, the Schedule for the list of potential new construction projects tendered/to be tendered by the Group for the second half of 2020 to 31 December 2022, is not exhaustive. Hence, the Schedule setting out the potential new construction projects is only based on information currently available to the Group. In addition, on a prudent basis, the Management has applied a 50% of the tenders to be secured by the Group for new constructions projects as the basis to calculate the estimated contract sum.

Given (i) the general contracting work contract in the amount of HK\$1,766 million already secured by the Group for the first half of 2020, representing approximately 39% of the contract sum of construction projects tendered/to be tendered by the Group in 2020; and (ii) two potential projects with an aggregate estimated contract amount of approximately HK\$2.8 billion for the second half of 2020, and by applying a 50% of the tenders to be secured, i.e. HK\$1.4 billion, which upon successful tender, representing approximately 31% of the contract sum of construction projects tendered/to be tendered by the Group in 2020, in aggregate, representing approximately 70% of the contract sum of construction projects tendered/to be tendered by the Group in 2020, we concur with the Management that applying 50% of the tenders for new construction projects to be secured by the Group, on a prudent basis, to be reasonable.

We noted that the estimated costs in respect of leasing of machineries is calculated based on a percentage of the estimated contract sum of the new construction projects of the Group. As discussed with the Management, the Management determined such percentage with reference to the costs of leasing machineries incurred/estimated from previous completed or yet to be completed projects of a similar nature, being historical total cost of machineries leasing incurred/estimated from the vendors divided by the total contract sum of the projects of the Group which required machineries leasing from the vendors for the three years ended 31 December 2019, each being in a range of 1% to 3% of the total contract sum. We have reviewed a schedule setting out the aforesaid reference of the costs of leasing machineries incurred/estimated from previous completed or yet to be completed projects of a similar nature of the Group and noted that the range for such projects is in line with the above-mentioned in a range of 1% to 3% estimated by the Management.

Taking into account that (i) the estimated contract sums for the construction works that require the leasing of machineries from the respective vendors of the Group for the three years ending 31 December 2023; (ii) 50% of the tenders for new construction projects is estimated to be secured by the Group on a prudent basis; and (iii) the percentage on costs of leasing machineries incurred/estimated from previous completed or yet to be completed projects of a similar nature, we note that the estimated rents in relation to the leasing of machineries is in line with the Machineries Leasing Caps.

In addition, as set out in the Letter from the Board, in the event that the Machineries Leasing Caps are exceeded, the Company will need to re-comply with Listing Rules or certain projects might need to roll-over to the following year, accordingly, we concur with the Management that it is reasonable to use the estimated contract sum for the provision of leasing of machineries for the two years ending 31 December 2022 as the basis to determine the Machineries Leasing Cap for the year ending 31 December 2023.

LETTER FROM RED SUN

We concur with the Management that the Machineries Leasing Caps are fair and reasonable due to the fact that (i) the leasing of machineries by the CSC Group is to facilitate the Group's day-to-day operations; (ii) the aggregate estimated contract amount of potential new construction projects tendered/to be tendered by the Group for the second half of 2020 and two years ending 31 December 2022 as set out in the Schedule is approximately HK\$10.0 billion; (iii) 50% of the tenders for new construction projects is estimated to be secured by the Group on a prudent basis; (iv) it would provide the Group the flexibility but not the obligation to engage the CSC Group for the leasing of machineries; and (v) it would avoid undue delay in the leasing of machineries from the CSC Group to the Group for its construction works. We understand from the Management that aforesaid potential new construction projects are currently subject to successful tenders or negotiation, accordingly, the Group may or may not be awarded with any of the contracts. As such, the utilisation of the Machineries Leasing Caps shall depend on, among others, the relevant contracts being awarded and undertaken by the Group during the relevant period.

