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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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 Far East Global Group 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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**遠東環球集團有限公司**  
**FAR EAST GLOBAL GROUP 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  
the Independent Board Committee and the Independent Shareholders**



**紅日資本有限公司**  
**RED SUN CAPITAL LIMITED**

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A letter from the Board is set out on pages 6 to 31 of this circular and a letter from the Independent Board Committee is set out on pages 32 to 33 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 34 to 57 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 Monday, 18 December 2017 at 10:00 a.m. is set out on pages 63 to 65 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 and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, 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 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 adjourned meeting (as the case may be) should you so wish.

1 November 2017

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## DEFINITIONS

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

“30%-controlled company(ies)”; “associates(s)”; “connected persons(s)”; “controlling shareholder(s)”; 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;
“COLI”	China Overseas Land & Investment Ltd., a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board of the Stock Exchange (stock code: 688);
“COLI Group”	COLI and its subsidiaries from time to time;
“Company”	Far East Global Group 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), is a non-wholly owned subsidiary of CSC;
“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;
“CSC Group”	CSC, its subsidiaries (excluding the Group) and 30%-controlled companies from time to time;
“CSC Works Cap”	the maximum total contract sum of the contracts for provision of contracting and engineering works, project consultancy service and project management service that may be awarded by the CSC Group to the Group (as subcontractor of the CSC Group) for each year under the New FE-CSC Sub-construction Engagement Agreement;
“CSC Works Independent Shareholders”	Shareholder(s), other than CSC and its associates;

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## DEFINITIONS

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“CSC Works Transactions”	the engagement by the CSC Group of the Group as subcontractor for the CSC Group’s construction works as described under the sub-section headed “CSC Works Transactions” in this circular;
“CSCECL”	中國建築股份有限公司 (China State Construction Engineering Corporation Limited), a joint stock company incorporated in the PRC and whose shares are listed on the Shanghai Stock Exchange (stock code: 601668), is a non-wholly owned subsidiary of 中國建築工程總公司 (China State Construction Engineering Corporation);
“CSCECL Group”	CSCECL and its subsidiaries (excluding CSC and its subsidiaries and the COLI Group) from time to time;
“CSCECL Works Cap”	the maximum total contract sum of the construction sub-contracts, project management contracts and project consultancy contracts that may be awarded by the CSCECL Group to the Group (as subcontractor of the CSCECL Group) for each year under the New FE-CSCECL Sub-construction Engagement Agreement;
“CSCECL Works Independent Shareholders”	Shareholder(s), other than CSCECL and its associates;
“CSCECL Works Transactions”	the engagement by the CSCECL Group of Group as subcontractor for the CSCECL Group’s construction works as described under the sub-section headed “CSCECL Works Transactions” in this circular;
“Directors”	the directors of the Company;
“EGM”	the extraordinary general meeting of the Company to be held to consider and approve, among other things, the New FE-CSCECL Sub-construction Engagement Agreement, the New FE-CSC Sub-construction Engagement Agreement, and the New FE-CSC Operational Services Agreement and their respective transactions contemplated thereunder;
“Exterior Facade Works”	contracting service, supply, project consultancy service and project management service in relation to exterior facade works;
“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;

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## DEFINITIONS

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“Independent Board Committee”	an independent committee of the Board, consisting of Mr. Zhou Jinsong, Mr. Hong Winn and Ms. Kwong Sum Yee Anna, all being Independent Non-executive Directors;
“Independent Financial Adviser” or “Red Sun “	Red Sun Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the entering into of the New FE-CSCECL Sub-construction Engagement Agreement, the New FE-CSC Sub-construction Engagement Agreement and the New FE-CSC Operational Services Agreement, and a corporation licensed under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities;
“Independent Shareholders”	CSCECL Works Independent Shareholders (in respect of the New FE-CSCECL Sub-construction Engagement Agreement) and/or CSC Works Independent Shareholders (in respect of the New FE-CSC Sub-construction Engagement Agreement and the New FE-CSC Operational Services Agreement);
“Insurance Services Cap”	the maximum total fees for provision of insurance services by the CSC Group to the Group for each year under the New FE-CSC Operational Services Agreement;
“Insurance Services Transactions”	the engagement of the CSC Group to provide insurance services to the Group as described under the sub-section headed “(3) Insurance Services Transactions” in this circular;
“Latest Practicable Date”	25 October 2017, 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”	the maximum total rent for the leasing of machineries from the CSC Group to the Group for each year under the New FE-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 sub-section headed “(2) Machineries Leasing Transactions” in this circular;

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## DEFINITIONS

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“Mechanical and Electrical Engineering Works Cap”	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 FE-CSC Operational Services Agreement;
“Mechanical and Electrical Engineering Works Transactions”	the engagement by the Group of the CSC Group as subcontractor for provision of mechanical and electrical engineering works to the Group’s construction works as described under the sub-section headed “(1) Mechanical and Electrical Engineering Works Transactions” in this circular;
“New FE-CSC Operational Services Agreement”	the agreement entered into between CSC and the Company on 11 October 2017 in respect of the Mechanical and Electrical Engineering Works Transactions, Machineries Leasing Transactions, Insurance Services Transactions and Supply of Building Materials Transactions;
“New FE-CSC Sub-construction Engagement Agreement”	the engagement agreement entered into between CSC and the Company on 11 October 2017 in respect of the CSC Works Transactions;
“New FE-CSCECL Sub-construction Engagement Agreement”	the engagement agreement entered into between CSCECL and the Company on 11 October 2017 in respect of the CSCECL Works Transactions;
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, Macau and Taiwan;
“Previous FE-CSC Operational Services Agreements”	the agreement entered into between CSC and the Company on 28 October 2014 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 insurances 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, from time to time;
“Previous FE-CSC Sub-construction Engagement Agreement”	the engagement agreement entered into between CSC and the Company on 28 October 2014 in respect of the engagement of members of the Group by members of the CSC Group as subcontractor of the CSC Group for provision of contracting and engineering works, project consultancy service and project management service for the CSC Group’s construction works from time to time;

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## DEFINITIONS

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“Previous FE-CSCECL Sub-construction Engagement Agreement”	the engagement agreement entered into between CSCECL and the Company on 28 October 2014 in respect of the engagement of members of the Group by members of the CSCECL Group as subcontractor of the CSCECL Group for provision of Exterior Facade Works for the CSCECL Group’s construction works from time to time;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholder(s)”	shareholder(s) of the Company from time to time;
“Supply of Building Materials Cap”	the maximum total sum for the supply of building materials by the CSC Group to the Group for each year under the New FE-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 sub-section headed “(4) Supply of Building Materials Transactions” in this circular;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Transactions”	collectively, the transactions contemplated under (i) the New FE-CSCECL Sub-construction Engagement Agreement, (ii) the New FE-CSC Sub-construction Engagement Agreement and (iii) the New FE-CSC Operational Services Agreement; and
“%”	per cent..

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LETTER FROM THE BOARD

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遠東環球集團有限公司  
FAR EAST GLOBAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code : 830)

*Chairman and Non-executive Director:*

Mr. ZHOU Yong

*Executive Directors:*

Mr. ZHU Yijian (*Vice Chairman and*

*Chief Executive Officer*)

Mr. LUO Haichuan

Mr. WANG Hai

Mr. CHAN Sim Wang

*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

No. 8 Sun Yip Street

Chai Wan

Hong Kong

1 November 2017

*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  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

References are made to:

- (a) the announcement jointly issued by CSC and the Company dated 11 October 2017 in respect of, among other things, that on 11 October 2017, CSCECL and the Company entered into the New FE-CSCECL Sub-construction Engagement Agreement to renew the Previous



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## LETTER FROM THE BOARD

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FE-CSCECL Sub-construction Engagement Agreement whereby the CSCECL Group may engage the Group as its subcontractor for provision of contracting and engineering works, project consultancy service and project management service for the CSCECL Group's construction works for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 subject to the CSCECL Works Cap;

- (b) the announcement of the Company dated 11 October 2017 in respect of, among other things, that on 11 October 2017, CSC and the Company entered into the New FE-CSC Sub-construction Engagement Agreement to renew the Previous FE-CSC Sub-construction Engagement Agreement whereby the CSC Group may engage the Group as subcontractor of the CSC Group for provision of contracting and engineering works, project consultancy service and project management service for the CSC Group's construction works for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 subject to the CSC Works Cap; and
- (c) the announcement of the Company dated 11 October 2017, in respect of, amongst other things, that on 11 October 2017, CSC and the Company entered into the New FE-CSC Operational Services Agreement to renew the Previous FE-CSC Operational Services Agreement whereby (i) 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 for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 subject to the Mechanical and Electrical Engineering Works Cap; (ii) the Group may lease machineries from the CSC Group for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 subject to the Machineries Leasing Cap; (iii) the Group may engage the CSC Group to provide insurance services to the Group for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 subject to the Insurance Services Cap; and (iv) the CSC Group may supply building materials to the Group for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 subject to the Supply of Building Materials Cap.

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

- the particulars of (i) the New FE-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Cap), (ii) the New FE-CSC Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSC Works Cap), and (iii) the New FE-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap);
- the letter from the Independent Board Committee with its view on (i) the New FE-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Cap), (ii) the New FE-CSC Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the

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## LETTER FROM THE BOARD

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CSC Works Cap), and (iii) the New FE-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap); and

- the letter from Red Sun with its advice on (i) the New FE-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Cap), (ii) the New FE-CSC Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSC Works Cap), and (iii) the New FE-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap) 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 FE-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Cap), (ii) the New FE-CSC Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSC Works Cap), and (iii) the New FE-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap).

### **(I) CONTINUING CONNECTED TRANSACTIONS WITH 中國建築股份有限公司 (CHINA STATE CONSTRUCTION ENGINEERING CORPORATION LIMITED)**

Reference is made to the joint announcement of CSC and the Company dated 28 October 2014 and the circular of the Company dated 18 November 2014 in relation to, among other things, the Previous FE-CSCECL Sub-construction Engagement Agreement regarding the Exterior Facade Works entered into between CSCECL and the Company.

The Previous FE-CSCECL Sub-construction Engagement Agreement will expire on 31 December 2017. The Company expects that the CSCECL Group may continue to engage the Group as its subcontractor for provision of the Exterior Facade Works. Also, to allow flexibility for provision of services in the future, CSCECL and the Company agreed to widen the scope of services to cover the provision of other construction works in addition to the Exterior Facade Works. In this connection, on 11 October 2017, CSCECL and the Company entered into the New FE-CSCECL Sub-construction Engagement Agreement to renew the Previous FE-CSCECL Sub-construction Engagement Agreement. Principal terms of the New FE-CSCECL Sub-construction Engagement Agreement are summarised as follows:

#### **NEW FE-CSCECL SUB-CONSTRUCTION ENGAGEMENT AGREEMENT**

##### **Date**

11 October 2017

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## LETTER FROM THE BOARD

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### Parties

1. CSCECL; and
2. the Company.

### CSCECL Works Transactions

The Company expects that the CSCECL Group may continue to engage the Group as its subcontractor for provision of the Exterior Facade Works. Also, to allow flexibility for provision of services in the future, CSCECL and the Group agreed to widen the scope of services to cover the provision of other construction works in addition to the Exterior Facade Works. In this connection, on 11 October 2017, CSCECL and the Company entered into the New FE-CSCECL Sub-construction Engagement Agreement to renew the Previous FE-CSCECL Sub-construction Engagement Agreement for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 whereby the parties agreed that:

- (a) any member of the Group may act as subcontractor of the CSCECL Group for provision of contracting and engineering works, project consultancy service and project management service for the CSCECL Group's construction works in accordance with the applicable subcontracting procedures of the CSCECL Group from time to time;
- (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 member of the Group to act as subcontractor of the CSCECL Group for provision of contracting and engineering works, project consultancy service and project management service for the CSCECL Group's construction works, provided that the total contract sum that may be awarded by the CSCECL Group to the Group under the New FE-CSCECL Sub-construction Engagement Agreement for each of the three financial years ending 31 December 2020 shall not exceed HK\$1,000 million (i.e. the CSCECL Works Cap). 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 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 than those provided to the independent third party customers of the Group.

