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

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**中國建築國際集團有限公司**

**CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code : 3311)

**DISCLOSEABLE AND CONNECTED TRANSACTION  
ACQUISITION OF THE INVESTMENT INTERESTS IN  
陽泉市陽五高速公路投資管理有限公司  
(YANGQUAN YANGWU EXPRESSWAY INVESTMENT  
MANAGEMENT LIMITED)  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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

**Access**   
**Capital**

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A letter from the Board is set out on pages 4 to 9 of this circular and a letter from the Independent Board Committee is set out on pages 10 and 11 of this circular. A letter from Access Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 12 to 25 of this circular.

A notice convening the EGM to be held at 30th Floor, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong on Monday, 21 June 2010 at 11:00 a.m. is set out on pages 62 and 63 of 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 office of the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting 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 meeting and any adjourned meeting (as the case may be) should you so wish.

28 May 2010

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## DEFINITIONS

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

“Acquisition”	the acquisition of the Investment Interests under the Acquisition Agreement;
“Acquisition Agreement”	the acquisition agreement between CSCECL and the Company dated 7 May 2010 in relation to the Acquisition;
“associate(s)”, “connected person(s)”, “controlling shareholder”, “subsidiary(ies)”	each has the meaning ascribed to it in the Listing Rules;
“Board”	the board of the Directors;
“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);
“Company”	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);
“CSCEC”	中國建築工程總公司 (China State Construction Engineering Corporation)*, a state-owned corporation organised and existing under the laws of the PRC, being the ultimate holding company of the Company;
“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 (the shares of which are listed on The Shanghai Stock Exchange), which is held as to 53% by CSCEC;
“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 Acquisition and the Acquisition Agreement;
“Enlarged Group”	the Group following completion of the Acquisition;
“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 Dr. Raymond Ho Chung Tai, Mr. Adrian David Li Man Kiu, Dr. Raymond Leung Hai Ming and Mr. Lee Shing See, all being Independent Non-executive Directors;
“Independent Financial Adviser” or “Access Capital Limited”	Access Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the entering into of the Acquisition Agreement, and a licensed corporation for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO;
“Independent Shareholders”	Shareholders other than CSCECL and its associates;
“Investment Interests”	all the investments made by CSCECL into the Yangwu Project Company, comprising the entire registered capital of the Yangwu Project Company and all the related shareholder’s loan advanced to the Yangwu Project Company;
“Latest Practicable Date”	25 May 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	Share(s) in the ordinary share capital of the Company;
“Shareholders”	the Shareholders of the Company from time to time;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Yangquan Government”	山西省陽泉市人民政府 (Shanxi Province Yangquan Municipal People’s Government);
“Yangwu Project Company”	陽泉市陽五高速公路投資管理有限公司 (Yangquan Yangwu Expressway Investment Management Limited)*, a limited liability company established in the PRC; and
“%”	per cent..

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## DEFINITIONS

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*Unless otherwise specified in this circular, amounts denominated in Renminbi have been converted, for the purpose of illustration only, into Hong Kong dollars at the rate of RMB0.88 = HK\$1.00. The exchange rate does not constitute a representation that any amount has been, could have been or may be converted at the above rate or any other rates.*

\* The English names are only translations of the official Chinese names. In case of inconsistency, the Chinese names prevail.

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LETTER FROM THE BOARD

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中國建築國際集團有限公司  
CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 3311)

*Non-executive Director:*

Mr. Kong Qingping (*Chairman*)

*Executive Directors:*

Mr. Zhou Yong (*Vice-chairman and Chief Executive Officer*)

Mr. Yip Chung Nam

Mr. Zhang Yifeng

Mr. Cheong Chit Sun

Mr. Zhou Hancheng

*Independent Non-executive Directors:*

Dr. Raymond Ho Chung Tai

Mr. Adrian David Li Man Kiu

Dr. Raymond Leung Hai Ming

Mr. Lee Shing See

*Registered Office:*

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

*Principal place of business*

*in Hong Kong:*

28th Floor

China Overseas Building

139 Hennessy Road

Wanchai

Hong Kong

28 May 2010

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
ACQUISITION OF THE INVESTMENT INTERESTS IN  
陽泉市陽五高速公路投資管理有限公司  
(YANGQUAN YANGWU EXPRESSWAY INVESTMENT  
MANAGEMENT LIMITED)  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 7 May 2010 in respect of, among other things, the following matters:

- CSCECL and the Company entered into the Acquisition Agreement on 7 May 2010, pursuant to which the Company shall acquire from CSCECL its Investment Interests for a consideration of RMB1,280 million (approximately HK\$1,455 million).

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## LETTER FROM THE BOARD

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

- the particulars of the Acquisition Agreement;
- the letter from the Independent Board Committee with their view on the Acquisition Agreement and the transactions contemplated thereunder;
- the letter from Access Capital Limited with their advice on the Acquisition Agreement and the transactions contemplated thereunder to the Independent Board Committee and the Independent Shareholders; and
- other information as required under the Listing Rules,

as well as to seek the approval of the Independent Shareholders in respect of the entering into the Acquisition Agreement and the transactions contemplated thereunder.

### THE ACQUISITION AGREEMENT

#### Date

7 May 2010

#### Parties

- (1) CSCECL, as the vendor; and
- (2) the Company, as the purchaser.

#### Subject

The investment interests of CSCECL in Yangquan Yangwu Expressway Investment Management Limited (i.e. the Yangwu Project Company), comprising the entire registered capital and all the related shareholder's loan.

The unaudited net asset value of the Yangwu Project Company as at 31 December 2009 was approximately RMB202 million (approximately HK\$230 million). The amount of shareholder's loan as at 31 December 2009 was approximately RMB920 million (approximately HK\$1,045 million). Since the Yangquan Yangwu Expressway (Yangquan to Yu Xian section) is still under construction, all the expenses are capitalised and the Yangwu Project Company does not have any profit and loss item in its financial statements. Accordingly, there is no profit/loss attributable to the Yangwu Project Company for the preceding two financial years. The original investment amount of CSCECL in respect of the Investment Interests was RMB1,122 million (approximately HK\$1,275 million). As a result of further negotiations between the Company, CSCECL and the Yangwu Project Company, it is now decided that no repayment or capitalisation of shareholder's loan will be effected and the amount of shareholder's loan will remain unchanged until Completion.

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## LETTER FROM THE BOARD

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### Consideration and Completion

The Acquisition Agreement will take effect on the date on which the last of the following conditions being fulfilled (the “**Effective Date**”): (i) the Acquisition Agreement having been executed by the parties; (ii) the Independent Shareholders’ approval for the Acquisition having been obtained at the EGM; (iii) the approval for the transfer of Investment Interests under the Acquisition Agreement having been obtained from the Transport Department of Shanxi Province (山西省交通廳); and (iv) all relevant consents and approvals for the transfer of Investment Interests under the Acquisition Agreement under applicable laws and/or regulations having been obtained from the relevant governmental authorities, regulatory bodies and other third parties (the “**Consents and Approvals**”). It is agreed that CSCECL will be responsible for obtaining the Consents and Approvals, and the Company will co-operate with CSCECL if necessary. Completion of the transfer of Investment Interests shall be deemed to be the date on which the transfer is being registered by the relevant PRC authorities (the “**Completion Date**”).

The consideration for the Acquisition shall be RMB1,280 million (approximately HK\$1,455 million), which shall be payable in the following installments: (i) RMB384 million, representing 30% of the consideration, to be payable within 5 business days from the Effective Date; (ii) RMB768 million, representing 60% of the consideration, to be payable within 6 months from the Completion Date; and (iii) the remaining balance, representing 10% of the consideration, to be payable within 1 year from the Effective Date. The consideration for the Acquisition is fixed and will not subject to any adjustment.

The consideration is determined after arm’s length negotiation between the parties with reference to the independent valuation of the Yangwu Project Company. Such valuation was prepared in accordance with the PRC standards and the value based on the evaluation of the net assets of the Yangwu Project Company as of 30 September 2009 was RMB1,280 million as shown in such valuation. A business valuation report on the fair value of the Yangwu Project Company is set out in Appendix I to this circular. The valuation of the Yangwu Project Company in such business valuation report was based on the discounted future estimated cash flows which is regarded as a profit forecast under Rule 14.61 of the Listing Rules. The Directors confirm that such profit forecast has been made after due and careful enquiry. It is agreed that the profit or loss of the Yangwu Project Company for the period from 30 September 2009 to the Completion Date shall belong to the Company. The consideration will be financed by the Company from its internal resources.

### Information on the Yangwu Project Company and the Yangquan Yangwu Expressway (Yangquan to Yu Xian Section)

The Yangwu Project Company was established in the PRC on 16 August 2007. It is a limited liability company (wholly-owned by legal person (法人獨資)) with a registered share capital of RMB202 million, which was fully paid up. The principal activities of the Yangwu Project Company are investment in and operation, repair and maintenance and construction of, the Yangquan Yangwu Expressway (Yangquan to Yu Xian section) (陽泉陽五高速公路(陽泉至盂縣段)). Upon completion of the Acquisition, the Yangwu Project Company will become a wholly-owned subsidiary of the Company.



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## LETTER FROM THE BOARD

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Yangquan Yangwu Expressway is one of the main parts of Dongzong Main Route (東縱幹綫). The Yangquan to Yu Xian section is phase one of the Yangquan Yangwu Expressway project. The Yangquan Yangwu Expressway (Yangquan to Yu Xian section) is a 41.2 km expressway stretching from Xijiao Village of Pingding Xian (平定縣西郊村) to Yuanji Village of Yu Xian (盂縣元吉村), and intersecting with Taijiu Expressway (太舊高速公路).

Under the agreement signed between the Yangwu Project Company, the Transport Department of Shanxi Province and the Yangquan Government on 9 July 2008 in relation to the Yangquan Yangwu Expressway (Yangquan to Yu Xian section), the Yangwu Project Company has been granted the rights to construct, operate and maintain the Yangquan Yangwu Expressway (Yangquan to Yu Xian section), to collect tolls as approved by the Shanxi Government from vehicles using the Yangquan Yangwu Expressway (Yangquan to Yu Xian section), and to operate the service facilities within the approved area and to collect 40% of the profits from advertising during the concession period of 30 years from the date of approval from the Shanxi Government. The construction of the Yangquan Yangwu Expressway (Yangquan to Yu Xian section) was commenced in 2008, and is expected to be completed in 2011. Pursuant to pre-existing construction agreements entered into in November 2008 and January 2010 between CSCECL and the Yangwu Project Company, the Yangwu Project Company agreed to engage CSCECL as construction contractor for the construction of sections A1 and A4 of the Yangquan Yangwu Expressway (Yangquan to Yu Xian section) for contract sums of approximately RMB1,533 million (approximately HK\$1,742 million) and RMB476 million (approximately HK\$541 million) respectively. The Group will make progress payments to CSCECL based on the progress of the construction works completed by CSCECL in accordance with the agreed payment schedule.

### **Reasons for entering into the Acquisition**

Given the acceleration of urbanisation in the PRC, the Directors believe that the infrastructure investment in the PRC will maintain steady growth in the future and the Acquisition will enhance the Group's infrastructure investment portfolio and generate stable long term income to the Company, as well as enhance the value to the Shareholders. The Directors also believe that the Acquisition is consistent with the Company's strategy of developing infrastructure investment.

### **Implications under the Listing Rules**

CSCECL is the intermediate holding company of the Company and is interested in approximately 62.5% of the issued share capital of the Company, and thus a connected person of the Company. Accordingly, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

Since the applicable percentage ratios as defined in Rule 14A.10 of the Listing Rules calculated with reference to the Acquisition Agreement are more than 2.5% but less than 25%, the Acquisition constitutes a discloseable and connected transaction for the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. Voting at the EGM will be conducted by poll and CSCECL and its associates will abstain from voting at the EGM.

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## LETTER FROM THE BOARD

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### GENERAL

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

CSCECL is a contractor mainly participating in the PRC construction market.

The Independent Board Committee comprising all the Independent Non-executive Directors has been formed to advise the Independent Shareholders in respect of the Acquisition and the transactions contemplated thereunder. The Independent Financial Adviser has also been appointed to advise the Independent Board Committee and the Independent Shareholders in this connection.

### EXTRAORDINARY GENERAL MEETING

Set out on pages 62 and 63 of this circular is a notice convening the EGM to be held at 30th Floor, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong on Monday, 21 June 2010 at 11:00 a.m. at which ordinary resolution will be proposed to the Independent Shareholders to consider and approve the Acquisition Agreement and the transactions contemplated thereunder.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM and any 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. The chairman of the EGM will demand a poll for the resolution to be proposed at the EGM in accordance with the Company's Articles of Association. As at the Latest Practicable Date, CSCECL and its associates, in aggregate holding 1,848,211,384 Shares, representing approximately 62.5% of the issued share capital of the Company, will abstain from voting at the EGM. The results of the voting will be announced in accordance with Rule 2.07C of the Listing Rules after the EGM.

### RECOMMENDATION

Your attention is drawn to the letter of advice from the Independent Board Committee and the letter from Access Capital Limited as set out on pages 10 and 11 and pages 12 to 25 respectively to this circular.

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

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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 Acquisition and the transactions contemplated thereunder have been entered into on normal commercial terms and in the ordinary course of business, and the terms and conditions therein 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 the ordinary resolution to be proposed at the EGM.

Yours faithfully

By Order of the Board

**China State Construction International Holdings Limited**

**Kong Qingping**

*Chairman and Non-executive Director*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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中國建築國際集團有限公司  
CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code : 3311)

28 May 2010

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
ACQUISITION OF THE INVESTMENT INTERESTS IN  
陽泉市陽五高速公路投資管理有限公司  
(YANGQUAN YANGWU EXPRESSWAY INVESTMENT  
MANAGEMENT LIMITED)  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

We refer to the circular dated 28 May 2010 (the “**Circular**”) issued by the Company to its Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the Acquisition Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Access Capital Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreement and the transactions contemplated thereunder.