3.4.3 Insurance Services and Surety Bonds Caps

As set out in the Letter from the Board, the Insurance Services and Surety Bonds Caps are calculated with reference to the following factors:

- (a) for the financial year ending 31 December 2021 is determined with reference to (i) the total premium/fees in relation to the provision of insurance services paid by the Group to the CSC Group of HK\$24,791,710 for the financial year ended 31 December 2018, HK\$13,083,998 for the financial year ended 31 December 2019 and HK\$7,197,844 for the six months ended 30 June 2020; and (ii) the general contracting work contract in the amount of HK\$1,766 million being secured by the Group in the first half of 2020 and two potential private residential/commercial construction projects available from property developers in Hong Kong with an estimated total contract sum of HK\$2.8 billion that the Group may tender for in the second half of 2020 and where, upon successful tender, the construction works that require insurance coverage and/or surety bonds will be carried out by the Group in 2021;
- (b) for the financial year ending 31 December 2022 is determined with reference to the current land reserves of the property developers in Hong Kong which the Group expects that four potential private residential/commercial construction projects with an estimated total contract sum of HK\$6.0 billion may be available for tender by the Group in 2021 and where, upon successful tender, the construction works that require insurance coverage and/or surety bonds will be carried out by the Group in 2022; and

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- (c) for the financial year ending 31 December 2023 is determined with reference to (i) the current land reserves of the property developers in Hong Kong which the Group expects that one potential commercial construction project with an estimated contract sum of HK\$1.2 billion may be available for tender by the Group in 2022 and where, upon successful tender, the construction works that require insurance coverage and/or surety bonds will be carried out by the Group in 2023; and (ii) the government's initiative to increase the housing land supply and the assessment of the annual average completion of about 18,800 private residential units from 2019 to 2023 as stated in the Chief Executive's 2019 Policy Address which the Group expects that the demand for private housing construction will remain steady.

As set out in the Letter from the Board, the Insurance Services and Surety Bonds Caps are determined with reference to the insurance costs which are calculated based on a percentage of the estimated contract sum of the new construction projects of the Group.

In addition to the new general contracting work awarded to the Group (where insurance services will be required) with contract value of HK\$1,766 million in the first half of 2020 as mentioned above, we have reviewed and discussed with the Management in relation to the Schedule, setting out a list of potential new construction projects tendered/to be tendered by the Group for the second half of 2020 and two years ending 31 December 2022. We understand from the Management that the projects set out in the Schedule require insurance services and/or surety bonds, assuming the projects set out in the Schedule will be subsequently awarded to the Group by the relevant property developers, the construction works that require insurance services and/or surety bonds will be carried out by the Group from 2021 to 2023.

As set out in the Letter from the Board, assuming 50% of the tenders for new construction projects will be secured by the Group (which is determined with reference to the general contracting work contract in the amount of HK\$1,766 million already secured by the Group for the first half of 2020, representing approximately 39% of the contract sum of construction projects tendered by the Group in 2020, and taking into account uncertainties about the actual time for project tender as well as contract award and the suitability of the Group as contractor for the projects), and with reference to insurance expenses incurred/estimated from previous completed or yet to be completed projects of a similar nature, each being less than 3% of the total contract sum, the Insurance Services and Surety Bonds Caps for each of the three financial years ending 31 December 2023 is set at HK\$70 million. In the event that the Insurance Services and Surety Bonds Caps are exceeded, the Company will need to re-comply with Listing Rules or certain projects might need to roll-over to the following year. Accordingly, the Insurance Services and Surety Bonds Cap for the year ending 31 December 2023 is determined with reference to estimated contract sum for the construction works that require insurance coverage and/or issuance of surety bonds for the two years ending 31 December 2022.

Based on our discussion with the Management, the Schedule for the list of potential new construction projects tendered/to be tendered by the Group for the second half of 2020 to 31 December 2022, is not exhaustive. Hence, the Schedule setting out the potential new construction projects is only based on information currently available to the Group. In addition, on a prudent basis, the Management has applied a 50% of the tenders to be secured by the Group for new constructions projects as the basis to calculate the estimated contract sum.

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Given (i) the general contracting work contract in the amount of HK\$1,766 million already secured by the Group for the first half of 2020, representing approximately 39% of the contract sum of construction projects tendered/to be tendered by the Group in 2020; and (ii) two potential projects with an aggregate estimated contract amount of approximately HK\$2.8 billion for the second half of 2020, and by applying a 50% of the tenders to be secured, i.e. HK\$1.4 billion, which upon successful tender, representing approximately 31% of the contract sum of construction projects tendered/to be tendered by the Group in 2020, in aggregate, representing approximately 70% of the contract sum of construction projects tendered/to be tendered by the Group in 2020, we concur with the Management that applying 50% of the tenders for new construction projects to be secured by the Group, on a prudent basis, to be reasonable.

