THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

中國建築興業集團有限公司

CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 830)

MAJOR AND CONNECTED TRANSACTION
AND
CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

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

红日资本有限公司

RED SUN CAPITAL LIMITED

A letter from the Board is set out on pages 6 to 25 of this circular and a letter from the Independent Board Committee is set out on pages 26 to 27 of this circular. A letter from Red Sun, the independent financial adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 28 to 62 of this circular.

A notice convening the EGM to be held at 16th Floor, Eight Commercial Tower, No. 8 Sun Yip Street, Chai Wan, Hong Kong on Wednesday, 18 December 2019 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for 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.

22 November 2019

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

"Acquisition"	the acquisition of the Sale Share and the Remaining Onshore Interest by the Company pursuant to the Sale and Purchase Agreement and all the transactions contemplated thereunder
"Annual Caps"	the maximum total contract sum of the Hong Kong Building Construction Main Contracts that may be awarded jointly to CSC and the Company (or their respective subsidiaries) as joint venture main contractor for the relevant period/year under the Framework Agreement
"associates", "connected person", "controlling shareholder(s)", "percentage ratio(s)" and "subsidiary(ies)"	each has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"CAD"	Canadian dollars, the lawful currency of Canada
"COLI"	China Overseas Land & Investment Ltd., a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board of the Stock Exchange (stock code: 688)
"COLI Group"	COLI and its subsidiaries from time to time
"Company"	China State Construction Development Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Main Board of the Stock Exchange (stock code: 830)
"Completion"	completion of the Acquisition in accordance with the terms of the Sale and Purchase Agreement
"Conditions"	the conditions precedent for Completion as set out in the section headed "LETTER FROM THE BOARD – THE SALE AND PURCHASE AGREEMENT – Conditions Precedent" in this circular

"Consideration"	the consideration payable by the Group to the CSC Group pursuant to the Sale and Purchase Agreement, as more particularly described in the section headed "LETTER FROM THE BOARD – THE SALE AND PURCHASE AGREEMENT – Consideration" in this circular
"CSC"	China State Construction International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Main Board of the Stock Exchange (stock code: 3311)
"CSC Group"	CSC and its subsidiaries (excluding the Group) from time to time
"CSCEC"	中國建築集團有限公司 (China State Construction Engineering Corporation*), a state-owned enterprise established in the PRC, and the ultimate holding company of CSC
"CSCECL"	中國建築股份有限公司 (China State Construction Engineering Corporation Limited), a joint stock company incorporated in the PRC and whose shares are listed on the Shanghai Stock Exchange (stock code: 601668)
"CSCECL Group"	CSCECL and its subsidiaries from time to time
"Director(s)"	the director(s) of the Company
"EGM"	an extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, approve (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps)
"Enlarged Group"	the Group and the Target Group upon Completion
"Executive Board"	has the meaning as defined under the section headed "LETTER FROM THE BOARD – THE FRAMEWORK AGREEMENT – Customary terms of joint venture agreements – (d) Management" of this circular

"Framework Agreement"	the framework agreement entered into between CSC and the Company on 22 October 2019 in respect of the cooperation of CSC and the Company (or their respective subsidiaries) to enter into and implement the Hong Kong Building Construction Main Contracts as joint venture main contractor at the request of CSC or the Company
"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
"Hong Kong Building Construction Main Contract(s)"	the main contract(s) for the Hong Kong Building Construction Works
"Hong Kong Building Construction Works"	private sector building construction works in Hong Kong
"Independent Board Committee"	the independent board committee of the Company comprising all independent non-executive Directors to advise the Independent Shareholders in respect of (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps)
"Independent Financial Adviser" or "Red Sun"	Red Sun Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders to advise the terms of (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps), and a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
"Independent Shareholders"	Shareholders who are not required to abstain from voting at the EGM to approve the Sale and Purchase Agreement, the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps)

"JV Agreement"	has the meaning as defined under the section headed "LETTER FROM THE BOARD – THE FRAMEWORK AGREEMENT – Customary terms of joint venture agreements" of this circular
"Latest Practicable Date"	18 November 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein, as the case may be
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China, which for the purpose of this circular excludes Hong Kong, Macao Special Administrative Region of the PRC and Taiwan
"Procedures"	has the meaning as defined under the section headed "LETTER FROM THE BOARD – THE FRAMEWORK AGREEMENT – Cooperation between CSC and the Company" of this circular
"Remaining Onshore Interest"	Shenzhen Haifengde's interest in the 0.31% of the registered capital of Shenyang Huanggu Company
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"Respective Interest"	has the meaning as defined under the section headed "LETTER FROM THE BOARD – THE FRAMEWORK AGREEMENT – Customary terms of joint venture agreements – (a) Proportion of interest" of this circular
"Sale and Purchase Agreement"	the sale and purchase agreement dated 14 October 2019 entered into between the Company (as purchaser) and the Vendor (as vendor) in relation to the Acquisition
"Sale Share"	one (1) ordinary share of US$1.00 in the share capital of the Target Company, being the entire issued share capital of the Target Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)

"Shenyang Huanggu Company"	瀋陽皇姑熱電有限公司 (Shenyang Huanggu Thermoelectricity Company Limited*), a limited liability company established in the PRC and its principal business is production and supply of heat, electricity and steam and the provision of installing service heat distribution network
"Shenyang Huanggu Fenmeihui"	瀋陽皇姑粉煤灰建材有限公司 (Shenyang Huanggu Fenmeihui Construction Material Co. Ltd.*), a limited liability company established in the PRC and its principal business is the manufacture and sale of fly ash products and fly ash adhesive
"Shenzhen Haifengde"	深圳海豐德投資有限公司 (Shenzhen Haifengde Investment Co. Ltd.*), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of CSC, and its principal business is investment holding
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	China Overseas Public Utility Investment Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of the Vendor
"Target Group"	collectively, the Target Company, Shenyang Huanggu Company and Shenyang Huanggu Fenmeihui
"US$"	US Dollar, the lawful currency of the United States of America
"Vendor"	Ever Power Group Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of CSC
"%"	per cent.

For the purpose of this circular and for illustrative purpose only, RMB is converted into HK$ at the rate of RMB0.8740 to HK$1. No representative is made that any amounts in RMB has been or could be converted at the above rates or at any other rates.

* *for identification purpose only*

中國建築興業集團有限公司
CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 830)

Chairman and Non-executive Director:
Mr. ZHANG Haipeng

Executive Directors:
Mr. WU Mingqing *(Vice Chairman and Chief Executive Officer)*
Mr. WANG Hai
Mr. CHAN Sim Wang

Non-executive Director:
Mr. HUANG Jiang

Independent Non-executive Directors:
Mr. ZHOU Jinsong
Mr. HONG Winn
Ms. KWONG Sum Yee Anna

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

Head office and principal place of business in Hong Kong:
16th Floor, Eight Commercial Tower
No. 8 Sun Yip Street
Chai Wan
Hong Kong

22 November 2019

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
AND
CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcements issued by the Company on 14 October 2019 and 22 October 2019, respectively.

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

(i) the particulars of the Sale and Purchase Agreement and the transactions contemplated thereunder;

(ii) the particulars of the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps);

(iii) the letter from the Independent Board Committee with its view on (a) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (b) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps); and

(iv) the letter from Red Sun with its advice on (a) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (b) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps) to the Independent Board Committee and the Independent Shareholders,

as well as to seek the approval of the Independent Shareholders in respect of the entering into of (a) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (b) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps).

THE ACQUISITION

On 14 October 2019, the Board announced that the Company and the Vendor, a direct wholly-owned subsidiary of CSC, entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell or procure the sale of the entire registered capital of Shenyang Huanggu Company by way of sale and purchase of (i) the Sale Share, representing the entire issued share capital of the Target Company which owns 99.69% of the registered capital of Shenyang Huanggu Company; and (ii) the Remaining Onshore Interest, representing the 0.31% of the registered capital of Shenyang Huanggu Company held by Shenzhen Haifengde, for an aggregate consideration of HK$673,580,000.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are as follows:

Date

14 October 2019

Parties

1. the Vendor, as vendor; and

2. the Company, as purchaser.

Subject Matter

(a) the Sale Share, representing the entire issued share capital of the Target Company, which owns 99.69% of the registered capital of Shenyang Huanggu Company; and

(b) the Remaining Onshore Interest, being the 0.31% of the registered capital of Shenyang Huanggu Company held by Shenzhen Haifengde.

Consideration

The Consideration payable under the Sale and Purchase Agreement is HK$673,580,000, which shall be apportioned as follows:

(a) HK$671,480,000 for the Sale Share; and

(b) HK$2,100,000 for the Remaining Onshore Interest.

Subject to the terms and conditions of the Sale and Purchase Agreement and Completion, the Consideration shall be paid in the following manner:

(a) as to the Sale Share, by the Company to the Vendor:

(i) HK$222,000,000 shall be paid within 10 Business Days after the date of Completion (the "**First Payment Date**");

(ii) HK$222,000,000 shall be paid within six months after the First Payment Date; and

(iii) HK$227,480,000 shall be paid within one year after the First Payment Date.

(b) as to the Remaining Onshore Interest, HK$2,100,000 shall be paid by the transferee of the Remaining Onshore Interest, being a designated onshore entity wholly owned by the Company, to Shenzhen Haifengde at Completion (or such other date as may be agreed between the Company and the Vendor in writing).

The Consideration will be financed partly by the internal resources of the Company and partly by bank borrowings. The Consideration was arrived at following arm's length negotiations between the Company and the Vendor with reference to, amongst other things, the price-to-earnings multiple of approximately 15.6 times of the unaudited consolidated net profit after taxation and extraordinary items of the Target Group of HK$43,193,830 for the period from 1 July 2018 to 30 June 2019. The price-to-earnings ratio of 15.6 times was set with reference to the historical financial performance of the Target Company, the average price-to-earnings of similar infrastructure companies whose shares are trading on stock exchanges in the PRC and whose principal business are the supply of heating and electricity services in the PRC, as well as other factors set out in the section headed "REASONS FOR AND BENEFITS OF THE ACQUISITION" below. Further details of the aforementioned similar infrastructure companies whose price-to-earnings ratio the Company has made reference to are set out as follows:

Stock Code	**Name of Company**	**Price-to-earnings ratio** *(Note)*	**Principal Business**
002893.SZ	北京華遠意通熱力科技股份有限公司 (Beijing Huayuan Yitong Thermal Technology Co. Ltd.*)	34.55 times	Provision of heat supply and energy saving technology services
600578.SS	北京京能電力股份有限公司 (Beijing Jingneng Power Co., Ltd.*)	16.07 times	Thermal power generation business, and heating power generation and supply business
600483.SS	Fujian Funeng Co., Ltd.	11.68 times	Electric power business which includes heat-power co-generation, natural gas power and wind power.
000600.SZ	Jointo Energy Investment Co., Ltd. Hebei	15.19 times	Electric power business mainly through coal-fired thermal power generation and heat supply
600982.SS	寧波熱電股份有限公司 (Ningbo Thermal Power Co., Ltd.*)	15.43 times	Generation and distribution of steam and electricity

Note: The price-to-earnings ratio is calculated by dividing the respective market capitalisation of the companies as at 30 September 2019 with their respective profit after taxation for the latest twelve months ended 31 December 2018 based on their respective latest published annual report for the year ended 31 December 2018.

* *for identification purpose only*

Taking into account the median price-to-earning ratio of 18.6 times offered for the aforementioned similar infrastructure companies, the adjustments of control premium of 9.3% to reflect the Company's majority control over corporate policies of the Target Group (the adjustments of control premium being determined with reference to the premium offered for a controlling equity interest (acquisitions of more than 50% of a company's shares outstanding) to that for a minority equity interest (purchases of 10% – 50%) in 2017 as stated in FactSet Mergerstat Review, 2018) and the adjustments of discount for lack of marketability of 23% due to the limited liquidity of the shares of the Target Group in the open market (the adjustments of discount for lack of marketability being determined with reference to the average discount for lack of marketability for the period between 2012 to 2016 as stated in FactSet Mergerstat Review, 2018), the parties considered the price-to-earnings ratio of 15.6 times to be fair and reasonable.

The Company has not taken into account the independent valuation of the Target Company when determining the Consideration. However, as good measure, the Company has commissioned an independent qualified valuer to prepare a valuation report, as set out in Appendix V of this circular, the results of which have confirmed the Company's assessment that the Consideration is fair and reasonable.

Conditions Precedent

Completion is conditional upon the following Conditions being satisfied (or with Conditions (b) to (e) below, waived, if applicable) on or before the date of Completion:

(a) the Independent Shareholders approving the Sale and Purchase Agreement and the transactions contemplated thereunder as may be required by the Listing Rules;

(b) the title to the Sale Share and the Remaining Onshore Interest being in order and free from all encumbrances;

(c) all the warranties given by the Vendor in the Sale and Purchase Agreement remaining true and accurate and not misleading as at Completion and no events having occurred that would result in any breach of any of the warranties or provisions of the Sale and Purchase Agreement by the Vendor;

(d) the Vendor having facilitated the Company to undertake a legal, financial and business due diligence investigation in respect of the Target Group, and the results of such due diligence investigation being reasonably satisfactory to the Company; and

(e) all necessary consents, approvals, registration and filings required from all relevant governmental, regulatory and other authorities, agencies and departments in Hong Kong, the PRC or elsewhere or otherwise required from any third parties in connection with the transactions contemplated under the Sale and Purchase Agreement having been obtained.

The Company expects that the necessary consents, approvals, registration and filings required under Condition (e) above are the share transfer registration with the State Administration for Market Regulation of the PRC and the relevant tax filings with the competent PRC authorities.