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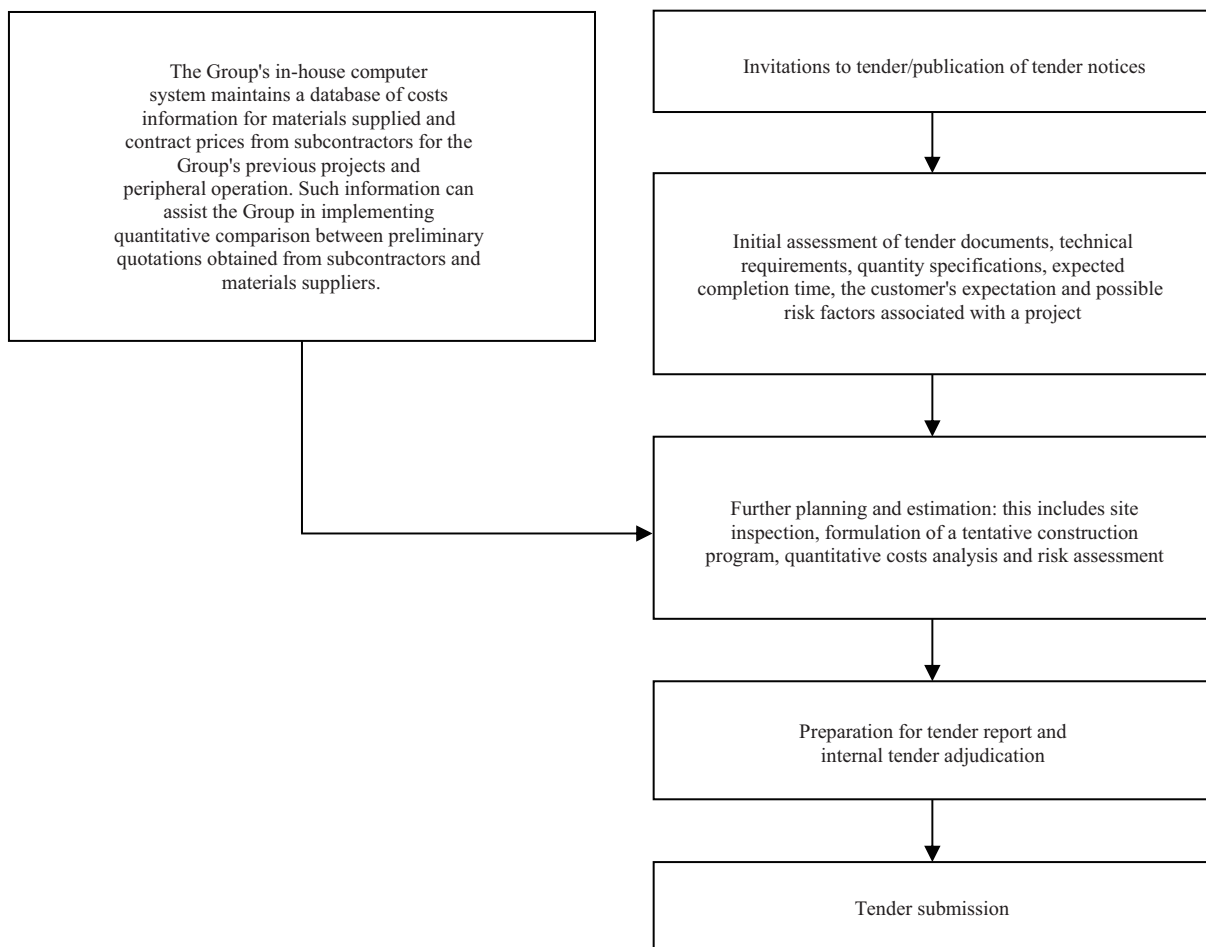
## LETTER FROM THE BOARD

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As for the provision of contracting and engineering works, the Group will normally need to go through a tender or similar process before being selected and appointed as subcontractor of the CSCECL Group.

The prices and terms of the Group's tenders submitted to the CSCECL Group for the CSCECL Group's construction works are subject to a standard and systematic tender submission procedure maintained by the Group, which applies 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 than those submitted to independent third parties.

The standard and systematic tender submission procedure generally involves (i) receiving invitation 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 procedure, 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.



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## LETTER FROM THE BOARD

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In preparing and assessing the tender documents, the Group will take into account factors including the technical requirements, quantity specifications, expected completion time, customer's expectations and the possible risk factors associated with the project. The Group will then perform site inspection, formulate a tentative construction program, 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 conducting quantitative comparison between quotations obtained from sub-contractors and on the costs of the materials.

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 than those submitted to independent third parties.

Where a member of 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 procedure and the winning bid of which will be the one with the lowest tender amount in accordance with the tender procedure(s) of the member(s) 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.

Where a member of the Group submits tender directly to the ultimate employer, the Group will follow the above standard and systematic tender submission procedure in preparing the terms and price of the tender, and if such member of the Group is nominated as subcontractor by the ultimate employer, consideration to such member of the Group will be ascertained by an independent professional quantity surveyor appointed by the ultimate employer.

As for the provision of project management service and project consultancy service, the Group is typically engaged to provide such services through direct appointment by the CSCECL Group. The price and terms of each service provided to the CSCECL Group shall be determined on a fair basis and on normal commercial terms based on the scale, degree of difficulty of the project, geographical location and duration of the project, which shall also be in line with the basis for engagement by independent third parties to provide services for projects of similar size and nature.

The project management fees and project consultancy fees are determined based on a percentage ranging from 2% to 5% of the contract sum of the projects for which the member of the Group is expected to be engaged to provide services. The quote to be offered will be reviewed and scrutinized by the tender review committee of the Group with reference to the cost expected to be incurred for the services and the previous quotes offered to connected persons and at least two previous quotes offered to independent third parties to ensure that the fees for project management service and project consultancy service are no more favourable than those offered to independent third parties. The tender review committee of the Group is responsible for the review of tenders. The tender review committee consists of 8 members who are independent of the CSCECL Group.

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## LETTER FROM THE BOARD

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### *Calculation of the CSCECL Works Cap*

The CSCECL Works Cap is calculated with reference to the following factors:

- (a) the historical fees paid by the CSCECL Group to the Group under the Previous FE-CSCECL Sub-construction Engagement Agreement in relation to the Exterior Facade Works for each of the two financial years ended 31 December 2016 of approximately HK\$318,658,000 and HK\$529,533,000, respectively, representing utilisation rate of approximately 39.8% and 66.2% of the respective cap of HK\$800 million under the Previous FE-CSCECL Sub-construction Engagement Agreement;
- (b) estimated total contract sum of new construction projects of the CSCECL Group in the three-year period commencing from 1 January 2018 and ending on 31 December 2020, with reference to the CSCECL Group's future growth and expansion for such period which is estimated based on (i) the total amount of the tenders submitted to ultimate employers and/or the CSCECL Group for the Exterior Facade Works and other construction works; (ii) the amount of tenders planned to be submitted to or projects under negotiation with ultimate employers and/or the CSCECL Group; (iii) other potential general construction works available from ultimate employers and/or the CSCECL Group in the year of 2018 and the projected increase in general construction works for 2019 and 2020 given the positive outlook of the construction market. As at the Latest Practicable Date, for 2018, the Group has six tenders submitted or tenders in preparation with an aggregate contract sum of HK\$2 billion for potential curtain wall projects in PRC, of which a commercial building in Shenzhen is the major tendering project; and
- (c) the growth of the construction markets in the PRC and Hong Kong in the three-year period commencing from 1 January 2018 and ending on 31 December 2020 estimated by the Directors, which is based on the positive outlook of the construction industry with growth in construction activities leading to an increase in the construction works available for the Group to tender for in the forthcoming years. In particular, 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-plan. The urbanisation rate in the PRC increased steadily in recent years, which, in turn, has contributed towards a sustainable growth potential of PRC's construction industry. For Hong Kong, it is expected that demand for residential buildings, be it public sector or private, will be a key driver for the construction industry in Hong Kong. Coupled with favourable policy promulgated by the Hong Kong government to increase housing supply, this will lead to a growth in construction activities, resulting in an increase in construction works available for the Group to tender for in forthcoming years.

In respect of the Group's future growth and business plan, (i) for the curtain wall market, the Group targets to increase its market share in three major markets, namely Hong Kong and Macau, North America and Mainland China by integrating resources and adhering to the business philosophy of "closely focusing on high-end markets and providing high-quality services"; (ii) for general contracting business, the Group will continue its active participation in the bidding of medium and

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## LETTER FROM THE BOARD

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small housing projects in Hong Kong; and (iii) for government's infrastructure project business in China, the Group has entered into an urban planning and consultancy project in China in 2017 with a contract value of HK\$69 million, and will provide municipal planning, management and consulting service in connection with the project.

The Group was not engaged by the CSCECL Group to provide any Exterior Facade Works in the period between 1 January 2017 to 30 September 2017 as the Group had neither identified any suitable projects from the CSCECL Group's construction works nor successfully been nominated by ultimate employers as nominated subcontractor through tenders submitted directly to the ultimate employers during the period. Based on an internal schedule setting out a list of potential new construction projects for 2018 from the CSCECL Group (including transactions amount with tenders submitted or tenders in preparation) to engage the Group, subject to successful tender, the Group may tender for six potential projects with an aggregate contract sum to be awarded or tendered for in excess of HK\$2.0 billion which is more than twofold of the CSCECL Works Cap. Accordingly, the Directors are of the view that the CSCECL Works Cap is determined based on the reasonable estimation and is fair and reasonable.

### **Condition Precedent**

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

### **REASONS FOR THE TRANSACTIONS**

The CSCECL Group is a contractor mainly participating in the PRC construction market. The CSC Group is principally engaged in building construction, civil engineering works, infrastructure investments and project consultancy services. The Group mainly engages in the general contracting business and contracting and engineering business, including design, engineering, manufacture, installation, maintenance, project consultancy and management services. Currently, the major products of the Group are exterior facade systems primarily made of fabricated aluminium cladding, stainless steel and glass.

The Company has expertise in the provision of contracting and engineering works, project consultancy service and project management service for the construction works. The Directors consider that the CSCECL Works Transactions contemplated under the New FE-CSCECL Sub-construction Engagement Agreement will allow the Company to maximise the profits and bring synergy effect to both CSCECL and the Company, thereby facilitating the expansion of the Company's businesses.

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 FE-CSCECL Sub-construction Engagement Agreement are expected to be entered into in the ordinary and usual course of business of the Group, and the New FE-CSCECL Sub-construction Engagement Agreement (together with the CSCECL

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## LETTER FROM THE BOARD

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Works Cap) has been entered into on normal commercial terms after arm's length negotiations between the parties, and the terms of the CSCECL Works Transactions contemplated under the New FE-CSCECL Sub-construction Engagement Agreement (together with the CSCECL Works Cap) 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, of which the Company is a non-wholly owned subsidiary. Accordingly, members of the CSCECL Group are connected persons of the Company. The CSCECL Works Transactions contemplated under the New FE-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 FE-CSCECL Sub-construction Engagement Agreement (i.e. the CSCECL Works Cap) exceed 5%, the CSCECL Works Transactions contemplated under the New FE-CSCECL Sub-construction Engagement Agreement are subject to the annual review, reporting, announcement and independent Shareholders' approval requirements. Voting at the EGM will be conducted by poll and CSCECL and its associates will abstain from voting at the EGM.

### (II) CONTINUING CONNECTED TRANSACTIONS WITH CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED

Reference is made to the announcement dated 28 October 2014 and the circular dated 18 November 2014 of the Company in relation to, among other things, the Previous FE-CSC Sub-construction Engagement Agreement and the Previous FE-CSC Operational Services Agreement, each entered into between CSC and the Company which will expire on 31 December 2017.

On 11 October 2017, CSC and the Company entered into the New FE-CSC Sub-construction Engagement Agreement to renew the Previous FE-CSC Sub-construction Engagement Agreement whereby the CSC Group may engage the Group as subcontractor of the CSC Group for provision of contracting and engineering works, project consultancy service and project management service for the CSC Group's construction works.

On 11 October 2017, CSC and the Company entered into the New FE-CSC Operational Services Agreement to renew the Previous FE-CSC Operational Services Agreement whereby (i) 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; (ii) the Group may lease machineries from the CSC Group; (iii) the Group may engage the CSC Group to provide insurance services to the Group; and (iv) the CSC Group may supply building materials to the Group.



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## LETTER FROM THE BOARD

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### NEW FE-CSC SUB-CONSTRUCTION ENGAGEMENT AGREEMENT

Principal terms of the New FE-CSC Sub-construction Engagement Agreement are summarised as follows:

#### **Date**

11 October 2017

#### **Parties**

1. CSC; and
2. the Company.

#### **CSC Works Transactions**

The Company expects that the CSC Group will continue to engage the Group as its subcontractor for provision of contracting and engineering works, project consultancy service and project management service for the CSC Group's construction works from time to time. In this connection, on 11 October 2017, CSC and the Company entered into the New FE-CSC Sub-construction Engagement Agreement for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 whereby the parties agreed that:

- (a) any member of the Group may act as subcontractor of the CSC Group for provision of contracting and engineering works, project consultancy service and project management service for the CSC Group's construction works in accordance with the applicable subcontracting procedures of the CSC Group from time to time;
- (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 member of the Group to act as subcontractor of the CSC Group for provision of contracting and engineering works, project consultancy service and project management service for the CSC Group's construction works, provided that the total contract sum that may be awarded by the CSC Group to the Group under the New FE-CSC Sub-construction Engagement Agreement for each of the three financial years ending 31 December 2020 shall not exceed HK\$1,600 million (i.e. the CSC Works Cap). 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 CSC 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 CSC Group*

As a general principle, the prices and terms of the contracts with respect to the CSC 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 than those provided to the independent third party customers of the Group.