We noted that the basis of the calculation in relation to the relevant insurance costs is calculated based on a percentage of the estimated contract sums of the new construction projects of the Group. As discussed with the Management, the Management determined such percentage with reference to insurance expenses incurred/estimated from previous completed or yet to be completed projects of a similar nature, being historical total cost of insurance services and surety bonds incurred/estimated from service providers divided by the total contract sum of the respective projects of the Group which required insurance services and surety bonds from service providers for the three years ended 31 December 2019, each being less than 3% of the total contract sum. We have reviewed a schedule setting out the aforesaid reference of insurance expenses incurred/estimated from previous completed or yet to be completed projects of a similar nature of the Group and noted that the range for such projects is in line with the above-mentioned 3% estimated by the Management.

Taking into account that (i) the estimated contract sum for the construction works that require provision of insurance services and/or issuance of surety bonds from the respective service/bond providers of the Group for the three years ending 31 December 2023; (ii) 50% of the tenders for new construction projects is estimated to be secured by the Group on a prudent basis; and (iii) the percentage on insurance expenses incurred/estimated from previous completed or yet to be completed projects of a similar nature, we note that the estimated premium/fee for the provision of insurance services and/or surety bonds is in line with the Insurance Services and Surety Bonds Caps.

In addition, as set out in the Letter from the Board, in the event that the Insurance Services and Surety Bonds Caps are exceeded, the Company will need to re-comply with Listing Rules or certain projects might need to roll-over to the following year, accordingly, we concur with the Management that it is reasonable to use the estimated contract sum for the construction works that require insurance coverage and/or surety bonds for the two years ending 31 December 2022 as the basis to determine the Insurance Services and Surety Bonds Cap for the year ending 31 December 2023.

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We concur with the Management that Insurance Services and Surety Bonds Caps are fair and reasonable due to the fact that (i) the insurance services which may be provided by the CSC Group is to facilitate the Group's day-to-day operations; (ii) the aggregate estimated contract amount of potential new construction projects tendered/to be tendered by the Group for the second half of 2020 and two years ending 31 December 2022 as set out in the Schedule is approximately HK\$10.0 billion; (iii) 50% of the tenders for new construction projects is estimated to be secured by the Group on a prudent basis; (iv) it would provide the Group the flexibility but not the obligation to engage the CSC Group for insurance services; and (v) it would avoid undue delay in engaging the CSC Group to provide the Group with insurance services. We understand from the Management that aforesaid potential new construction projects are currently subject to successful tenders or negotiation, accordingly, the Group may or may not be awarded with any of the contracts. As such, the utilisation of the Insurance Services and Surety Bonds Caps shall depend on, among others, the relevant contracts being awarded and undertaken by the Group during the relevant period.

3.4.4 Supply of Building Materials Caps

As set out in the Letter from the Board, the Supply of Building Materials Caps are calculated with reference to the following factors:

- (a) for the financial year ending 31 December 2021 is determined with reference to (i) the total sums in relation to the supply of building materials paid by the Group to the CSC Group of HK\$5,451,797 for the financial year ended 31 December 2018, HK\$5,613,971 for the financial year ended 31 December 2019 and HK\$3,318,114 for the six months ended 30 June 2020; and (ii) the general contracting work contract in the amount of HK\$1,766 million being secured by the Group in the first half of 2020 and two potential private residential/commercial construction projects available from property developers in Hong Kong with an estimated total contract sum of HK\$2.8 billion that the Group may tender for in the second half of 2020 and where, upon successful tender, the construction works that require the supply of building materials will be carried out by the Group in 2021;
- (b) for the financial year ending 31 December 2022 is determined with reference to the current land reserves of the property developers in Hong Kong which the Group expects that four potential private residential/commercial construction projects with an estimated total contract sum of HK\$6.0 billion may be available for tender by the Group in 2021 and where, upon successful tender, the construction works that require the supply of building materials will be carried out by the Group in 2022; and
- (c) for the financial year ending 31 December 2023 is determined with reference to (i) the current land reserves of the property developers in Hong Kong which the Group expects that one potential commercial construction project with an estimated contract sum of HK\$1.2 billion may be available for tender by the Group in 2022 and where, upon successful tender, the construction works that require the supply of building materials will be carried out by the Group in 2023; and (ii) the government's initiative to increase the housing land supply and the assessment of the annual average completion of about 18,800 private residential units from 2019 to 2023 as stated in the Chief Executive's 2019 Policy Address which the Group expects that the demand for private housing construction will remain steady.