We wish to draw your attention to the letter from the Board, as set out on pages 4 to 9 of the Circular, and the text of a letter from Access Capital Limited, as set out on pages 12 to 25 of the Circular, both of which provide details of the Acquisition Agreement and the transactions contemplated thereunder. Your attention is also drawn to the additional information set out in the appendices to the Circular.

Having considered the terms of the Acquisition Agreement and the transactions contemplated thereunder, the advice of Access Capital Limited and the relevant information contained in the letter from the Board, we are of the opinion that the Acquisition Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and it is in the interests of the Company and the Shareholders as a whole.

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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

Yours faithfully

For and on behalf of

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

**Raymond Ho Chung Tai**

*Independent Non-executive Director*

**Adrian David Li Man Kiu**

*Independent Non-executive Director*

**Raymond Leung Hai Ming**

*Independent Non-executive Director*

**Lee Shing See**

*Independent Non-executive Director*

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## LETTER FROM ACCESS CAPITAL LIMITED

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*The following is the text of the letter of advice from Access Capital Limited to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition Agreement and the transactions contemplated thereunder prepared for the purpose of incorporation in this circular.*



Suite 606, 6th Floor  
Bank of America Tower  
12 Harcourt Road  
Central

28 May 2010

*To the Independent Board Committee and the Independent Shareholders of  
China State Construction International Holdings Limited*

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
ACQUISITION OF THE INVESTMENT INTERESTS IN  
陽泉市陽五高速公路投資管理有限公司  
(YANGQUAN YANGWU EXPRESSWAY INVESTMENT  
MANAGEMENT LIMITED)**

### **I. INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular dated 28 May 2010 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

Pursuant to the Acquisition Agreement entered into on 7 May 2010 between CSCECL, as the vendor, and the Company, as the purchaser, the Company shall acquire from CSCECL its Investment Interests (comprising the entire registered capital and all the related shareholder's loan) in Yangquan Yangwu Expressway Investment Management Limited (i.e. the Yangwu Project Company) for a consideration of RMB1,280 million (approximately HK\$1,455 million) to be settled in three instalments.

CSCECL is the intermediate holding company of the Company and is interested in approximately 62.5% of the issued share capital of the Company, and thus a connected person of the Company. Accordingly, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

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## LETTER FROM ACCESS CAPITAL LIMITED

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Since the applicable percentage ratios as defined in Rule 14A.10 of the Listing Rules calculated with reference to the Acquisition Agreement are more than 2.5% but less than 25%, the Acquisition constitutes a discloseable and connected transaction for the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. Voting at the EGM will be conducted by poll and CSCECL and its associates will abstain from voting at the EGM.

### II. THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of ten Directors, namely Mr. Kong Qingping (Chairman and Non-executive Director); Mr. Zhou Yong (Vice-chairman and Chief Executive Officer), Mr. Yip Chung Nam, Mr. Zhang Yifeng, Mr. Cheong Chit Sun and Mr. Zhou Hancheng as Executive Directors; and Dr. Raymond Ho Chung Tai, Mr. Adrian David Li Man Kiu, Dr. Raymond Leung Hai Ming and Mr. Lee Shing See as Independent Non-executive Directors.

The Independent Board Committee comprises all Independent Non-executive Directors, namely, Dr. Raymond Ho Chung Tai, Mr. Adrian David Li Man Kiu, Dr. Raymond Leung Hai Ming and Mr. Lee Shing See, has been formed to advise the Independent Shareholders and Access Capital Limited has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the Acquisition Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders; and (ii) whether the terms of the Acquisition Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned.

### III. BASIS OF OUR OPINION

In formulating our opinion, we have relied on solely on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Group and/or its management staff (the "Management") and/or the Directors. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and all information and representations which have been provided by the Group and/or the Management and/or the Directors, for which it is/they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be so at the date hereof. We have no reason to believe that any information or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all the opinions and representations for matters relating to the Group made or provided by the Directors and/or the Management contained in the Circular have been reasonably made after due and careful enquiry. We consider that we have reviewed sufficient information to enable us to form a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information provided, nor have we carried out any form of in-depth investigation into the business and affairs of the Company and its subsidiaries or the Yangwu Project Company or the prospects of the markets in which they operate.

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## LETTER FROM ACCESS CAPITAL LIMITED

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### IV. PRINCIPAL FACTORS AND REASONS CONSIDERED IN RELATION TO THE ACQUISITION

Pursuant to the Acquisition Agreement, the Company shall acquire from CSCECL its Investment Interests in the Yangwu Project Company for a consideration of RMB1,280 million (approximately HK\$1,455 million). In formulating our opinion on the terms of the Acquisition Agreement, we have taken into consideration the following principal factors:

#### 1. Principal activities of the Group and its recent financial results

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

Set out below is a summary of the operating results and financial positions of the Group for the two years ended 31 December 2009, extracted from the annual report of the Company for the year ended 31 December 2009 (“2009 Annual Report”):

**Table A: Summary of recent financial results of the Group**

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2009</b>	<b>2008</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>
	(Audited)	(Audited)
Revenue		
- Construction contracts	10,551.8	10,126.9
- Project management services	208.6	355.0
- Supply of heat and electricity	354.4	291.4
- Connection services	60.6	84.9
- Infrastructure project investments	82.7	63.2
- Sale of precast structures and building materials	48.8	75.7
- Others	35.1	24.3
	<u>11,342.0</u>	<u>11,021.4</u>
Cost of Sales	<u>(10,349.1)</u>	<u>(10,112.0)</u>
Gross Profit	<u>992.9</u>	<u>909.4</u>
Profit for the year	612.5	504.4
Attributable to		
- Owners of the Company	612.5	489.3
- Minority interests	—	15.1



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## LETTER FROM ACCESS CAPITAL LIMITED

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	As at 31 December	
	2009	2008
	HK\$ million	HK\$ million
	(Audited)	(Audited)
Bank balances and cash	5,746.6	1,900.2
Total assets	13,159.5	8,983.7
Total liabilities	8,854.7	6,460.4
Net assets	4,304.8	2,523.3

### *For the year ended 31 December 2009*

Revenue of the Group was approximately HK\$11,342 million for the year ended 31 December 2009, which represented an increase of approximately 2.9% from the corresponding period last year. Construction business continued to be the largest contributor to the Group's revenue for the year ended 31 December 2009, at approximately HK\$10,552 million, accounting for approximately 93.0% of the Group's total revenue. Geographically, Hong Kong remained to be the major revenue contributor of the Group which contributed approximately 61.4% of the overall revenue for the year ended 31 December 2009, in turn, generated approximately 34.5% of the gross profit of the Group.

The PRC was the Group's fastest growing major operating geographical segment in revenue percentage growth terms at approximately 99.3%. Despite accounted for approximately 15.5% of the Group's overall revenue for the year ended 31 December 2009, the PRC market segment contributed approximately 43.0% of the Group's gross profit.

Profit attributable to owners of the Company totalled to approximately HK\$613 million for the year ended 31 December 2009, which represented an increase of approximately 25.2% from the corresponding period last year. Such increase was mainly attributable to the increase in gross profit and other income.

Total assets were approximately HK\$13,160 million as at 31 December 2009, representing an increase of approximately 46.5% from the corresponding period last year. Such increase was largely attributable to the increase in bank balances and cash of approximately HK\$3,846 million.

Some of aforesaid increase in bank balances and cash was related to the proceeds from the rights issue of the Company (the "Rights Issue") completed on 1 September 2009, whereby the Group raised approximately HK\$1,353 million, net of expenses. As set out in the 2009 Annual Report, the fund raised will be used for investing in infrastructure projects in the PRC and working capital.

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## LETTER FROM ACCESS CAPITAL LIMITED

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### *For the year ended 31 December 2008*

As set out in the annual report for the year ended 31 December 2008, the construction business continued to be the largest contributor to the Group's revenue, at approximately HK\$10,127 million, accounting for approximately 91.9% of the Group's total revenue. Geographically, Hong Kong remained to be the major revenue contributor of the Group which contributed approximately 56.2% of the overall revenue for the year ended 31 December 2008, in turn, generated approximately 25.1% of the gross profit of the Group.

The PRC was one of the Group's fastest growing major operating geographical segments in terms of revenue percentage growth at approximately 21.2%. Despite accounted for approximately 8.0% of the Group's overall revenue for the year ended 31 December 2008, the PRC market segment contributed approximately 37.2% of the Group's gross profit.

### **2. Background and development of the Group's build-transfer ("BT")/build-operate-transfer ("BOT") investment business**

As set out in the 2009 Annual Report, with a view to utilise its financial resources more effectively and efficiently, the Group sought to capture opportunities arising from the PRC's RMB4 trillion investment stimulus plan by focusing its investments in PRC's infrastructure construction segment, in particular BT and BOT projects. Such strategy is carried out with a long term view to establish the Group's PRC infrastructure construction business as a strong cornerstone to bring sustainable growth to the Group's operating results.

The following sets out details of the Group's ongoing BT/BOT projects,

- (i) The Group and its controlling shareholder, CSCECL, signed a joint venture agreement to jointly construct the Tangshan Binhai Avenue through a BT model with an estimated total investment amount attributable to the Group of approximately HK\$2.38 billion.
- (ii) Shenzhen China Overseas Construction Limited, a wholly-owned subsidiary to the Company, and China Construction Seventh Engineering Division Corporation Limited entered into a joint venture agreement to establish a joint venture (the "Jilin JV") for the construction of and investment in certain infrastructure projects in Jilin, the PRC. The infrastructure projects being tendered for are the Wusong Elevated Bridge (霧淞高架橋) and the People's Theatre (人民劇院) in Jilin city, the PRC. The Jilin JV, if and after the tender is awarded in its favour, will enter into a BT agreement with the Jilin Government. The estimated total investment amount attributable to the Group would be approximately HK\$40 million.
- (iii) The Group, CSCECL and a wholly-owned subsidiary of CSCECL, China Construction Third Engineering Bureau Corporation Limited, entered into a joint venture agreement to jointly construct the Wuxian Highway and Shahu Passageway through a BT model with the estimated total investment amount attributable to the Group of approximately HK\$0.71 billion.

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## LETTER FROM ACCESS CAPITAL LIMITED

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- (iv) The Group entered into an agreement with the Yangquan Government for the concession right to operate a project in Shanxi Province for 30 years on a BOT model. The estimated investment amount will be approximately HK\$2.09 billion.

As stated in the 2009 Annual Report, based on total construction contracts value of new projects awarded to the Group in 2009, approximately 24.4% was attributable to the Group's BT/BOT business. As at 31 December 2009, the Group has approximately 70 projects in progress, of which approximately 10.4% of the total attributable contract value is related to the Group's BT/BOT business.

### 3. Information on the Yangwu Project Company

The Yangwu Project Company, a limited liability company (wholly-owned by legal person (法人獨資)), was established in the PRC on 16 August 2007 with a fully paid up registered share capital of RMB202 million. The principal activities of the Yangwu Project Company are investment in and operation, repair and maintenance and construction of, the Yangquan Yangwu Expressway (Yangquan to Yu Xian section) (陽泉陽五高速公路(陽泉至孟縣段)).

As set out in the "Letter from the Board" of the Circular, pursuant to the agreement signed between the Yangwu Project Company, the Transport Department of Shanxi Province and the Yangquan Government on 9 July 2008 in relation to the Yangquan Yangwu Expressway (Yangquan to Yu Xian section), the Yangwu Project Company has been granted the rights to construct, operate and maintain the Yangquan Yangwu Expressway (Yangquan to Yu Xian section), to collect tolls as approved by the Shanxi Government from vehicles using the Yangquan Yangwu Expressway (Yangquan to Yu Xian section), and to operate the service facilities within the approved area and to collect 40% of the profits from advertising during the concession period of 30 years from the date of approval from the Shanxi Government.

Pursuant to pre-existing construction agreements entered into in November 2008 and January 2010 between CSCECL and the Yangwu Project Company, the Yangwu Project Company agreed to engage CSCECL as construction contractor for the construction of sections A1 and A4 of the Yangquan Yangwu Expressway (Yangquan to Yu Xian section) for contract sums of approximately RMB1,533 million (approximately HK\$1,742 million) and RMB476 million (approximately HK\$541 million) respectively. The Group will make progress payments to CSCECL based on the progress of the construction works completed by CSCECL in accordance with the agreed payment schedule.

The unaudited net assets value of the Yangwu Project Company as at 31 December 2009 was approximately RMB202 million (approximately HK\$230 million). The amount of shareholder's loan as at 31 December 2009 was approximately RMB920 million (approximately HK\$1,045 million). Since the Yangquan Yangwu Expressway (Yangquan to Yu Xian section) is still under construction, all the expenses are capitalised and the Yangwu Project Company does not have any profit and loss item in its financial statements. Accordingly, there is no profit/loss attributable to the Yangwu Project Company for the preceding two financial years. As a result of further negotiations between the Company, CSCECL and the Yangwu Project Company, it is now decided that no repayment or capitalisation of shareholder's loan will be effected and the amount of shareholder's loan will remain unchanged until completion. The original investment amount of CSCECL in respect of the Investment Interests was RMB1,122 million (approximately HK\$1,275 million).

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## LETTER FROM ACCESS CAPITAL LIMITED

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Upon completion of the Acquisition, the Yangwu Project Company will become a wholly-owned subsidiary of the Company.

#### 4. Background information on the Yangquan Yangwu Expressway

Yangquan Yangwu Expressway is one of the main parts of Dongzong Main Route (東縱幹綫). The Yangquan to Yu Xian section is phase one of the Yangquan Yangwu Expressway project. The Yangquan Yangwu Expressway (Yangquan to Yu Xian section) is a 41.2 km expressway stretching from Xijiao Village of Pingding Xian (平定縣西郊村) to Yuanji Village of Yu Xian (盂縣元吉村), and intersecting with Taijiu Expressway (太舊高速公路).

The construction of the Yangquan Yangwu Expressway (Yangquan to Yu Xian section) commenced in 2008 and completion is expected to be in 2011.