As at the Latest Practicable Date, none of the Conditions have been satisfied or waived.

Completion

Completion shall take place on the 3rd Business Day immediately following the day of the fulfilment (or waiver, as applicable) of all the Conditions or on such other date as the Company and the Vendor may agree in writing.

Other Arrangements

Remaining Onshore Interest

The Vendor and the Company acknowledge that PRC governmental approval for the transfer of the Remaining Onshore Interest may take time. The parties further agree that if and to the extent transfer of the Remaining Onshore Interest cannot take place at the same time as completion of the Sale Share, Completion will still take place but the Vendor will procure the Remaining Onshore Interest be held to the order of the Company in the interim period. Pursuant to the Sale and Purchase Agreement, the Vendor shall procure Shenzhen Haifengde to, among other things, (i) exercise all voting and other rights attached to the Remaining Onshore Interest in accordance with the written instructions of the transferee, being a designated onshore entity wholly owned by the Company; and (ii) to collect, and pass over to the transferee, all dividends, interest, distributions and other moneys accruing or payable on any of the Remaining Onshore Interest and all accretions, allotments, warrants, securities, rights and other benefits accruing on, arising from or offered to the Remaining Onshore Interest by way of redemption, bonus, preference, option, consolidation, division, conversion, substitution, exchange or otherwise.

Vendor's undertaking to settle Target Group's onshore receivable

Certain fellow subsidiaries of the Vendor owe an amount of RMB675,001,908 (equivalent to approximately HK$772,313,396) to Shenyang Huanggu Company in the PRC.

On the other hand, the Target Group owes an aggregate amount of HK$776,771,615 payable to the Vendor and certain of its fellow subsidiaries in Hong Kong.

The above amount due owing to Shenyang Huanggu Company is an onshore receivable of the Target Group, which cannot be offset against the offshore amount due payable by the Target Group because of foreign exchange control of RMB.

In view of the above, the Vendor has agreed as follows:

(a) it will procure the settlement of (and failing which it will settle) the Target Group's onshore receivable amount within two years from Completion; and

(b) the Target Group is only required to repay, after Completion, the offshore amount due payable to the Vendor and certain of its fellow subsidiaries to the extent the above onshore receivable is repaid.

INFORMATION ON THE TARGET GROUP

The Target Company is a company incorporated in the British Virgin Islands with limited liability and is a direct wholly-owned subsidiary of the Vendor. The Target Company is an investment holding company directly holding 99.69% of the registered capital of Shenyang Huanggu Company. The remaining 0.31% of the registered capital of Shenyang Huanggu Company is held by Shenzhen Haifengde, which is an indirect wholly-owned subsidiary of CSC. CSCEC is the ultimate holding company of CSC and the Company and the CSCEC group is a conglomerate principally engaged in general construction works, infrastructure engineering and investment, real estate development and investment, and investigation and design businesses.

The principal business of Shenyang Huanggu Company is production and supply of heat, electricity and steam and the provision of installing service heat distribution network in Shenyang, the capital city of the Liaoning Province, PRC.

Shenyang Huanggu Company owns 100% equity interest in Shenyang Huanggu Fenmeihui. The principal business of Shenyang Huanggu Fenmeihui is the manufacture and sale of fly ash products and fly ash adhesive.

Financial information of the Target Group

Set out below is a summary of certain audited financial information of the Target Group for the two years ended 31 December 2018 and for the six months ended 30 June 2019:

	For the year ended 31 December		**For the six months ended 30 June**
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Net profit before taxation	51,093	45,425	60,254
Net profit after taxation	38,143	34,171	44,059

The audited consolidated net asset value of the Target Group as at 31 December 2018 and 30 June 2019 was approximately HK$603,694,000 and HK$644,233,000 respectively.

The Target Group was acquired by the CSC Group at a consideration of HK$400,000,000 in November 2007.

Upon Completion, each member of the Target Group will become a wholly-owned subsidiary of the Company and their financial results will be consolidated into the financial statements of the Company.

Subsisting transactions of Shenyang Huanggu Company

Shenyang Huanggu Company has entered into certain agreements with the COLI Group in relation to the provision of connection services for heating pipes for certain real estate projects located in Shenyang. The transactions contemplated under the said agreements shall, upon Completion, constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Company will make further announcement(s) in relation to such continuing connected transactions after Completion.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group's existing operating management business includes the provision of urban planning management and consultancy service, project management, consultancy and supervisory service, and infrastructure operating service. The Acquisition will enable the Group to diversify its operating asset portfolio and accelerate the growth of the operating management business in terms of revenue and profit base; and the heat and electricity service fees received by the Target Company, as a public utility company, from residential customers and local electricity authority will provide a steady cash flow and income source to the Group. The positive cash flow contributed by the Target Group can be used to fund further development of the Group's businesses. The Group intends to strengthen its customer base and expand the market share for provision of heat and electricity services in Shenyang under the existing capacity.

While construction related business (i.e. facade and general contracting) is still the core business of the Group, with the continued expansion of the operating management business, the Group will head to the strategic target of "Dual-core Driving" with future growth of the business coming from the two streams. Mr. Wu Mingqing, Vice Chairman, Executive Director and Chief Executive Officer of the Company has over 33 years of experience in construction engineering, infrastructure investment and project management and has been leading the Group's expansion and diversification of its operating management business. The existing senior management team and operation team of the Target Group will remain unchanged after the Acquisition.

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 although the Acquisition is not entered into in the ordinary and usual course of business of the Company, the Acquisition and the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and thus the assets, liabilities and the financial results of the Target Company and its respective subsidiaries will be consolidated into those of the Group. For details of the unaudited pro forma financial information of the Enlarged Group, please refer to Appendix III to this circular.

Assets and liabilities

Based on the unaudited pro forma financial information as set out in Appendix III to this circular, assuming that Completion had taken place on 30 June 2019, the total assets of the Enlarged Group would have increased from approximately HK$4,129 million to approximately HK$6,732 million on a pro forma basis, the total liabilities of the Enlarged Group would have increased from approximately HK$3,004 million to approximately HK$5,638 million on a pro forma basis, and the net assets of the Enlarged Group would have decreased from HK$1,125 million to HK$1,094 million on a pro forma basis.

Earnings

As set out in the accountants' report of the Target Group in Appendix II to this circular, the revenue and net profit attributable to shareholders of the Target Group for the six months ended 30 June 2019 were approximately HK$324 million and HK$44 million, respectively.

CONTINUING CONNECTED TRANSACTIONS

On 22 October 2019, the Board announced that CSC and the Company entered into the Framework Agreement whereby the parties agree that they (or their respective subsidiaries) may cooperate to enter into the Hong Kong Building Construction Main Contracts as joint venture main contractor at the request of CSC or the Company. It is expected that the award of these contracts will generally be subject to a tendering process or such other prescribed contract award process as may be implemented by the relevant third-party developer/owner client in order to determine the contract sum of the relevant Hong Kong Building Construction Main Contracts.

The cooperation between CSC and the Company (or their respective subsidiaries) as contemplated by the Framework Agreement will take the form of contractual joint venture in accordance with terms customary in the construction industry in Hong Kong whereby CSC and the Company (or their respective subsidiaries) will cooperate to enter into and implement the relevant Hong Kong Building Construction Main Contracts as joint venture main contractor.

Upon a successful tender (or such other contract award process), the relevant Hong Kong Building Construction Main Contract shall be awarded by the relevant third-party developer/owner client to CSC and the Company (or their respective subsidiaries) as joint venture main contractor.

The Framework Agreement does not anticipate the formation of any joint venture company, nor acquisition or disposal of any entities. The contractual joint ventures as contemplated under the Framework Agreement are joint operations arrangement between CSC and the Company (or their respective subsidiaries) without the establishment of any separate legal entities to carry out the Hong Kong Building Construction Main Contracts, which are revenue nature transactions in the ordinary and usual course of business of the Company. These contractual joint ventures are expected to be categorised as "joint operations" in the financial statements of the Company.

THE FRAMEWORK AGREEMENT

The principal terms of the Framework Agreement are as follows:

Date

22 October 2019

Parties

(a) CSC, which is indirectly interested in approximately 74.06% of the issued share capital of the Company; and

(b) the Company.

Term

The Framework Agreement shall cover the period commencing from 20 December 2019 and ending on 30 June 2022 (both dates inclusive).

Subject Matter

Pursuant to the Framework Agreement, CSC and the Company agreed that:

(a) at the request of CSC or the Company, the parties (or their respective subsidiaries) may cooperate to enter into and implement the Hong Kong Building Construction Main Contracts as joint venture main contractor, provided that the maximum total contract sum that may be awarded jointly to CSC and the Company (or their respective subsidiaries) for the relevant period/year shall not exceed the corresponding Annual Caps as set out in the paragraph headed "Annual Caps" below; and

(b) the contractual joint ventures for entering into and implementing the particular Hong Kong Building Construction Main Contracts as contemplated under the Framework Agreement are joint operations arrangement between CSC and the Company (or their respective subsidiaries).

Cooperation between CSC and the Company

In the event that the Group decides to participate in the tendering process or such other prescribed contract award process as may be implemented by the relevant third-party developer/owner client in respect of a Hong Kong Building Construction Main Contract, CSC (or its subsidiary) and the Company (or its subsidiary) may participate in such process as joint venture main contractor, if the engineering department of the Company (or its subsidiary), after making qualitative and quantitative assessment of the scoring criteria of such process, determines that such joint venture will maximise the scoring of such tendering process or contract award process and therefore enhance the chance of successful award of the Hong Kong Building Construction Main Contract.

The engineering department of the Company (or its subsidiary) will determine whether or not to participate in such tendering process or contract award process as may be implemented by the relevant third-party developer/owner client during its standard tender or other contract award submission procedures in respect of a Hong Kong Building Construction Main Contract, which generally involve (i) receiving invitation to tender or participate in such other prescribed contract award process of the Hong Kong Building Construction Main Contract; (ii) initial assessment of the tender or contract award documents; (iii) further planning and estimation; (iv) determining the scoring criteria of the tendering process or contract award process; (v) assessing the track record and implementation capabilities of CSC and the Company (or their respective subsidiaries) relevant to the Hong Kong Building Construction Main Contract; (vi) determining the respective contributions of CSC and the Company (or their respective subsidiaries) towards satisfying the scoring criteria of the tendering process or contract award process; (vii) preparation for the tender or other contract award report and internal tender or other contract award adjudication; and (viii) tender or other contract award submission (the "**Procedures**").

Receiving invitation to tender or participate in such other prescribed contract award process of the Hong Kong Building Construction Main Contract

Initial assessment of the tender or contract award documents, technical requirements, quantity specifications, expected completion time, customer's expectation and possible risk factors associated with the Hong Kong Building Construction Main Contract

Further planning and estimation: this includes site inspection, quantitative costs analysis and risk assessment

Determining the scoring criteria of the tendering process or contract award process

Assessing the track record and implementation capabilities of CSC and the Company (or their respective subsidiaries) relevant to the Hong Kong Building Construction Main Contract

Determining the respective contributions of CSC and the Company (or their respective subsidiaries) toward satisfying the scoring criteria of the tendering process or contract award process

Preparation for the tender or other contract award report and internal tender or other contract award adjudication

Tender or other contract award submission

In assessing the tender or contract award documents, the Group will take into account factors including the technical requirements, quantity specifications, expected completion time, customer's expectation and possible risk factors associated with the Hong Kong Building Construction Main Contract. The Group will then perform site inspection, conduct quantitative costs analysis and risk assessment.

If, during the Procedures, the Company (or its subsidiary) is satisfied that the participation of CSC and the Company (or their respective subsidiaries) in the tendering process or such other prescribed contract award process in respect of the Hong Kong Building Construction Main Contract will maximise the scoring of such process and therefore enhance the chance of successful award of the Hong Kong Building Construction Main Contract, the Company (or its subsidiary) may participate in such tendering process or contract award process with CSC (or its subsidiary). The President of the engineering department of the Company (or its subsidiary), who does not hold any position in CSC (or its subsidiary), will review and approve the decision of participating in such tendering process or contract award process with CSC (or its subsidiary).

Contract sum of the Hong Kong Building Construction Main Contracts

As a general principle and in accordance with market practice, the contract sum with respect to the Hong Kong Building Construction Main Contracts shall be determined in the ordinary course of business on normal commercial terms and on an arm's length basis after a tendering process or such other prescribed contract award process as may be implemented by the relevant third-party developer/owner client.

Annual Caps

The maximum total contract sum that may be awarded jointly to CSC and the Company (or their respective subsidiaries) as joint venture main contractor during the term of the Framework Agreement shall not exceed the following Annual Caps:

For the period from 20 December 2019 to 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021	For the period from 1 January 2022 to 30 June 2022
HK$1,000 million	HK$2,000 million	HK$2,000 million	HK$2,000 million

Basis of determining the Annual Caps

The Annual Caps are determined with reference to the estimated annual contract sum for the Hong Kong Building Construction Main Contracts during the relevant period/year, which is determined with reference to (i) the amount of tenders planned to be submitted to or potential projects under negotiation with employers during the relevant period/year; (ii) other potential general construction works available in Hong Kong from property developers in the year of 2019; and (iii) the projected increase in general construction works from 2020 to 2022 given the positive outlook of the construction market due to the growing demand for private housing in Hong Kong. As at the Latest Practicable Date, the Group planned to submit tenders for seven potential projects in Hong Kong with an aggregate contract sum of HK$3.1 billion during the period of 2019 to 2020.