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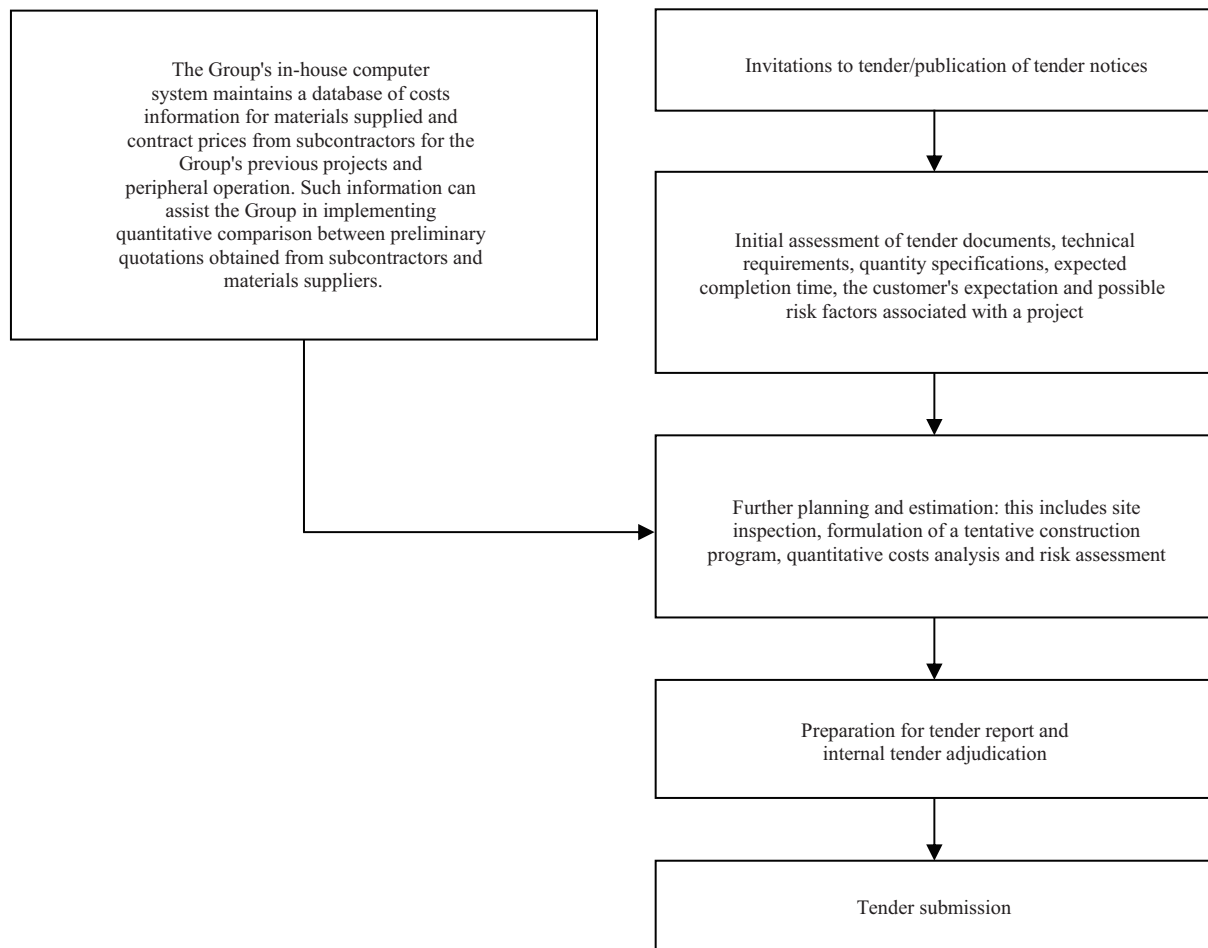
## LETTER FROM THE BOARD

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As for the provision of contracting and engineering works, the Group will normally need to go through a tender or similar process before being selected and appointed as subcontractor of the CSC Group.

The prices and terms of the Group's tenders submitted to the CSC Group for the CSC Group's construction works are subject to a standard and systematic tender submission procedure maintained by the Group, which applies 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 CSC Group are no more favourable than those submitted to independent third parties.

The standard and systematic tender submission procedure generally involves (i) receiving invitation 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 procedure, 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.



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

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## LETTER FROM THE BOARD

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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 conducting quantitative comparison between quotations obtained from sub-contractors and on the costs of the materials.

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 than those submitted to independent third parties.

Where a member of 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 procedure and the winning bid of which will be the one with the lowest tender amount in accordance with the tender procedure(s) of the member of the CSC 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.

Where a member of the Group submits tender directly to the ultimate employer, the Group will follow the above standard and systematic tender submission procedure in preparing the terms and price of the tender, and if such member of the Group is nominated as subcontractor by the ultimate employer, consideration to such member of the Group will be ascertained by an independent professional quantity surveyor appointed by the ultimate employer.

As for the provision of project management service and project consultancy service, the Group is typically engaged to provide such services through direct appointment by the CSC Group. The price and terms of each service provided to the CSC Group shall be determined on a fair basis and on normal commercial terms based on the scale, degree of difficulty of the project, geographical location and duration of the project, which shall also be in line with the basis for engagement by independent third parties to provide services for projects of similar size and nature.

The project management fees and project consultancy fees are determined based on a percentage of no more than 20% of the value or remaining value of the projects for which the member of the Group is expected to be engaged to provide services. The quote to be offered will be reviewed and scrutinised by the tender review committee with reference to the cost expected to be incurred for the services and the previous quotes offered to connected persons and at least two previous quotes offered to independent third parties to ensure that the fees for project management service and project consultancy service are no more favourable than those offered to independent third parties. The tender review committee consists of eight members, of which three of them hold director positions in certain subsidiaries of CSC. These subsidiaries did not and will not engage the Group as their subcontractor for provision of contracting and engineering works, project consultancy service or project management service. Apart of the three members, all others are independent of the CSC Group. The tenders will be reviewed by all members of the tender review committee, of which independent members will have a majority vote.

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## LETTER FROM THE BOARD

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### *Calculation of the CSC Works Cap*

The CSC Works Cap is calculated with reference to the following factors:

- (a) total contract sum of contracting and engineering works, project consultancy service and project management service provided by the Group to the construction works of the CSC Group for each of the two financial years ended 31 December 2016 of approximately HK\$1,142,848,000 and HK\$425,667,000, respectively, and in the period between 1 January 2017 and 30 September 2017 of approximately HK\$542,452,000;
- (b) estimated total contract sum of new construction projects of the CSC Group in the three-year period commencing from 1 January 2018 and ending on 31 December 2020, with reference to the CSC Group's future growth and expansion for such period as elaborated in previous section in this circular, which is estimated based on (i) the total historical contract sums awarded as mentioned above; (ii) the total amount of tenders submitted to ultimate employers and/or the CSC Group; (iii) the amount of tenders planned to be submitted to or projects under negotiation with the ultimate employer and/or the CSC Group; (iv) other potential projects available from ultimate employers and/or the CSC Group in the year of 2018 and projected increase in the projects for 2019 and 2020 given the positive outlook of the construction market. As at the Latest Practicable Date, for 2018, the Group has thirteen tenders submitted or tenders in preparation with an aggregate contract sum of HK\$2.9 billion for potential curtain wall projects in Hong Kong, of which a redevelopment project in Quarry Bay is the major tendering project; and
- (c) the growth of the construction markets in the PRC in the three-year period commencing from 1 January 2018 and ending on 31 December 2020 estimated by the Directors and as elaborated in previous section in this circular, which is based on the positive outlook of the construction industry with growth in construction activities leading to an increase in the construction works available for the Group to tender in the forthcoming years.

The decrease of contract sum of works and services provided by the Group to the CSC Group in 2016 and 2017 was because the Group had neither identified any suitable projects from the CSC Group's construction works nor successfully been nominated by ultimate employers as nominated subcontractor through tenders submitted directly to the ultimate employers during the period.

### **Condition Precedent**

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

### **Reasons for the CSC Works Transactions**

The Directors consider that the CSC Works Transactions contemplated under the New FE-CSC Sub-construction Engagement Agreement will allow the Company to maximise profits and bring synergy effect to both CSC and the Company, thereby facilitating the expansion of the Company's businesses.

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## LETTER FROM THE BOARD

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

### **NEW FE-CSC OPERATIONAL SERVICES AGREEMENT**

Principal terms of the New FE-CSC Operational Services Agreement are summarised as follows:

#### **Date**

11 October 2017

#### **Parties**

1. CSC; and
2. the Company.

#### **(1) Mechanical and Electrical Engineering Works Transactions**

The Company expects that the Group may 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 FE-CSC Operational Services Agreement, CSC and the Company agreed that, for a term of three years commencing from 1 January 2018 and ending on 31 December 2020:

- (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;
- (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 member 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 FE-CSC Operational Services Agreement for each of the three financial years ending 31 December 2020 shall not exceed HK\$450 million (i.e. the Mechanical and Electrical Engineering Works Cap). The terms of the specific contracts will be negotiated on an arm's length basis between the parties; and

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## LETTER FROM THE BOARD

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- (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 contract sum 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 than those awarded to independent third party subcontractors of the Group.

Where a member of the CSC Group is nominated as subcontractor by the ultimate employer, consideration to such member of the CSC Group will be ascertained by an independent professional quantity surveyor appointed by the ultimate employer.

Where a member of 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. Such member of the Group will obtain at least three quotations from a list of pre-approved contractors (which is subject to periodic review and update by its management to ensure contractors' quality standards).

The Group has established its own list of pre-approved contractors. All contractors invited to submit quotations for the Group's projects are selected from contractors on the list of pre-approved contractors. 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 project completion assessment, otherwise they will be removed from the list. If a contractor has no prior working relationship with the Group, such contractor will be subject to qualification evaluation and review to ascertain if it is suitable for inclusion in the list. The Group's procurement department is responsible for conducting the qualification evaluation. They will take into account factors including the contractor's financial capability, size and scale, products offered and specification, production capacity and facility, professional qualification, reputation and past performance for similar projects. All members of the Group's procurement department are independent of and have no relationship with the CSC Group.

For the selection of contractors to be invited for tenders, the suitability of a contractor is assessed with general reference to selection criteria including but not limited to the contractor's qualification grade, financial ability, technical capability, cooperation record, project management ability, quality of work and business management capability. Depending on the estimated value of the sub-construction contract, the person-in-charge and commercial managers shall conduct a vetting process to ascertain certain contractors to be invited to tender, following which the invitation for tender letters will be issued.

If the price and terms offered by a member of the CSC Group are equal to or better than those offered by independent contractors, such member of the Group may probably award the contract to such member of the CSC Group.

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## LETTER FROM THE BOARD

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For projects which involve consideration of a substantial amount, the member of the CSC Group will participate in a tender with all bidders (including independent third parties in the market), the winning bid of which will be the one with the lowest tender amount in accordance with the Group's internal tender procedure(s) 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 Cap*

The Mechanical and Electrical Engineering Works Cap is calculated with reference to the following factors:

- (a) the growth of the construction markets in the three-year period commencing from 1 January 2018 and ending on 31 December 2020 estimated by the Directors and as elaborated in previous section in this circular, which is based on the positive outlook of the construction industry and an expected growth in the construction activities in the forthcoming years, leading to an increase in general construction work projects and an increase in the need of mechanical and electrical engineering works; and
- (b) the estimated total contract sum of the new construction projects of the Group involving mechanical and electrical engineering works in the three-year period commencing from 1 January 2018 and ending on 31 December 2020, with reference to the expected expansion and development of the Group's businesses, which is based on the fact that the Group has been awarded two new general contracting works (where the provision of mechanical and electrical engineering works will be required) by independent third party developers with total contract value of HK\$800 million in 2017, and the potential increase of general contracting work in the years from 2018 to 2020 given the positive outlook of the construction market. As at the Latest Practicable Date, for 2018, the Group has five tenders submitted or in preparation with an aggregate contract sum of HK\$2.8 billion for potential general contracting projects in Hong Kong in relation to the operational services, among which a residential property development project in Shum Shui Po is the major tendering project. The Group intends to maintain similar tender amounts for 2019 and 2020.

The CSC Group was not engaged by the Group to provide any mechanical and electrical engineering works in the years from 2015 to 2017 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 for the years.

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## LETTER FROM THE BOARD

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The estimated contract sum of the mechanical and electrical engineering works is calculated based on a percentage of the total estimated contract sum of the new construction projects of the Group. The Group 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, which ranged from in range of 5% to 20% of the total contract sum, depending on the scale and complexity of the projects.

With reference to the projects of HK\$800 million awarded in 2017 and tenders submitted or in preparation for new potential projects to be awarded or tendered for with an aggregate contract sum in excess of HK\$2.8 billion, the Directors are of the view that the Mechanical and Electrical Engineering Works Cap is determined based on the reasonable estimation and is fair and reasonable.

### (2) **Machineries Leasing Transactions**

The Company expects that the Group may lease machineries from the CSC Group for the Group's construction works from time to time. Accordingly, under the New FE-CSC Operational Services Agreement, CSC and the Company agreed that, for a term of three years commencing from 1 January 2018 and ending on 31 December 2020:

- (a) any member of the Group may lease machineries from the CSC Group for the Group's construction works from time to time;
- (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 FE-CSC Operational Services Agreement for each of the three financial years ending 31 December 2020 shall not exceed HK\$25 million (i.e. the Machineries Leasing Cap). 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 rent payable for the leasing of machineries*

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 than those paid to independent third party vendors of the Group.

Member of the Group will obtain at least three quotations from a list of pre-approved vendors (which is subject to periodic review and update by its management to ensure vendors' machinery and equipment are in good operational condition). If the price and terms offered by a member of the CSC Group are equal to or better than those offered by independent vendors, such member of the Group may probably accept the quotation from such member of the CSC Group.