Shanxi is a province situated in the northern part of the PRC with a population of approximately 34 million, as per its 2007 population census. Shanxi has eleven prefecture-level cities (地級市) and its province capital is Taiyuan. Shanxi is rich in coal deposit, according to a publication by the Shanxi government, coal production in the first quarter in 2010 totalled to approximately 160 million tonnes, representing an increase from the corresponding period in the previous year of approximately 45.9%. Coal mining along with energy production and other heavy industries are important to the province's overall economy.

#### 5. Reasons for the Acquisition

##### 5.1 *Strategic reasons*

The Group is principally engaged in building construction, civil engineering works, infrastructure investments and project consultancy businesses. As set out in the 2009 Annual Report, it is the Group's strategy to, among other things, seize sound development opportunities and gradually reposition itself towards the combination of construction and infrastructure investments.

As set out in the "Letter from the Board" of the Circular, given the acceleration of urbanisation in the PRC, the Directors believe that the infrastructure investments in the PRC will maintain steady growth in the future and the Acquisition will enhance the Group's infrastructure investment portfolio and generate stable long term income to the Company.

Taking into account that (i) the Acquisition is in line with the above strategy of the Company; and (ii) it is the intention of the Group to use the proceed from the Rights Issue to capture investment opportunities in relation to infrastructure projects in the PRC, we concur with the view of the Directors that the Acquisition is consistent with the Group's strategy to enhance the Group's infrastructure investment portfolio and generate stable long term income to the Company in future.

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## LETTER FROM ACCESS CAPITAL LIMITED

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### *5.2 An opportunity to utilise the Group's surplus funds to achieve a higher and stable return*

In order to assess the reasonableness of the consideration of the Acquisition, we have conducted an analysis on the interest income and investment income generated from the deployment of the Group's surplus funds. We noted from the 2009 Annual Report that the Group has cash and deposit balances, including bank balances and cash and deposits with financial institutions, of approximately HK\$5,748 million for the financial year ended 31 December 2009 (2008: HK\$1,900 million), respectively. The interest income from the aforesaid balances amounted to approximately HK\$21 million and HK\$14 million for the year ended 31 December 2008 and 2009, which represented an annual yield of approximately 1.1% and 0.2%, respectively.

The aforesaid bank balances (excluding bank current account), comprised of fixed deposits held by the Group with an original maturity of three months or less, carried interest at market rates which ranged from 0.001% to 3.5% per annum in 2009, while deposits with financial institutions, comprised of deposits with original maturity dates ranging from one to six months, carried at fixed rates ranged from 0.01% to 1.78% per annum in 2009.

Further analysis examining the annual return rate relating to the Group's investment income generated from the deployment of its surplus funds was also carried out. The balances examined, including (i) interest income on bank deposits, debt securities, deposits with financial institutions; (ii) imputed interest on amount due from an investee company; (iii) dividend income from available-for-sale investments; and (iv) gain on disposal of listed available-for-sale investments, which totalled to approximately HK\$2,180 million and HK\$6,114 million for the year ended 31 December 2008 and 2009, respectively. The investment income from the aforesaid balances amounted to approximately HK\$33.5 million and HK\$43.3 million for the year ended 31 December 2008 and 2009, representing an annual return rate of approximately 1.5% and 0.7%, respectively.

Based on the above, the annual yield generated from the Group's interest income and investment income was approximately 0.2% and 0.7%, respectively, for the year ended 31 December 2009.

Based on the valuation report by Greater China Appraisal Limited (the "Valuer") as set out in Appendix I to this Circular, the Company is expected to achieve an internal rate of return ("IRR") from the Acquisition of approximately 14.8%, being the discount rate that if applied to a stream of cashflows will provide a present value that equates to the cost of the investment. The Directors consider this IRR to be satisfactory and based on our discussion with the Valuer, the estimated annual yield to be generated from the Acquisition is expected to be in excess the annual yields generated from the Group's interest income and investment income. In addition, it is also noted from the 2009 Annual Report that the audited consolidated profit of the Group for the year ended 31 December 2009 (HK\$613 million) represents approximately 14.2% of the equity attributable to owners of the Company as at 31 December 2009 (HK\$4,305 million).

Having considered, the comparison of the annual yields generated from the Group's interest and investment income, the estimated average annual yield of the Yangquan Yangwu Expressway based on our discussion with the Valuer and an acceptable return from the Acquisition, the Company is of the view that the Acquisition represents an opportunity to utilise the Group's surplus funds to achieve a higher and stable return.

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## LETTER FROM ACCESS CAPITAL LIMITED

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### 5.3 *Stable long term income and cash inflow to the Group*

As set out in the Review of Traffic and Revenue Forecasts for Yangquan Yangwu Expressway (Yangquan to Yu Xian Section) prepared by MVA Hong Kong Limited (“MVA”) in Appendix II to the Circular (the “Traffic Report”), the total vehicles under the base scenario and year-on-year estimated growth in traffic volume of the Yangquan Yangwu Expressway are as follows:

<b>Year</b>	<b>Total Vehicles (Base Scenario)</b>	<b>Year-on-year growth (%)</b>	<i>Note</i>
2011	19,620	—	
2020	39,870	8.2%	(1)
2030	49,160	2.1%	(2)
2040	51,370	0.4%	(3)

*Notes:*

1. *Year-on-year growth for the period from year 2011 to year 2020*
2. *Year-on-year growth for the period from year 2020 to year 2030*
3. *Year-on-year growth for the period from year 2030 to year 2040*

We noted from the Traffic Report that the aforesaid projected traffic volume was based on, among other things, MVA’s review of the findings in the engineering feasibility study report produced by Shanxi Traffic Planning Survey and Design Institute and independent traffic counts and route reconnaissance conducted by MVA.

The projected traffic volume from the traffic and revenue review study carried out by MVA, was applied, among other things, by the Valuer to derive a valuation of the Yangwu Project Company. Based on the valuation report and our understanding from the Management, barring unforeseen circumstances, the Yangquan Yangwu Expressway is expected to generate stable long term revenue and cash inflow to the Group upon the completion of its construction.

## 6. **Principal terms of the Acquisition**

As set out in the “Letter from the Board” of the Circular, the Company entered into the Acquisition Agreement with CSCECL on the 7 May 2010.

The principal terms of which are set out below:

### 6.1 *Subject*

The investment interests of CSCECL in Yangquan Yangwu Expressway Investment Management Limited (i.e. the Yangwu Project Company), comprising the entire registered capital and all the related shareholder’s loan.

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## LETTER FROM ACCESS CAPITAL LIMITED

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### 6.2 *Consideration*

The consideration of RMB1,280 million (approximately HK\$1,455 million) shall be satisfied by way of cash in three instalments,

- (i) RMB384 million, representing 30% of the consideration, to be payable within 5 business days from the date on which the last of certain conditions being fulfilled (the “Effective Date”), details of which have been set out in the “Letter from the Board” of the Circular;
- (ii) RMB768 million, representing 60% of the consideration, to be payable within 6 months from the date on which the transfer of the Investment Interests is being registered by the relevant PRC authorities; and
- (iii) the remaining balance, representing 10% of the consideration, to be payable within 1 year from the Effective Date.

As set out in the “Letter from the Board” of the Circular, the consideration for the Acquisition is fixed and will not subject to any adjustment.

As further stated in the “Letter from the Board” of the Circular, as a result of further negotiations between the Company, CSCECL and the Yangwu Project Company, no repayment or capitalisation of shareholder’s loan will be effected and the amount of shareholder’s loan will remain unchanged until completion.

### 6.3 *Evaluation of the consideration*

As set out in the “Letter from the Board” to the Circular, the consideration was determined after arm’s length negotiations between the Company and CSCECL with reference to an independent valuation of the Yangwu Project Company. Such valuation was prepared in accordance with the PRC standards and the value based on the evaluation of the net assets of the Yangwu Project Company as of 30 September 2009 was RMB 1,280 million as shown in such valuation.

A business valuation report on the fair value of the Yangwu Project Company is set out in Appendix I to the Circular. The consideration, being RMB1,280 million (approximately HK\$1,455 million), is in line with the valuation of the Yangwu Project Company of RMB1,305 million (approximately HK\$1,483 million), as at 30 April 2010, set out in the valuation report by the Valuer in Appendix I to the Circular.

#### 6.3.1 *Valuation approach*

To evaluate the consideration, we have reviewed and discussed with the Valuer regarding, among other things, the basis and methodologies adopted for the valuation, particulars of which are contained in Appendix I to the Circular.

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## LETTER FROM ACCESS CAPITAL LIMITED

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We understand that the Valuer considered three different valuation approaches, namely the asset approach, the market approach and the income approach, when determining the valuation of Yangwu Project Company.

We have discussed with the Valuer and understand that the Valuer has adopted the income approach to evaluate the market valuation of the Yangwu Project Company based on, among other factors,

(i) The asset approach

- the Valuer considered that the asset approach to be inappropriate as the value of the Yangwu Project Company is determined by cashflow generated from business operations with specific operating terms, which means that the future economic benefit is more important in valuing the Yangwu Project Company than the adjusted book value or the cost of constructing the expressway project.

(ii) The market approach

- the Valuer considered that the market approach for the valuation of the Yangwu Project Company, however, the Valuer rejected this approach as the value of the Yangwu Project Company is derived from the economic benefit generated from the expressway project, which is unique with specific traffic conditions and operating terms. Furthermore, although public information is sometimes available, acquisition frequently involves specific buyers who pay a premium or discount under its unique circumstances. This makes it difficult to know if the price paid for the expressway project truly represents the approximate transaction price of the transaction; and
- for the comparable company method to be applicable there must be a sufficient number of comparable companies to make comparisons. As the value of the Yangwu Project Company is determined by the expressway operation which can vary significantly with different stage of development, operating terms and expressway location, the Valuer concluded that it is difficult for meaningful comparisons to be made for the expressway industry under this method.

(iii) The income approach

- adopting the income approach to value the Yangwu Project Company was considered most appropriate by the Valuer as the value of the Yangwu Project Company is determined by the ability to generate a stream of benefits in the future, therefore the Valuer concluded that the income approach is more applicable than the two other approaches.

In view of the above and based on our discussion with the Valuer, we consider that the income approach methodology is consistent with market practice for the valuation of the Yangwu Project Company.



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## LETTER FROM ACCESS CAPITAL LIMITED

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### 6.3.2 *Key assumptions*

As set out in the valuation report as set out in Appendix I of the Circular, the major assumptions adopted in the valuation, included but not limited to, (i) there will be no material changes in the existing political, legal, fiscal, foreign trade and economic conditions in the PRC where the expressway is located; (ii) there will be no major changes in the current taxation law in the PRC, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with; (iii) there will be no material changes in interest rates or foreign currency exchange rates from those currently prevailing; (iv) traffic growth for the expressway will conform to the base scenario as projected in the Traffic Report; (v) interest rates, credit terms and repayment schedule of bank and shareholder loans are provided by the management; and (vi) the Company will retain competent management, key personnel, and technical staff to support the ongoing operation of Yangwu Project Company.

The Valuer confirmed that the valuation of Yangwu Project Company is based on accepted valuation procedures and practices, and the underlying assumptions adopted in the valuation report are normally used in valuing expressway projects.

### 6.3.3 *Summary*

As set out in the valuation report as set out in Appendix I of the Circular, the fair value of 100% equity interest of the Yangwu Project Company was RMB1,305 million, which is in line with the consideration under the Acquisition of approximately RMB1,280 million.

In summary, having taken into account, among other factors,

- through the Acquisition, the Group would be able to expand its existing BT/BOT investment businesses which is in line with its corporate strategy;
- the consideration is in line with the valuation of the Yangwu Project Company;
- the Acquisition represents an opportunity to utilise the Group's surplus funds to achieve a higher and stable return;
- the estimated year-on-year growth in traffic volume as set out in the Traffic Report; and
- through the operation of the Yangquan Yangwu Expressway, the Yangwu Project Company shall generate stable long term income and cash inflow to the Group;

we consider that the consideration under the Acquisition to be fair and reasonable so far as the Company and the Independent Shareholders and in the interests to the Company and its Shareholders.

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## LETTER FROM ACCESS CAPITAL LIMITED

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### 7. Possible financial effects of the Acquisition to the Group

#### 7.1 *Earnings*

Upon completion of the Acquisition (the “Completion”), Yangwu Project Company will become a wholly-owned subsidiary of the Company and its results will be consolidated into the consolidated income statement of the Group.

As the Yangquan Yangwu Expressway (Yangquan to Yu Xian section) is still under construction as at the Latest Practicable Date and completion is only expected in 2011. The Management does not expect a material increase in the Group’s net profit immediately upon Completion.

#### 7.2 *Net assets value*

As advised by the Management, upon Completion, all assets and liabilities of the Yangwu Project Company will be consolidated into the consolidated financial position of the Group.

#### 7.3 *Working capital of the Group*

As stated in the “Letter from the Board” of the Circular, the consideration under the Acquisition will be satisfied by internal resources of the Group. As set out in the 2009 Annual Report, the Group has “bank balances and cash” of approximately HK\$5,748 million as at 31 December 2009. Given that the consideration under the Acquisition of RMB1,280 million (approximately HK\$1,455 million) will be made in stages over a period and having regard to the Group’s liquidity position, the Board is of the view that the investment outlay requirements as mentioned above would not have any adverse impact on the Group’s business.

As set out in the 2009 Annual Report, the Group has a net cash balance of approximately HK\$2,421 million as at 31 December 2009, being bank balances of approximately HK\$5,748 million net of total borrowings of approximately HK\$3,327 million. As the consideration will be settled by internal resources of the Group and the consolidation of the Yangwu Project Company’s assets and liabilities upon Completion, assuming that Completion took place on the 31 December 2009, it is expected that immediately upon Completion the net cash balance of the Group will decrease, but the Group would still be in net cash position as result of the Acquisition.