Customary terms of joint venture agreements

During the term of the Framework Agreement, CSC and the Company (or their respective subsidiaries) will from time to time enter into a standard individual joint venture agreement ("**JV Agreement**") which contains the below terms customary in the construction industry in Hong Kong, for establishing a contractual joint venture to enter into and implement a particular Hong Kong Building Construction Main Contract:

(a) Proportion of interest

The respective interest of CSC and the Company (or their respective subsidiaries) in each contractual joint venture under a JV Agreement (the "**Respective Interest**") will be determined by the engineering department of the Company (or its subsidiary), based on the respective contributions of CSC and the Company (or their respective subsidiaries) towards satisfying the scoring criteria of the tendering process or such other prescribed contract award process as may be implemented by the relevant third-party developer/owner client in respect of the Hong Kong Building Construction Main Contract. The scoring criteria and the respective contributions of CSC and the Company (or their respective subsidiaries) will be determined by the engineering department of the Company (or its subsidiary) during the Procedures.

(b) Profit/loss sharing

CSC and the Company (or their respective subsidiaries) shall be jointly and severally liable towards the relevant third-party developer/owner client for carrying out the Hong Kong Building Construction Main Contract awarded to them, notwithstanding the contractual arrangement between them under the JV Agreement. However, the liabilities, obligations, risks, rights, interests, profits and losses arising out of the contractual joint venture shall be shared or borne by CSC and the Company (or their respective subsidiaries) in accordance with their Respective Interest. If either party incurs any liabilities arising out of the contractual joint venture in excess of its Respective Interest, the other party shall indemnify such party so that the overall liability is apportioned between the parties in accordance with their Respective Interest.

(c) Financing and other support

Any initial and additional working capital of a contractual joint venture under a JV Agreement shall be contributed by CSC and the Company (or their respective subsidiaries) in accordance with their Respective Interest. The parties shall provide full technical and other support to the contractual joint venture as and when required.

(d) Management

A contractual joint venture under a JV Agreement shall be managed by an executive board (the "**Executive Board**") to be set up by CSC and the Company (or their respective subsidiaries). The Executive Board shall comprise two members appointed by CSC (or its subsidiary) and two members appointed by the Company (or its subsidiary). A member appointed by CSC (or its subsidiary) and a member appointed by the Company (or its subsidiary) present at a meeting of the Executive Board shall form a quorum. Any decisions made in any meeting of the Executive Board shall require an unanimous consent of the members present at the meeting.

(e) Guarantee

In the event that the third-party developer/owner client requires the parent company of each of CSC and the Company (or their respective subsidiaries) to guarantee such party's performance of the relevant Hong Kong Building Construction Main Contract, each of CSC and the Company (or their respective subsidiaries) shall indemnify its parent company for any liabilities arising from such guarantee.

(f) Restriction of transfers

Without the prior written consent from the other party, neither CSC (or its subsidiary) nor the Company (or its subsidiary) may: (i) transfer, assign, pledge or encumber a JV Agreement and/or any interest of the parties under such JV Agreement; and (ii) change the nature or scope of business of the contractual joint venture.

Condition Precedent

The Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps) are conditional upon the passing of the resolution by the Independent Shareholders at the EGM approving the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps).

Reasons for the entering into of the Framework Agreement

CSC is one of the most established engineering and construction contractors in Hong Kong. The Company expects that the scope of the Hong Kong Building Construction Main Contracts will cover only the Hong Kong Building Construction Works, which is a special niche construction segment, with a focus on small-scale and niche private housing construction although the Company also expects to take up mid-scale private housing projects whose owners normally will not be the leading property developers in Hong Kong. The Board believes that by entering into the Framework Agreement, the Group can further strengthen its overall competitiveness and business growth by further capitalising its niche in the Hong Kong Building Construction Works to further expand and develop business opportunities in the Hong Kong Building Construction Works as the increased cooperation between CSC and the

Company will enable the Group to capitalise on the strong brand of "China State Construction", which is one of the leading players in general contracting business in Hong Kong, and afford the Group the advantages of higher market awareness, the ability to command price premium and favourable relations with customers, suppliers and contractors. These advantages can help the Group tap into the general contracting business for mid-scale private housing projects whose owners normally will not be leading property developers. It is also perceived that the substantial experience that CSC (or its subsidiary) has in sizable and complex design and build projects and will provide as joint venture main contractor will enhance the chance of successful award of the Hong Kong Building Construction Works to the Company (or its subsidiary).

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 transactions contemplated under the Framework Agreement are expected to be entered into in the ordinary and usual course of business of the Group, and the Framework Agreement (together with the Annual Caps) has been entered into on normal commercial terms after arm's length negotiations between the parties, and the terms of the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP AND THE CSC GROUP

CSCECL is an intermediate holding company of each of CSC and the Company. The CSCECL Group is principally engaged in general construction works, infrastructure engineering and investment, real estate development and investment, and investigation and design businesses.

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

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

The Vendor is a direct wholly-owned subsidiary of CSC and is principally engaged in investment holding. Shenzhen Haifengde is an indirect wholly-owned subsidiary of CSC and is principally engaged in investment holding.

LISTING RULES IMPLICATION

In respect of the Acquisition

As at the Latest Practicable Date, CSC was indirectly interested in approximately 74.06% of the issued share capital of the Company. It is a controlling shareholder and hence a connected person of the Company. The Vendor, being a direct wholly-owned subsidiary of CSC, is also a connected person of the Company. Therefore, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Acquisition exceeds 5%, the Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition also constitutes a major transaction for the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

In respect of the Continuing Connected Transaction

As at the Latest Practicable Date, CSC was indirectly interested in approximately 74.06% of the issued share capital of the Company. It is a controlling shareholder and hence a connected person of the Company. As such, the transactions contemplated under the Framework Agreement between members of the CSC Group on the one hand and members of the Group on the other hand, constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Since the applicable percentage ratios in respect of the maximum total contract sum that may be awarded jointly to CSC and the Company (or their respective subsidiaries) for the relevant period/year under the Framework Agreement (i.e. the Annual Caps) exceed 5%, the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps) are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders in respect of the terms of (i) the Sale and Purchase Agreements and the transactions contemplated thereunder; and (ii) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps). Red Sun has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this connection.

EGM

A notice convening the EGM to be held at 16th Floor, Eight Commercial Tower, No. 8 Sun Yip Street, Chai Wan, Hong Kong on Wednesday, 18 December 2019 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. Ordinary resolutions will be proposed to the Independent Shareholders at the EGM to consider and, if thought fit, to approve (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps).

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

In accordance with Rule 13.39(4) of the Listing Rules, voting at the EGM will be conducted by poll. As at the Latest Practicable Date, CSC and its associates, in aggregate holding 1,596,403,279 Shares, representing approximately 74.06% of the issued share capital of the Company, will abstain from voting at the EGM on the resolutions relating to (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps).

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

(i) there was no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon CSC;

(ii) CSC was not subject to any obligation or entitlement whereby it had or it might have temporarily or permanently passed control over the exercise of the voting right in respect of its shares in the Company to a third party, either generally or on a case-by-case basis; and

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

No Director has a material interest in the transactions contemplated under the Sale and Purchase Agreement and the Framework Agreement, however, Mr. Zhang Haipeng, who is the chairman of the Board and non-executive Director and also the chief executive officer and executive director of CSC, has voluntarily abstained from voting on the board resolutions approving the entering into of (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps).

The results of the voting will be announced in accordance with Rule 2.07C of the Listing Rules after the EGM.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 13 December 2019 to Wednesday, 18 December 2019, both days inclusive, for the purpose of determining Shareholders' entitlement to attend and vote at the EGM.

In order to qualify for attending and voting at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 12 December 2019.

RECOMMENDATION

Your attention is drawn to the letter of advice from the Independent Board Committee set out on pages 26 to 27 in this circular which contains its recommendation to the Independent Shareholders in relation to (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps).

Your attention is also drawn to the letter from Red Sun set out on pages 28 to 62 in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps).

The Directors (including the independent non-executive Directors whose views have been set out in this circular together with the advice of the Independent Financial Adviser) consider that:

(i) although the Acquisition is not entered into in the ordinary and usual course of business of the Company, the Acquisition and the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and

(ii) the transactions contemplated under the Framework Agreement are expected to be entered into in the ordinary and usual course of business of the Group, and the Framework Agreement (together with the Annual Caps) has been entered into on normal commercial terms after arm's length negotiation between the parties, and the terms of the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
By Order of the Board
China State Construction Development Holdings Limited
ZHANG Haipeng
Chairman and Non-executive Director

中國建築興業集團有限公司
CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 830)

22 November 2019

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
AND
CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 22 November 2019 (the "**Circular**") issued by the Company to the Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether, in its opinion, the terms of (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps) are fair and reasonable, are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Red Sun has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps).

We wish to draw your attention to the letter from the Board, as set out on pages 6 to 25 of the Circular and the text of a letter of advice from Red Sun, as set out on pages 28 to 62 of the Circular, both of which provide details (i) of the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps).

Having considered (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps); (iii) the advice of Red Sun; and (iv) the relevant information contained in the letter from the Board, we are of the opinion that:

(a) although the Acquisition is not entered into in the ordinary and usual course of business of the Company, the Acquisition and the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and

(b) the term of the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps) are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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

Yours faithfully,
For and on behalf of
The Independent Board Committee of
China State Construction Development Holdings Limited

ZHOU Jinsong	**HONG Winn**	**KWONG Sum Yee Anna**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of (a) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (b) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps) for inclusion in this circular.

红日资本有限公司

RED SUN CAPITAL LIMITED

22 November 2019

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

Dear Sir/Madam,

MAJOR AND CONNECTED TRANSACTION
AND
CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of (a) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (b) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps), details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 22 November 2019 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Acquisition

On 14 October 2019, the Company and the Vendor, a direct wholly-owned subsidiary of CSC, entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell or procure the sale of the entire registered capital of Shenyang Huanggu Company by way of sale and purchase of (i) the Sale Share, representing the entire issued share capital of the Target Company which owns 99.69% of the registered capital of Shenyang Huanggu Company; and (ii) the Remaining Onshore Interest, representing the 0.31% of the registered capital of Shenyang Huanggu Company held by Shenzhen Haifengde, for an aggregate consideration of HK$673,580,000.

The Framework Agreement

On 22 October 2019, CSC and the Company entered into the Framework Agreement whereby the parties agree that they (or their respective subsidiaries) may cooperate to enter into the Hong Kong Building Construction Main Contracts as joint venture main contractor at the request of CSC or the Company. It is expected that the award of these contracts will generally be subject to a tendering process or such other prescribed contract award process as may be implemented by the relevant third-party developer/owner client in order to determine the contract sum of the relevant Hong Kong Building Construction Main Contracts.

The cooperation between CSC and the Company (or their respective subsidiaries) as contemplated by the Framework Agreement will take the form of contractual joint venture in accordance with terms customary in the construction industry in Hong Kong whereby CSC and the Company (or their respective subsidiaries) will cooperate to enter into and implement the relevant Hong Kong Building Construction Main Contracts as joint venture main contractor.

Upon a successful tender (or such other contract award process), the relevant Hong Kong Building Construction Main Contract shall be awarded by the relevant third-party developer/owner client to CSC and the Company (or their respective subsidiaries) as joint venture main contractor.

The Framework Agreement does not anticipate the formation of any joint venture company, nor acquisition or disposal of any entities. The contractual joint ventures as contemplated under the Framework Agreement are joint operations arrangement between CSC and the Company (or their respective subsidiaries) without the establishment of any separate legal entities to carry out the Hong Kong Building Construction Main Contracts, which are revenue nature transactions in the ordinary and usual course of business of the Company. These contractual joint ventures are expected to be categorised as “joint operations” in the financial statements of the Company.

LISTING RULES IMPLICATION

In respect of the Acquisition

As at the Latest Practicable Date, CSC was indirectly interested in approximately 74.06% of the issued share capital of the Company. It is a controlling shareholder and hence a connected person of the Company. The Vendor, being a direct wholly-owned subsidiary of CSC, is also a connected person of the Company. Therefore, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Acquisition exceeds 5%, the Acquisition is subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition also constitutes a major transaction for the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

In respect of the Framework Agreement

As at the Latest Practicable Date, CSC was indirectly interested in approximately 74.06% of the issued share capital of the Company. It is a controlling shareholder and hence a connected person of the Company. As such, the transactions contemplated under the Framework Agreement between members of the CSC Group on the one hand and members of the Group on the other hand, constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Since the applicable percentage ratios in respect of the maximum total contract sum that may be awarded jointly to CSC and the Company (or their respective subsidiaries) for the relevant period/year under the Framework Agreement (i.e. the Annual Caps) exceed 5%, the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps) are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, CSC and its associates, in aggregate holding 1,596,403,279 Shares, representing approximately 74.06% of the issued share capital of the Company, will abstain from voting at the EGM on the resolutions relating to (a) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (b) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps).

THE INDEPENDENT BOARD COMMITTEE

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

The Independent Board Committee comprising all the aforementioned Independent Non-executive Directors has been established to advise the Independent Shareholders as to whether (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps), are on normal commercial terms and are fair and reasonable, in the ordinary and usual course of business of the Group, are in the interests of the Group and the Shareholders as a whole.

We, Red Sun, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, CSC, CSCECL and their respective shareholders, directors or chief executives, or any of their respective associates and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps).

As at the Latest Practicable Date, we did not have any relationship with or interest in the Group or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have acted as the independent financial adviser to the independent board committee and the independent shareholders of the Group, details of which are set out in the relevant circulars dated (i) 1 November 2017 in relation to continuing connected transactions; (ii) 9 April 2018 in relation to a discloseable and connected transaction; (iii) 18 July 2018 in relation to continuing connected transactions; and (iv) 22 February 2019 in relation to a discloseable and connected transaction.

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

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

BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Group, the Directors and the management of the Group (the "**Management**"). We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Group, the Directors and the Management and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been reasonably arrived at after due and careful consideration and there are no other material facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion.