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As set out in the Letter from the Board, the Supply of Building Materials Caps are determined with reference to the estimated building materials costs which are calculated based on a percentage of the estimated contract sum of the new construction projects of the Group.

In addition to the new general contracting work awarded to the Group (where the supply of building materials will be required) with contract value of HK\$1,766 million in the first half of 2020 as mentioned above, we have reviewed and discussed with the Management in relation to the Schedule, setting out a list of potential new construction projects tendered/to be tendered by the Group for the second half of 2020 and two years ending 31 December 2022. We understand from the Management that the projects set out in the Schedule require the supply of building materials, assuming the projects set out in the Schedule will be subsequently awarded to the Group by the relevant property developers, the construction works that require the supply of building materials will be carried out by the Group from 2021 to 2023.

As set out in the Letter from the Board, assuming 50% of the tenders for new construction projects will be secured by the Group (which is determined with reference to the general contracting work contract in the amount of HK\$1,766 million already secured by the Group for the first half of 2020, representing approximately 39% of the contract sum of construction projects tendered by the Group in 2020, and taking into account uncertainties about the actual time for project tender as well as contract award and the suitability of the Group as contractor for the projects), and with reference to building materials costs incurred/estimated from previous completed or yet to be completed projects of a similar nature, each being less than 6% of the total contract sum, the Supply of Building Materials Caps for each of the three financial years ending 31 December 2023 is set at HK\$150 million. In the event that the Supply of Building Materials Caps are exceeded, the Company will need to re-comply with Listing Rules or certain projects might need to roll-over to the following year. Accordingly, the Supply of Building Materials Cap for the year ending 31 December 2023 is determined with reference to the estimated contract sums for the construction works that require the supply of building materials for the two years ending 31 December 2022.

Based on our discussion with the Management, the Schedule for the list of potential new construction projects tendered/to be tendered by the Group for the second half of 2020 to 31 December 2022, is not exhaustive. Hence, the Schedule setting out the potential new construction projects is only based on information currently available to the Group. In addition, on a prudent basis, the Management has applied a 50% of the tenders to be secured by the Group for new constructions projects as the basis to calculate the estimated contract sum.

Given (i) the general contracting work contract in the amount of HK\$1,766 million already secured by the Group for the first half of 2020, representing approximately 39% of the contract sum of construction projects tendered/to be tendered by the Group in 2020; and (ii) two potential projects with an aggregate estimated contract amount of approximately HK\$2.8 billion for the second half of 2020, and by applying a 50% of the tenders to be secured, i.e. HK\$1.4 billion, which upon successful tender, representing approximately 31% of the contract sum of construction projects tendered/to be tendered by the Group in 2020, in aggregate, representing approximately 70% of the contract sum of construction projects tendered/to be tendered by the Group in 2020, we concur with the Management that applying 50% of the tenders for new construction projects to be secured by the Group, on a prudent basis, to be reasonable.

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We noted that the estimated building materials costs are calculated based on a percentage of the estimated contract sums of the new construction projects of the Group. As discussed with the Management, the Management determined such percentage with reference to building materials costs incurred/estimated from previous completed or yet to be completed projects of a similar nature, being historical total building materials costs from suppliers divided by the total contract sum of the projects of the Group which required the supply of building materials from suppliers for the three years ended 31 December 2019, each being less than 6% of the total contract sum. We have reviewed a schedule setting out the aforesaid reference of building materials costs incurred/estimated from previous completed or yet to be completed projects of a similar nature of the Group and noted that the range for such projects is in line with the above-mentioned 6% estimated by the Management.