We also noted from the “Letter from the Board” of the Circular that there are pre-existing construction agreements entered into in November 2008 and January 2010 between CSCECL and the Yangwu Project Company, for the construction of sections A1 and A4 of the Yangquan Yangwu Expressway (Yangquan to Yu Xian section) for contract sums of approximately RMB1,533 million (approximately HK\$1,742 million) and RMB476 million (approximately HK\$541 million), respectively, and the Group will make progress payments to CSCECL based on the progress of the construction works completed by CSCECL in accordance with the agreed payment schedule. Based on our discussion with the Management, we understand the abovementioned construction costs will be financed by cash from the Yangwu Project Company and/or its existing bank facilities.

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**LETTER FROM ACCESS CAPITAL LIMITED**

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**V. RECOMMENDATION**

Having considered the above principal factors and reasons, we are of the view that the terms of the Acquisition Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and the entering into the Acquisition Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully  
For and on behalf of  
**Access Capital Limited**

**Ambrose Lam**  
*Principal Director*

**Jimmy Chung**  
*Principal Director*

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**APPENDIX I BUSINESS VALUATION REPORT ON YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)**

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*The following is the text of the business valuation report received from Greater China Appraisal Limited for the purpose of inclusion in this circular.*

**GREATER CHINA APPRAISAL LIMITED**  
漢華評值有限公司

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2703 Shui On Centre  
6-8 Harbour Road  
Wanchai  
Hong Kong

24 May 2010

The Board of Directors  
**China State Construction International Holdings Limited**  
28/F., China Overseas Building  
139 Hennessy Road  
Wanchai  
Hong Kong

Dear Sirs/Madams,

In accordance with your instructions, we were engaged to perform a valuation of the fair value of the 100% equity interest of Yangquan Yangwu Expressway Investment Management Limited (the “Yangwu Project Company”), which principally engaged in the development and management of expressway projects, as at 30 April 2010 (the “Valuation Date”).

It is our understanding that our analysis will be used as a reference for your transaction purpose, details of which are set out in the circular dated 28 May 2010 issued by the China State Construction International Holdings Limited to the Shareholders (the “Circular”), of which this valuation report forms part. Unless otherwise stated, terms used in this valuation report have the same meanings as those defined in the Circular. Our analysis was conducted for the above mentioned purpose only and this report should be used for no other purposes.

We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information provided to us are accurate and complete, and we have relied upon this information in performing our valuation.

**INTRODUCTION**

The Yangwu Project Company’s principal business includes development, operation and management of expressway project. The Yangwu Project Company is currently constructing an expressway named Yangquan Yangwu Expressway, situated in the Shanxi Province, the People’s

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## **APPENDIX I BUSINESS VALUATION REPORT ON YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)**

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Republic of China (the “PRC”). According to the Review of Traffic and Revenue Forecasts for Yangquan Yangwu Expressway (Yangquan to Yu Xian Section) prepared by MVA Hong Kong Limited as attached in Appendix II to the Circular (the “Traffic Report”), the expressway project refers to the section between Yangquan and Yu Xian. The construction is expected to be completed at the early 2011 and the operation is expected to launch in 2011.

### **BASIS OF VALUATION**

We have valued the Yangwu Project Company on the basis of fair value.

#### **Fair Value**

According to Hong Kong Financial Reporting Standard, fair value is the amount for which an asset could be exchanged, or a fair value liability settled, between knowledgeable and willing parties in an arm’s length transaction.

For the purpose of this valuation, the term of fair value is similar and/or interchangeable with the valuation standards or definitions below and will be used throughout this valuation report.

#### **Market Value**

According to The Hong Kong Business Valuation Forum - Business Valuation Standards, market value is defined as the estimated amount for which an asset (a property) should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

#### **Fair Market Value**

The International Valuation Glossary defines fair market value as the amount at which property would change hands between a willing buyer and a willing seller, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.

Our valuation has been prepared in accordance with the Hong Kong Institute of Surveyors (“HKIS”) Valuation Standards on Trade-related Business Assets and Business Enterprise (First Edition 2004) published by the HKIS and the Business Valuation Standards (First Printed 2005) published by the Hong Kong Business Valuation Forum. Both are generally accepted valuation standards followed by relevant professional practitioners in Hong Kong. These standards contain detailed guidelines on the basis and valuation approaches in valuing assets used in the operation of a trade or business and business enterprises.

### **ECONOMIC OUTLOOK AND INDUSTRY ANALYSIS**

In conjunction with the preparation of this valuation opinion, we have reviewed and analyzed the current economic conditions in China and how the value of the Yangwu Project Company may be impacted.

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**APPENDIX I BUSINESS VALUATION REPORT ON YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)**

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**China's Economic Outlook**

Boosted by the RMB4 trillion investment stimulus scheme and the cumulative effects of fiscal and monetary easing, China has shifted its economy driver from exports towards domestic consumption and made the most impressive recovery from the global financial crisis among all major economies. China recorded an impressive GDP growth of 8.7% in 2009. According to 2009 IMF's world GDP ranking, China's economy is now the third largest in the world after that of the United States and Japan. It should not be to anyone's surprise that if China can sustain its current growth rate, its GDP ranking will further advance in the foreseeable future.

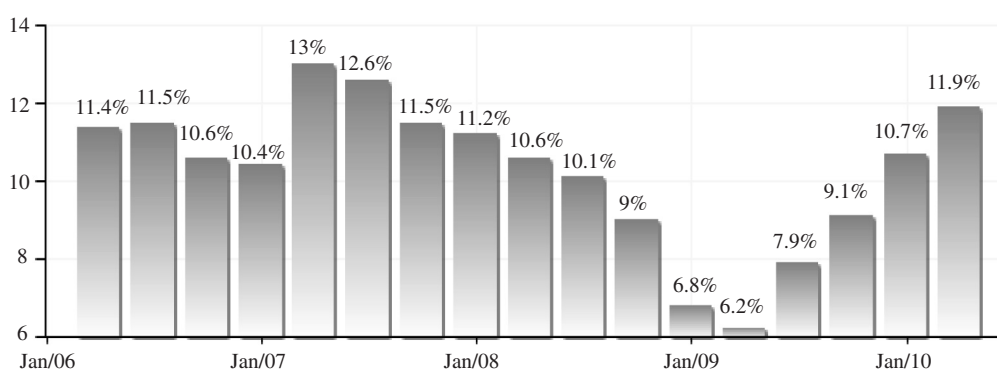
<b>Country</b>	<b>GDP</b> <i>(Millions of USD)</i>
1 United States	14,256,275
2 Japan	5,068,059
3 People's Republic of China	4,908,982
4 Germany	3,352,742
World	57,937,460

*Source:* 2009 List by the International Monetary Fund

Entering 2010, with economies worldwide starting to settle down from the global financial crisis, China continues to exhibit strong momentum in its economic growth, particularly in the areas of investment in infrastructures, domestic consumption, and a rebound in exports from a year ago.

**China GDP Growth Rate**

– Annual GDP Growth Adjusted by inflation



*source:* National Bureau of Statistics

Riding on the momentum of its robust economic growth, the Chinese government has begun to plan for the exiting stimulus monetary policies with a focus on structural economic and social issues. In the annual National People's Congress meeting held in March this year, the Chinese government

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## APPENDIX I BUSINESS VALUATION REPORT ON YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)

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has clearly outlined the three main focal points of work for 2010. In order to achieve a sustainable growth in future years, the Chinese government is determined to achieve a 8% economic growth while keeping the inflation rate target of around 3% and set the M2 money supply and new loan growth targets at 17% and RMB7.5 trillion, respectively.

However, there are still many challenges and uncertainties for the Chinese government to deal with in order to ensure a speedy economic recovery without the creation of excessive liquidity in the financial system, which will then lead to excessive asset inflation in both the stock and property markets. Managing inflation risk is also a key issue this year, and a series of fine tuning measures are expected to be implemented on a timely basis, such as stricter restrictions on mortgage lending, tighter requirement for second and third home purchases, and further increment of bank's reserve requirement ratio, or even an interest rate rise. Besides, as the global demand recovers and external exports grow, the Chinese government will face increasing pressure from its trading partners, who demand the Renminbi to be appreciated. Under tremendous pressure from various nations around the world, the Economist intelligence Unit<sup>1</sup> has forecasted that the Chinese government will allow Renminbi to rise moderately this year.

Despite these possible tightening measures, the Chinese government will continue its "proactive fiscal policy and moderately easing monetary policy" to maintain a healthy economic growth in longer term. The real GDP will still be able to expand by around 9.5% in 2010 and the growth will then slow to around 8.8% in 2011.

Economic Indicators	2008	2009	2010	2011
	Actual	Actual	Forecast	Forecast
Real GDP growth (%)	9.0	8.7	9.5	8.8
Consumer price inflation (%)	5.9	-0.7	2.7	2.4
Current-account balance (% GDP)	9.6	6.1	4.2	3.5
Commercial bank prime rate (%)	5.31	5.31	5.25	5.75
Exchange rate RMB:US\$ (average)	6.95	6.83	6.55	6.30

Source: National Bureau of Statistics of China and Bloomberg

### Transport Infrastructure Industry in the PRC

Although China has been undergoing rapid economic growth for the past decades, transport infrastructure has not been a major focus as a national development priority until the 1990s. The road network capacity in China simply cannot keep up with the growth in the number of vehicles, and is creating congestion and environmental problems particularly in major economic regions like the Guangzhou Province. However, the condition is gradually improved due to large investment in the transport infrastructure sector in the past decade.

<sup>1</sup> Country Report China May 2010, The Economist Intelligence Unit.

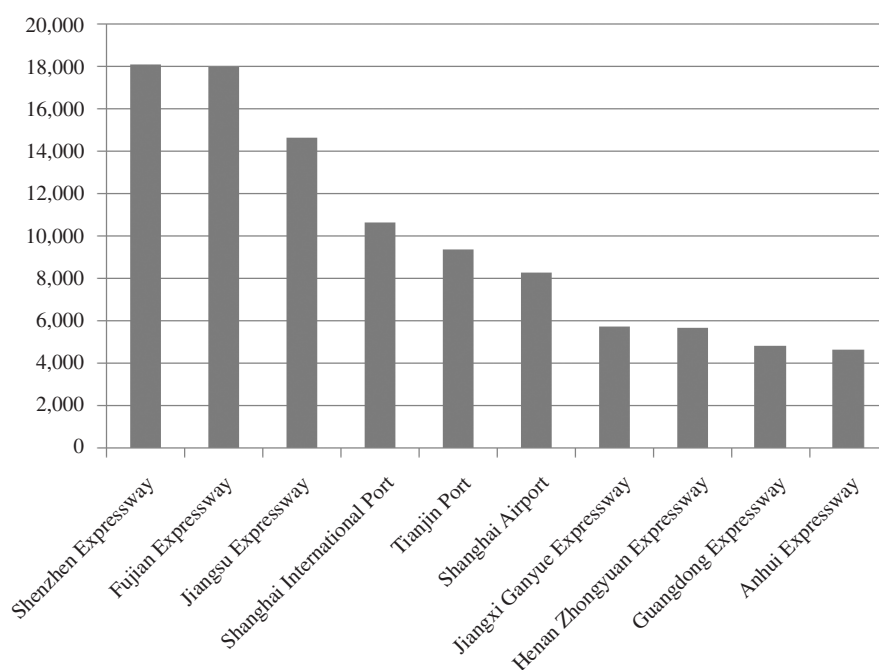
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**APPENDIX I BUSINESS VALUATION REPORT ON YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)**

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The transport infrastructure in China consists of four main areas: railways, roads, air and waterways<sup>2</sup>. Road construction has always been China’s top investment in transport infrastructure investment, with approximately 87.3% of total investment in transport fixed assets distributed to road construction, follow by ports and railway construction, 9.9%, in 2006<sup>3</sup>. This trend is also noted by the top ten China public listed companies in terms of investment from 2000 to 2008, where seven of them engaged in road construction.

**Top 10 China Stock Listed Companies in Terms of Investment 2000-1H2008 (in RMB million)**



Source: ResearchInChina, *Investment Report of China Transport Infrastructure Industry, 2000-2008*

**Highways and Expressways Development in the PRC**

Highways and expressways development has always been a crucial element of the China’s national economy and the major mode of transportation for both passengers and freight traffic. The road network is more developed in the three major economic regions, namely the Pearl River Delta, Yangtze River Delta and Bohai-rim region, but many parts of the country are still poorly connected.

<sup>2</sup> Civic Exchange, *Review of Decision-Making Processes in Guangdong Infrastructure, Energy and Transport*, February 2008.

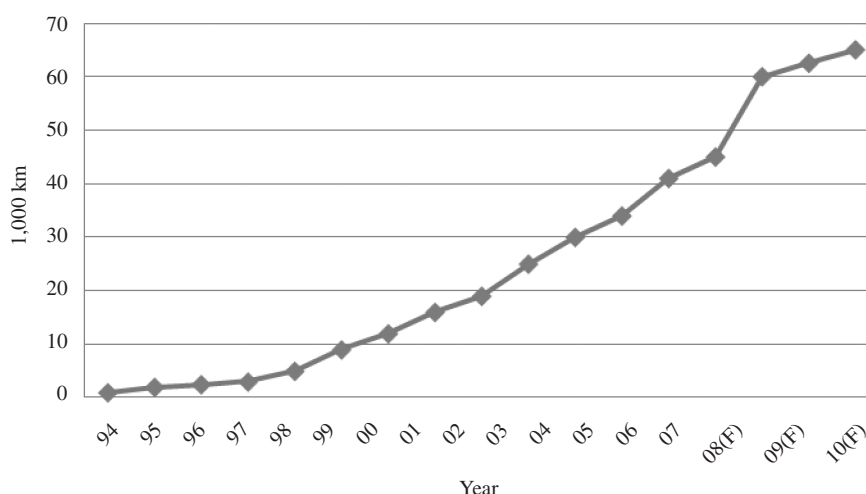
<sup>3</sup> The World Bank, *An Overview of China’s Transport Sector — 2007*, December 2007.