We have not, however, carried out any independent verification of the information provided by the Directors and the Management, nor have we conducted an independent investigation into the business and affairs of the Group, CSC Group, the Vendor and their respective associates. This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of (a) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (b) the Framework Agreement and the transaction contemplated thereunder (together with the Annual Caps). Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

I. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation for the Acquisition, we have taken into consideration the following principal factors and reasons:

1. Background

1.1. Background of the Group

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

1.2. Financial information of the Group

Set out below is a summary of the Group's operating results extracted from the latest published annual report of the Group for the two years ended 31 December 2018 (the "**2018 Annual Report**") and the latest published interim report of the Group for the six months ended 30 June 2019 (the "**2019 Interim Report**"):

Financial performance of the Group

	For the year ended 31 December		**For the six months ended 30 June**	
	2017	**2018**	**2018**	**2019**
	(audited)	*(audited)*	*(unaudited)*	*(unaudited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	3,132,665	3,611,770	1,763,034	2,031,435
– Facade contracting works	2,209,728	2,518,261	1,055,469	1,430,001
– General contracting works	660,276	850,553	589,250	459,078
– Operating management	262,661	242,956	118,315	142,356
Gross profit	446,925	421,818	230,666	237,622
Profit for the year/period	113,775	144,480	88,050	104,180

Comparison of financial performance between the year ended 31 December 2018 and 2017

Based on the 2018 Annual Report, revenue for the year ended 31 December 2017 and 2018 was approximately HK$3.1 billion and HK$3.6 billion, respectively, representing a growth rate of approximately 16.1%. Such increase was mainly attributable to the increase in revenue generated from the Group's provision of facade contracting works from approximately HK$2.2 billion for the year ended 31 December 2017 to approximately HK$2.5 billion for the year ended 31 December 2018. Revenue generated from facade contracting works and general contracting works accounted for approximately 70.5% and 21.1% of the Group's total revenue for the year ended 31 December 2018, respectively. The Group's profit increased from approximately HK$113.8 million for the year ended 31 December 2017 to approximately HK$144.5 million for the year ended 31 December 2018, representing an increase for 27.0%.

Comparison of financial performance between the six months ended 30 June 2018 and 2019

Based on the 2019 Interim Report, revenue for the six months ended 30 June and 2018 and 2019 was approximately HK$1.8 billion and HK$2.0 billion, respectively, representing a growth rate of approximately 11.1%. Such increase was mainly attributable to the increase in revenue generated from the Group's provision of facade contracting works from approximately HK$1.1 billion for the six months ended 30 June 2018 to approximately HK$1.4 billion for the six months ended 30 June 2019 which is mainly as a result of the completion of certain projects in Hong Kong during 30 June 2019. The Group's profit increased from approximately HK$88.1 million for the six months ended 30 June 2018 to approximately HK$104.2 million for the six months ended 30 June 2019, representing an increase for 18.3%.

Financial position of the Group

	As at 31 December		**As at 30 June**
	2017	**2018**	**2019**
	(audited)	*(audited)*	*(unaudited)*
	HK$'000	*HK$'000*	*HK$'000*
Total assets	2,961,319	3,366,811	4,128,710
Total liabilities	1,995,051	2,328,528	3,003,930
Net assets	966,268	1,038,283	1,124,780

The total assets of the Group amounted to approximately HK$2,961.3 million, HK$3,366.8 million and HK$4,128.7 million as at 31 December 2017, 31 December 2018 and 30 June 2019, respectively. The total assets of the Group mainly comprised of contract assets, trade and other receivables and property, plant and equipment.

The total liabilities of the Group amounted to approximately HK$1,995.1 million, HK$2,328.5 million and HK$3,003.9 million as at 31 December 2017, 31 December 2018 and 30 June 2019, respectively. The total liabilities of the Group mainly comprised of trade payables, other payables, amounts due to fellow subsidiaries and bank borrowings.

1.3. Information of the CSC Group and the Vendor

The CSC Group is principally engaged in building construction, civil engineering works, infrastructure investment and project consultancy business. The Vendor is a direct wholly-owned subsidiary of CSC and is principally engaged in investment holding. Shenzhen Haifengde is an indirect wholly-owned subsidiary of CSC and is principally engaged in investment holding.

1.4. Information of the Target Group

1.4.1. Background of the Target Group

The Target Company is a company incorporated in the British Virgin Islands with limited liability and is a direct wholly-owned subsidiary of the Vendor. The Target Company is an investment holding company directly holding 99.69% of the registered capital of Shenyang Huanggu Company. The remaining 0.31% of the registered capital of Shenyang Huanggu Company is held by Shenzhen Haifengde, which is an indirect wholly-owned subsidiary of CSC. CSCEC is the ultimate holding company of CSC and the Company and the CSCEC group is a conglomerate principally engaged in general construction works, infrastructure engineering and investment, real estate development and investment, and investigation and design businesses.

The principal business of Shenyang Huanggu Company is production and supply of heat, electricity and steam and the provision of installing service heat distribution network in Shenyang, the capital city of the Liaoning Province, PRC.

Shenyang Huanggu Company owns 100% equity interest in Shenyang Huanggu Fenmeihui. The principal business of Shenyang Huanggu Fenmeihui is manufacturing and sales of fly ash products and fly ash adhesive.

1.4.2. Financial information of the Target Group

Set out below is a summary of certain audited financial information of the Target Group for the two years ended 31 December 2018 and for the six months ended 30 June 2019, details of which are set out in the section headed "Appendix II – Accountant's Report of the Target Group" of this Circular:

Financial Performance of the Target Group

	For the year ended 31 December		**For the six months ended 30 June**	
	2017	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Revenue	622,916	631,397	357,084	324,079
Net profit before taxation	51,093	45,425	47,412	60,254
Net profit after taxation	38,143	34,171	35,037	44,059

The Target Group recorded revenue of approximately HK$622.9 million and HK$631.4 million for the year ended 31 December 2017 and 2018, respectively, representing an increase of approximately 1.4%. Such increase was mainly attributable to the increase in revenue generated from supply of heat, steam and electricity from approximately HK$571.1 million for the year ended 31 December 2017 to approximately HK$607.6 million for the year ended 31 December 2018. For the six months ended 30 June 2019, the Target Group recorded revenue of approximately HK$357.1 million and HK$324.1 million for the six months ended 30 June 2018 and 2019, respectively, representing a decrease of approximately 9.2%. Such decrease was mainly attributable to the decrease in revenue generated from supply of heat, steam and electricity and the absence of contribution from revenue generated from the pipeline construction service. The Target Group's profit remained relatively stable at approximately HK$38.1 million and HK$34.2 million for the year ended 31 December 2017 and 2018, respectively. For the six months ended 30 June 2019, the Target Group recorded profit of approximately HK$44.1 million, representing an increase of approximately 26.0% from approximately HK$35.0 million for the six months ended 30 June 2018.

Financial position of the Target Group

	As at 31 December		**As at 30 June**
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	3,476,238	3,373,026	2,602,900
Total liabilities	2,837,049	2,769,332	1,958,667
Net assets	639,189	603,694	644,233

The total assets of the Target Group amounted to approximately HK$3,476.2 million, HK$3,373.0 million and HK$2,602.9 million as at 31 December 2017, 31 December 2018 and 30 June 2019, respectively. The total assets of the Group mainly comprised of amounts due from fellow subsidiaries and property, plant and equipment.

The total liabilities of the Target Group amounted to approximately HK$2,837.0 million, HK$2,769.3 million and HK$1,958.7 million as at 31 December 2017, 31 December 2018 and 30 June 2019, respectively.

Upon Completion, each member of the Target Group will become a wholly-owned subsidiary of the Company and their financial results will be consolidated into the financial statements of the Company.

2. Overview of the PRC economy and heat supply market

According to an announcement published by the Bureau of Statistics of Shenyang Province in June 2019, the urbanisation rate of Shenyang Province of the PRC has reached 81.0% in 2018. The rising urbanization rate in Shenyang Province leads to increasing demand for heating, which drives the development of municipal heating market. Growing municipal heating demand is the fundamental driver of the construction, the repair and maintenance of heating facilities business.

According to the Three-year Action Plan for Winning the Blue Sky Defense War (《打贏藍天保衛戰三年行動計劃》) issued in 2018 by the State Council of the PRC, the PRC government calls for, among others, green development, rectifying the energy structure to build a clean, efficient energy system and ensuring that the people in the northern regions have safe heating system for the winter, which also facilitate the speeding up of heating pipelines construction and improving the municipal heating infrastructure. According to the National 13th Five-Year Plan for Urban Municipal Infrastructure Construction (《全國城市市政基礎設施規劃建設"十三五"規劃》) published in 2017 by National Development and Reform Commission and Ministry of Housing and Urban-Rural Development of the PRC, the PRC government proposed to improve the heating quality and the municipal infrastructure. These favorable policies will stimulate the demand for the high-quality heating infrastructure and drive the heating facility construction market.

3. Reasons for and benefits of the Acquisition

As stated in the Letter from the Board, the Group's existing operating management business includes the provision of urban planning management and consultancy service, project management, consultancy and supervisory service, and infrastructure operating service. The Acquisition will enable the Group to diversify its operating asset portfolio and accelerate the growth of the operating management business in terms of revenue and profit base; and the heat and electricity service fees received by the Target Company, as a public utility company, from residential customers and local electricity authority will provide a steady cash flow and income source to the Group. The positive cash flow contributed by the Target Group can be used to fund further development of the Group's businesses. The Group intends to strengthen its customer base and expand the market share for provision of heat and electricity services in Shenyang under the existing capacity.

While construction related business (i.e. facade and general contracting) is still the core business of the Group, with the continued expansion of the operating management business, the Group will head to the strategic target of "Dual-core Driving" with future growth of the business coming from the two streams. Mr. Wu Mingqing, Vice Chairman, Executive Director and Chief Executive Officer of the Company has over 33 years of experience in construction engineering, infrastructure investment and project management and has been leading the Group's expansion and diversification of its operating management business. The existing senior management team and operation team of the Target Group will remain unchanged after the Acquisition.

Having considered that (i) the Target Group has a track records with increasing profits during the two years ended 31 December 2018; (ii) the industry overview of PRC economy and heat supply market as discussed in "2. Overview of the PRC economy and heat supply market" above; and (iii) the Acquisition falls within the Group's stated strategy to become a "Dual-core Driving" enterprise as mentioned above, we concur with the view of the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

4. The Principal terms of the Acquisition

4.1. The Sale and Purchase Agreement

Date

14 October 2019

Parties

(a) the Vendor, as vendor; and

(b) the Company, as purchaser.

Subject Matter

(a) the Sale Share, representing the entire issued share capital of the Target Company, which owns 99.69% of the registered capital of Shenyang Huanggu Company; and

(b) the Remaining Onshore Interest, being the 0.31% of the registered capital of Shenyang Huanggu Company held by Shenzhen Haifengde.

Consideration

The Consideration payable under the Sale and Purchase Agreement is HK$673,580,000, which shall be apportioned as follows:

(a) HK$671,480,000 for the Sale Share; and

(b) HK$2,100,000 for the Remaining Onshore Interest.

Subject to the terms and conditions of the Sale and Purchase Agreement and Completion, the Consideration shall be paid in the following manner:

(a) as to the Sale Share, by the Company to the Vendor:

(i) HK$222,000,000 shall be paid within 10 Business Days after the date of Completion (the "**First Payment Date**");

(ii) HK$222,000,000 shall be paid within six months after the First Payment Date; and

(iii) HK$227,480,000 shall be paid within one year after the First Payment Date.

(b) as to the Remaining Onshore Interest, HK$2,100,000 shall be paid by the transferee of the Remaining Onshore Interest, being a designated onshore entity wholly owned by the Company, to Shenzhen Haifengde at Completion (or such other date as may be agreed between the Company and the Vendor in writing).

The Consideration will be financed partly by the internal resources of the Company and partly by bank borrowings. The Consideration was arrived at following arm's length negotiations between the Company and the Vendor with reference to, amongst other things, the price-to-earnings multiple of approximately 15.6 times of the unaudited consolidated net profit after taxation and extraordinary items of the Target Group of HK$43,193,830 for the period from 1 July 2018 to 30 June 2019. The price-to-earnings ratio of 15.6 times was set with reference to the historical financial performance of the Target Company, the average price-to-earnings of similar infrastructure companies whose shares are trading on stock exchanges in the PRC and whose principal business are the supply of heating and electricity services in the PRC, as well as other factors set out in the section headed "REASONS FOR AND BENEFITS OF THE ACQUISITION" in the Letter from the Board. For further details of the similar infrastructure companies whose price-to-earnings ratios the Company has made reference to (together with the adjustments for (i) control premium; and (ii) lack of marketability), please refer to the sub-heading "Consideration" under the Letter from the Board.

Conditions Precedent

Completion is conditional upon the following Conditions being satisfied (or with Conditions (b) to (e) below, waived, if applicable) on or before the date of Completion:

(a) the Independent Shareholders approving the Sale and Purchase Agreement and the transactions contemplated thereunder as may be required by the Listing Rules;

(b) the title to the Sale Share and the Remaining Onshore Interest being in order and free from all encumbrances;

(c) all the warranties given by the Vendor in the Sale and Purchase Agreement remaining true and accurate and not misleading as at Completion and no events having occurred that would result in any breach of any of the warranties or provisions of the Sale and Purchase Agreement by the Vendor;

(d) the Vendor having facilitated the Company to undertake a legal, financial and business due diligence investigation in respect of the Target Group, and the results of such due diligence investigation being reasonably satisfactory to the Company; and

(e) all necessary consents, approvals, registration and filings required from all relevant governmental, regulatory and other authorities, agencies and departments in Hong Kong, the PRC or elsewhere or otherwise required from any third parties in connection with the transactions contemplated under the Sale and Purchase Agreement having been obtained.