Taking into account that (i) the estimated contract sums for the construction works that require the supply of building materials from the respective suppliers of the Group for the three years ending 31 December 2023; (ii) 50% of the tenders for new construction projects is estimated to be secured by the Group on a prudent basis; and (iii) the percentage on building materials costs incurred/estimated from previous completed or yet to be completed projects of a similar nature, we note that the estimated fee in relation to the supply of building materials is in line with the Supply of Building Materials Caps.

In addition, as set out in the Letter from the Board, in the event that the Supply of Building Materials Caps are exceeded, the Company will need to re-comply with Listing Rules or certain projects might need to roll-over to the following year, accordingly, we concur with the Management that it is reasonable to use the estimated contract sums for the construction works that require the supply of building materials for the two years ending 31 December 2022 as the basis to determine the Supply of Building Materials Cap for the year ending 31 December 2023.

We concur with the Management that Supply of Building Materials Caps are fair and reasonable due to the fact that (i) the building materials which may be supplied by the CSC Group is to facilitate the Group's day-to-day operations; (ii) the aggregate estimated contract amount of potential new construction projects tendered/to be tendered by the Group for the second half of 2020 and two years ending 31 December 2022 as set out in the Schedule is approximately HK\$10.0 billion; (iii) 50% of the tenders for new construction projects is estimated to be secured by the Group on a prudent basis; (iv) it would provide the Group the flexibility but not the obligation to engage the CSC Group for the supply of building materials; and (v) it would avoid undue delay in engaging the CSC Group for the supply of building materials to the Group for its construction works. We understand from the Management that aforesaid potential new construction projects are currently subject to successful tenders or negotiation, accordingly, the Group may or may not be awarded with any of the contracts. As such, the utilisation of the Supply of Building Materials Caps shall depend on, among others, the relevant contracts being awarded and undertaken by the Group during the relevant period.

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VI. RECOMMENDATION

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, we have considered the above principal factors and reasons, in particular, the following:

- (i) the basis and reasons for the New CSCD-CSCECL Sub-construction Engagement Agreement and the New CSCD-CSC Operational Services Agreement, respectively;
- (ii) the transactions contemplated under each of the New CSCD-CSCECL Sub-construction Engagement Agreement and the New CSCD-CSC Operational Services Agreement are furtherance and continuance of the Group's businesses;
- (iii) the transactions contemplated under each of the New CSCD-CSCECL Sub-construction Engagement Agreement and the New CSCD-CSC Operational Services Agreement will be conducted in the ordinary and usual course of business of the Group and on normal commercial terms that are no less favourable than those prices and terms available to or from independent third parties to the Group; and
- (iv) the basis for determining, the respective annual caps are reasonable, details of which are set out in the sections headed "2.4 Basis for determining the CSCECL Works Caps" and "3.4 Basis for determining the CSC Works Caps", respectively,

we are of the opinion that the entering into of each of the New CSCD-CSCECL Sub-construction Engagement Agreement and the New CSCD-CSC Operational Services Agreement, the respective transactions contemplated thereunder and the terms thereof are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Furthermore, based on our analysis set out above, we consider that the respective annual caps under each of the New CSCD-CSCECL Sub-construction Engagement Agreement and the New CSCD-CSC Operational Services Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

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Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve each of the New CSCD-CSCECL Sub-construction Engagement Agreement and the New CSCD-CSC Operational Services Agreement, the respective transactions contemplated thereunder and the relevant annual caps.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited
Jimmy Chung
Managing Director

Mr. Jimmy Chung is a Responsible Officer of Red Sun Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and permitted to undertake work as sponsor. He has over 21 years of experience in corporate finance industry in Greater China.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this 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 herein or this circular misleading.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in the Shares

Name of Director	Capacity	Number of ordinary shares in the Company held	Approximate percentage of the shares in the Company in issue^(Note)
Mr. Zhang Haipeng	Beneficial owner	3,750,000	0.174%
Mr. Wu Mingqing	Beneficial owner	5,000,000	0.232%
Mr. Huang Jiang	Beneficial owner	3,000,000	0.139%

Note: The percentage is based on the total number of Shares in issue as at the Latest Practicable Date (i.e. 2,155,545,000 Shares).