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## LETTER FROM THE BOARD

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The Group has established its own list of pre-approved vendors. All vendors who provide quotations for the Group's projects are selected from vendors on the list of pre-approved vendors. 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 project completion assessment, otherwise they will be removed from the list. If a vendor has no prior working relationship with the Group, such vendor will be subject to qualification evaluation and review to ascertain if it is suitable for inclusion in the list. The Group's procurement department is responsible for conducting the qualification evaluation. They will take into account factors including the vendor's financial capability, size and scale, products offered and specification, production capacity and facility, professional qualification, reputation and past performance for similar projects. All members of the Group's procurement department are independent from and has no relationship with the CSC Group.

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 the condition of the machinery and equipment).

### *Calculation of the Machineries Leasing Cap*

The Machineries Leasing Cap is calculated with reference to the following factors:

- (a) the total rent for the leasing of machineries paid by the Group to the CSC Group for each of the two financial years ended 31 December 2016 of approximately HK\$2,870,000 and HK\$2,106,000, respectively, and in the period between 1 January 2017 and 30 September 2017 of approximately HK\$1,893,000;
- (b) the growth of the construction markets in the three-year period commencing from 1 January 2018 and ending on 31 December 2020 estimated by the Directors, which is based on the positive outlook of the construction industry with expected growth in the construction activities in the forthcoming years, leading to an increase in general construction work projects and an increase in the need of machineries leasing; and
- (c) the estimated total contract sum of the new construction projects of the Group requiring the leasing of machineries in the three-year period commencing from 1 January 2018 and ending on 31 December 2020, with reference to the expected expansion and development of the Group's businesses as elaborated in previous section in this circular, which is based on the fact that the Group has been awarded two new general contracting works (where the provision of machineries leasing will be required) by independent third party developers with total contract value of HK\$800 million in 2017, and the potential increase of general contracting work in the years from 2018 to 2020 given the positive outlook of the construction market as elaborated in previous section in this circular.

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## LETTER FROM THE BOARD

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### (3) Insurance Services Transactions

The Company expects that the Group may 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 from time to time. Accordingly, under the New FE-CSC Operational Services Agreement, CSC and the Company agreed that, for a term of three years commencing from 1 January 2018 and ending on 31 December 2020:

- (a) any member of the CSC Group may provide insurance services to the Group from time to time;
- (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 member of the CSC Group to provide insurance services to the Group, provided that the total fees payable for the provision of insurance services under the New FE-CSC Operational Services Agreement for each of the three financial years ending 31 December 2020 shall not exceed HK\$70 million (i.e. the Insurance Services Cap). 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 fees payable for the provision of insurance services*

As a general principle, the prices and terms of the contracts with respect to the Insurance Services 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 than those paid to third party insurers of the Group.

Member of the Group will obtain at least three quotations from independent insurers (directly or indirectly through insurance brokers) and a member of CSC Group. If the price and terms offered by the member of the CSC Group are equal to or better than those offered by independent insurers 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), such member of the Group may probably accept the quotation from such member of the CSC Group.

#### *Calculation of the Insurance Services Cap*

The Insurance Services Cap is calculated with reference to the following factors:

- (a) the total fees for the provision of insurance services paid by the Group to the CSC Group for each of the two financial years ended 31 December 2016 of approximately HK\$5,212,000, and HK\$5,804,000, respectively, and in the period between 1 January 2017 and 30 September 2017 of approximately HK\$15,366,000;

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## LETTER FROM THE BOARD

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- (b) the growth of the construction markets in the three-year period commencing from 1 January 2018 and ending on 31 December 2020 estimated by the Directors, which is based on the positive outlook of the construction industry with expected growth in the construction activities in the forthcoming years, leading to an increase in general construction work projects and an increase in the need of insurance services;
- (c) the estimated total contract sum of the new construction projects of the Group in the three-year period commencing from 1 January 2018 and ending on 31 December 2020, with reference to the expected expansion and development of the Group's businesses as elaborated in previous section in this circular, which is based on the fact that the Group has been awarded two new general contracting works (where the provision of insurance services will be required) by independent third party developers with total contract value of HK\$800 million in 2017, and the potential increase of general contracting work in the years from 2018 to 2020 given the positive outlook of the construction market as elaborated in previous section in this circular; and
- (d) historical, current and projected insurance premiums for similar insurance services with other insurers.

#### **(4) Supply of Building Materials Transactions**

The Company expects that the CSC Group may supply building materials to the Group for the Group's construction works from time to time. Accordingly, under the New FE-CSC Operational Services Agreement, CSC and the Company agreed that, for a term of three years commencing from 1 January 2018 and ending on 31 December 2020:

- (a) any member of the CSC Group may supply building materials to the Group for the Group's construction works from time to time;
- (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 FE-CSC Operational Services Agreement for each of the three financial years ending 31 December 2020 shall not exceed HK\$150 million (i.e. the Supply of Building Materials Cap). 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 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 than those paid to independent third party suppliers of the Group.

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## LETTER FROM THE BOARD

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Member of the Group will obtain at least three quotations from a 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).

The Group has established its own list of pre-approved suppliers. All suppliers provided quotations for the Group's projects are selected from suppliers on the list of pre-approved suppliers. 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 project completion assessment, otherwise they will be removed from the list. If a supplier has no prior working relationship with the Group, such supplier will be subject to qualification evaluation and review to ascertain if it is suitable for inclusion in the list. The Group's procurement department is responsible for conducting the qualification evaluation. They will take into account factors including the supplier's financial capability, size and scale, products offered and specification, production capacity and facility, professional qualification, reputation and past performance for similar projects. All members of the Group's procurement department are independent from and has no relationship with the CSC Group.

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).

If the price and terms offered by a member of the CSC Group are equal to or better than those offered by the independent suppliers on the condition to satisfy all the essential requirements (including but not limited to relevant experience, qualities, specifications, historical relationship and track records), such member of the Group may probably award the contract to such member of the CSC Group.

### *Calculation of the Supply of Building Materials Cap*

The Supply of Building Materials Cap is calculated with reference to the following factors:

- (a) total contract sum for provision of supply of building materials for the Group's construction works awarded by the Group to the CSC Group for each of the two financial years ended 31 December 2016 of approximately HK\$12,362,000, and HK\$6,308,000, respectively, and in the period between 1 January 2017 and 30 September 2017 of approximately HK\$7,195,000. The decrease in supply of building materials from the CSC Group in 2016 and 2017 was due to (i) the postponement of certain construction works undertaken by the Group; and (ii) the fact that the CSC Group had not successfully been awarded in certain tender projects for supplying building materials to the Group;
- (b) the growth of the construction markets in the three-year period commencing from 1 January 2018 and ending on 31 December 2020 estimated by the Directors, which is based on the positive outlook of the construction industry with expected growth in the construction activities in the forthcoming years, leading to an increase in general construction work projects and an increase in the need of the supply of building materials; and

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## LETTER FROM THE BOARD

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- (c) the estimated total contract sum of the new construction projects of the Group in the three-year period commencing from 1 January 2018 and ending on 31 December 2020, with reference to the expected expansion and development of the Group's businesses as elaborated in previous section in this circular, which is based on the fact that the Group has been awarded two new general contracting works (where the supply of building materials will be required) by independent third party developers with total contract value of HK\$800 million in 2017, and the potential increase of general contracting work in the years from 2018 to 2020 given the positive outlook of the construction market as elaborated in previous section in this circular.

### **Condition Precedent**

The Mechanical and Electrical Engineering Works Transactions, Machineries Leasing Transactions, Insurance Services Transactions and Supply of Building Materials Transactions contemplated under the New FE-CSC Operational Services Agreement (together with the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap) are conditional upon the passing of the resolution by the CSC Works Independent Shareholders at the EGM approving the New FE-CSC Operational Services Agreement and the transactions contemplated thereunder.

### **Reasons for the Mechanical and Electrical Engineering Works Transactions, Machineries Leasing Transactions, Insurance Services Transactions and Supply of Building Materials Transactions**

The Mechanical and Electrical Engineering Works Transactions, Machineries Leasing Transactions, Insurance Services Transactions and Supply of Building Materials Transactions contemplated under the New FE-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 reliable contractor and service provider to its customers and the maintenance of a strategic business relationship with the CSC Group will not only allow the realisation of synergies and economies of scale but also facilitate the expansion of the Company's businesses.

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 Mechanical and Electrical Engineering Works Transactions, Machineries Leasing Transactions, Insurance Services Transactions and Supply of Building Materials Transactions contemplated under the New FE-CSC Operational Services Agreement are expected to be entered into in the ordinary and usual course of business of the Group, and the New FE-CSC Operational Services Agreement (together with the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap) has been entered into on normal commercial terms after arm's length negotiations between the parties, and the terms of the Mechanical and Electrical Engineering Works Transactions, Machineries Leasing Transactions, Insurance Services

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## LETTER FROM THE BOARD

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Transactions and Supply of Building Materials Transactions (together with the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### GENERAL

The CSC Group is principally engaged in building construction, civil engineering works, infrastructure investments and project consultancy services.

The Group mainly engages in the general contracting business and the contracting and engineering business, including design, engineering, manufacture, installation, maintenance, project consultancy and management services. Currently, the major products of the Group are exterior facade systems primarily made of fabricated aluminium cladding, stainless steel and glass.

CSC is indirectly interested in 1,596,403,279 Shares, representing approximately 74.06% of the issued share capital, and is a controlling Shareholder. Accordingly, members of the CSC Group are connected persons of the Company. The CSC Works Transactions contemplated under the New FE-CSC Sub-construction Engagement Agreement and the Mechanical and Electrical Engineering Works Transactions, Machineries Leasing Transactions, Insurance Services Transactions and Supply of Building Materials Transactions contemplated under the New FE-CSC Operational Services Agreement 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 FE-CSC Sub-construction Engagement Agreement (i.e. the CSC Works Cap) exceed 5%, the CSC Works Transactions contemplated under the New FE-CSC Sub-construction Engagement Agreement are subject to the annual review, reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Voting at the EGM will be conducted by poll and CSC and its associates will abstain from voting at the EGM.

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 FE-CSC Operational Services Agreement (i.e. the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap in aggregate) exceed 5%, the Mechanical and Electrical Engineering Works Transactions, Machineries Leasing Transactions, Insurance Services Transactions and Supply of Building Materials Transactions contemplated under the New FE-CSC Operational Services Agreement are subject to the annual review, reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Voting at the EGM will be conducted by poll and CSC and its associates will abstain from voting at the EGM.

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## LETTER FROM THE BOARD

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### EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at 16th Floor, Eight Commercial Tower, No. 8 Sun Yip Street, Chai Wan, Hong Kong on Monday, 18 December 2017, at 10:00 a.m. is set out on pages 63 to 65 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 FE-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Cap), (ii) the New FE-CSC Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSC Works Cap), and (iii) the New FE-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap).

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 return the same to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, 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 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 adjourned meeting (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, CSCECL and its associates, in aggregate holding 1,596,403,279 shares of the Company, representing approximately 74.06% of the issued share capital of the Company, will abstain from voting at the EGM on the resolution relating to the New FE-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Cap). In addition, as at the Latest Practicable Date, CSC and its associates, in aggregate holding 1,596,403,279 shares of the Company, representing approximately 74.06% of the issued share capital of the Company, will abstain from voting at the EGM on the resolutions relating to the New FE-CSC Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSC Works Cap), and the New FE-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap).

Since none of the Directors has a material interest in the Transactions, no Director was required to abstain from voting on the Board resolutions approving the Transactions. The results of the voting will be announced in accordance with Rule 2.07C of the Listing Rules after the EGM.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 15 December 2017 to Monday, 18 December 2017, both days inclusive, for the purpose of determining Shareholders' entitlement to attend and vote at the EGM.

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## LETTER FROM THE BOARD

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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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 14 December 2017.

### RECOMMENDATION

Your attention is drawn to the letter of advice from the Independent Board Committee set out on pages 32 to 33 in this circular which contains its recommendation to the Independent Shareholders in relation to (i) the New FE-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Cap), (ii) the New FE-CSC Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSC Works Cap), and (iii) the New FE-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap).

Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages 34 to 57 in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to (i) the New FE-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Cap), (ii) the New FE-CSC Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSC Works Cap), and (iii) the New FE-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap).

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 New FE-CSCECL Sub-construction Engagement Agreement, the New FE-CSC Sub-construction Engagement Agreement and the New FE-CSC Operational Services Agreement (together with the CSCECL Works Cap, the CSC Works Cap, the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap) have been entered into on normal commercial terms, and the terms of the Transactions (together with the CSCECL Works Cap, the CSC Works Cap, the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors recommend the Shareholders to vote in favour of all the ordinary resolutions to be proposed at the EGM.



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**LETTER FROM THE BOARD**

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**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  
**Far East Global Group Limited**  
**Zhou Yong**  
*Chairman and Non-executive Director*

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LETTER FROM INDEPENDENT BOARD COMMITTEE

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遠東環球集團有限公司  
FAR EAST GLOBAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code : 830)

1 November 2017

*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 1 November 2017 (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 FE-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Cap), (ii) the New FE-CSC Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSC Works Cap), and (iii) the New FE-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap) 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 to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the New FE-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Cap), (ii) the New FE-CSC Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSC Works Cap), and (iii) the New FE-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap).