The Company expects that the necessary consents, approvals, registration and filings required under Condition (e) above are the share transfer registration with the State Administration for Market Regulation of the PRC and the relevant tax filings with the competent PRC authorities.

As at the Latest Practicable Date, none of the Conditions have been satisfied or waived.

Other Arrangements

Remaining Onshore Interest

The Vendor and the Company acknowledge that PRC governmental approval for the transfer of the Remaining Onshore Interest may take time. The parties further agree that if and to the extent transfer of the Remaining Onshore Interest cannot take place at the same time as completion of the Sale Share, Completion will still take place but the Vendor will procure the Remaining Onshore Interest be held to the order of the Company in the interim period. Pursuant to the Sale and Purchase Agreement, the Vendor shall procure Shenzhen Haifengde to, among other things, (i) exercise all voting and other rights attached to the Remaining Onshore Interest in accordance with the written instructions of the transferee, being a designated onshore entity wholly owned by the Company; and (ii) to collect, and pass over to the transferee, all dividends, interest, distributions and other moneys accruing or payable on any of the Remaining Onshore Interest and all accretions, allotments, warrants, securities, rights and other benefits accruing on, arising from or offered to the Remaining Onshore Interest by way of redemption, bonus, preference, option, consolidation, division, conversion, substitution, exchange or otherwise.

Vendor's undertaking to settle Target Group's onshore receivable

Certain fellow subsidiaries of the Vendor owe an amount of RMB675,001,908 (equivalent to approximately HK$772,313,396) to Shenyang Huanggu Company in the PRC.

On the other hand, the Target Group owes an aggregate amount of HK$776,771,615 payable to the Vendor and certain of its fellow subsidiaries in Hong Kong.

The above amount due owing to Shenyang Huanggu Company is an onshore receivable of the Target Group, which cannot be offset against the offshore amount due payable by the Target Group because of foreign exchange control of RMB.

In view of the above, the Vendor has agreed as follows:

(a) it will procure the settlement of (and failing which it will settle) the Target Group's onshore receivable amount within two years from Completion; and

(b) the Target Group is only required to repay, after Completion, the offshore amount due payable to the Vendor and certain of its fellow subsidiaries to the extent the above onshore receivable is repaid.

Taking into account that (i) the current foreign exchange control of RMB which forbid offsetting the Target Group's onshore receivable against the offshore amount due payable to the Vendor; (ii) the amount owed by the Target Group (i.e. the offshore amount) exceeds the amount owed by certain fellow subsidiaries of the Vendor to Shenyang Huanggu Company (i.e. onshore receivable); and (iii) the Target Group is only required to repay to the extent that the onshore receivable is repaid, we consider that such arrangement to be fair and reasonable.

4.2. Valuation of the Target Company by the Valuer

To assess the fairness and reasonableness of the Consideration, we have reviewed the valuation report as set out in Appendix V to the Circular (the "**Valuation Report**") prepared by the Greater China Appraisal Limited (the "**Valuer**").

In assessing the independence of the Valuer, we interviewed the relevant staffs of the Valuer and inquiry on any current or prior relationship between the Valuer and the Group, the Vendor, the Target Group and the connected persons of any of them, and the Valuer confirmed that it is independent of and not connected with these persons. We have also reviewed and enquired with the Valuer the qualification and experience of the Valuer in relation to the preparation of the Valuation Report. We note that it possesses experience in, among others, valuation services including business and intangible assets, commercial and residential properties, financial instruments, industrial assets and natural resources. We also understand that the valuer-in-charge is a certified public accountant and a chartered financial analyst, and has participated assignments regarding business valuation, derivatives valuation, intangible assets valuation and purchase price allocation for various listed companies and private entities.

We have reviewed the Valuer engagement letter including their scope of work. Based on the review and the interview, we are satisfied with the terms of the engagement of the Valuer and its qualification and experience for preparation of the Valuation Report.

For our due diligence purpose, we have reviewed and enquired into the methodology used and principal bases and assumptions adopted in the Valuation Report. We note that the Valuation Report is prepared on the basis of market value and in conformity with the International Valuation Standards (2017 Edition) published by International Valuation Standards Council and the Valuer has adopted the market approach for the Valuation Report.

Valuation methodology

As advised by the Valuer, they have considered the three generally recognised valuation approaches, namely the asset approach, income approach and market approach.

Regarding the asset approach, the Valuer considered that it is not appropriate to be used in the Valuation Report as the value of equity interest in Target Group is determined based on the replacement cost or reproduction cost rather than the ability to generate streams of benefits in the future. The Valuer considered that the adoption of asset approach in this case may not be appropriate as it cannot reliably reflect the value of the equity interests of the Target Group.

Regarding the income approach the value of the equity interest of the Target Group is determined based on the estimation of the projected inputs, such as projected revenue, operating costs and risk-adjusted discount rate. To the best knowledge of the Valuer, the revenue of main products, heat and electricity, is significantly affected by the government policy and both price and quantity of supply are determined by the government. Hence, the Valuer considered that uncertainty would be involved inevitably in forming a reliable financial forecast, i.e. revenue forecast, revenue growth, profit margin.

Under the market approach, the value of the equity interest of the Target Group could be determined based on the recently published financial data of listed comparable companies such as the market capitalisation and financial results. The Valuer advised that market approach is an appropriate method for the Valuation Report as there were sufficient number of comparable publicly traded companies available in the market.

In determining the value, the Valuer had adopted the guideline public company method ("**GPC Method**") which is one of the common methods to carry out the valuation under market approach. We noted from the Valuer that the rationale behind the GPC Method is that prices of publicly traded stocks in the same or a similar industry provide objective evidence and are readily available for comparison purpose. As advised by the Valuer, the Target Group has historical earnings records and there is sufficient number of publicly traded companies available in the market, therefore, the GPC Method under the market approach is considered as the most appropriate and reliable method for the valuation.

We noted that since the financial information for the period ended 30 June 2019 is the latest available one the Valuer selects the period from July 2018 to June 2019 (the "**Selected Period**"), instead of the latest full financial year (i.e. January 2018 to December 2018), as the underlying period to derive the appraised amount of the Target Group. We have discussed with the Valuer and noted that it is a common practice to use the latest available financial information of the Target Group as the basis of the valuation since it provides a more recent financial information in order to reflect an up to date valuation of the Target Group. Having considered the above and our discussions with the Valuer, we concur with the Valuer to use the Selected Period as the underlying period to derive the appraised amount of the Target Group to be reasonable.

After reviewing the historical financial performance of the Target Group, we note that the Selected Period is able to reflect latest operational status and profitability of the Target Group. We consider such basis of the valuation is fair and reasonable. Having considered that (i) GPC Method is a common method to carry out the valuation using market approach; (ii) the rationale behind the GPC Method is that prices of publicly traded stocks in the same or a similar industry provide objective evidence and are readily available for comparison purpose; and (iii) the Target Group has historical earnings records, we concur with the Valuer that the GPC Method under the market approach is an appropriate valuation methodology in valuing the equity interest of the Target Group.

For the purpose of our assessment, we also reviewed (i) the selection criteria and information of comparable companies adopted; and (ii) the underlying calculations in the Valuation Report. As noted from the Valuation Report, six comparables have been selected based on the following criteria: (1) listed company in the PRC; and (2) mainly engaged in supply of heat and electricity generation. Accordingly, the six comparables are considered to have a similar principal business with the Target Group in a way that the ratio analysis, assessing the profitability, leverage, efficiency, growth and liquidity of them are similar with the Target Group.

Having considered that the selected comparable companies are engaged in similar business to that of Target Group and for our due diligence purpose, we have reviewed the recent financial statements of the selected comparable companies and noted that all the comparable companies fulfill the aforementioned selection criteria. We consider that the selected comparable companies are fair and representative samples based on the above selection criteria and hence are satisfied with the results of the Valuer in identifying the selected comparable companies that are sufficiently comparable to the Target Group.

Control premium and lack of marketability discount

Besides, we have discussed with the Valuer and noted that adjustments of control premium and discount for lack of marketability ("**DLOM**") were applied.

As advised by the Valuer, the adjustment of DLOM of approximately 34.0% was applied to the equity interest of the Target Group in the Valuation Report after taking into account the limited liquidity of the shares of the Target Group in the open market. The discount rate was determined by the Valuer with reference to the comparison of the median price-to-earning offered for public companies to that for private companies during 2013 to 2017 as stated in FactSet Mergerstat Review 2018. Moreover, the Valuer applied a control premium of approximately 7.0% to reflect the Company's majority control over corporate polices the Target Group such as election of directors or selection of management, acquisition or liquidation of assets, control over dividend policy, ability to set corporate strategies, ability to affect future earnings, etc. The control premium of approximately 7.0% was determined by the Valuer with reference to the comparison of the median premium offered for a controlling equity interest (acquisitions of more than 50% of a company's shares outstanding) to that for a minority equity interest (purchases of 10% – 50%) during 2013 to 2017 as stated in FactSet Mergerstat Review 2018. Based on our discussion with the Valuer, we noted that it is common to use independent research study report, such as FactSet Mergerstat Review 2018 as reference, to provides data and statistics on recent merger and acquisition transactions, accordingly we concur with the view of the Valuer to adopt DLOM and control premium as part of the valuation methodology to determine the value of the equity interest of the Target Group to be fair and reasonable.

Based on all of the above in assessing the valuation and having considered, in particular, (i) our assessment on the methodology of, and the basis and assumptions adopted for, the Valuation Report; (ii) our review on the selection criteria and information of the selected comparable companies, which are considered as fair and representative samples; and (iii) the independence, qualification and experience of the Valuer, we consider that there is no substantial factors identified which may cause us to doubt the fairness and reasonableness of the methodology adopted and the basis used in arriving at the valuation.

As assessed by the Valuer, the value of the equity interest of the Target Company (i.e. Sale Share) as at 30 September 2019 was approximately HK$769,804,779. As such, the implied value of Sale Share and Remaining Onshore Interest in aggregate as at 30 September 2019 was approximately HK$772,198,595, representing a premium of 14.6% over the Consideration of HK$673,580,000, we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

Further details of the basis and assumptions of the valuation are included in the Valuation Report as contained in Appendix V to the Circular.

4.3. Comparable analysis

As an alternative analysis, we also compared the price-to-earnings (the "**P/E**") ratio, and the price-to-book (the "**P/B**") ratio of the Comparable Companies (defined hereafter). Considering the P/E and P/B ratios are commonly accepted benchmarks in the comparison of valuation of companies against their industry peers, we have adopted them for the purpose of our analyses. On a best effort basis, we had conducted a research on a non-exhaustive basis, with a review period up to 14 October 2019, being the date of the Sale and Purchase Agreement, based on a selection criteria of companies that are (i) currently listed on the Stock Exchange or the PRC; and (ii) principally engaged in supply of heat and electricity generation (the "**Selection Criteria**"). Accordingly, we have identified eight comparable companies which fulfilled the Selection Criteria (the "**Comparable Companies**"). We have deselected in comparison of P/E ratios (i) Dalian Thermal Power Co Ltd (stock code: 600719.CH) with a P/E ratio of approximately 273.6 times which is substantially higher than the rest of the Comparable Companies given that it incurred a loss for the six months ended 31 December 2018 and therefore recorded a decrease in profit after taxation for the twelve months ended 30 June 2019, to eliminate the effect of outliers to the valuation result; and (ii) China Geothermal Industry Development Group Ltd (stock code: 8128.HK) and Shenyang Huitian Thermal Power Co Ltd (stock code: 000692.CH) due to their net loss and thus no P/E ratios are available.

Set out below is our analysis on the Comparable Companies:

Name of company	Principal business	P/E ratio *(Note 1)* *times*	P/B ratio *(Note 1)* *times*
China Geothermal Industry Development Group Ltd (8128.HK)	Principally engaged in the shallow ground source energy related business	NA	0.3
Dalian Thermal Power Co Ltd (600719.CH)	Principally engaged in combined heat and power, central heating	273.6	2.8
SPIC Shijiazhuang Dongfang Energy Corporation (000958.CH)	Principally engaged in clean energy power generation and cogeneration business	39.9	2.6
Beijing Huayuanyitong Thermal Technology Co Ltd (002893.CH)	Principally engaged in thermal supply, energy saving technology service	41.0	3.9
Zhejiang Fuchunjiang Environmental Thermoelectric Co Ltd (002479.CH)	Principally engaged in waste solids disposal, comprehensive utilization of resources and energy saving and environmental protection	50.4	1.8
Luenmei Quantum Co Ltd (600167.CH)	Principally engaged in clean heating business	17.9	4.0
Shenyang Huitian Thermal Power Co Ltd (000692.CH)	Principally engaged in providing heating and engineering services to residents and non-resident users	NA	1.3
Beijing Jingneng Power Co., Ltd. (600578.CH)	Generation and distribution of electric power	16.2	0.9
	Minimum:	16.2	0.3
	Maximum:	50.4	4.0
	Average:	33.1	2.2
The Target Group		15.6	1.0

Notes:

1. The P/E ratio is calculated by dividing the market capitalisation as at 14 October 2019 of the Comparable Companies with their profit after taxation for the latest twelve months ended 30 June 2019 based on their respective latest published annual report for the year ended 31 December 2018 and the interim report for the six months ended 30 June 2019. The P/B ratio is calculated by dividing the market capitalisation as at 14 October 2019 of the Comparable Companies with their net assets as at 30 June 2019 based on their respective interim report for the six months ended 30 June 2019.