Long positions in the shares, underlying shares and debentures of the associated corporations of the Company

As at the Latest Practicable Date:

- (i) Mr. Zhang Haipeng held 774,000 A-shares in CSCECL in the capacity as beneficial owner, representing approximately 0.002% of the issued voting shares in CSCECL;
- (ii) Mr. Wu Mingqing held 98,000 A-shares in CSCECL in the capacity as beneficial owner, representing approximately 0.000% of the issued voting shares in CSCECL;
- (iii) Mr. Wang Hai held 210,000 A-shares in CSCECL in the capacity as beneficial owner, representing approximately 0.001% of the issued voting shares in CSCECL; and
- (iv) Mr. Huang Jiang held 210,000 A-shares in CSCECL in the capacity as beneficial owner, representing approximately 0.001% of the issued voting shares in CSCECL.

The Company was informed that all the interests in A-shares in CSCECL held by the Directors as set out above were granted to them by CSCECL pursuant to its share award scheme.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company held any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, save as disclosed below, none of the Directors or proposed Directors was a director or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of companies which had such discloseable interest or short position	Position within such companies
Mr. Zhang Haipeng	COHL	Director
	CSC	Executive Director and Chief Executive Officer
Mr. Wu Mingqing	Add Treasure Holdings Limited	Director
	Add Treasure Holdings Limited	Director

As at the Latest Practicable Date, none of the Directors or proposed Directors had any direct or indirect interest in any assets which had been, since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group.

There is no contract or arrangement subsisting at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract or a proposed service contract with any member of the Group which is not expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, the date to which the latest published audited accounts of the Company were made up.

COMPETING BUSINESS INTERESTS OF DIRECTORS

As at the Latest Practicable Date, Messrs. Zhang Haipeng, Wu Mingqing and Huang Jiang held directorships and/or senior management positions in the Company's holding companies and/or their subsidiaries. These companies are engaged in construction, property development and related business.

The Board is independent of the boards of directors of the Company's holding companies and their subsidiaries. With the presence of appropriate portion of independent non-executive Directors in the Board, the Group is capable of carrying on its business independently of, and at arm's length from, the businesses of its holding group.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, proposed Directors or their respective close associates (as if each of them were treated as a controlling shareholder under Rule 8.10 of the Listing Rules) had any competing interests in a business which competes or is likely to compete with the business of the Group.

QUALIFICATION AND CONSENT OF EXPERT

The following sets out the qualifications of the expert who had given its opinions, letter and advice which are contained in this circular:

Name	Qualification
Red Sun	A corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance)

- (a) As at the Latest Practicable Date, Red Sun had no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (b) Red Sun has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.
- (c) As at the Latest Practicable Date, Red Sun did not have any direct or indirect interest in any assets which have been, since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group.
- (d) The letter from Red Sun is given as of the date of this circular for incorporation herein.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the office of the Company at 16th Floor, Eight Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong from the date of this circular up to and including 11 December 2020 (except Saturdays and Sundays) and will be available for inspection at the EGM:-

- (a) the Previous CSCD-CSCECL Sub-construction Engagement Agreement;
- (b) the Previous CSCD-CSC Operational Services Agreement;
- (c) the New CSCD-CSCECL Sub-construction Engagement Agreement;
- (d) the New CSCD-CSC Operational Services Agreement;

- (e) the letter from the Independent Board Committee, the text of which is set out in the “Letter from the Independent Board Committee” of this circular;
- (f) the letter from the Independent Financial Adviser, the text of which is set out in the “Letter from Red Sun” of this circular; and
- (g) the letter of consent from the expert referred to under the paragraph headed “QUALIFICATION AND CONSENT OF EXPERT” in this appendix.