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## LETTER FROM INDEPENDENT BOARD COMMITTEE

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We wish to draw your attention to the letter from the Board, as set out on pages 6 to 31 of the Circular and the text of a letter of advice from Red Sun, as set out on pages 34 to 57 of the Circular, both of which provide details of (i) the New FE-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Cap), (ii) the New FE-CSC Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSC Works Cap), and (iii) the New FE-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap).

Having considered (i) the New FE-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Works Cap), (ii) the New FE-CSC Sub-construction Engagement Agreement and the transactions contemplated thereunder (together with the CSC Works Cap), (iii) the New FE-CSC Operational Services Agreement and the transactions contemplated thereunder (together with the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap), (iv) the advice of Red Sun, and (v) the relevant information contained in the letter from the Board, we are of the opinion that the terms of the Transactions are fair and reasonable, the Transactions are on normal commercial terms and in the ordinary and usual course of business of the Group and the Transactions are 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  
Far East Global Group Limited**

**ZHOU Jinsong**  
*Independent*  
*Non-executive Director*

**HONG Winn**  
*Independent*  
*Non-executive Director*

**KWONG Sum Yee Anna**  
*Independent*  
*Non-executive Director*

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## LETTER FROM RED SUN

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*The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Shareholders for inclusion in this circular.*



**紅日資本有限公司**  
**RED SUN CAPITAL LIMITED**

1 November 2017

*To: The Independent Board Committee  
and the Independent Shareholders*

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**

### **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 FE-CSCECL Sub-construction Engagement Agreement; (ii) the New FE-CSC Sub-construction Engagement Agreement; and (iii) the New FE-CSC Operational Services Agreement, and the 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 1 November 2017, 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 11 October 2017, the Company and CSCECL entered into the New FE-CSCECL Sub-construction Engagement Agreement to renew the Previous FE-CSCECL Sub-construction Engagement Agreement whereby the CSCECL Group may engage the Group as its subcontractor for provision of contracting and engineering works, project consultancy service and project management service for the CSCECL Group’s construction works for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 subject to the CSCECL Works Cap.

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## LETTER FROM RED SUN

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On 11 October 2017, the Company and CSC entered into the New FE-CSC Sub-construction Engagement Agreement to renew the Previous FE-CSC Sub-construction Engagement Agreement whereby the CSC Group may engage the Group as subcontractor of the CSC Group for provision of contracting and engineering works, project consultancy service and project management service for the CSC Group's construction works for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 subject to the CSC Works Cap.

On 11 October 2017, the Company and CSC entered into the New FE-CSC Operational Services Agreement to renew the Previous FE-CSC Operational Services Agreement whereby (i) 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 for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 subject to the Mechanical and Electrical Engineering Works Cap; (ii) the Group may lease machineries from the CSC Group for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 subject to the Machineries Leasing Cap; (iii) the Group may engage the CSC Group to provide insurance services to the Group for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 subject to the Insurance Services Cap; and (iv) the CSC Group may supply building materials to the Group for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 subject to the Supply of Building Materials Cap.

CSCECL is the intermediate holding company of CSC, in turn, CSC is indirectly interested in approximately 74.06% of the issued share capital of the Company. Hence, members of the CSCECL Group and the CSC Group are connected persons of the Company, respectively.

As 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 each of the New FE-CSCECL Sub-construction Engagement Agreement, the New FE-CSC Sub-construction Engagement Agreement and the New FE-CSC Operational Services Agreement (together the "**Agreement(s)**") exceed 5%, each of the Agreements and the respective transactions contemplated thereunder are subject to annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board currently comprises Mr. Zhou Yong as Chairman and Non-executive Director; Mr. Zhu Yijian as Vice Chairman and Chief Executive Officer, Mr. Luo Haichuan, Mr. Wang Hai and Mr. Chan Sim Wang as Executive Director, Mr. Huang Jiang as Non-executive Director, and three Independent Non-executive Directors, namely Mr. Zhou Jinsong, Mr. Hong Winn and Ms. Kwong Sum Yee Anna.

The Independent Board Committee comprising all the abovementioned Independent Non-executive Directors has been established to advise the Independent Shareholders in respect of the terms of the Agreements, the transactions contemplated thereunder and the proposed annual caps in relation thereto and whether the Agreements, together with the respective annual caps, are in the interests of the Company and the Shareholders as a whole, respectively.

We, Red Sun Capital Limited, 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 Agreements, together with the respective annual caps, for the Independent Board Committee's consideration when making their recommendation to the Independent Shareholders.

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## LETTER FROM RED SUN

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### OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have not acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company for any transaction.

Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had 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.

### BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company (the “**Management**”). 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.

The Directors collectively and individually accept full responsibility of the Circular, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and no misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion.

We have not, however, carried out any independent verification of the information provided by the Directors and the Management, nor have we conducted an independent investigation into the business and affairs of the Group, CSCECL Group, CSC Group and their respective associates.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of each of the Agreements, together with the respective annual 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.

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## LETTER FROM RED SUN

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the terms of the transactions contemplated under the Agreements, we have taken into consideration the following principal factors and reasons:

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

##### 1.1 Principal business and the financial information of the Group

The Group mainly engages in the general contracting business and the contracting and engineering business, including design, engineering manufacture, installation, maintenance, project consultancy and management services.

Set out below is a summary of the Group's operating results extracted from the latest published interim report and annual report of the Company for the six months ended 30 June 2017 (the "2017 Interim Report") and the year ended 31 December 2016 (the "2016 Annual Report"), respectively:

	For the six months ended 30 June		For the year ended 31 December	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2016 (Audited) HK\$'000	2015 (Audited) HK\$'000
<b>Revenue</b>	1,403,707	1,152,020	2,647,272	2,194,896
- Facade Contracting Works	1,015,032	976,069	2,190,069	2,041,338
- General Contracting Works	388,675	175,951	457,203	153,558

Based on the 2016 Annual Report, revenue for the three years ended 31 December 2016 were approximately HK\$1.7 billion, HK\$2.2 billion and HK\$2.6 billion, respectively, representing a compound growth rate of approximately 23.7%.

We understand from the Management and the transactions contemplated under the Agreements are mainly related to services between the Group and the CSCECL Group / the CSC Group for the provision of subcontracting for Exterior Facade Works or general contracting related works. As set out in the table above, revenue generated from facade contracting works and general contracting works accounted for approximately 82.7% and 17.3% of the Group's total revenue for the year ended 31 December 2016, respectively and accounted for approximately 72.3% and 27.7% of the Group's total revenue for the six months ended 30 June 2017, respectively.

##### 1.2 Principal activities of the CSCECL Group

As stated in the Letter from the Board, the CSCECL Group is a contractor mainly participating in the PRC construction market.

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## LETTER FROM RED SUN

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According to the annual report of CSCECL for the year ended 31 December 2016, its total revenue increased by approximately 9.0% to approximately RMB959.8 billion for the year ended 31 December 2016, in which, approximately 64.6% was derived from building construction for the year ended 31 December 2016.

### 1.3 Principal activities of the CSC Group

The CSC Group is principally engaged in building construction, civil engineering works, infrastructure investments and project consultancy services.

According to the annual report of CSC for the year ended 31 December 2016, its total revenue increased by approximately 21.6% to approximately HK\$46.2 billion for the year ended 31 December 2016, in which, approximately 56.9% was derived from construction contracts for the year ended 31 December 2016.

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 6.9% and 6.7% in 2015 and 2016, respectively. In the first two quarters of 2017, the GDP of the PRC recorded an accumulated growth of approximately 6.9% in comparison to the same period in the previous year. As extracted from the website of the National Bureau of Statistics of China (the “NBS”) at <http://data.stats.gov.cn>, the total gross output value of the construction industry in the PRC has increased year-on-year by approximately 10.2% and 2.3% in 2014 and 2015, respectively.

The table below shows a summary of the PRC’s urbanisation levels from 2010 to 2015.

	2010	2011	2012	2013	2014	2015
Total population (in millions)	1,340.9	1,347.4	1,354.0	1,360.7	1,367.8	1,374.6
Urban Population (in millions)	670.0	690.8	711.8	731.1	749.2	771.2
Urbanisation Rate (%)	50.0%	51.3%	52.6%	53.7%	54.8%	56.1%

Source: NBS



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## LETTER FROM RED SUN

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The table below shows a summary of the PRC's disposable income of urban households per capita from 2014 to 2016 and until the end of the second quarter of 2017.

	2014	2015	2016	2Q2016	2Q2017
Per Capita Disposable Income of Urban Households (RMB)	28,844	31,195	33,616	16,957	18,322

*Source: NBC*

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 RMB28,844 in 2014 to approximately RMB31,195 in 2015 and further increased to approximately RMB33,616 in 2016, representing a year-on-year increase of approximately 8.2% and approximately 7.8%, respectively. The annual disposable income per capita of urban households in the PRC increased from approximately RMB16,957 for the second quarter of 2016, compared to approximately RMB18,322 for the corresponding second quarter of 2017 (representing a period-on-period increase of approximately 8.1%).

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 plan.

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 2.4% and 2.0% in 2015 and 2016, respectively, and approximately 4.3% and 3.8% in the first and second quarters of 2017, respectively, comparing to the same quarters in the previous year. The gross value of construction works in nominal terms performed by main contractors recorded year-on-year growth of approximately 12.1% and 5.6% in 2015 and 2016, respectively, and approximately 5.1% and 7.4% in each of the first and second quarters of 2017, respectively, comparing to the same quarters in the previous year.

Public and private sector demand for residential buildings is a key driver of the construction industry in Hong Kong. The supply of residential buildings is expected to increase due to the implementation of a Hong Kong Government initiative to reduce the average waiting time for public rental housing applicants. Furthermore, the Housing Authority provides public residential housing in

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## LETTER FROM RED SUN

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order to satisfy the housing needs of low income families. In fiscal year 2016/17, the Housing Authority put in place a five-year rolling public housing construction program to produce 94,500 public residential units. As for the private property sector, it has benefited from the low interest rate environment and sound economic fundamentals in Hong Kong and the PRC.

### **2. The New FE-CSCECL Sub-construction Engagement Agreement**

#### *2.1 Principal terms of the New FE-CSCECL Sub-construction Engagement Agreement*

The New FE-CSCECL Sub-construction Engagement Agreement shall commence on 1 January 2018 and shall continue up to and including 31 December 2020.

Details of the terms of the New FE-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 FE-CSCECL Sub-construction Engagement Agreement" in the Letter from the Board in the Circular.

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

The Group mainly engages in the general contracting business and contracting and engineering business, including design, engineering, manufacture, installation, maintenance, project consultancy and management service. Currently, the major products of the Group are exterior facade systems primarily made of fabricated aluminium cladding, stainless steel and glass. The Group has expertise in the provision of contracting and engineering works, project consultancy service and project management service for the construction works.

The entering into the New FE-CSCECL Sub-construction Engagement Agreement would allow the flexibility for CSCECL to engage the Group as its subcontractor for provision of contracting and engineering works, project consultancy service and project management service to the CSCECL Group's construction works. The Directors consider that the transactions contemplated under the New FE-CSCECL Sub-construction Engagement Agreement will allow the Company to maximise the profits and bring synergy effect to both the Company and CSCECL; thereby facilitating the expansion of the Company's businesses.

Having considered that the Group's principal activities in the provision of contracting and engineering work as well as its expertise in project consulting and project management service, we concur with the Management that the provision of services under the New FE-CSCECL Sub-construction Engagement Agreement which would further enhance the Group's revenue, thereby, generate stable income to be beneficial to the Group and its Shareholders as a whole.

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## LETTER FROM RED SUN

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### 2.3 *Internal procedures and pricing basis*

We understand from the Management that the Group, where considered appropriate, is intended (i) to continue to tender for the provision of contracting and engineering works of the CSCECL Group; and (ii) to provide project consultancy service and project management service to CSCECL Group's construction works from time to time.

In connection with our works performed on assessing whether the terms under the New FE-CSCECL Sub-construction Engagement Agreement are fair and reasonable, we have reviewed the internal standard 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 invitation 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. We have also reviewed the material procurement standard procedures (物資採購工作程序) of the Group (the **"Material Procurement Standard Procedures"**), setting out the procurement process. As set out in the aforesaid standard procedures and our discussions with the management, the Group's procurement department is responsible for (i) obtaining quotations from suppliers with existing supply agreement with the Group in respect of the standard materials; and (ii) obtaining quotations from suppliers by following the Material Procurement Standard Procedures in respect of non-standard materials, which sets out the requirement that generally quotation should be obtained from not less than three pre-approved suppliers / service providers and that the contract should be awarded to the suppliers / service providers with the lowest quotation provided that such supplier / service provider satisfies all other essential requirements (together the **"Tender Procedures"**).

The Management advised that all tenders have followed the Tender Procedures for the period from 1 January 2015 to the Latest Practicable Date.

As for the provision of project management service and project consultancy service, the price and terms will be determined on a fair basis and on normal commercial terms. The project management fees and project consultancy fees are determined based on a percentage ranging from 2% to 5% of the contract sum of the projects for which the member of the Group is expected to provide services. We have been advised by the Management that the relevant business unit shall prepare a project analysis report based on the scale, degree of difficulty, geographical location and duration of the project and make recommendation to senior management on the percentage to be charged. All pricing decisions are fully justified, formally approved and documented. We have discussed with the Management and noted that the provision of project management service and project consultancy service (including the percentage charged) to independent third parties and connected persons will be reviewed and evaluated under the same prescribed assessment method as mentioned above.