2. The implied P/E ratio of the Target Group is calculated by dividing the Consideration of HK$673,580,000 by the unaudited profit after taxation of the Target Group for the latest trading twelve months ended 30 June 2019 of approximately HK$43,193,000. The implied P/B ratio of the Target Group is calculated by dividing the Consideration of HK$673,580,000 by the sum of its audited net equity of the Target Group as at 30 June 2019 of approximately HK$644.2 million.

As illustrated in the table above, the P/E ratio of the Comparable Companies range from a minimum of approximately 16.2 times to a maximum of approximately 50.4 times with an average of approximately 33.1 times. The implied P/E ratio of the Target Group is approximately 15.6 times, which falls below the range of the Comparable Companies and is lower than the average P/E ratio of the Comparable Companies. The P/B ratio of the Comparable Companies range from a minimum of approximately 0.3 times to a maximum of approximately 4.0 times with an average of approximately 2.2 times. The implied P/B ratio of the Target Group is approximately 1.0 times, which falls within the range of P/B ratios of the Comparable Companies and is lower than the average P/B ratio of the Comparable Companies.

Based on the above, and having considered that (i) the implied fair value of Sale Shares and Remaining Onshore Interest represent a premium of approximately 14.6% to the Consideration; (ii) the principal bases and assumptions adopted for the valuation; (iii) the implied P/E ratio of the Target Group is below the range of P/E ratio of the Comparable Companies; and (iv) the implied P/B ratio of the Target Group is below the average P/B ratio of the Comparable Companies, we concur with the view of the Directors that the Consideration to be fair and reasonable.

4.4. Possible financial effect of the Acquisition

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and thus the assets, liabilities and the financial results of the Target Company and its respective subsidiaries will be consolidated into those of the Group. For details of the unaudited pro forma financial information of the Enlarged Group, please refer to Appendix III to the Circular.

4.4.1. Assets and liabilities

Based on the unaudited pro forma financial information as set out in Appendix III to this circular, assuming that Completion had taken place on 30 June 2019, the total assets of the Enlarged Group would have increased from approximately HK$4,129 million to approximately HK$6,732 million on a pro forma basis, the total liabilities of the Enlarged Group would have increased from approximately HK$3,004 million to approximately HK$5,638 million on a pro forma basis, and the net assets of the Enlarged Group would have decreased from HK$1,125 million to HK$1,094 million on a pro forma basis.

4.4.2. Earnings

As set out in the accountants' report of the Target Group in Appendix II to the Circular, the revenue and net profit attributable to shareholders of the Target Group for the six months ended 30 June 2019 were approximately HK$324 million and HK$44 million, respectively.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial performance and position of the Group will be upon the Completion.

II. PRINCIPAL FACTORS AND REASONS CONSIDERED FOR THE CONTINUING CONNECTED TRANSACTIONS

In formulating our opinion and recommendation for the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps), we have taken into consideration the following principal factors and reasons:

1. Background

1.1. Background information of CSC Group

The CSC Group is principally engaged in building construction, civil engineering works, infrastructure investment and project consultancy business. CSC is listed on the main board of the Stock Exchange with a market capitalisation approximately of HK$37.2 billion as at 22 October 2019, being the date of the Framework Agreement.

1.2. Financial information of CSC Group

Set out below is a summary of the CSC Group's operating results by segment and activities, extracted from the latest published annual report of CSC for the year ended 31 December 2018 (the "**CSC 2018 Annual Report**"):

Summary of the CSC Group's operating results by business activities

	For the year ended 31 December	
	2017	**2018**
	HK$ million (audited)	*HK$ million (audited)*
Revenue	**50,152.5**	**55,626.3**
Revenue from contracts with customers (Note a)		
– Revenue from construction contracts	23,013.8	22,000.7
– Revenue from infrastructure investment projects	21,445.1	27,264.9
– Revenue from facade contracting business	2,231.2	2,909.6
– Revenue from infrastructure operation	792.5	849.4
– Others *(Note b)*	499.7	395
	47,982.3	53,420.0
Revenue from other sources		
– Interest income generated from public-private-partnership projects	1,691.7	1,844.4
– Others *(Note c)*	478.5	361.9
	2,170.2	2,206.3

Notes:

(a) The revenue recognised for the year ended 31 December 2018 and 2017 were recognised over time, except for toll road operation of approximately HK$204,873,000 (2017: HK$169,909,000).

(b) Revenue from others mainly comprised of revenue from project consultancy services, sales of building materials and logistics services.

(c) Revenue from others mainly comprised of revenue from interest income generated from infrastructure investment projects, machinery leasing and rental income from investment properties.

The CSC Group derived revenue from construction contracts of approximately HK$23.0 billion and HK$22.0 billion for the years ended 31 December 2017 and 2018, respectively, representing a year-on-year decrease of approximately HK$1.0 billion or 4.4%. As set out above, revenue generated from construction contracts accounted for approximately 45.9% and 39.6% of the Group's total revenue for the years ended 31 December 2017 and 2018, respectively.

The CSC Group derived revenue from infrastructure investment projects of approximately HK$21.5 billion and HK$27.3 billion for the years ended 31 December 2017 and 2018, respectively, representing a year-on-year increase of approximately HK$5.8 billion or 27.0%. As set out above, revenue generated from infrastructure investment projects accounted for approximately 42.8% and 49.0% of the Group's total revenue for the years ended 31 December 2017 and 2018, respectively.

The CSC Group derived revenue from facade contracting business, infrastructure operation and others of approximately HK$5.7 billion and HK$6.4 billion for the years ended 31 December 2017 and 2018, respectively, representing a year-on-year decrease of approximately HK$0.7 billion or 11.7%. As set out above, revenue generated from facade contracting business, infrastructure operation and others accounted for approximately 11.4% and 11.4% of the CSC Group's total revenue for the years ended 31 December 2017 and 2018, respectively.

1.3. Overview of the economy and building construction activities in Hong Kong

The table below sets out a summary of Hong Kong's gross value of construction works performed by main contractors analysed by broad trade group (in nominal terms) (按行業大組別劃分的主要承建商所完成工程總值(以名義計算)) from 2016 to 2018, extracted from the published information by the Census and Statistics Department of Hong Kong.

	2016	**2017**	**2018**
	HK$ million	*HK$ million*	*HK$ million*
Private sector sites	77,666	74,945	75,613
Public sector sites	81,367	87,854	75,707
Locations other than sites	77,458	87,119	100,760
Total	**236,491**	**249,918**	**252,080**

Source: Census and Statistics Department of Hong Kong

As set out on the website of the Census and Statistics Department of Hong Kong (http://www.censtatd.gov.hk/), year-on-year growth in gross value of construction works performed by main contractors analysed by broad trade group (in nominal terms) in 2016 was approximately HK$236.5 billion, representing an increase of approximately 5.7% to approximately HK$250.0 billion in 2017 and further increased by approximately 0.9% to approximately HK$252.1 billion in 2018.The table below shows the Hong Kong's Gross Domestic Product (the "**GDP**") (HK$) from 2016 to 2018.

	2016	2017	2018
	HK$ million	*HK$ million*	*HK$ million*
GDP	2,490,617	2,662,532	2,845,317

Source: Hong Kong Census and Statistics Department

The GDP increased from approximately HK$2,490.6 billion in 2016 to approximately HK$2,662.5 billion in 2017, representing a year-on-year increase of approximately 6.9%. For 2018, the GDP increased to approximately HK$2,845.3 billion, representing a year-on-year increase of approximately 6.9%.

In addition, based on a survey report on Hong Kong construction output the issued by the Census and Statistics Department of Hong Kong in March 2019, the total overall gross value of construction works performed by main contractors in 2018 amounted to approximately HK$252.1 billion, representing an increase of approximately 0.9% from approximately HK$246.8 billion for the year ended 31 December 2017, while total overall gross value of construction works performed by main contractors at private sector sites shows a steady increase from approximately HK$72.8 billion for the year ended 31 December 2017 to HK$75.6 billion for the year ended 31 December 2018.

2. Principal terms of the Framework Agreement

The principal terms of the Framework Agreement are summarised as follows:

Date

22 October 2019

Parties

(a) CSC, which is indirectly interested in approximately 74.06% of the issued share capital of the Company; and

(b) the Company.

Term

The Framework Agreement shall cover the period commencing from 20 December 2019 and ending on 30 June 2022 (both dates inclusive).

Subject Matter

Pursuant to the Framework Agreement, CSC and the Company agreed that:

(a) at the request of CSC or the Company, the parties (or their respective subsidiaries) may cooperate to enter into and implement the Hong Kong Building Construction Main Contracts as joint venture main contractor, provided that the maximum total contract sum that may be awarded jointly to CSC and the Company (or their respective subsidiaries) for the relevant period/year shall not exceed the corresponding Annual Caps as set out in the paragraph headed "Annual Caps" in the Letter from the Board; and

(b) the contractual joint ventures for entering into and implementing the particular Hong Kong Building Construction Main Contracts as contemplated under the Framework Agreement are joint operations arrangement between CSC and the Company (or their respective subsidiaries).

For further details of the Framework Agreement, please refer to the section headed "The Framework Agreement" in the Letter from the Board.

3. Reasons for and benefits of entering into the Framework Agreement

As stated in the Letter from the Board, CSC is one of the most established engineering and construction contractors in Hong Kong. The Company expects that the scope of the Hong Kong Building Construction Main Contracts will cover only the Hong Kong Building Construction Works, which is a special niche construction segment, with a focus on small-scale and niche private housing construction although the Company also expects to take up mid-scale private housing projects whose owners normally will not be the leading property developers in Hong Kong. The Board believes that by entering into the Framework Agreement, the Group can further strengthen its overall competitiveness and business growth by further capitalising its niche in the Hong Kong Building Construction Works to further expand and develop business opportunities in the Hong Kong Building Construction Works as the increased cooperation between CSC and the Company will enable the Group to capitalise on the strong brand of "China State Construction", which is one of the leading players in general contracting business in Hong Kong, and afford the Group the advantages of higher market awareness, the ability to command price premium and favourable relations with customers, suppliers and contractors. These advantages can help the Group tap into the general contracting business for mid-scale private housing projects whose owners normally will not be leading property developers. It is also perceived that the substantial experience that CSC (or its subsidiary) has in sizable and complex design and build projects and will provide as joint venture main contractor will enhance the chance of successful award of the Hong Kong Building Construction Works to the Company (or its subsidiary).

The Directors consider that the transactions contemplated under the Framework Agreement are expected to be entered into in the ordinary and usual course of business of the Group, and the Framework Agreement (together with the Annual Caps) has been entered into on normal commercial terms after arm's length negotiations between the parties, and the terms of the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered that (i) the Group is principally engaged in, amongst others, building construction and civil engineering works; and (ii) CSC (a) is a sizable listed company in Hong Kong with a market capitalisation approximately of HK$37.2 billion as at 22 October 2019, being the date of the Framework Agreement; (b) has extensive years of experience in large-scale public infrastructure and/or building projects in Hong Kong; and (c) CSC Group had entered into new contracts with a total amount of HK$33.42 billion in Hong Kong and Macau as disclosed in the CSC 2018 Annual Report, we concur with the Directors that entering into the Framework Agreement between the parties would potentially enhance the chance of a successful award of the Hong Kong Building Construction Main Contracts to the Company (or its subsidiary or joint venture main contractor) in Hong Kong and is beneficial to the Group and the Shareholders as a whole.

4. Customary terms of joint venture agreements

During the term of the Framework Agreement, CSC and the Company (or their respective subsidiaries) will from time to time enter into a standard individual joint venture agreement (the "**JV Agreement**") which contains the below terms customary in the construction industry in Hong Kong, for establishing a contractual joint venture to enter into and implement a particular Hong Kong Building Construction Main Contract:

(a) Proportion of interest

The respective interest of CSC and the Company (or their respective subsidiaries) in each contractual joint venture under a JV Agreement (the "**Respective Interest**") will be determined by the engineering department of the Company (or its subsidiary), based on the respective contributions of CSC and the Company (or their respective subsidiaries) towards satisfying the scoring criteria of the tendering process or such other prescribed contract award process as may be implemented by the relevant third-party developer/owner client in respect of the Hong Kong Building Construction Main Contract. The scoring criteria and the respective contributions of CSC and the Company (or their respective subsidiaries) will be determined by the engineering department of the Company (or its subsidiary) during the Procedures.

(b) Profit/loss sharing

CSC and the Company (or their respective subsidiaries) shall be jointly and severally liable towards the relevant third-party developer/owner client for carrying out the Hong Kong Building Construction Main Contract awarded to them, notwithstanding the contractual arrangement between them under the JV Agreement. However, the liabilities, obligations, risks, rights, interests, profits and losses arising out of the contractual joint venture shall be shared or borne by CSC and the Company (or their respective subsidiaries) in accordance with their Respective Interest. If either party incurs any liabilities arising out of the contractual joint venture in excess of its Respective Interest, the other party shall indemnify such party so that the overall liability is apportioned between the parties in accordance with their Respective Interest.

(c) Financing and other support

Any initial and additional working capital of a contractual joint venture under a JV Agreement shall be contributed by CSC and the Company (or their respective subsidiaries) in accordance with their Respective Interest. The parties shall provide full technical and other support to the contractual joint venture as and when required.

(d) Management

A contractual joint venture under a JV Agreement shall be managed by an executive board (the "**Executive Board**") to be set up by CSC and the Company (or their respective subsidiaries). The Executive Board shall comprise two members appointed by CSC (or its subsidiary) and two members appointed by the Company (or its subsidiary). A member appointed by CSC (or its subsidiary) and a member appointed by the Company (or its subsidiary) present at a meeting of the Executive Board shall form a quorum. Any decisions made in any meeting of the Executive Board shall require an unanimous consent of the members present at the meeting.