GENERAL

The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

NOTICE OF EXTRAORDINARY GENERAL MEETING



中國建築興業集團有限公司

CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 830)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China State Construction Development Holdings Limited (the “**Company**”) will be held at 16th Floor, Eight Commercial Tower, No. 8 Sun Yip Street, Chai Wan, Hong Kong on Friday, 11 December 2020 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (A) (i) the New CSCD-CSCECL Sub-construction Engagement Agreement (as defined in the circular of the Company dated 20 November 2020 of which this notice forms part (the “**Circular**”)) (a copy of which is tabled at the meeting and marked “**A**” and initialled by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder and the implementation thereof be and are hereby approved, confirmed and ratified;
- (ii) the CSCECL Works Caps (as defined in the Circular) for the respective financial years ending on 31 December 2021, 31 December 2022 and 31 December 2023 be and are hereby approved; and
- (B) any one director of the Company (or any two directors of the Company or one director and the secretary of the Company, in the case of execution of documents under seal) be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the New CSCD-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder and the implementation thereof including the affixing of seal thereon.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. “THAT:

- (A) (i) the New CSCD-CSC Operational Services Agreement (as defined in the circular of the Company dated 20 November 2020 of which this notice forms part (the “**Circular**”)) (a copy of which is tabled at the meeting and marked “**B**” and initialled by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder and the implementation thereof be and are hereby approved, confirmed and ratified;
- (ii) the Mechanical and Electrical Engineering Works Caps (as defined in the Circular) for the respective financial years ending on 31 December 2021, 31 December 2022 and 31 December 2023 be and are hereby approved;
- (iii) the Machineries Leasing Caps (as defined in the Circular) for the respective financial years ending on 31 December 2021, 31 December 2022 and 31 December 2023 be and are hereby approved;
- (iv) the Insurance Services and Surety Bonds Caps (as defined in the Circular) for the respective financial years ending on 31 December 2021, 31 December 2022 and 31 December 2023 be and are hereby approved;
- (v) the Supply of Building Materials Caps (as defined in the Circular) for the respective financial years ending on 31 December 2021, 31 December 2022 and 31 December 2023 be and are hereby approved; and
- (B) any one director of the Company (or any two directors of the Company or one director and the secretary of the Company, in the case of execution of documents under seal) be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the New CSCD-CSC Operational Services Agreement and the transactions contemplated thereunder and the implementation thereof including the affixing of seal thereon.”

By Order of the Board
China State Construction Development Holdings Limited
Zhang Haipeng
Chairman and Non-executive Director

Hong Kong, 20 November 2020

*Head Office and Principal Place of
Business in Hong Kong:*
16th Floor, Eight Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

Registered Office:
P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. A form of proxy for the meeting is enclosed.
2. Only members are entitled to attend and vote at the meeting (or at any adjournment thereof).
3. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint one or more proxies (who must be an individual) to attend and vote instead of him. A proxy need not be a member of the Company.
4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorized to sign the same.
5. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof (as the case may be).
6. Completion and return of a form of proxy shall not preclude a member from attending and voting in person at the meeting or any adjournment thereof (as the case may be) should the member so wish, and in such event, the form of proxy shall be deemed to be revoked.
7. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
8. For the purpose of determining shareholders' entitlement to attend and vote at the meeting, the register of members of the Company will be closed from Tuesday, 8 December 2020 to Friday, 11 December 2020, both days inclusive. In order to qualify for attending and voting at the meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 7 December 2020.



中國建築興業集團有限公司

CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 830)

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

In view of the ongoing Novel Coronavirus (COVID-19) epidemic and recent requirements for prevention of its spreading, the Company will implement the following precautionary measures at the extraordinary general meeting of the Company (“EGM”) to safeguard the health and safety of Shareholders who may be attending the EGM in person:

- (1) Compulsory body temperature checks will be carried out on all attendees at the entrance of the meeting venue. Any person with a body temperature of over 37.0 degree Celsius, or is exhibiting flu-like symptoms may be denied entry into the meeting venue and be requested to leave the meeting venue.
- (2) All attendees will be required to wear surgical masks before they are permitted to attend, and during the attendance of, the EGM. Please note that no masks will be provided at the meeting venue and attendees should bring and wear their own masks.
- (3) No refreshments and corporate gifts will be provided at the EGM.

Any attendee who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry to the meeting venue, at the absolute discretion of the Company as permitted by law.

For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the EGM by appointing the Chairman of the EGM as their proxy, instead of attending the EGM in person. Physical attendance is not necessary for the purpose of exercising Shareholder rights.

Due to the constantly evolving COVID-19 epidemic situation in Hong Kong, the Company may be required to change the EGM arrangements at short notice. Shareholders should check the Company’s website at www.cscd.com.hk for further announcements and updates on the EGM arrangements, if any.