**APPENDIX I BUSINESS VALUATION REPORT ON YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)**

To address this issue, the Ministry of Communications has put forward massive plans to expand the country’s road system, highlighted by the programme in China’s 11th Five-Year Plan for an extension of the country’s National Trunk Highway System from around 41,000 km in 2005 to 65,000 km in 2010. This highway network is targeted to reach 3 million km by 2020, in an effort to connect all towns and cities with populations greater than 200,000.

**Total Expressway Length in China**



(F) — Figures for 2008 to 2010 are forecasted figures

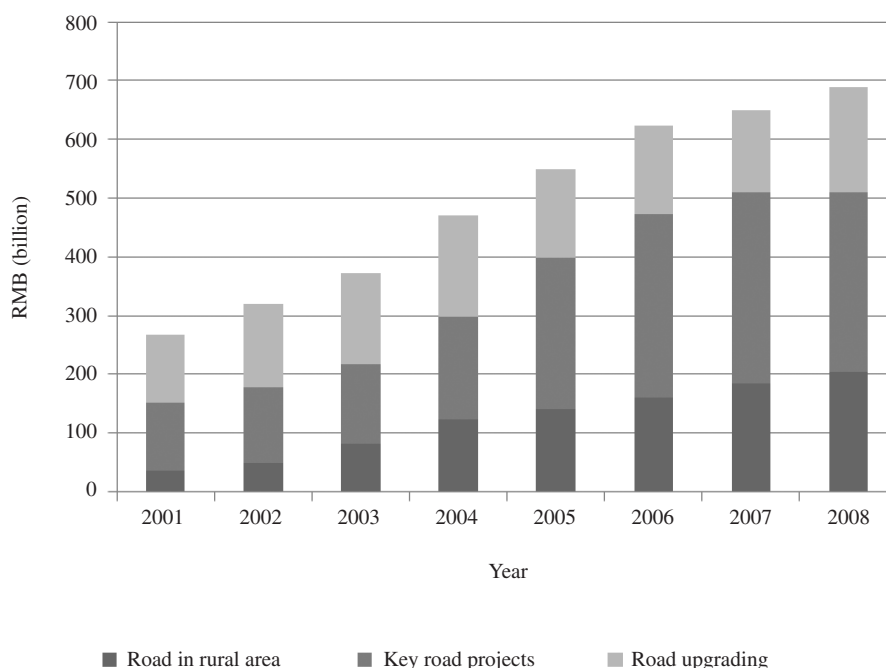
Source: Ministry of Transportation: The Master Plan for National Expressway Network (2008), China Statistical Yearbook 1994-2008, Extracted from KPMG, *Infrastructure in China: Foundation for growth*, 2009.

Although road construction and maintenance are mainly the responsibility of the local governments, the private sector has been actively encouraged to participate in the expressway sector to ease the government budget. Despite that many areas are still relatively under-developed, China has the world’s largest network of tollroads, representing 70 percent of the world’s total. Since 2000, China’s expressway network, which was already the second largest in the world, has been growing at an average of 20 percent per year.<sup>4</sup> Tolls in China have been set at levels similar to or higher than equivalent tolls charged in developed countries. The reason for high tolls was contributed by a large proportion of investment was sourced by domestic loans and self-financing (45.1% and 39.6% respectively in 2006), while a relatively smaller portion was funded by state budget (15.2% in 2006) comparing to most developed countries.<sup>5</sup>

<sup>4</sup> KPMG, *Infrastructure in China: Foundation for growth*, 2009.

<sup>5</sup> The World Bank, *An Overview of China’s Transport Sector — 2007*, December 2007.

**Roads Investment in China from 2001 to 2008**



Source: Ministry of Transportation: The Master Plan for National Expressway Network (2008); China Statistical Yearbook 2001-2008, Extracted from KPMG, Infrastructure in China: Foundation for growth, 2009.

The rapid increase in private vehicle ownership due to the growing middle class in China has also led to high demand of road development. In 2009, China overtook the United States and became the world’s largest car market due to the dramatic contraction of the American market, quadrupling since 2000.<sup>6</sup> Although car sales growth in China allowed to a single digit rate last year for the first time in 10 years due to the slowing economy, the country still managed to obtain a 7.27 percent growth, which represented by 6.76 million vehicles sold in 2008.<sup>7</sup> The consultancy McKinsey also estimates that China’s car market will grow tenfold between 2005 and 2030.<sup>8</sup> Under China’s strong economic condition and the government incentives on transport infrastructure development, it is undoubted that the demand for highways and expressways development will continue to grow and create investment potentials in the future.

**VALUATION METHODOLOGIES**

The valuation of any business or asset can be broadly classified into one of three approaches, namely the asset approach, the market approach and the income approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed most relevant will then be selected for use in the fair value analysis of the asset.

<sup>6</sup> Reuters, 13 March 2009.

<sup>7</sup> Reuters, 12 January 2009.

<sup>8</sup> BusinessGreen, 3 April 2009.

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## APPENDIX I BUSINESS VALUATION REPORT ON YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)

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### The Asset Approach

The asset approach is based on the so-called economic principle of substitution; it essentially measures what is the net value of the assets today and how much it would cost to replace those assets. One of the replacement value, liquidation value or adjusted book value is used to estimate the fair value of the business enterprise or its assets.

We consider the asset approach to be inappropriate because:

- The value of the Yangwu Project Company is determined by cashflow generated from business operations with specific operating terms, which means that the future economic benefit is more important in valuing the Yangwu Project Company than the adjusted book value or the cost of constructing the expressway project.

### The Market Approach

The market approach develops a value using the principle of substitution. This simply means that if one thing is similar to another and could be used for the other, then they must be equal. There are two basic methods under the market approach, the comparable transaction method and the comparable company method.

We have considered but rejected the market approach for the valuation of the Yangwu Project Company because:

- We are unable to satisfy ourselves that the comparable transaction method would be the most appropriate since the value of the Yangwu Project Company is derived from the economic benefit generated from the expressway project, which is unique with specific traffic conditions and operating terms. Furthermore, although public information is sometimes available, acquisition frequently involves specific buyers who pay a premium or discount under its unique circumstances. This makes it difficult to know if the price paid for the expressway project truly represents the approximate transaction price of the transaction; and
- For the comparable company method to be applicable there must be a sufficient number of comparable companies to make comparisons. As the value of the Yangwu Project Company is determined by the expressway operation which can vary significantly with different stage of development, operating terms and expressway location, it is difficult for meaningful comparisons to be made for the expressway industry under this method.

### The Income Approach

The income approach is the most generally accepted way of determining a fair value indication of a business or project, business ownership interest, security, or intangible asset by using one or more methods that convert anticipated benefits into a present value amount.

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## **APPENDIX I      BUSINESS VALUATION REPORT ON YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)**

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The discounted cash flow method (“DCF”) requires an explicit forecast of the future benefit stream over a reasonably foreseeable short term and an estimate of a long term benefit stream that is stable and sustainable, i.e. not varying from period to period and the benefit stream is determined to continue into the future without compromise. An appropriate discount rate and an estimate of long term growth beyond the forecast period allow discrete present value to be calculated and summed for all the benefit streams to determine the entity value.

We have applied the income approach to the valuation of the Yangwu Project Company because the value of the Yangwu Project Company is determined by the ability to generate a stream of benefits in the future. In the case of the valuation of the Yangwu Project Company, DCF is more applicable than the two other approaches.

### **MAJOR ASSUMPTIONS OF BUSINESS ENTERPRISE VALUATION**

We have relied heavily on the Traffic Report for the traffic projections. Our investigation included discussions with members of the Yangwu Project Company’s management in relation to the history and the nature of the business, operations and prospects of the Yangwu Project Company and review of Yangwu Project Company’s historical and projected financial information, review of the Traffic Report and other relevant documents. Before arriving at our opinion of value, we have considered the following principal factors:

- the nature of the business and the history of the enterprise from its inception;
- the financial condition of the business and its outlook;
- the economic outlook in general and the specific economic and competitive elements affecting each segment of the business;
- projected operation results forecasted by the management;
- traffic volume and revenue projection of the expressway made by MVA Hong Kong Limited in the Traffic Report;
- operating cost and cost of repairs and maintenance provided by MVA Hong Kong Limited in the Operation and Maintenance Study for Yangquan Yangwu Expressway;
- effect of debt financing and other loan agreements; and
- market derived investment returns of companies engaged in a similar nature of business.

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## APPENDIX I BUSINESS VALUATION REPORT ON YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)

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Owing to the changing environment in which the Yangwu Project Company operates, a number of assumptions have to be established in order to sufficiently support our concluded value of the Yangwu Project Company. The major assumptions adopted in this valuation are:

- there will be no material changes in the existing political, legal, fiscal, foreign trade and economic conditions in the PRC where the expressway is located;
- there will be no major changes in the current taxation law in the PRC, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- there will be no material changes in interest rates or foreign currency exchange rates from those currently prevailing;
- traffic growth for the expressway will conform to the base scenario as projected in the Traffic Report;
- interest rates, credit terms and repayment schedule of bank and shareholder loans are provided by the management; and
- the Company will retain competent management, key personnel and technical staff to support the ongoing operation of the Yangwu Project Company.

### DETERMINATION OF DISCOUNT RATE

Discount rate is applied for calculation of the present value of cash flows. Discounting the future cash flows allows for the time value of money. For the purpose of valuing the Yangwu Project Company, we have assessed the Capital Asset Pricing Model (“CAPM”) to calculate the discount rate for the expressway operation of the Yangwu Project Company.

#### Capital Asset Pricing Model

In financial theory, the cost of equity is defined as the minimum rate of return required by investors that a company must earn on the equity-financed portion of its capital to leave the market price of its stock unchanged. If the return on equity was lower than the minimum rate required by investors (that is, the company was not meeting the earnings expectations), the company’s share price would fall so that it would yield the necessary minimum return. Thus, we calculate the required rate of return on equity by using the CAPM. When applying the CAPM to estimate a company’s cost of equity capital, we add a risk premium; that is, the additional return that investors require over the risk-free rate. The underlying assumption is that investors are risk-averse and are seeking to maximize the returns on their investments. The cost of equity using CAPM is calculated from the formula below:

$$Re = Rf + \text{Beta} * Rpm + Rpc + RPi + RPs + RPu$$

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## APPENDIX I BUSINESS VALUATION REPORT ON YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)

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### *Risk Free Return (“Rf”)*

Rf was found by looking at the yields of the Chinese government bonds. Ideally, the duration of the security used as an indication of Rf should match the horizon of the projected cash flows that were being discounted. For this reason, we adopted the 30-Year Chinese Government Bond yield as at the Valuation Date for Rf.

### *Market Equity Premium (“R<sub>Pm</sub>”)*

R<sub>Pm</sub> was found by looking at the long term equity risk premium of respective guideline public companies. We adopted the recent long term equity risk premium of respective markets, as well as for each valuation date. We relied on International Equity Risk Premia Report Handbook published by Ibbotson Associates. For those markets that are not covered by the above publication, the equity risk premium of US market is multiplied by the relative volatility between S&P 500 Index and equity indices of respective country of risk of guideline public companies to obtain the equity risk premium. The volatility of US equity market is obtained from Stocks, Bonds, Bills, and Inflation Yearbook. The volatility of other equity indices is obtained from Bloomberg.

### *Country Risk Differential (“R<sub>Pc</sub>”)*

Country risk differential is the default risk differential of the subject company and respective guideline public companies, multiplied by the relative volatility of long-term government bond indices of US and those of respective country of risk of the guideline public companies. The default risk differential is obtained from the Damodaran valuation website. The volatility of the bond indices is obtained from Bloomberg.

### *Interest Rate Differential (“R<sub>Pi</sub>”)*

Interest rate differential is the differences between Rf of the subject company and the Rf of the country of risk of the guideline public companies as of respective valuation dates.

### *Beta*

In the CAPM formula, beta is a measure of the systematic risk of a particular investment relative to the market for all investment assets. We obtained betas for 6 identified publicly traded guideline companies. The identified betas were unlevered to remove the effects of financial leverage on the indication of relative risk provided by the beta, and re-levered at the optimal industry capital structure.

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## APPENDIX I BUSINESS VALUATION REPORT ON YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)

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### Selection of Comparable Companies

For this engagement, we have selected companies which are in the expressways industry, with preference given to ones whose main business operations are in the PRC, listed as follows:

	Comparable Companies	Ticker	Business Activities
1	Road King Infrastructure Ltd.	01098.HK	Constructs, operates, manages and maintains toll expressways in China.
2	Shenzhen Expressway Company Limited	00548.HK	Constructs, manages and operates toll highways and expressways in China.
3	Sichuan Expressway Company Limited	00107.HK	Develops, invests in and operates infrastructure projects including toll roads, bridges, tunnels and their ancillary facilities.
4	Anhui Expressway Co. Ltd.	00995.HK	Operates and develops toll expressways and highways in Anhui province in China.
5	Jiangsu Expressway Co. Ltd.	00177.HK	Constructs, operates, manages and maintains expressways in China.
6	GZI Transportation Limited	01052.HK	Invests in, develops, operates and manages toll highways, expressways and bridges in China.

We have selected sufficient and reasonable number of comparable companies listed in Hong Kong. It would not be practical and meaningful to have exhaustive industry-related listed companies in the valuation.

### *Small Company Premium (“RPs”)*

RPs, over the risk premium for the market, can be calculated by subtracting the estimated return in excess of the riskless rate from the realized return in excess of the riskless rate of companies. In the case of the Company, we applied the size premium return in excess of CAPM of companies the Microcap segment of NYSE/AMEX/ NASDAQ in the United States. We relied on the studies performed by Ibbotson Associates as reflected in their Stocks, Bonds, Bills, and Inflation Yearbook.

### *Specific Company Adjustment (“RPu”)*

RPu for unsystematic risk attributable to the specific company is designed to account for additional risk factors specific to the Yangwu Project Company. In the case of the Yangwu Project Company, we believe it was necessary to apply a RPu of 2% to the cost of equity as the expressway has not yet started to operate and no historical financial information of the expressway can be reliable used for our analysis purpose.