(e) Guarantee

In the event that the third-party developer/owner client requires the parent company of each of CSC and the Company (or their respective subsidiaries) to guarantee such party's performance of the relevant Hong Kong Building Construction Main Contract, each of CSC and the Company (or their respective subsidiaries) shall indemnify its parent company for any liabilities arising from such guarantee.

(f) Restriction of transfers

Without the prior written consent from the other party, neither CSC (or its subsidiary) nor the Company (or its subsidiary) may: (i) transfer, assign, pledge or encumber a JV Agreement and/or any interest of the parties under such JV Agreement; and (ii) change the nature or scope of business of the contractual joint venture.

Condition Precedent

The Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps) are conditional upon the passing of the resolution by the Independent Shareholders at the EGM approving the Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps).

5. Our analysis

With a view to assess the fairness and reasonableness of the Framework Agreement and the transactions contemplated thereunder, on a best effort basis, we conducted research based on published information on the website of the Stock Exchange (www.hkex.com.hk), on a non-exhaustive basis, into joint ventures arrangements with listed companies in Hong Kong in the construction or property related industry (the "**Reviewed Listed Companies**"). The samples were selected, with the following criteria, namely, (i) the announcements or circular were made by Reviewed Listed Companies which are listed on the Main Board of the Stock Exchange; (ii) the related activity of the joint venture involved in construction or property related services; and (iii) the announcements or circular were made during the period from 1 December 2016 (being three years from the commencement of period of the Annual Caps) up to and including 22 October 2019 (being the date of the Framework Agreement). We are of the view that the three-year review period provides a reasonable basis for identification of samples since joint venture arrangements for construction or property related projects are long-term in nature. On a best effort basis, we have identified five samples of joint venture agreements entered into by the Reviewed Listed Companies with independent third parties and/or connected parties (the "**Market JV Agreements**").

Based on the above criteria and notwithstanding that the background and the scale of operations of the Market JV Agreements may be differed from that of the Hong Kong Construction Main Contracts as contemplated under the Framework Agreement, we are of the view that the Market JV Agreements can serve as meaningful references and provide some insight into the prevailing market practice for joint ventures arrangements for our research purposes.

The following table sets forth the relevant details of the Market JV Agreements:

Name of Company	Stock code	Date of announcement/ circular	Proportion of interest attributable to the company *Approximately %*	Description of the Market JV Agreements
SRE Group Limited	1207	29/12/2016	81%	For acquiring the right of return of the property projects and responsible for the development, operation, management and disposal of the property projects.
C&D International Investment Group Limited	1908	10/1/2018	51%	Construction property, development of the land as a residential and commercial project.
Pacific Century Premium Developments Limited	432	16/3/2018	9.99%	For investment in and development of the project site for building and development residential properties for sale and associated infrastructure and facilities.
Shui On Land Limited	272	5/7/2018	25%	Development of the land, which is for office and commercial use.
Wing Tai Properties Limited	369	26/9/2018	65%	Property redevelopment project.

Furthermore, we had discussed with and understand from the Management that the Company had not entered into any joint venture agreement with independent third parties or connected parties for Hong Kong Building Construction Works in the past. Notwithstanding that the Group has not entered into any joint venture agreement with independent third parties for Hong Kong Building Construction Works in the past, alternatively, we had, on a best effort basis, reviewed five samples of joint venture agreements entered into by the CSC with connected parties during the period from 1 December 2018 up to and including 22 October 2019 (being the date of the Framework Agreement) (the "**CSC JV Agreements**") based on our research on published information on the website of the Stock Exchange (www.hkex.com.hk).

The following table sets forth the relevant details of the CSC JV Agreements:

Date of announcement	Proportion of interest attributable to CSC	Description of the CSC JV Agreements
27/9/2019	98.9%	Construction, operation and establishment of a sports park
9/4/2019	90%	the Public-Private-Partnership (PPP) project relating to the construction, operation and establishment of infrastructure facilities in the Siqian Park (Pilot Zone) of the Equipment Manufacturing Park in Xinhui
28/3/2019	60%	Site preparation and tunnel construction
6/12/2018	50%	Develop residential and commercial properties
2/11/2018	90%	Construction, operation and transfer of the Science and Technology Innovation Park

Shareholders should note that the businesses, operations and prospects of the joint venture(s) to be formed under the terms of the Framework Agreement and the transactions contemplated thereunder may or may not be the similar to those of the Market JV Agreements and the aforesaid samples are used to provide a general reference for the common market practice regarding the formation of joint venture.

We noted the following from our review of the Market JV Agreements that:

(i) the proportion of interest attributable to the Reviewed Listed Companies, where applicable, as joint venture partners pursuant to the respective Market JV Agreements varied, which ranged from 9.99% to 81%;

(ii) the profit and losses arising out of the joint ventures under the respective Market JV Agreements shall be shared or borne in accordance with the respective interest of the joint venture partners;

(iii) working capital shall be contributed in accordance with the respective interest of the joint venture partners under the respective Market JV Agreements; and

(iv) pursuant to a majority of the Market JV Agreements, where specified, various operational matters can be decided by a majority of the executive board set up by the joint venture partners and certain specified matters required unanimous consent of the executive board/shareholder.

Furthermore, we noted from the CSC JV Agreements that a majority of the CSC JV Agreements contained similar clauses in relation to transfer, assign or pledge interest of the contractual parties.

Based on our analysis above, we are of the view that the terms as set out under paragraph headed "Customary terms of joint venture agreements" in the Letter from the Board in relation to (i) proportion of interest; (ii) profit/loss sharing; (iii) financing and other support; and (iv) management are in line with market practice as a whole and thus considered to be fair and reasonable. In respect of the clause related to indemnity to be given by the relevant parties to its parent pursuant to the third-party developer/owner client's requirement, given that (i) the work done will be conducted by the respective parties of the JV Agreement; and (ii) the request of guarantee by the third-party developer/owner client is beyond the control of the Group nor CSC, we consider that it is reasonable for such indemnity to be provided by the relevant parties to the respective parent company (if required). In addition, we considered that although the restriction of transfers clause is not commonly found in the Market JV Agreements, it is, however, common in the CSC JV Agreements. Given the restriction of transfers is in line with the CSC JV Agreements and provide an additional protective measure to the relevant parties in the joint arrangement, we consider that it to be fair and reasonable.

Based on the above, we consider that the terms as set out under paragraph headed "Customary terms of joint venture agreements" are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Having considered that (i) the Hong Kong Building Construction Main Contracts is within the principal business activities of the Group; (ii) the reasons for and benefit of the Group to enter into the Framework Agreement; and (iii) the results of our analysis performed on the terms of the Framework Agreement; and (iv) the customary terms of joint venture agreements as set out in the Framework Agreement are in line with market practice or provide a better protection to the interests of the contractual parties as set out above, we concur with the Directors' view that the Framework Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of which are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

6. Contract sum of Hong Kong Building Construction Main Contracts

As a general principle and in accordance with market practice, the contract sum with respect to the Hong Kong Building Construction Main Contracts shall be determined in the ordinary course of business on normal commercial terms and on an arm's length basis after a tendering process or such other prescribed contract award process as may be implemented by the relevant third-party developer/owner client.

7. Cooperation between CSC and the Company

Internal approval process

As stated in the Letter from the Board, in the event that the Group decides to participate in the tendering process or such other prescribed contract award process as may be implemented by the relevant third-party developer/owner client in respect of a Hong Kong Building Construction Main Contract, CSC (or its subsidiary) and the Company (or its subsidiary) may participate in such process as joint venture main contractor, if the engineering department of the Company (or its subsidiary), after making qualitative and quantitative assessment of the scoring criteria of such process, determines that such joint venture will maximise the scoring of such tendering process or contract award process and therefore enhance the chance of successful award of the Hong Kong Building Construction Main Contract.

The engineering department of the Company (or its subsidiary) will determine whether or not to participate in such tendering process or contract award process as may be implemented by the relevant third-party developer/owner client during its standard tender or other contract award submission procedures in respect of a Hong Kong Building Construction Main Contract, which generally involve (i) receiving invitation to tender or participate in such other prescribed contract award process of the Hong Kong Building Construction Main Contract; (ii) initial assessment of the tender or contract award documents; (iii) further planning and estimation; (iv) determining the scoring criteria of the tendering process or contract award process; (v) assessing the track record and implementation capabilities of CSC and the Company (or their respective subsidiaries) relevant to the Hong Kong Building Construction Main Contract; (vi) determining the respective contributions of CSC and the Company (or their respective subsidiaries) towards satisfying the scoring criteria of the tendering process or contract award process; (vii) preparation for the tender or other contract award report and internal tender or other contract award adjudication; and (viii) tender or other contract award submission (the "**Procedures**").

In assessing the tender or contract award documents, the Group will take into account factors including the technical requirements, quantity specifications, expected completion time, customer's expectation and possible risk factors associated with the Hong Kong Building Construction Main Contract. The Group will then perform site inspection, conduct quantitative costs analysis and risk assessment.

If, during the Procedures, the Company (or its subsidiary) is satisfied that the participation of CSC and the Company (or their respective subsidiaries) in the tendering process or such other prescribed contract award process in respect of the Hong Kong Building Construction Main Contract will maximise the scoring of such process and therefore enhance the chance of successful award of the Hong Kong Building Construction Main Contract, the Company (or its subsidiary) may participate in such tendering process or contract award process with CSC (or its subsidiary). The President of the engineering department of the Company (or its subsidiary), who does not hold any position in CSC (or its subsidiary), will review and approve the decision of participating in such tendering process or contract award process with CSC (or its subsidiary).

Our analysis

For our assessment in connection with internal approval process, we have reviewed the internal standard procedures of the Group governing the tendering process (i.e. the Procedures) which set out, among others, standard procedures for tenders covering areas, such as (i) receiving invitation to tender; (ii) initial assessment of tender documents; (iii) further planning and estimation; (iv) determining the scoring criteria; (v) assessing the track record and implementation capabilities of potential joint venture partner; (vi) determining the respective contributions of the Company and its potential joint venture partners to satisfying the scoring criteria of the tendering process; (vii) preparation for tender report and internal tender adjudication; and (viii) tender submission.

Based on our discussions with the Management, notwithstanding that the Company had not entered into any joint venture agreement with independent third parties or connected parties for Hong Kong Building Construction Works in the past, we understand from the Management that all the potential joint venture to be entered with connected persons or independent third parties will be reviewed against the same prescribed procedures (i.e. the Procedures).

Furthermore, under the Procedures and based on our discussions with the Management, we also note that the respective interest of the Company and the potential joint venture partners in each contractual joint venture will be determined based on the respective contributions of the Company and the potential joint venture partner to satisfy the scoring criteria of the tendering process or such other prescribed contract award process as may be implemented by the relevant third-party developer/owner and may vary depending on the parties' respective (i) track record and implementation capabilities; (ii) contributions to satisfying the scoring criteria of the tendering process; and (iii) abilities to enhance the chance of successful award of the contracts. Based on our discussions with the Management, we noted that the basis to determine the respective interest of the Company and potential joint venture partners in each contractual joint venture for tenders with connected persons will be evaluated under the same prescribed assessment in a manner no different from tenders with independent third parties.

Having considered that (i) the internal control guidance regarding a proper tender procedure (i.e. the Procedure) which also applies to the tenders with either connected persons or independent third party; and (ii) the basis to determine the respective interest of the Company and potential joint venture partners in each contractual joint venture, we concur with the Directors' view that the Company has sufficient internal control procedures to govern the terms of the Framework Agreement.

8. Annual Caps

The maximum total contract sum that may be awarded jointly to CSC and the Company (or their respective subsidiaries) as joint venture main contractor during the term of the Framework Agreement shall not exceed the following Annual Caps:

For the period from 20 December 2019 to 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021	For the period from 1 January to 30 June 2022
HK$1,000 million	HK$2,000 million	HK$2,000 million	HK$2,000 million

Basis of determining the Annual Caps

As stated in Letter from the Board, the Annual Caps are determined with reference to the estimated annual contract sum for the Hong Kong Building Construction Main Contracts during the relevant period/year, which is determined with reference to (i) the amount of tenders planned to be submitted to or potential projects under negotiation with employers during the relevant period/year; (ii) other potential general construction works available in Hong Kong from property developers in the year of 2019; and (iii) the projected increase in general construction works from 2020 to 2022 given the positive outlook of the construction market due to the growing demand for private housing in Hong Kong. As at the Latest Practicable Date, the Group planned to submit tenders for seven potential projects in Hong Kong with an aggregate contract sum of HK$3.1 billion during the period of 2019 to 2020.

In assessing the fairness and reasonableness of the Annual Caps, we have reviewed and discussed with the Management, among others, a list of potential construction project of the Group for the period ended 30 June 2022. We have reviewed and noted that, among others, (i) a potential construction project of the Group in relation to property development with an estimated contract sum of HK$0.9 billion in late December 2019, which forms the basis to determine the annual cap for the period from 20 December 2019 to 31 December 2019; and (ii) the list of potential construction projects in relation to the provision of construction work which the Group expects to tender for the six months ending 30 June 2020 (i.e. for six months only), which, in aggregate is expected to be approximately HK$2.2 billion and is more than the annual caps for the year ending 31 December 2020. We also understand from the Management that the annual caps for the year ended 31 December 2021 and the period ended 30 June 2022 are determined based on the annual cap for the year ending 31 December 2020. We also note that the estimation of which is based on the expected scope and scale of works as well as the prevailing market prices of relevant construction materials and subcontracting charges. We understand from the Management that aforesaid potential construction projects are currently subject to successful tenders or negotiation, accordingly, the Group may or may not be awarded with any of the contracts. As such, the utilisation of the Annual Caps shall depend on, among others, the relevant contracts being awarded and undertaken by the Group during the relevant period.