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## LETTER FROM RED SUN

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As set out in the 2016 Annual Report, the Group will increase its market share in Hong Kong and Macau, North America and the PRC by integrating resources and adhering to the business philosophy of “closely focusing on high-end markets and providing high-quality services”. The Group will sharpen its integrated competitive edges in its curtain wall business. We also noted from the 2016 Annual Report that the curtain wall industry in the PRC saw turbulence and higher fragmentation with apparent and vicious competition on price but the Group was still able to explore and won several high-end residential and commercial office projects. The Group has also acquired a land with more than 85,000 square metres to further increase its capacity.

As set out in the 2016 Annual Report of CSCECL, CSCECL ranked 27th 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.

Having considered that (i) the Group’s intention to tender for provision of contracting and engineering works of the CSCECL Group and the potential appointment by CSCECL Group for the provision of project consultancy service and project management service; (ii) the engagement as a subcontractor by CSCECL will enable the Group to participate in more sizeable and upscale projects; (iii) the pricing basis under the New FE-CSCECL Sub-construction Engagement Agreement, in particular, the prices and terms of the tenders with respect to the contracting and engineering works shall follow the Tender Procedures, which also applies to the tenders to independent third party customers of the Group; and (iv) the prices and terms for the provision of project management service and project consultancy service will be evaluated under the same prescribed assessment method with independent third party, we concur with the Directors’ view that the New FE-CSCECL Sub-construction Engagement Agreement was entered into 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 Cap

Set out below are (i) the historical fees paid by the CSCECL Group under the Previous FE-CSCECL Sub-construction Engagment Agreement for the two years ended 31 December 2016 and the nine months ended 30 September 2017; and (ii) the CSCECL Works Cap for the three years ending 31 December 2020:

CSCECL Works Cap						
Historical Transaction Amounts <i>(Note 1)</i>			CSCECL Works Cap			
For the year ended 31 December		For the nine months ended 30 September	For the year ending 31 December			
2015	2016	2017	2018	2019	2020	
<b>HK\$318.7</b>	<b>HK\$529.5</b>	—	<b>HK\$1,000</b>	<b>HK\$1,000</b>	<b>HK\$1,000</b>	
<b>million</b>	<b>million</b>	<b>—</b>	<b>million</b>	<b>million</b>	<b>million</b>	
<b>39.8% of the</b>	<b>66.2% of the</b>	<b>—</b>				
<b>annual cap</b>	<b>annual cap</b>	<b>—</b>				
<i>(Note 2)</i>	<i>(Note 2)</i>	<i>(Note 2)</i>				

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## LETTER FROM RED SUN

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*Notes:*

- (1) The historical fees paid by CSCECL Group to the Group under the Previous FE-CSCECL Sub-construction Engagement Agreement.
- (2) The utilisation rate is based on the respective annual cap for the two years ended 31 December 2016 of HK\$800 million under the Previous FE-CSCECL Sub-construction Engagement Agreement.

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

- (i) the historical fees paid by the CSCECL Group to the Group under the Previous FE-CSCECL Sub-construction Engagement Agreement in relation to the Exterior Facade Works for each of the two financial years ended 31 December 2016 of approximately HK\$318,658,000 and HK\$529,533,000, respectively;
- (ii) estimated total contract sum of new construction projects of the CSCECL Group in the three-year period commencing from 1 January 2018 and ending on 31 December 2020, with reference to the CSCECL Group's future growth and expansion for such period which is estimated based on (i) the total amount of the tenders submitted to ultimate employers and/or the CSCECL Group for the Exterior Facade Works and other construction works; (ii) the amount of tenders planned to be submitted to or projects under negotiation with ultimate employers and/or the CSCECL Group; (iii) other potential general construction works available from ultimate employers and/or the CSCECL Group in the year of 2018 and the projected increase in general construction works for 2019 and 2020 given the positive outlook of the construction market; and
- (iii) the growth of the construction markets in the PRC and Hong Kong in the three-year period commencing from 1 January 2018 and ending on 31 December 2020 estimated by the Directors, which is based on the positive outlook of the construction industry with growth in construction activities leading to an increase in the construction works available for the Group to tender for in the forthcoming years.

We noted that the historical fees paid by CSCECL to the Group in relation to the Exterior Facade Works for the two years ended 31 December 2016 amounted to approximately HK\$318.6 million and HK\$529.5 million, representing an utilisation rate of approximately 39.8% and 66.2% of the respective cap of HK\$800 million under the Previous FE-CSCECL Sub-construction Engagement Agreement. The CSCECL Works Cap for each of the years ending 31 December 2018, 2019 and 2020 represent an increment as compared to the historical transaction amount for the two years ended 31 December 2016. Based on our discussion with the Management of the Company, we were advised that the increase in the historical transaction amount of the CSCECL Works Cap in 2016 was mainly due to the increase of awarded projects. The Group was not engaged for any Exterior Facade Works by the CSCECL Group during the period between 1 January 2017 to 30 September 2017 as the Group had neither identified any suitable projects from the CSCECL Group's construction works nor successfully been nominated by ultimate employers as nominated subcontractor through tenders submitted directly to the ultimate employers during the period.

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## LETTER FROM RED SUN

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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 for 2018 from the CSCECL Group (including transaction amount with tenders submitted or tenders in preparation) to engage the Group, subject to successful tender, for the provision of contracting and engineering work under the New FE-CSCECL Sub-construction Engagement Agreement. The schedule includes six potential projects, out of which (i) three projects had an estimated transaction amount between HK\$100 million and HK\$200 million; (ii) two projects had an estimated transaction amount between HK\$300 million and HK\$400 million; and (iii) the remaining project had an estimated transaction amount exceeding HK\$950 million, with an aggregate contract sum to be awarded or tendered for in excess of HK\$2.0 billion, representing approximately 2 times of the CSCECL Works Cap. In light of the above, we concur with the Directors' view that the CSCECL Works Cap is determined based on the reasonable estimation and is fair and reasonable so far as the Company and the Independent Shareholders are concerned. We understand from the Management that the aforesaid aggregate contract sum is currently subject to tenders or upcoming tenders. As such, the Group may or may not be awarded with any of the contracts.

We understand from the Management that the submission of tenders depends on, among others, the outcome of the Group's quantitative costs analysis and risk assessment of the contract as well as the Group's likelihood of being awarded with such contract. We have discussed with the Management and reviewed five samples of the aforesaid preliminary analysis for tenders in general and noted that the preliminary analysis for tenders to connected persons were evaluated under the same prescribed assessment in a manner no different from tenders to independent third parties.

We understand from the Management that tenders for Exterior Facade Works contracts typically relate to works to be carried out in the forthcoming 12 months, therefore based on currently available information, the Management advised that it is impractical to compile a list of potential Exterior Facade Works contracts beyond the year ending 31 December 2018.

Notwithstanding the above, the Management advised that the Group's revenue derived from Exterior Facade Works has increased year-on-year for the two years ended 31 December 2016, representing a growth rate of approximately 7.3%, details of which are set out under the paragraph headed "1.1 Principal business and the financial information of the Group" above. In addition to the curtain wall projects for stores of high-end products in which the Group has been enjoying advantages in the PRC market with its brand is highly recognised by its key and major clients, the Group also explored similar boutique projects leveraging its branding effect. Given the favourable prevailing construction industry overlook in the PRC, we concur with the Management's view that it is reasonable to set the CSCECL Works Cap for the year ending 31 December 2018 as the basis to determine the CSCECL Works Cap for the remaining two years ending 31 December 2020.

The overview of the PRC economy and its building construction activities have been set out under the paragraph headed "1.4 Overview of the economy and building construction activities" above.

The CSCECL Group is a sizeable state-owned construction group in the PRC with a market capitalisation of in excess over RMB280 billion as at the Latest Practicable Date with a revenue of approximately RMB959.8 billion for the year ended 31 December 2016.

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## LETTER FROM RED SUN

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In addition, the CSCECL Works Cap would provide the Group the flexibility but not the obligation to provide services to the CSCECL Group, and that it would avoid undue delay in the services which the Group wishes to provide to the CSCECL Group in the event that the Group is successful in its tenders and be awarded with contracting and engineering works, project consultancy service and project management service contracts.

Having considered that abovementioned factors, we concur with the Management that the CSCECL Works Cap is fair and reasonable.

Nevertheless, the Shareholders are advised that the CSCECL Works Cap represent the best estimates by the Group based on the information available at the time.

### **3. The New FE-CSC Sub-construction Engagement Agreement**

#### *3.1 Principal terms of the New FE-CSC Sub-construction Engagement Agreement*

The New FE-CSC Sub-construction Engagement Agreement shall commence on 1 January 2018 and shall continue up to and including 31 December 2020.

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

#### *3.2 Reasons for and benefits of entering into the New FE-CSC Sub-construction Engagement Agreement*

The Group mainly engages in the general contracting business and the contracting and engineering business, including design, engineering, manufacture, installation, maintenance, project consultancy and management services and the CSC Group is principally engaged in building construction, civil engineering works, infrastructure investments and project consultancy services.

The Company expects that the CSC Group will continue to engage the Group as its subcontractor for the provision of contracting and engineering works, project consultancy service and project management service for the CSC Group's construction works from time to time. We noted from the Letter from the Board that the Directors consider that the CSC Works Transactions contemplated under the New FE-CSC Sub-construction Engagement Agreement will allow the Company to maximise profits and bring synergy effect to both the Company and CSC; thereby facilitating the expansion of the Company's businesses.

We have reviewed the Tender Procedures governing the Group's tenders, such standard procedures include (i) receiving invitation 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. We have also reviewed the Material Procurement Standard Procedures setting out the procurement process. As set out in the aforesaid standard procedures and our discussions with the Management, the Group's procurement department is responsible for (i) obtaining quotations from suppliers with existing supply agreement with the Group in respect of the standard

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## LETTER FROM RED SUN

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materials; and (ii) obtaining quotations from suppliers by following the Material Procurement Standard Procedures in respect of the non-standard materials, which sets out the requirement that generally quotation should be obtained from not less than three pre-approved suppliers / service providers.

We have discussed with the Management and reviewed five samples of preliminary analysis for tenders and five samples of formal tenders submitted. The sampled tenders submitted to connected persons were reviewed against the stated processes under the Tender Procedures, being the same prescribed procedures which were applied to the sampled tenders submitted to independent third parties. Based on our review of the aforesaid sample tenders submitted, we did not aware any material non-compliance to the Tender Procedures.

The Management advised that all tenders have followed the Tender Procedures for the period from 1 January 2015 to the Latest Practicable Date.

As for the provision of project management service and project consultancy service, the price and terms will be determined on a fair basis and on normal commercial terms. The project management fees and project consultancy fees are determined based on a percentage of no more than 20% of the value or remaining values of the projects for which the member of the Group is expected to provide services. We have been advised by the Management that the service scope of the projects with CSC under project management might include recovery of certain outstanding balance for certain projects. We have discussed with the Management and understand that the recovery of certain outstanding balance (which forms part of project management service) is on a best effort basis only, and the 20% is the ceiling for the recovery of the remaining values of the projects. In this regards, we have also reviewed certain recovery rates from an extract of one independent survey and published recovery rates from two independent collection agencies and noted that, depending on the size of the balance, the recovery rate as mentioned above is comparable to the market rate in the range of 5% to 20% . In addition, we have discussed with the Management and noted that the costs related to property management services including the recovery of outstanding balances would mainly consist of time costs related to staff deployed on such assignment. In this connection, when the Group succeeds in the recovery of certain outstanding balance, the Management advised that the Group should be able to derive a better gross profit margin compared to that of the Group's overall gross profit margin, being approximately 9.6% and 7.2% for each of the years ended 31 December 2015 and 2016. Further, we have also been advised by the Management that the relevant business unit shall prepare a project analysis report based on the scale, degree of difficulty, geographical location and duration of the project and make recommendation to senior management on the percentage to be charged. All pricing decisions are fully justified, formally approved and documented. Notwithstanding that the Group has not provided recovery services to independent third parties in the past, we have discussed with the Management and noted that the provision of project management service and project consultancy service (including the percentage charged) with independent third parties and connected persons will be reviewed and evaluated under the same prescribed assessment method as mentioned above.



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As set out in the 2016 Annual Report, the Group will increase its market share in Hong Kong and Macau, North America and the PRC by integrating resources and adhering to the business philosophy of “closely focusing on high-end markets and providing high-quality services”. The Group will also learn from its controlling shareholder — CSC’s rich experience in project management, in particular general contracting, bringing into play the synergistic effects with CSC in Hong Kong to secure premium projects.

The Management considered that the transactions contemplated under the New FE-CSC Sub-construction Engagement Agreement to be a furtherance of the Group’s business. Furthermore, given the profile and reputation of CSC, a sizeable and established construction company, the shares of which are listed on the Stock Exchange, the Management considered that given the size of CSC’s projects, the Group, if engaged as a subcontractor by CSC, is likely to participate in more sizeable and upscale projects.