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**APPENDIX I BUSINESS VALUATION REPORT ON YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)**

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The calculation of CAPM therefore becomes:

Average market cost of equity	8.57%
Small company premium (SCP) <sup>9</sup>	3.99%
Specific company adjustment (SCA)	2.00%
<b>∴ CAPM (Cost of equity) (Re) (rounded)</b>	<b>14.60%</b>

From the above calculations, we have concluded that a discount rate of 14.60% is reasonable to use in the valuation of the Yangwu Project Company.

As the internal rate of return (“IRR”) refers to the discount rate that if applied to a stream of cashflows will provide a present value that equates to the cost of the investment. Based on our analysis, the discount rate conclusion from the development of the CAPM approximately equates to the IRR, 14.80%, of the transaction.

### **SYNTHESIS AND RECONCILIATION**

Because valuations cannot be made on the basis of a prescribed formula, there is no means whereby the various applicable factors in a particular case can be assigned mathematical weights in deriving the fair value. For this reason, no useful purpose is served by taking an average of several factors (for example, book value, capitalized earnings and capitalized dividends) and basing the valuation on the result. Such a process excludes active consideration of other pertinent factors, and the end result cannot be supported by a realistic application of the significant facts in the case except by mere chance.

The following comparative data summarizes and the various methods that we have accepted or considered and rejected, along with their respective final values. Each method is rated relative to the applicability of the method relative to the Yangwu Project Company’s facts and circumstances, and strengths/weaknesses were previously discussed.

#### ***The Asset Approach***

Replacement, Liquidation or Adjusted Book Value Method . . . . .N/A  
 Application . . . . .Rejected

#### ***The Market Approach***

Comparable Transaction or Comparable Company Method . . . . .N/A  
 Application . . . . .Rejected

#### ***The Income Approach***

Discounted Cash Flow Method . . . . .RMB1,305,000,000  
 Application . . . . .Accepted

<sup>9</sup> SBBI Valuation Edition 2010 Year Book by Ibbotson Associates



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**APPENDIX I      BUSINESS VALUATION REPORT ON YANGQUAN YANGWU  
EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)**

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Since the income approach is the only valid and applicable approach in this valuation, we conclude the fair value of our valuation is RMB1,305,000,000 using discounted cash flow method.

**CONCLUSION OF VALUE**

In conclusion, based on the investigation and analysis stated above and on the valuation method employed, it is our opinion that as at the Valuation Date, the fair value of the Yangwu Project Company is as follows:

*RENMINBI ONE BILLION THREE HUNDRED AND FIVE MILLION ONLY (RMB1,305,000,000)*

The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the Yangwu Project Company and have neither personal interest nor bias with respect to the parties involved.

Yours faithfully

For and on behalf of

**GREATER CHINA APPRAISAL LIMITED**

**K. K. Ip**

**Registered Business Valuer of HKBVF**

*MRICS, MHKIS and RPS (GP)*

*Managing Director*

**Samuel Y.C. Chan**

**MBA, CVA, CM&AA**

*Director*

*Head of Business Valuation*

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## **APPENDIX I BUSINESS VALUATION REPORT ON YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)**

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*Analysed and reported by:*  
*Carol Tso*

*Mr. K.K. Ip, a Chartered Valuation Surveyor of The Royal Institution of Chartered Surveyors (RICS), Member of Surveyors Registration Board of Hong Kong, Member (General Practice Division) of The Hong Kong Institute of Surveyors (HKIS) and Registered Business Valuer of The Hong Kong Business Valuation Forum (HKBFV), has substantial experience in property, plant and machinery, business enterprise and intellectual property valuations for various purposes in Greater China Region since 1992.*

*Mr. Samuel Y.C. Chan, MBA, Certified Valuation Analyst of The International Association of Consultants, Valuators and Analysts (IACVA) and Certified Merger & Acquisition Advisor, has been conducting business enterprise and intellectual property valuations for various purposes since 2004. He also spends a significant portion of his time in valuation of financial instruments including convertible bonds, preference shares, swaps, corporate guarantees and employee share options for private and public companies in China, Hong Kong, Taiwan, Japan, Singapore and the United States.*

### **STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS**

The primary assumptions and limiting conditions pertaining to the value estimate conclusion(s) stated in this report are summarized below. Other assumptions are cited elsewhere in this report.

The valuation may not be used in conjunction with any other valuation or study. The value conclusion(s) stated in this valuation are based on the program of utilization described in the report and may not be separated into parts. The valuation was prepared solely for the purpose, function, and party so identified in the report. The valuation report may not be reproduced, in whole or in part, and the findings of the report may not be utilized by a third party for any purpose, without the express written consent of Greater China Appraisal Limited.

No change of any item in any of the valuation report shall be made by anyone other than Greater China Appraisal Limited, and we shall have no responsibility for any such unauthorized change.

Unless otherwise stated in the valuation, the valuation of the business has not considered or incorporated the potential economic gain or loss result from contingent assets, liabilities, or events existing as at the Valuation Date.

The working papers for this engagement are being retained in our files and are available for your references; we would be available to support our valuation conclusion(s) should this be required. Those services would be performed for an additional fee.

Neither all nor any part of the contents of the report shall be disseminated or referred to the public through advertising, public relations, news or sales media, or any other public means of communication, or referenced in any publication, including any private or public offerings, including but not limited to those filed with the Securities and Exchange Commission or other governmental agency, without the prior written consent and approval of Greater China Appraisal Limited.

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**APPENDIX I      BUSINESS VALUATION REPORT ON YANGQUAN YANGWU  
EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)**

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Management is assumed to be competent, and the ownership to be in responsible hands, unless noted otherwise in this report. The quality of business management can have a direct effect on the viability and value of the business. The financial projections contained in the valuation assume responsible ownership and competent management unless noted otherwise. Any variance from this assumption could have a significant impact on the final value estimate.

Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business due to future legislation, including any environment or ecological matters or interpretations thereof.

Events and circumstances frequently do not occur as expected, and there will usually be differences between prospective financial information and actual results, and those differences may be material. Accordingly, to the extent that any of the information used in this analysis and report requires adjustment, the resulting fair value would be different.

Any decision to purchase, sell, or transfer any interest or asset in the Subject or acquiring company, or any portion thereof, shall be solely your responsibility, as well as the structure to be utilized and the price to be accepted.

The selection of the price to be accepted requires consideration of factors beyond the information we will provide or have provided. An actual transaction involving the subject business or assets might be concluded at a higher value or at a lower value, depending on the circumstances of the transaction and the business, and the knowledge and motivations of the buyers and sellers at that time.

All facts and data set forth in our letter report are true and accurate to the best of our knowledge and belief.

No investigation of legal fees or title to the property has been made, and the owner's claim to the property has been assumed valid. No consideration has been given to liens or encumbrances that may be against the property except as specifically stated in the valuation executive summary report.

During the course of the valuation, we have considered information provided by the management and other third parties. We believe these sources to be reliable, but no further responsibility is assumed for their accuracy.

We have conducted interviews with the current management of the acquiring company concerning the past, present, and prospective operating result of the acquiring company.

Any projections of future events described in this report represent the general expectancy concerning such events as at the Valuation Date. These future events may or may not occur as anticipated, and actual operating results may vary from those described in our report.

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**APPENDIX I      BUSINESS VALUATION REPORT ON YANGQUAN YANGWU  
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This valuation study is intended solely for use by the management of the acquiring company in connection with financial reporting relating to HKAS and should not be used for any other purpose or distributed to third parties, in whole or in part, without the express written consent of Greater China Appraisal Limited.

We have used financial projections approved by management. We have not examined the forecast data or the underlying assumptions in accordance with the relevant standards and do not express an opinion or any other form of assurance on the forecast data and related assumptions. The future may not occur as anticipated, and the actual operating results may vary from those described in our report. In the case that the forecast data differ from the actual future events, our recommendations as to the indication of value may be materially affected.

We have no responsibility or obligation to update this report for events or circumstances occurring subsequent to the date of this report.

Our report is based on historical and/or prospective financial information provided to us by management and other third parties. This information has not been audited, reviewed, or compiled by us, nor has it been subjected to any type of audit, review, or compilation procedures by us, nor have we audited, reviewed, or compiled the books and records of the subject company. Had we audited, reviewed, or compiled the underlying data, matters may have come to our attention that would have resulted in our using amounts that differ from those provided; accordingly, we take no responsibility for the underlying data presented or relied upon in this report.

We have relied upon the representations of the owners, management, and other third parties concerning the value and useful conditions of all equipment, real estate, investments used in the business, and any other assets of the business are free and clear of liens and encumbrances, or that the Company has good title to all assets.

Our valuation judgment, shown herein, pertains only to the subject assets, the stated value standard (fair value), as at the Valuation Date, and only for the stated valuation purpose (financial reporting).

The various estimates of value presented in this report apply to the valuation report only, and may not be used out of the context presented herein.

In all matters that may be potentially challenged by the Securities and Exchange Commission, a Court, the Internal Revenue Service, or other governmental and/or regulatory body, we do not take responsibility for the degree of reasonableness of contrary positions that others may choose to take, nor for the costs or fees that may be incurred in the defence of our recommendations against challenge(s). We will, however, retain our supporting work papers for your matter(s), and will be available to assist in active defence of our professional positions taken, at our then current rates, plus direct expenses at actual, and according to our then current Standard Professional Agreement.

*The following is the text of a traffic study report relating to Yangquan Yangwu Expressway prepared for the purpose of inclusion in this circular received from MVA Hong Kong Limited.*



MVA Hong Kong Limited  
26th Floor  
China Resources Building  
26 Harbour Road, Wanchai  
Hong Kong  
Tel: 2529 7037  
Fax: 2527 8490

24 May 2010

The Directors  
China State Construction International Holdings Limited  
28/F., China Overseas Building  
139 Hennessy Road, Wanchai  
Hong Kong

Dear Sirs/Madams,

**Review of Traffic and Revenue Forecasts for  
Yangquan Yangwu Expressway (Yangquan to Yu Xian Section)**

In accordance with your instructions, MVA Hong Kong Limited (the “Consultant”) has conducted an independent traffic and revenue review study (the “Study”) of the Yangquan Yangwu Expressway (Yangquan to Yu Xian Section) in Shanxi Province. The Consultant confirms that the review of the future traffic and revenue projections are carried out in an independent and professional manner.

The Study was conducted mainly on their review of the findings in the engineering feasibility study report produced by the Shanxi Traffic Planning Survey and Design Institute (“STPSDI”) in 2007. The Consultant has also conducted independent traffic counts and route reconnaissance in April 2010 to understand the traffic conditions in the project corridor as well as reviews of other relevant information.

The findings of the Study are presented in the report of “Review Update of Traffic and Revenue Forecasts for Yangquan Yangwu Expressway (Yangquan to Yu Xian Section)”. Our review analysis and findings are briefly summarized below:

## **INTRODUCTION**

This report summarizes the review findings based on the technical analysis conducted. The Consultant confirms that the review of the future traffic revenue forecasts for the concession period (2011-2040) for the Yangquan Yangwu Expressway (Yangquan to Yu Xian Section) was conducted in an independent and professional manner.

In conducting the Study, the Consultant has based the analyses on route reconnaissance, traffic counts and review of the engineering feasibility study report and other relevant information of the toll road.

The Study generally conformed to the following procedures:

- requests made for all available engineering feasibility studies, reports, traffic data and related documentations;
- review of the information available; and
- route reconnaissance of the existing highways and supplementary traffic counts were undertaken.

## **REVIEWS OF THE TRAFFIC FORECASTING METHODOLOGY**

The overall approach adopted by STPSDI in carrying out the traffic forecasts was rather comprehensive and, should be adequate for producing reasonable traffic forecasts. Discussion on individual components of the approach will be provided in the following sub-sections of this report.

In the engineering feasibility study report, one set of forecasts was presented under the “Recommended Alignment” scenario. The traffic forecast approaches based on projected socio-economic characteristics of the study area has assumed the subject expressway would bring additional travel demand due to shorter time and distance to travel between regions. This induced demand is not an uncommon concept, especially when the existing highway system is considered inadequate to accommodate the desired demand.

### ***Comparison of Traffic Counts***

An Origin-Destination (“OD”) survey was carried out in September 2005 by STPSDI and it provided the basic information about the travel characteristics along the study corridor. To provide average daily traffic data, the OD survey results were adjusted based on:

- Monthly Variation factor,

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**APPENDIX II                      TRAFFIC STUDY REPORT ON YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)**

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- Weekday Variation factor; and
- 12 to 24 hours conversion factor (for non 24-hour survey).

The following table presents the comparison of the traffic counts in 2005, 2007 and 2010. The latter 2 traffic surveys were conducted independently by the Consultant.

Locations	Year	Goods Vehicles				Passenger Vehicles			Total (in Passenger Car Units)	
		Light	Medium	Heavy	Tractors/ Trailers	Total	Small	Large		
Qingcheng	2005	288	320	785	2,588	3,981	1,435	258	1,693	11,924
	2007	151	133	1,864	1,505	3,653	2,486	240	2,726	11,440
	2010	447	186	5,996	994	7,623	4,691	301	4,992	24,402
	Changes (2005-10)	55%	-42%	664%	-62%	91%	227%	17%	195%	105%
Yangquan East	2005	992	1,755	875	948	4,570	5,455	905	6,360	15,031
	2007	1,422	1,565	1,869	379	5,235	10,526	2,234	12,760	22,522
	2010	1,876	1,105	6,133	15	9,129	22,170	1,412	23,582	45,774
	Changes (2005-10)	89%	-37%	601%	-98%	100%	306%	56%	271%	205%

When compared with our supplementary traffic counts, the total traffic at the Qingcheng and Yangquan East toll stations are found to be comparable or more than the 2005 surveys. Without any other available additional information, the Consultant concludes that the OD survey data results are generally reasonable and can be used as the basis for subsequent traffic forecasting analyses.