Having considered that (i) it is the Group’s stated strategy to explore general contracting projects opportunities; (ii) the transactions contemplated under the New FE-CSC Sub-construction Engagement Agreement are a furtherance of the Group’s business; (iii) the engagement of the Group by the CSC Group as a subcontractor will enable the Group to participate in more sizeable and upscale projects; and (iv) the pricing basis under the New FE-CSC Sub-construction Engagement Agreement, in particular, the prices and terms of the tenders with respect to the CSC Works Transactions shall follow the Tender Procedures, the same also applies to the tenders submit to independent third party customers of the Group, we concur with the Directors’ view that the New FE-CSC Sub-construction Engagement Agreement was entered into in the ordinary and usual course of business of the Group and the terms of which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### 3.3 Basis for determining the CSC Works Cap

Set out below are (i) the historical contract sum paid by CSC Group to the Group for each of the two years ended 31 December 2016 and the nine months ended 30 September 2017; and (ii) the CSC Works Cap for the three years ending 31 December 2020:

<b>CSC Works Cap</b>					
<b>Historical Transaction Amounts</b> <i>(Note 1)</i>			<b>CSC Works Cap</b>		
For the year ended		For the nine	For the year ending		
31 December	31 December	months ended	31 December		
2015	2016	30 September	2018	2019	2020
2015	2016	2017	2018	2019	2020
<b>HK\$1,142.8</b>	<b>HK\$425.7</b>	<b>HK\$542.5</b>	<b>HK\$1,600</b>	<b>HK\$1,600</b>	<b>HK\$1,600</b>
<b>million</b>	<b>million</b>	<b>million</b>	<b>million</b>	<b>million</b>	<b>million</b>
<b>95.2% of the</b>	<b>35.5% of the</b>	<b>45.2% of the</b>			
<b>annual cap</b>	<b>annual cap</b>	<b>annual cap</b>			
<i>(Note 2)</i>	<i>(Note 2)</i>	<i>(Note 2)</i>			

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## LETTER FROM RED SUN

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*Notes:*

- (1) The historical total contract sum of contracting and engineering works, project consultancy service and project management service provided by the Group for the construction works of CSC Group under the Previous FE-CSC Sub-construction Engagement Agreement.
- (2) The utilisation rate is based on the respective annual cap for the three years ending 31 December 2017 of HK\$1,200 million under the Previous FE-CSC Sub-construction Engagement Agreement.

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

- (i) total contract sum of contracting and engineering works, project consultancy service and project management service provided by the Group for the construction works of CSC Group for each of the two financial years ended 31 December 2016 of approximately HK\$1,142,848,000 and HK\$425,667,000, respectively, and in the period between 1 January 2017 and 30 September 2017 of approximately HK\$542,452,000;
- (ii) estimated total contract sum of new construction projects of the CSC Group in the three-year period commencing from 1 January 2018 and ending on 31 December 2020, with reference to the CSC Group's future growth and expansion for such period, which is estimated based on (i) the total historical contract sums awarded as mentioned above; (ii) the total amount of tenders submitted to ultimate employers and/or the CSC Group; (iii) the amount of tenders planned to be submitted to or projects under negotiation with the ultimate employer and/or the CSC Group; (iv) other potential projects available from ultimate employers and/or the CSC Group in the year of 2018 and projected increase in the projects for 2019 and 2020 given the positive outlook of the construction market; and
- (iii) the growth of the construction markets in the PRC in the three-year period commencing from 1 January 2018 and ending on 31 December 2020 estimated by the Directors, which is based on the positive outlook of the construction industry with growth in construction activities leading to an increase in the construction works available for the Group to tender in the forthcoming years.

As stated in the Letter from the Board, the decrease of contract sum of works and services provided by the Group to CSC Group in 2016 and 2017 was due to the Group had neither identified any suitable projects from the CSC Group's construction works nor successfully been nominated by ultimate employers as nominated subcontractor through tenders submitted directly to the ultimate employers for the years.

Notwithstanding the decrease in contract sum of works and service from 2016 to 2017 as mentioned above, we note that the historical contract sum of approximately HK\$1,142.8 million recorded by the Company in 2015, representing an utilisation rate of approximately 95.2% of the annual cap for that particular year.

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In connection with the above, we have reviewed and discussed with the Management a schedule setting out a list of potential new construction projects for 2018 from the CSC Group (including transaction amount with tenders submitted or tenders in preparation) to engage the Group, subject to successful tender, for the provision of contracting and engineering works under the New FE-CSC Sub-construction Engagement Agreement. The schedule includes 13 potential projects, out of which (i) one project had an estimated transaction amount of approximately HK\$14 million; (ii) seven projects had an estimated transaction amount between HK\$100 million and HK\$200 million; (iii) three projects had an estimated transaction amount between HK\$200 million and HK\$400 million; and (iv) the remaining two projects had an estimated transaction amount between HK\$400 million and HK\$500 million, with an aggregate contract sum in excess of HK\$2.9 billion, which represents approximately 1.8 times of the CSC Works Cap. We understand from the Management that the aforesaid aggregate contract sum is currently subject to tenders, negotiation or upcoming tenders. As such, the Group may or may not be awarded with any of the contracts.

We understand from the Management that tenders for construction contracts typically relate to construction works to be carried out in the forthcoming 12 months, therefore based on currently available information, the Management advised that it is impractical to compile a list of potential construction contracts beyond the year ending 31 December 2018.

Given the positive outlook of the PRC and Hong Kong construction industry as set out under the paragraph headed “1.4 Overview of the economy and building construction activities” above, the Management expects there to be growth in the construction activities in the forthcoming years. As such, the Management estimates that there is likely to be an increase in the value of construction projects from the CSC Group available for the Group to compete for. In view of the above, we concur with the Management’s view that it is reasonable to set the CSC Works Cap for the year ending 31 December 2018 as the basis to determine the CSC Works Cap for the remaining two years ending 31 December 2020.

In view of that the above mentioned factors, in particular, (i) the historical utilisation of the caps under the Previous FE-CSC Sub-construction Engagement Agreement, in particular, with an utilisation rate of approximately 95.2% in 2015; (ii) the CSC Works Cap for 2019 and 2020 represent no increase from the CSC Works Cap for 2018; (iii) the CSC Works Transactions are subject to the pricing basis under the New FE-CSC Sub-construction Engagement Agreement (i.e. tenders will be at prices and terms no more favourable than those submitted to independent third parties); (iv) it would provide the Group the flexibility but not the obligation to provide services to the CSC Group; (v) the potential projects with an aggregate contract sum in excess of HK\$2.9 billion, which is larger than the CSC Works Cap for the year ending 31 December 2018; and (vi) it would avoid undue delay in the services which the Group wishes to provide to the CSC Group, we concur with the Management that the CSC Works Cap are fair and reasonable.

Notwithstanding from the above, the Shareholders are advised that the CSC Works Cap represent the best estimates by the Group based on the information available at the time.

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### 4. The New FE-CSC Operational Services Agreement

#### 4.1 *Principal terms of the New FE-CSC Operational Services Agreement*

The New FE-CSC Operational Services Agreement shall commence on 1 January 2018 and shall continue up to and including 31 December 2020.

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

#### 4.2 *Reasons for and benefits of entering into the New FE-CSC Operational Services Agreement*

As stated in the Letter from the Board, the Mechanical and Electrical Engineering Works Transactions, Machineries Leasing Transactions, Insurance Services Transactions and Supply of Building Materials Transactions contemplated under the New FE-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.

The Management also considered that the CSC Group has profound experience in building construction with solid financial standing and have demonstrated itself as a reliable contractor and service provider to its customers and the maintenance of a strategic business relationship with the CSC Group will not only allow the realisation of synergies and economies of scale but also facilitate the expansion of the Company’s businesses.

The Management considered that the transactions contemplated under the New FE-CSC Operational Services Agreement would facilitate the Group’s existing businesses. Furthermore, given the profile and reputation of CSC, a sizeable and established construction company, the shares of which are listed on the Hong Kong Stock Exchange, the Management considered that the quality of works and/or services to be provided by the CSC Group would be of a satisfactory standard to the Group.

In connection with our works performed on assessing whether the terms under the New FE-CSC Operational Services Agreement are fair and reasonable, we have reviewed the pricing policy of the New FE-CSC Operational Services Agreement and the Material Procurement Standard Procedures, which sets out the requirement that quotations should be obtained not less than three pre-approved suppliers / service providers in general and that the contract should be awarded to the suppliers / service providers with the lowest quotation provided that such supplier / service provider satisfies all other essential requirements.

The Management advised that the Group’s material procurement have followed the Material Procurement Standard Procedures from 1 January 2015 to the Latest Practicable Date.

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In addition, we have also reviewed, on a sample basis, documents in relation to the transactions under the Previous Operational Services Agreements which was entered into on 28 October 2014. Based on the samples reviewed, where the contract was awarded by the Group to the CSC Group, we noted that the quotation submitted by the CSC Group was either equal to or better than quotations submitted by other 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 FE-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 FE-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 FE-CSC Operational Services Agreement shall be at prices and on terms no more favourable than those awarded to the independent third parties of the Group, we concur with the Directors' view that the New FE-CSC Operational Services Agreement was entered into 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.

#### 4.3 Basis for determining the annual caps in connection with the New FE-CSC Operational Services Agreement

Set out below are (i) the historical transaction amounts in connection with transactions contemplated under the Previous FE-CSC Operational Services Agreement for each of the two years ended 31 December 2016 and the nine months ended 30 September 2017; and (ii) the proposed annual caps (the "**Proposed FE-CSC Works Cap**") in connection with the New FE-CSC Operational Services Agreement for each of the three years ending 31 December 2020:

	Historical Transaction Amounts <sup>(Note 1)</sup>			Proposed FE-CSC Works Cap		
	For the year ended		For the nine	For the year ending		
	31 December		months ended	31 December		
	2015	2016	30 September 2017	2018	2019	2020
<b>1. Mechanical and Electrical Engineering Works Cap</b>	—	—	—	HK\$450 million	HK\$450 million	HK\$450 million
<b>2. Machineries Leasing Cap</b>	HK\$2.9 million	HK\$2.1 million	HK\$1.9 million	HK\$25 million	HK\$25 million	HK\$25 million
	11.6% of the annual cap <i>(Note 2)</i>	8.4% of the annual cap <i>(Note 2)</i>	7.6% of the annual cap <i>(Note 2)</i>			

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	Historical Transaction Amounts <sup>(Note 1)</sup>			Proposed FE-CSC Works Cap		
	For the year ended		For the nine	For the year ending		
	31 December		months ended	31 December		
	2015	2016	30 September	2018	2019	2020
<b>3. Insurance Services Cap</b>	HK\$5.2 million	HK\$5.8 million	HK\$15.4 million	HK\$70 million	HK\$70 million	HK\$70 million
	7.4% of the annual cap <i>(Note 3)</i>	8.3% of the annual cap <i>(Note 3)</i>	22.0% of the annual cap <i>(Note 3)</i>			
<b>4. Supply of Building Materials Cap</b>	HK\$12.4 million	HK\$6.3 million	HK\$7.2 million	HK\$150 million	HK\$150 million	HK\$150 million
	8.3% of the annual cap <i>(Note 4)</i>	4.2% of the annual cap <i>(Note 4)</i>	4.8% of the annual cap <i>(Note 4)</i>			

*Notes:*

- (1) The historical transaction amounts under the Previous FE-CSC Operational Services Agreement.
- (2) The utilisation rate is based on the respective annual cap for the three years ending 31 December 2017 of HK\$25 million under the Previous FE-CSC Operational Services Agreement.
- (3) The utilisation rate is based on the respective annual cap for the three years ending 31 December 2017 of HK\$70 million under the Previous FE-CSC Operational Services Agreement.
- (4) The utilisation rate is based on the respective annual cap for the three years ending 31 December 2017 of HK\$150 million under the Previous FE-CSC Operational Services Agreement.

### *4.3.1 Mechanical and Electrical Engineering Works Cap*

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

- (i) the growth of the construction markets in the three-year period commencing from 1 January 2018 and ending on 31 December 2020 estimated by the Directors, which is based on the positive outlook of the construction industry and an expected growth in the construction activities in the forthcoming years, leading to an increase in general construction work projects and an increase in the need of mechanical and electrical engineering works; and
- (ii) the estimated total contract sum of the new construction projects of the Group involving mechanical and electrical engineering works in the three-year period commencing from 1 January 2018 and ending on 31 December 2020, with reference to the expected expansion and development of the Group's businesses, which is based on the fact that the Group has been awarded two new general contracting works (where the provision of mechanical and

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## LETTER FROM RED SUN

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electrical engineering works will be required) by independent third party developers with total contract value of HK\$800 million in 2017, and the potential increase of general contracting work in the years from 2018 to 2020 given the positive outlook of the construction market.

The CSC Group was not engaged by the Group to provide any mechanical and electrical engineering works in the years from 2015 to 2017 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 for the years. Notwithstanding that the Group has been awarded two new general contracting work (where the provision of mechanical and electrical engineering works will be required) with total contract value of HK\$800 million in 2017 as mentioned above, we have reviewed and discussed with the Management a schedule setting out a list of potential new construction projects of the Group for 2018 which mechanical and electrical engineering works will be required. The schedule includes five potential projects, out of which (i) two projects had an estimated transaction amount between HK\$200 million and HK\$400 million; (ii) one project had an estimated transaction amount of approximately HK\$500 million; (iii) one project had an estimated transaction amount of approximately HK\$600 million; and (iv) the remaining project had an estimated transaction amount of approximately HK\$1,100 million, with an aggregate contract sum in excess of HK\$2.8 billion (the "**2018 Potential New Construction Projects Schedule**"). We noted that the estimated contract sum of these 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. We have reviewed and noted that 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, which ranged from in range of 5% to less than 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 contract.

We concur with the Management that the Mechanical and Electrical Engineering Works Cap is 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.

### *4.3.2 Machineries Leasing Cap*

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

- (i) the total rent for the leasing of machineries paid by the Group to the CSC Group for each of the two financial years ended 31 December 2016 of approximately HK\$2,870,000, and HK\$2,106,000, respectively, and in the period between 1 January 2017 and 30 September 2017 of approximately HK\$1,893,000;
- (ii) the growth of the construction markets in the three-year period commencing from 1 January 2018 and ending on 31 December 2020 estimated by the Directors, which is based on the positive outlook of the construction industry with expected growth in the construction activities in the forthcoming years, leading to an increase in general construction work projects and an increase in the need of machineries leasing; and

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## LETTER FROM RED SUN

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- (iii) the estimated total contract sum of the new construction projects of the Group requiring the leasing of machineries in the three-year period commencing from 1 January 2018 and ending on 31 December 2020, with reference to the expected expansion and development of the Group's businesses, which is based on the fact that the Group has been awarded two new general contracting works (where the provision of machineries leasing will be required) by independent third party developers with total contract value of HK\$800 million in 2017, and the potential increase of general contracting work in the years from 2018 to 2020 given the positive outlook of the construction market.

Notwithstanding that the Group has been awarded two new general contracting work (where the provision of machineries leasing will be required) with total contract value of HK\$800 million in 2017 as mentioned above, we have reviewed and discussed with the Management in relation to the 2018 Potential New Construction Projects Schedule, setting out a list of potential new construction projects of the Group which may require the leasing of machineries. 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. We have reviewed and noted that 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, each being less than 3% of the total contract sum.

We concur with the Management that the Machineries Leasing Cap is 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) it would provide the Group the flexibility but not the obligation to engage the CSC Group for the leasing of machineries; and (iii) it would avoid undue delay in the leasing of machineries from the CSC Group to the Group for its construction works.

### *4.3.3 Insurance Services Cap*

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

- (i) the total fees for the provision of insurance services paid by the Group to the CSC Group for each of the two financial years ended 31 December 2016 of approximately HK\$5,212,000, and HK\$5,804,000, respectively, and in the period between 1 January 2017 and 30 September 2017 of approximately HK\$15,366,000;
- (ii) the growth of the construction markets in the three-year period commencing from 1 January 2018 and ending on 31 December 2020 estimated by the Directors, which is based on the positive outlook of the construction industry with expected growth in the construction activities in the forthcoming years, leading to an increase in general construction work projects and an increase in the need of insurance services;



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## LETTER FROM RED SUN

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- (iii) the estimated total contract sum of the new construction projects of the Group in the three-year period commencing from 1 January 2018 and ending on 31 December 2020, with reference to the expected expansion and development of the Group's businesses, which is based on the fact that the Group has been awarded two new general contracting works (where the provision of insurance services will be required) by independent third party developers with total contract value of HK\$800 million in 2017, and the potential increase of general contracting work in the years from 2018 to 2020 given the positive outlook of the construction market; and
- (iv) historical, current and projected insurance premiums for similar insurance services with other insurers.

Notwithstanding that the Group has been awarded two new general contracting work (where the provision of insurance services will be required) with total contract value of HK\$800 million in 2017 as mentioned above, we have reviewed and discussed with the Management in relation to the 2018 Potential New Construction Projects Schedule, setting out a list of potential new construction projects of the Group for 2018 which insurance services will be required. We noted that the basis of the calculations 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. We have reviewed and noted that 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, each being less than 3% of the total contract sum.

We concur with the Management that Insurance Services Cap is 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) it would provide the Group the flexibility but not the obligation to engage the CSC Group for insurance services; and (iii) it would avoid undue delay in engaging the CSC Group to provide the Group with insurance services.

#### *4.3.4 Supply of Building Materials Cap*

As set out in the Letter from the Board, the Supply of Building Materials Cap is calculated with reference to, amongst others, the following factors:

- (i) total contract sum for provision of supply of building materials to the Group's construction works awarded by the Group to the CSC Group for each of the two financial years ended 31 December 2016 of approximately HK\$12,362,000, and HK\$6,308,000, respectively, and in the period between 1 January 2017 and 30 September 2017 of approximately HK\$7,195,000. The decrease in supply of building materials from the CSC Group in 2016 and 2017 was due to (i) the postponement of certain construction works undertaken by the Group; and (ii) that the CSC Group had not successfully been awarded in certain tender projects for supplying building materials to the Group;
- (ii) the growth of the construction markets in the three-year period commencing from 1 January 2018 and ending on 31 December 2020 estimated by the Directors, which is based on the positive outlook of the construction industry with expected growth in the construction activities in the forthcoming years, leading to an increase in general construction work projects and an increase in the need of the supply of building materials; and;

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- (iii) the estimated total contract sum of the new construction projects of the Group in the three-year period commencing from 1 January 2018 and ending on 31 December 2020, with reference to the expected expansion and development of the Group's businesses, which is based on the fact that the Group has been awarded two new general contracting works (where the supply of building materials will be required) by independent third party developers with total contract value of HK\$800 million in 2017, and the potential increase of general contracting work in the years from 2018 to 2020 given the positive outlook of the construction market.

Notwithstanding that the Group has been awarded two new general contracting work (where the supply of building materials will be required) with total contract value of HK\$800 million in 2017 as mentioned above, we have reviewed and discussed with the Management in relation to the 2018 Potential New Construction Projects Schedule, setting out a list of potential new construction projects of the Group for 2018 where supply of building materials will be required. We noted that the estimated building materials costs is calculated based on a percentage of the estimated contract sum of the new construction projects of the Group. 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, each being less than 8% of the total contract sum.

We concur with the Management that Supply of Building Materials Cap is 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) it would provide the Group the flexibility but not the obligation to engage the CSC Group for the supply of building materials; and (iii) it would avoid undue delay in engaging the CSC Group for the supply of building materials to the Group for its construction works.

### 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 FE-CSCECL Sub-construction Engagement Agreement, the New FE-CSC Sub-construction Engagement Agreement and the New FE-CSC Operational Services Agreement;
- (ii) the transactions contemplated under each of the Agreements is a furtherance and continuance of the Group's businesses;
- (iii) the transactions contemplated under the Agreements 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 Cap", "3.3 Basis for determining the CSC Works Cap" and "4.3 Basis for determining the annual caps in connection with the New FE-CSC Operational Services Agreement", respectively.

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## LETTER FROM RED SUN

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Having considered the factors and reasons as stated above, we are of the opinion that the entering into of each of the Agreements, 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 Agreements are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve each of the Agreements, 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 corporation (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 shares and underlying shares of the Company**

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of ordinary shares in the Company held</b>	<b>% of shares in the Company in issue<sup>1</sup></b>
Zhu Yijian	Beneficial owner	1,000,000	0.046%
Chan Sim Wang	Beneficial owner	50,000	0.002%
Huang Jiang	Beneficial owner	1,000,000	0.046%

*Note:*

1. The percentage is based on the total number of ordinary shares of the Company in issue as at the Latest Practicable Date (i.e. 2,155,545,000 ordinary shares).

**Long positions in shares and underlying shares of associated corporations**

As at the Latest Practicable Date:

- (i) Mr. Zhou Yong (a) had personal interests in 3,233,027 ordinary shares in CSC, representing approximately 0.064% of the issued shares of CSC; and (b) held 255,000 A-shares of CSCECL in the capacity as beneficial owner, representing approximately 0.001% of the issued voting shares of CSCECL;
- (ii) Mr. Zhu Yijian (a) had interests in 2,538,237 ordinary shares in CSC, representing approximately 0.050% of the issued shares of CSC (comprising personal interests in 1,487,487 ordinary shares held by him as beneficial owner and family interests in 1,050,750 ordinary shares held by his spouse); and (b) held 210,000 A-shares of CSCECL in the capacity as beneficial owner, representing approximately 0.001% of the issued voting shares of CSCECL;
- (iii) Mr. Luo Haichuan held 150,000 A-shares of CSCECL in the capacity as beneficial owner, representing approximately 0.001% of the issued voting shares of CSCECL;
- (iv) Mr. Wang Hai held 150,000 A-shares of CSCECL in the capacity as beneficial owner, representing approximately 0.001% of the issued voting shares of CSCECL;
- (v) Mr. Chan Sim Wang had personal interests in 32,400 ordinary shares in CSC, representing approximately 0.001% of the issued shares of CSC; and
- (vi) Mr. Huang Jiang held 150,000 A-shares of CSCECL in the capacity as beneficial owner, representing approximately 0.001% of the issued voting shares of 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 had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (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:

<b>Name of Director</b>	<b>Name of companies which had such discloseable interest or short position</b>	<b>Position within such companies</b>
Zhou Yong	COHL	Director and Vice Chairman
	CSC	Chairman, Executive Director and Chief Executive Officer
	Add Treasure Holdings Limited	Director
Zhu Yijian	COHL	Assistant President
	Add Treasure Holdings Limited	Director
Wang Hai	Add Treasure Holdings Limited	Director

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.

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 2016 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member 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 2016, 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. Zhou Yong, Zhu Yijian, Luo Haichuan, Wang Hai, Chan Sim Wang 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.

**EXPERT**

- (a) **The following is the qualification of the expert who had given its opinion and advice which are contained in this circular:**

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

- (b) 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.
- (c) 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.

- (d) 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 2016 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.
- (e) 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 head office of the Company at 16th Floor, Eight Commercial Tower, No. 8 Sun Yip Street, Chai Wan, Hong Kong from the date of this circular up to and including 18 December 2017 (except Saturdays and Sundays) and will be available for inspection at the EGM:-

- (i) New FE-CSCECL Sub-construction Engagement Agreement;
- (ii) Previous FE-CSCECL Sub-construction Engagement Agreement;
- (iii) New FE-CSC Sub-construction Engagement Agreement;
- (iv) Previous FE-CSC Sub-construction Engagement Agreement;
- (v) New FE-CSC Operational Services Agreement;
- (vi) Previous FE-CSC Operational Services Agreement;
- (vii) the letter from the Independent Board Committee, the text of which is set out in the section headed “Letter from the Independent Board Committee” of this circular;
- (viii) the letter from the Independent Financial Adviser, the text of which is set out in the section headed “Letter from Red Sun” of this circular; and
- (ix) the letter of consent from the expert referred to under the section headed “Expert” in this appendix.



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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# 遠東環球集團有限公司 FAR EAST GLOBAL GROUP LIMITED

*(Incorporated in the Cayman Islands with limited liability)*  
(Stock Code : 830)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of the shareholders of Far East Global Group Limited (the “**Company**”) will be held at 16th Floor, Eight Commercial Tower, No. 8 Sun Yip Street, Chai Wan, Hong Kong on Monday, 18 December 2017 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 FE-CSCECL Sub-construction Engagement Agreement (as defined in the circular of the Company dated 1 November 2017 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 Cap (as defined in the Circular) for the period between 1 January 2018 and 31 December 2020 be and is 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 FE-CSCECL Sub-construction Engagement Agreement and the transactions contemplated thereunder and the implementation thereof including the affixing of seal thereon.”

2. “**THAT:**

- (A) (i) the New FE-CSC Sub-construction Engagement Agreement (as defined in 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 CSC Works Cap (as defined in the Circular) for the period between 1 January 2018 and 31 December 2020 be and is hereby approved; and

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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(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 FE-CSC Sub-construction Engagement Agreement and the transactions contemplated thereunder and the implementation thereof including the affixing of seal thereon.”

3. “**THAT:**

- (A) (i) the New FE-CSC Operational Services Agreement (as defined in the Circular) (a copy of which is tabled at the meeting and marked “C” 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 Cap (as defined in the Circular) for the period between 1 January 2018 and 31 December 2020 be and is hereby approved;
- (iii) the Machineries Leasing Cap (as defined in the Circular) for the period between 1 January 2018 and 31 December 2020 be and is hereby approved;
- (iv) the Insurance Services Cap (as defined in the Circular) for the period between 1 January 2018 and 31 December 2020 be and is hereby approved;
- (v) the Supply of Building Materials Cap (as defined in the Circular) for the period between 1 January 2018 and 31 December 2020 be and is 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 FE-CSC Operational Services Agreement and the transactions contemplated thereunder and the implementation thereof including the affixing of seal thereon.”

By Order of the Board  
**Far East Global Group Limited**  
**Zhou Yong**  
*Chairman and Non-executive Director*

Hong Kong, 1 November 2017

*Head Office and Principal Place of  
Business in Hong Kong:*  
16th Floor, Eight Commercial Tower  
No. 8 Sun Yip Street  
Chai Wan  
Hong Kong

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

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*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 proxy form, 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 22, 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 proxy form 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 proxy form 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. The register of members of the Company will be closed from Friday, 15 December 2017 to Monday, 18 December 2017, both days inclusive, for the purpose of determining members' entitlement to attend and vote at the meeting. 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 14 December 2017.