***Socio-Economic Projection***

The population, Gross Domestic Product (“GDP”) and Gross Agricultural and Industrial Product (“GAIP”) were used as indicators for socio-economic performance of the study area and also acted as the prime variables for trip generation and attraction forecasts in STPSDI’s approach. In general, the GDP growth correlates to the growth of passenger vehicles and the GAIP growth correlates to the growth in goods vehicles. However, the engineering feasibility study report did not indicate clearly the socio-economic projection except GDP, which the Consultant considered that the assumed GDP growth tends to be conservative.

The historical data in the past decade indicates a high growth in GDP and GAIP in the regions. This is not at all surprising in view of the booming economy of China in the last two decades. Such growth is expected to slow down over years, and therefore a generally flattening shape of the growth rate is envisaged.

***Induced Demand***

The arguments about induced traffic due to the opening of the Shijiazhuang-Taiyuan High Speed Passenger Dedicated Line and the opening of the proposed expressway are sensible. The demand of a newly opened transportation facilities mainly comes from two sources, a) diversion of existing traffic from the old roads in the corridor; b) newly or induced traffic due to the opening of new facilities, which could increase the accessibility of the region. In this case, the newly opened Yangquan North Railway Station on the Shijiazhuang-Taiyuan High Speed Passenger Dedicated Line, would increase traffic travelling to/from the station. The same will happen to the opening of the Yangquan Yangwu Expressway (Yangquan to Yu Xian section).

***Traffic Generation/Attraction***

The trip generation/attraction forecasts were based on a linear regression model using the population, GDP and GAIP as the major input variable. Vehicle ownership has not been included as part of the equation, and may lead to conservative results for passenger vehicles.

***Traffic Distribution***

The estimated trips generated and attracted by zones in future design years were expanded to full matrices using base year distribution (2005 OD matrix estimated from survey) by Fratar's method. This is a sensible way to derive the future year matrices.

***Traffic Assignment***

STPSDI made use of a multi-path logit model to estimate the traffic assigned to the proposed expressway. The multi-path logit model derived the traffic diversion rate based on the difference in perceived travel times, distance and costs (taken into account any tolls paid) on the expressway and on the existing highway. From our experience, passenger vehicles and goods vehicles drivers base their route choices somewhat differently not only on travel time, but also on travel distance and, in some cases, road characteristics such as roughness. Although it was not state clearly in the report, the Consultant understands that different coefficients were used for small vehicles and large vehicles. Nevertheless, it was not shown clearly whether different coefficients were adopted for passenger and goods vehicles separately.

The engineering feasibility study report had not explicitly mentioned how the traffic model was calibrated and hence the Consultant could not comment on whether the traffic model had been set up properly.

The Consultant found that it was strange the annual growth for goods vehicle is somewhat higher than the passenger vehicles in the first 5 years as the growth of passenger vehicles OD table was higher than that of goods vehicles. Also, passenger vehicles usually are more willing to travel on the expressway than goods vehicles due to higher value of time perceived by the car drivers. Other than the comment on the first 5 years forecast, the growth pattern in other years looked reasonable.



The 2010 traffic count results have already exceeded those traffic forecasts on the existing road at Yangquan East (approaching 2030 forecasts) and at Qingcheng (approaching 2020 forecasts). It showed that the forecast results were somewhat conservative.

### REVIEWS OF THE TRAFFIC PROJECTION

Based on the 2010 traffic counts and the Consultant's own analysis, the Consultant concluded that the forecasts made by STPSDI were conservative. The Consultant based the difference of the 2010 forecasts made in the engineering feasibility study report and the actual traffic count, adjusted the traffic forecasts for years from 2011-2030. In consideration that the growth in recent years on the existing roads may partly due to the abolishment of toll, the Consultant reduced 15% of the difference for that reason. Also, the Consultant has applied gradually decreased reduction with a starting of 20% on the diversion proportion of the expressway usage to reflect reaction of the drivers when a new toll road is opened. The 2031-2040 traffic projections were produced by extrapolation of the growth in the year 2030.

### SUMMARY OF TRAFFIC PROJECTION

Based on the review analysis and findings, the Consultant adjusted the traffic forecasts in the engineering feasibility study report and produced projections under three scenarios, namely, conservative, base and optimistic. The traffic projections under the three scenarios are presented in the following tables.

Year	Conservative Scenario			Base Scenario			Optimistic Scenario		
	Passenger Vehicles	Goods Vehicles	Total	Passenger Vehicles	Goods Vehicles	Total	Passenger Vehicles	Goods Vehicles	Total
2011	7310	9260	16570	8660	10960	19620	10120	12800	22920
2012	8000	10200	18190	9460	12070	21530	11040	14080	25130
2013	8740	11230	19970	10340	13280	23620	12050	15490	27540
2014	9550	12370	21930	11290	14620	25910	13160	17040	30200
2015	10450	13630	24080	12340	16090	28430	14370	18740	33110
2016	11350	14420	25770	13390	17020	30400	15580	19810	35390
2017	12320	15270	27590	14530	18000	32530	16900	20940	37840
2018	13380	16160	29540	15770	19040	34810	18330	22130	40470
2019	14540	17100	31640	17110	20140	37250	19880	23400	43280
2020	15790	18100	33890	18580	21300	39870	20760	24040	44790
2021	14990	17100	32080	17620	20100	37720	19410	22160	41570
2022	15860	18010	33860	18640	21160	39790	20490	23290	43780
2023	16780	18960	35740	19710	22270	41980	21420	24350	45770
2024	17760	19970	37730	20610	23230	43840	21920	25040	46960
2025	18800	21030	39830	21030	23870	44910	22410	25780	48180
2026	20020	21870	41890	21420	24270	45690	22760	26080	48840

Year	Conservative Scenario			Base Scenario			Optimistic Scenario		
	Passenger Vehicles	Goods Vehicles	Total	Passenger Vehicles	Goods Vehicles	Total	Passenger Vehicles	Goods Vehicles	Total
2027	20860	22380	43230	21830	24680	46510	23130	26390	49510
2028	21230	22740	43970	22260	25100	47360	23510	26700	50210
2029	21610	23120	44730	22710	25530	48240	23900	27020	50920
2030	22020	23500	45530	23180	25980	49160	24200	27170	51370
2031	22430	23890	46320	23650	26420	50070	24200	27170	51370
2032	22840	24280	47110	24120	26870	50990	24200	27170	51370
2033	23250	24660	47910	24370	27000	51370	24200	27170	51370
2034	23650	25050	48700	24370	27000	51370	24200	27170	51370
2035	24060	25440	49500	24370	27000	51370	24200	27170	51370
2036	24470	25820	50290	24370	27000	51370	24200	27170	51370
2037	24880	26210	51080	24370	27000	51370	24200	27170	51370
2038	25070	26300	51370	24370	27000	51370	24200	27170	51370
2039	25070	26300	51370	24370	27000	51370	24200	27170	51370
2040	25070	26300	51370	24370	27000	51370	24200	27170	51370

*Note: Figures shown are in passenger car units*

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**APPENDIX II                      TRAFFIC STUDY REPORT ON YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)**

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**ESTIMATION OF REVENUE**

A summary of the revenue estimations for Yangquan Yangwu Expressway (Yangquan to Yu Xian Section) is presented in the following table.

<b>YEAR</b>	<b>Conservative Scenario</b>	<b>Base Scenario</b>	<b>Optimistic Scenario</b>
2011	202,577,000	239,866,000	280,169,000
2012	222,693,000	263,527,000	307,576,000
2013	244,802,000	289,412,000	337,536,000
2014	269,010,000	317,907,000	370,535,000
2015	295,830,000	349,170,000	406,667,000
2016	315,476,000	372,184,000	433,236,000
2017	336,567,000	396,801,000	461,603,000
2018	359,109,000	423,101,000	491,899,000
2019	383,290,000	451,212,000	524,224,000
2020	408,998,000	481,251,000	540,114,000
2021	515,552,000	606,079,000	667,612,000
2022	543,777,000	639,006,000	702,113,000
2023	573,623,000	673,665,000	728,861,000
2024	605,123,000	703,320,000	746,095,000
2025	638,311,000	718,866,000	763,958,000
2026	669,968,000	729,758,000	772,789,000
2027	689,609,000	740,992,000	781,817,000
2028	699,728,000	752,621,000	791,094,000
2029	710,190,000	764,740,000	800,620,000
2030	721,046,000	777,253,000	806,240,000
2031	731,903,000	789,766,000	806,240,000
2032	742,760,000	802,279,000	806,240,000
2033	753,616,000	807,058,000	806,240,000
2034	764,473,000	807,058,000	806,240,000
2035	775,330,000	807,058,000	806,240,000
2036	786,186,000	807,058,000	806,240,000
2037	797,043,000	807,058,000	806,240,000
2038	800,595,000	807,058,000	806,240,000
2039	800,595,000	807,058,000	806,240,000
2040	800,595,000	807,058,000	806,240,000

*Note: Figures shown are in Chinese yuan*

**CONCLUSION AND RECOMMENDATIONS**

In general, it is considered that the overall approach adopted in the engineering feasibility study prepared by STPSDI for traffic forecasts is reasonably comprehensive and had covered most of the necessary considerations. However, in view of the recent traffic counts conducted by the Consultant, it seems to the Consultant that the forecasts produced by STPSDI might have underestimated the usage of the Yangquan Yangwu Expressway (Yangquan to Yu Xian Section), in particular, for passenger cars. The revised traffic projected produced by the Consultant has reflected this finding.

Current professional practices and procedures were used in the development of the findings of this study. However, there are sometimes differences between forecasted and actual results caused by events and circumstances beyond the control of the Consultant and these differences could be material.

Yours faithfully  
For and on behalf of  
**MVA Hong Kong Limited**

**Sam Chow**  
*Technical Director*

*Notes: Mr. Sam Chow, BEng, MBA, FCILT, CEng, MICE, CPEng, MIEAust, MHKIE, is a professional engineer in UK, Australia and Hong Kong and has more than 24 years of professional experience in transportation planning and traffic and revenue forecasts of toll roads in Mainland China, Hong Kong, Australia, India and South Korea.*

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**APPENDIX III                      OPERATION AND MAINTENANCE STUDY FOR YANGQUAN  
YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)**

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*The following is the text of an independent assessment on the operation and maintenance study of Yangquan Yangwu Expressway (Yangquan to Yu Xian Section) prepared for the purpose of inclusion in this circular received from MVA Hong Kong Limited.*



MVA Hong Kong Limited  
26th Floor  
China Resources Building  
26 Harbour Road, Wanchai  
Hong Kong  
Tel: 2529 7037 Fax: 2527 8490

24 May 2010

The Directors  
China State Construction International Holdings Limited  
28/F., China Overseas Building  
139 Hennessy Road,  
Wanchai  
Hong Kong

Dear Sirs,

**Operation and Maintenance Study of Yangquan Yangwu Expressway (Yangquan to Yu Xian Section)**

In accordance with your instruction and for China State Construction International Holdings Limited (the “Company”), MVA Hong Kong Limited in association with Mott MacDonald Hong Kong Limited (the “Consultant”) has conducted an independent assessment on the operation and maintenance (“O&M”) study (the “Study”) of Yangquan Yangwu Expressway (Yangquan to Yu Xian Section) located in the central to eastern Shanxi area in Shanxi Province, the People’s Republic of China (“PRC”). This report summarizes the results and findings based on the technical analyses conducted. Consultant confirm that the future operation and maintenance for the Yangquan Yangwu Expressway (Yangquan to Yu Xian Section) are projected in an independent and professional manner.

In conducting the Study, Consultant have based on our analyses on brief review of the available feasibility study report, design report and site photos provided by the Company. In utilizing the given information provided by the Company, Consultant have sought confirmation from the Company that no material factors have been omitted. Consultant concluded that reliable information has been provided for conclusive review and comprehensive analysis.

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## **APPENDIX III                    OPERATION AND MAINTENANCE STUDY FOR YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)**

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The results of the Consultant's analysis are presented in the Yangquan Yangwu Expressway (Yangquan to Yu Xian Section) — O&M Study. A brief summary of our study approaches and finding is presented below:

### **INTRODUCTION**

This operation and maintenance assessment consists of:

- Brief review of the expressway design based on the feasibility study report and design report; and,
- Estimation of the future operation and maintenance cost for the concession period of the subject facility.

In accordance with the study objectives, scope and schedule, the Consultant conducted a brief review on the feasibility study report, design report and site photos provided by the Company.

Please note that the scope of this Study, however, is not to conduct any inspection or a rigorous engineering analysis of the expressway, but rather, to provide a general overview of the project. The report is intended to give a brief review on the maintenance aspects in order that the risk, attributable cost and financial viability of the project can be assessed.

### **PROJECT DESCRIPTION**

Yangquan Yangwu Expressway (Yangquan to Yu Xian Section) — The total length of the Study toll road alignment is in an approximate of 41.2km and with a design speed of 80kph, it consists of 4 lanes (Dual-2 Carriageway) with width of 3.75m per lane and a central median reserve area and emergency parking lane in both directions. The entire Yangquan Yangwu Expressway (Yangquan to Yu Xian Section) will be open to traffic in early 2011. There are 4 toll plazas on the Study toll road. The expressway runs from Pingding Xian linking to the Tai Jiu expressway in the west to Pingding Xian, Yangquan City, suburb of Yangquan city and Yu Xian, and ends at Yuanji Village. It is a main component of the Dongzong Main Route for Shanxi province.

### **OPERATION AND MAINTENANCE COSTS**

The total annual O&M costs include costs for minor repair/maintenance as well as major repairs. Minor repairs and maintenance refers to the upkeep/preventative actions and minor repairing for normal operation of the expressway to be maintained. Major repairs are defined as the required periodical repairs in order to reinstate the original conditions of the highway after long term wear and tear.

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**APPENDIX III                      OPERATION AND MAINTENANCE STUDY FOR YANGQUAN  
YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)**

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The purpose of this Study is to assume the O&M organisation structures and to form the basis in determining future maintenance needs in terms of costs and effort. Emphasis has been placed on major engineering elements and facility structures with the goal of matching the facility needs with the O&M works.

The Consultant has reviewed and determined the assumed maintenance costs based on assumed maintenance schedule of the Study roads and the anticipated level of traffic.

**Operation and Maintenance Costs**

This project mainly considers the maintenance of the pavement, road furniture, tunnel and bridges.

For pavement maintenance costs, the estimation has to consider both the existing condition of the expressway and the traffic volume. The growth rate of pavement maintenance costs will be estimated to be 3% for the concession period.

For the large-scale pavement maintenance works, the cost estimation has to include a large scale repaving works in year 2022 and 2035. The maintenance costs for Yangquan Yangwu Expressway (Yangquan to Yu Xian section) are given in Table below.

**Operation and Maintenance costs for the concession period (RMB million)**

<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
10.0	11.1	12.3	13.6	14.9	16.3	16.8	17.3	17.8	18.3
<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>
18.9	83.9	20.0	20.6	21.3	21.9	22.6	23.2	23.9	24.7
<b>2031</b>	<b>2032</b>	<b>2033</b>	<b>2034</b>	<b>2035</b>	<b>2036</b>	<b>2037</b>	<b>2038</b>	<b>2039</b>	<b>2040</b>
25.4	26.2	26.9	27.7	123.2	29.4	30.3	31.2	32.2	33.1

*Notes:* All costs estimated refer to PRC May 2010 price level.

Since the working drawings were not provided, all the costs were estimated based on the provided Feasibility Study Report and Design Report.

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## APPENDIX III OPERATION AND MAINTENANCE STUDY FOR YANGQUAN YANGWU EXPRESSWAY (YANGQUAN TO YU XIAN SECTION)

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### Management Costs

Since the organization setup for Yangquan Yangwu Expressway (Yangquan to Yu Xian Section) has not been established, the organization setup for operation and management has been assumed for the estimation of management cost. This management costs include staff costs and office administrative costs. Management cost for year 2011 is RMB17.8 million. An annual increase of 3% is assumed for the concession period. The future cost estimations are given in table below:

#### Management costs for the concession period (RMB million)

<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
17.8	18.4	18.9	19.5	20.1	20.7	21.3	21.9	22.6	23.3
<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>
24.0	24.7	25.4	26.2	27.0	27.8	28.6	29.5	30.4	31.3
<b>2031</b>	<b>2032</b>	<b>2033</b>	<b>2034</b>	<b>2035</b>	<b>2036</b>	<b>2037</b>	<b>2038</b>	<b>2039</b>	<b>2040</b>
32.2	33.2	34.2	35.2	36.2	37.3	38.5	39.6	40.8	42.0

*Notes:* All costs estimated refer to PRC May 2010 price level.

Since the working drawings were not provided, all the costs were estimated based on the provided Feasibility Study Report and Design Report.

### CONCLUSION

The Consultant concluded that the assessment on the operation and maintenance are consistent with common professional practice and meets the objectives of the agreed scope of work with the Company. Full details of the Study and data are presented in the “Yangquan Yangwu Expressway (Yangquan to Yu Xian Section) — O&M Study”.

Yours faithfully

For and on behalf of

**MVA Hong Kong Limited**

**Mott MacDonald Hong Kong Limited**

**Sam Chow**

*Technical Director*

**Dr. H T Cheng**

*Divisional Director*

*Note:* Mr. Sam Chow, BEng, MBA, FCILT, CEng, MICE, CPEng, MIEAust, MHKIE is a professional engineer in UK, Australia and Hong Kong and has more than 24 years of professional experience in transportation planning and traffic and revenue forecasts of toll roads in Mainland China, Hong Kong, Australia, India and South Korea.

*Dr. H T Cheng, BSc, PhD, CEng, MHKIE, MICE, MIEI, FStructE, 1-RSE (PRC) is a professional engineer in UK and Hong Kong and has more than 27 years of professional experience in the management of the planning, design and construction of highway infrastructure projects.*



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**APPENDIX IV REPORT FROM DELOITTE TOUCHE TOHMATSU RELATING TO THE CASH  
FLOW FORECAST UNDERLYING THE BUSINESS VALUATION REPORT**

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*The following is the text of a report relating to the cash flow forecast underlying the business valuation report received from Deloitte Touche Tohmatsu for the purpose of inclusion in this circular.*

**Deloitte.**  
**德勤**

**ACCOUNTANTS' REPORT ON CALCULATIONS OF DISCOUNTED FUTURE  
ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF  
THE 100% EQUITY INTEREST IN 陽泉市陽五高速公路投資管理有限公司**

**TO THE DIRECTORS OF CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS  
LIMITED**

We have examined the calculations of the discounted future estimated cash flows on which the valuation, prepared by Greater China Appraisal Limited dated 24 May 2010, of the 100% equity interest in 陽泉市陽五高速公路投資管理有限公司 (“Yangquan Yangwu Expressway Investment Management Limited”) as at 30 April 2010 (the “Valuation”) is based. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and will be included in a circular dated 28 May 2010 issued by China State Construction International Holdings Limited (the “Company”) in connection with the acquisition of the investment interests in Yangquan Yangwu Expressway Investment Management Limited (the “Circular”).

**Directors' responsibility for the discounted future estimated cash flows**

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out in Appendix I to the Circular (the “Assumptions”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

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## APPENDIX IV REPORT FROM DELOITTE TOUCHE TOHMATSU RELATING TO THE CASH FLOW FORECAST UNDERLYING THE BUSINESS VALUATION REPORT

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### Reporting accountants' responsibility

It is our responsibility to form an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work does not constitute any valuation of Yangquan Yangwu Expressway Investment Management Limited.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

### Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

28 May 2010

**RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular with regard to the Company and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts with regard to the Company not contained in this circular, the omission of which would make any statement in this circular misleading.

**DISCLOSURE OF DIRECTORS' INTERESTS FOR THE COMPANY**

As at the Latest Practicable Date, the interests and short positions of the Directors and the 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 (a) 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 (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies 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 directors</b>	<b>Number of Shares held</b> <i>(Note 1)</i>	<b>Number of underlying shares comprised in share options</b> <i>(Note 2)</i>	<b>Total</b>	<b>% of share in issue as at the Latest Practicable Date</b> <i>(Note 3)</i>
Kong Qingping	2,988,800	3,160,834	6,149,634	0.208
Zhou Yong	3,306,240	1,843,820	5,150,060	0.174
Yip Chung Nam	3,633,810	658,507	4,292,317	0.145
Zhang Yifeng	564,000	616,058	1,180,058	0.040
Cheong Chit Sun	1,662,305	395,104	2,057,409	0.070
Zhou Hancheng	3,296,367	614,606	3,910,973	0.132
Raymond Ho Chung Tai	—	878,010	878,010	0.030
Adrian David Li Man Kiu	—	878,010	878,010	0.030
Raymond Leung Hai Ming	—	878,010	878,010	0.030
Lee Shing See	—	878,010	878,010	0.030

*Notes:*

1. This represents interests held by the relevant Director as a beneficial owner.

2. This represents interests in share options of the Company held by the relevant Director as a beneficial owner to subscribe for the relevant underlying ordinary shares in respect of the option shares granted by the Company under the Company's share option scheme. The exercise price before adjustment for the open offer made on 10 September 2007 is HK\$1.03 (the granted price). The exercise price for the share options is HK\$0.99 per share (after open offer and before share subdivision). Immediately after the share subdivision approved on 12 June 2008, the exercise price for the share options is HK\$0.2475 per share. Immediately after the adjustment for the rights issue made on 1 September 2009, the exercise price for the share options is HK\$0.2345 per share. The vesting period is from 14 September 2005 to 13 September 2010 (both days inclusive) and the exercise period is from 14 September 2006 to 13 September 2015 (both days inclusive). 20% can be exercised annually ("Limit") from 14 September 2006. Unexercised portion of the Limit (if any) can be exercised in the remaining exercise period and will not be included in calculating the Limit of the relevant year. It can be fully exercised from 14 September 2010 to 13 September 2015 (both days inclusive).
3. The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at the Latest Practicable Date (i.e. 2,959,148,986 ordinary shares).

### Long positions in shares and underlying shares of associated corporation - COLI

Name of directors	Number of ordinary shares held <i>(Note 1)</i>	Number of underlying shares comprised in share options <i>(Note 2)</i>	Total	% of share in issue as at the Latest Practicable Date <i>(Note 3)</i>
Kong Qingping	7,435,760	1,359,334	8,795,094	0.108
Zhou Yong	—	388,381	388,381	0.005
Yip Chung Nam	2,808,564	—	2,808,564	0.034
Cheong Chit Sun	206,113 <i>(Note 4)</i>	—	206,113	0.003

#### Notes :

1. This represents interests held by the relevant Director as a beneficial owner.
2. This represents interests in share options held by the relevant Director as a beneficial owner to subscribe for the relevant underlying ordinary shares of COLI in respect of the option shares granted by COLI. The exercise price for the share options is HK\$1.13 per share (before adjustment for open offer). Immediately after the adjustment on 3 February 2009, the exercise price for the share options is HK\$1.118 per share. The vesting period is from 18 June 2004 to 17 June 2009 (both days inclusive) and the exercise period is from 18 June 2005 to 17 June 2014 (both days inclusive). 20% can be exercised annually ("Limit") from 18 June 2005. Unexercised portion of the Limit (if any) can be exercised in the remaining exercise period and will not be included in calculating the Limit of the relevant year. It can be fully exercised from 18 June 2009 to 17 June 2014 (both days inclusive).
3. The percentage has been adjusted based on the total number of ordinary shares of COLI in issue as at the Latest Practicable Date (i.e. 8,171,705,905).

4. Amongst the total number of 206,113 shares in COLI held by Mr. Cheong Chit Sun, 205,713 shares in COLI was held as personal interest and 400 shares in COLI was held as family interest.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company hold 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 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 are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange.

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 Enlarged Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had since 31 December 2009 (being the date to which the latest published audited consolidated financial statements of the Company were made up) been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

Save as disclosed in the paragraph headed “Competing Business Interests of Directors” below, so far as was known to the Director, none of the Directors is a director or employee of a company which has 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 Division 2 and 3 of Part XV of the SFO.

#### **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 Enlarged 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 are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, the date to which the latest published audited consolidated financial statements of the Company were made up.

**COMPETING BUSINESS INTERESTS OF DIRECTORS**

As at the Latest Practicable Date, the interests of the Directors in the businesses (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group were as follows:

Mr. Kong Qingping held directorships in CSCEC, the Company's ultimate holding company, and/or its subsidiaries (but excluding the Group), which are engaged in construction property development and related business. Mr. Kong Qingping is also the Vice President of CSCECL.

Save as disclosed above, the Company had not been notified of any other relationship among the Directors, senior management or substantial or controlling shareholders of the Company.

As the Board operates independently of the boards of these companies, the Group operates its business independently of, and at arm's length from, the business of these companies.

Save as disclosed in this section, as at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business apart from the Group's business, which competes or is likely to compete directly or indirectly, with the Group's business and would require disclosure under Rule 8.10 of the Listing Rules.

**EXPERTS**

- (a) The following is the qualifications of the experts who have given their opinions and advices which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
Access Capital Limited	a licensed corporation for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO;
Deloitte Touche Tohmatsu	Certified Public Accountants
Greater China Appraisal Limited	a limited liability company incorporated in Hong Kong which offers independent professional valuation services in accordance with the Listing Rules
MVA Hong Kong Limited	Independent Traffic Consultant

- (b) As at the Latest Practicable Date, each of Access Capital Limited, Deloitte Touche Tohmatsu, Greater China Appraisal Limited and MVA Hong Kong Limited 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) Each of Access Capital Limited, Deloitte Touche Tohmatsu, Greater China Appraisal Limited and MVA Hong Kong Limited 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 appear.
- (d) As at the Latest Practicable Date, each of Access Capital Limited, Deloitte Touche Tohmatsu, Greater China Appraisal Limited and MVA Hong Kong Limited did not have any direct or indirect interest in any assets which have, since 31 December 2009 (being the date to which the latest published audited consolidated financial statements of the Company were made up), been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.
- (e) The letter, report or statement of each of Access Capital Limited, Deloitte Touche Tohmatsu, Greater China Appraisal Limited and MVA Hong Kong Limited is given as of the date of this circular for incorporation herein.

#### **MISCELLANEOUS**

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

#### **DOCUMENTS AVAILABLE FOR INSPECTION**

A copy of the Acquisition Agreement will be available for inspection during business hours at the office of the Company at 28th Floor, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong from the date of this circular up to and including 21 June 2010 (except Saturdays and Sundays) and will be available for inspection at EGM.

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NOTICE OF EXTRAORDINARY GENERAL MEETING

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中國建築國際集團有限公司

CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code : 3311)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of the shareholders of China State Construction International Holdings Limited (the “**Company**”) will be held at 30th Floor, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong on Monday, 21 June 2010 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution of the Company:

**ORDINARY RESOLUTION**

“**THAT:**

- (A) the Acquisition Agreement (as defined in the circular of the Company dated 28 May 2010 of which this notice forms part) (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; and
- (B) any one director of the Company (or any two directors of the Company if the affixing of the Common Seal is necessary) 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 to be incidental to, ancillary to or in connection with the matters contemplated in the Acquisition Agreement and the transactions contemplated thereunder and the implementation thereof including the affixing of Common Seal thereon.”

By Order of the Board

**China State Construction International Holdings Limited**

**Kong Qingping**

*Chairman and Non-executive Director*

Hong Kong, 28 May 2010



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Registered office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

*Notes:*

- (1) A form of proxy for use at the meeting is enclosed herewith.
- (2) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
- (3) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer, attorney or other person authorised to sign the same.
- (4) In order to be valid, the form of proxy, together with the power of attorney (if any) or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the office of the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof (as the case may be).
- (5) Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holders present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.
- (6) Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
- (7) The register of members of the Company will be closed, for the purpose of determining the identity of members who are entitled to attend and vote at the meeting, from 18 June 2010 to 21 June 2010 both days inclusive, during which period no transfers of shares will be effected. In order to be entitled to attend the meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 17 June 2010.