Having considered that (i) the potential projects which might engage the Group; and (ii) the basis and assumption for the calculation of the Annual Caps, we consider the basis for determining the Annual Caps to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Nevertheless, the Shareholders are advised that the Annual Caps represent the best estimates by the Group based on the information available at the time. In addition, the Annual Caps would provide the Group or the joint venture main contractor under the Framework Agreement with the flexibility but not the obligation to submit tender for the Hong Kong Building Construction Main Contracts.

RECOMMENDATION

Having considered the factors as set out in this letter above, we are of the view that

(i) although the Acquisition is not conducted in the ordinary course of business of the Group, the Acquisition is in the interests of the Company and the Shareholders as a whole, and the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned;

(ii) the transactions contemplated under the Framework Agreement are in the ordinary and usual course of business of the Group and on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and the terms of which, including the Annual Caps, are fair and reasonable so far as the Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend, and we recommend, the Independent Shareholders to vote in favour of the resolutions to approve the Sale and Purchase Agreement, the Framework Agreement and the transactions contemplated thereunder, including the Annual Caps, at the EGM.

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

Mr. Jimmy Chung is a Responsible Officer of Red Sun Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and permitted to undertake work as sponsor. He has over 20 years of experience in corporate finance industry in Greater China.

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2018 are disclosed in the annual reports of the Company for each of the three years ended 31 December 2018, together with the relevant notes thereto, and the financial information of the Company for the six months ended 30 June 2019 is disclosed in the 2019 interim report of the Company, respectively, which have been published and are available on the website of HKEXnews (www.hkexnews.hk) as set out below and the website of the Company (http://www.cscd.com.hk):

- The 2016 Annual Report of the Company for the year ended 31 December 2016 published on 12 April 2017 (available on https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0412/ltn20170412728.pdf), please refer to pages 79 to 139 in particular

- The 2017 Annual Report of the Company for the year ended 31 December 2017 published on 11 April 2018 (available on https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0411/ltn20180411293.pdf), please refer to pages 83 to 139 in particular

- The 2018 Annual Report of the Company for the year ended 31 December 2018 published on 15 April 2019 (available on https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0415/ltn20190415319.pdf), please refer to pages 75 to 139 in particular

- The 2019 Interim Report of the Company for the six months ended 30 June 2019 published on 9 September 2019 (available on https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0909/ltn20190909165.pdf), please refer to pages 60 to 83 in particular

2. STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 30 September 2019, being the latest practicable date for the sole purpose of this statement of indebtedness prior to the date of this circular, the indebtedness of the Enlarged Group comprised as follows:

The Group	*HK$'000*
Bank borrowings	
Secured *(Note)*	12,153
Unsecured	792,952
Lease liabilities, unsecured	29,587
Total	834,692
The Target Group	
Lease liabilities, unsecured	542
Loan from a fellow subsidiary, unsecured	31,938
Total borrowings of the Enlarged Group	867,172

Note: Bank borrowings were secured by the Group's land and buildings.

All bank borrowings and loan from a fellow subsidiary as at 30 September 2019 were unguaranteed and certain unsecured bank loans include the bank loans with financial undertaking required to be fulfilled by the Group.

Save as disclosed herein and apart from intra-group liabilities and normal accounts payable in the ordinary course of business, the Group did not have any other material debt securities, issued or outstanding, or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing of the Group including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits or hire purchase commitments, mortgages, charges, contingent liabilities or guarantees as at 30 September 2019,

The Directors have confirmed that there has not been any other material change in the indebtedness and contingent liabilities of the Group since 30 September 2019.

3. WORKING CAPITAL

Taking into account the financial resources available to the Enlarged Group, including the internally generated funds, cash and cash equivalents on hand, and the borrowing facilities, the Directors are of the opinion that in the absence of unforeseeable circumstances, the Enlarged Group has sufficient working capital available for its requirements, that is for at least the next 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

There was no material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Board is confident regarding the Enlarged Group's prospects and capabilities. Despite the downward pressure and fierce competition in the PRC infrastructure construction and operation sector in the past years, the Enlarged Group has overcome obstacles, maintained sustainable development and exceeded operational targets.

The facade contracting business will continue to be the Group's core business after the Acquisition. The Group will continue to adopt the operational strategy of "big markets, big clients, big projects" by focusing on prestigious and high-end markets and providing high quality services to premium customers.

In respect of the general contracting business, in view of the growing demand for housing as well as property developers' optimism about the private housing prices, the outlook for building construction industry remains cautiously optimistic. While the Group will remain focus on small-scale and niche private housing construction, the increased cooperation between CSC and the Company will enable the Group to capitalise on the strong brand of "China State Construction" which is one of the leading players in general contracting business in Hong Kong and afford the Group the advantages of higher market awareness, the ability to command price premium and favourable relations with customers, suppliers and contractors. These advantages can help the Group tap into the general contracting business for mid-scale private housing projects whose owners normally will not be the leading property developers in Hong Kong.

The Group continued the expansion and diversification of the operating management business in 2019. The Group completed the acquisition of Nan Chang Bridge and Nan Chang Zhong Hai Xin Ba Yi Bridge from CSC (further details as set out in the announcement of the Company dated 7 January 2019 and the circular of the Company dated 22 February 2019) and increased its stable cash flow and enhanced its profit contribution. China Overseas Supervision Limited, a wholly owned subsidiary of the Company, was awarded a number of supervision projects, which further bolstered the advantages of the operating management business. The Group has also been proactively exploring investment opportunities in the elderly care sector, and eventually undertook an investment project involving elderly care apartments located in Toronto, Canada. Preliminary planning and design work for the project was completed in 2019 and the construction work has commenced in 2019 as scheduled. The Group will continue to shape the operating management business through organic growth and growth through acquisition to diversify its operating asset portfolio and accelerate business growth in terms of revenue and profit base. The Group is actively looking for merger and acquisition opportunities to enlarge its operating asset portfolio which can provide steady revenue stream to the Group.

For 2019, the PRC infrastructure construction and operation sector is expected to be changeable, based on the political and economic environment at home and abroad. The Enlarged Group will continue to apply its longstanding maxim of "Exercise caution in details and implementation. Build a strong foundation to seek greater success." With its solid foundation, international vision and exposure, appropriate nationwide development strategy plus excellent brand name and financial strength, the Enlarged Group will continue to enhance its competitiveness in the industry through its consistent innovation. The Enlarged Group is confident that it can maintain its competitive position in the PRC infrastructure construction and operation industry and achieve steady, high-quality balanced growth.

The following is the text of a report set out on pages II-1 to II-3, received from the Company's reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular..

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED

Introduction

We report on the historical financial information of China Overseas Public Utility Investment Limited (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages II-4 to II-37, which comprises the consolidated and company statements of financial position as at 31 December 2016, 2017 and 2018 and 30 June 2019, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the three years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-37 forms an integral part of this report, which has been prepared for inclusion in the circular of China State Construction Development Holdings Limited (the "Company") dated 22 November 2019 (the "Circular") in connection with the proposed acquisition of the Target Company by the Company (the "Proposed Acquisition").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Target Group for the Track Record Period ("Underlying Financial Statements"), on which the Historical Financial Information is based, were prepared by the directors of the Company based on the previously issued financial statements of the Target Group for the Track Record Period. The directors of the Target Company are responsible for the preparation of the previously issued financial statements of the Target Group that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, and for such internal control as the directors of the Company determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Target Company and the consolidated financial position of the Target Group as at 31 December 2016, 2017 and 2018 and 30 June 2019, and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 22 November 2019

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Historical Financial Information is presented in Hong Kong dollar and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Consolidated Statements of Comprehensive Income

	Notes	**Years ended 31 December**			**Six months ended 30 June**	
		2016	**2017**	**2018**	**2018**	**2019**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Revenue	*6*	609,186	622,916	631,397	357,084	324,079
Costs of sales	*11*	(494,555)	(552,133)	(567,112)	(301,726)	(256,766)
Gross profit		114,631	70,783	64,285	55,358	67,313
Investment income, other income and other gains, net	*8*	13,744	4,810	5,934	3,059	1,756
Administrative, selling and other operating expenses	*11*	(31,689)	(21,790)	(22,399)	(9,584)	(7,856)
Finance costs	*10*	(2,781)	(2,710)	(2,395)	(1,421)	(959)
Profit before tax		93,905	51,093	45,425	47,412	60,254
Income tax expenses	*9*	(93,953)	(12,950)	(11,254)	(12,375)	(16,195)
(Loss)/profit for the year/period		(48)	38,143	34,171	35,037	44,059
(Loss)/profit for the year/period is attributable to:						
Owners of the Target Company		(268)	38,023	34,064	34,928	43,924
Non-controlling interests		220	120	107	109	135
		(48)	38,143	34,171	35,037	44,059
Other comprehensive (loss)/income:						
Item that may be reclassified subsequently to consolidated statement of comprehensive income						
Exchange on translation		(124,853)	98,156	(69,666)	(19,822)	(3,520)
Total comprehensive (loss)/income for the year/period		(124,901)	136,299	(35,495)	15,215	40,539
Total comprehensive (loss)/income for the year/period is attributable to:						
Owners of the Target Company		(125,121)	136,179	(35,602)	15,105	40,404
Non-controlling interests		220	120	107	110	135
		(124,901)	136,299	(35,495)	15,215	40,539

Consolidated Statements of Financial Position

	Notes	As at 31 December 2016 HK$'000	2017 HK$'000	2018 HK$'000	As at 30 June 2019 HK$'000
Non-current Assets					
Property, plant and equipment	15	1,584,958	1,642,426	1,495,974	1,454,743
Deferred tax assets	16	57,914	79,248	79,913	61,566
		1,642,872	1,721,674	1,575,887	1,516,309
Current Assets					
Inventories	17	47,820	106,960	120,364	139,626
Trade and other receivables	18	53,779	36,061	66,088	66,400
Deposits and prepayments		26,352	22,677	16,642	16,935
Amounts due from fellow subsidiaries	13	1,149,659	1,382,323	1,283,939	772,313
Tax recoverable		–	–	–	3,349
Bank and cash balances	20	311,735	206,543	310,106	87,968
		1,589,345	1,754,564	1,797,139	1,086,591
Current Liabilities					
Contract liabilities	19	379,286	347,804	364,471	124,340
Trade payables, other payables and accruals	21	154,763	213,375	170,596	248,082
Deposits received		40,080	31,169	35,405	36,171
Tax payable		26,795	24,144	17,876	–
Amounts due to fellow subsidiaries	13	14,237	14,383	18,451	19,375
Amount due to Ever Power Group Limited	13	1,348,172	1,348,172	1,348,172	724,672
Loan from a fellow subsidiary	14	–	34,939	–	–
		1,963,333	2,013,986	1,954,971	1,152,640
Net Current Liabilities		373,988	259,422	157,832	66,049
Total Assets less Current Liabilities		1,268,884	1,462,252	1,418,055	1,450,260
Capital and Reserve					
Share capital	22	–	–	–	–
Reserves		496,079	635,479	599,877	640,281
Equity attributable to owners of the Target Company		496,079	635,479	599,877	640,281
Non-controlling interests		6,811	3,710	3,817	3,952
		502,890	639,189	603,694	644,233
Non-current Liabilities					
Contract liabilities	19	732,516	822,222	780,629	772,570
Loan from a fellow subsidiary	14	32,474	–	33,180	33,180
Lease liabilities		1,004	841	552	277
		765,994	823,063	814,361	806,027
		1,268,884	1,462,252	1,418,055	1,450,260

Statement of Financial Position

					As at
		As at 31 December			30 June
	Notes	**2016**	**2017**	**2018**	**2019**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current Asset					
Investment in a subsidiary	*12*	745,446	745,446	745,446	745,446
Current Assets					
Amounts due from fellow subsidiaries	*13*	623,522	623,522	623,522	–
Bank balances and cash	*20*	138	137	137	136
		623,660	623,659	623,659	136
Current Liabilities					
Other payables		10	10	10	10
Amount due to Ever Power Group Limited	*13*	1,345,488	1,345,488	1,345,488	721,989
Amounts due to fellow subsidiaries	*13*	23	23	23	–
Amounts due to subsidiaries	*13*	2,684	2,684	2,684	2,684
		1,348,205	1,348,205	1,348,205	724,683
Net Current Liabilities		724,545	724,546	724,546	724,547
Net Assets		20,901	20,900	20,900	20,899
Capital and Reserve					
Share capital	*22*	–	–	–	–
Reserves	*28*	20,901	20,900	20,900	20,899
		20,901	20,900	20,900	20,899

Consolidated Statements of Changes in Equity

	Attributable to owners of the Target Company						
	Share capital	**Translation reserve**	**Statutory reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total Equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	–	219,614	51,764	978,043	1,249,421	6,591	1,256,012
Total comprehensive loss	–	(124,853)	–	(268)	(125,121)	220	(124,901)
Transfer to statutory reserves	–	–	15,178	(15,178)	–	–	–
Dividend paid	–	–	–	(625,000)	(625,000)	(3,221)	(628,221)
At 31 December 2016	–	94,761	66,942	337,597	499,300	3,590	502,890
At 1 January 2017	–	94,761	66,942	337,597	499,300	3,590	502,890
Total comprehensive income	–	98,156	–	38,023	136,179	120	136,299
Transfer to statutory reserves	–	–	9,181	(9,181)	–	–	–
At 31 December 2017	–	192,917	76,123	366,439	635,479	3,710	639,189
At 1 January 2018	–	192,917	76,123	366,439	635,479	3,710	639,189
Total comprehensive loss	–	(69,666)	–	34,064	(35,602)	107	(35,495)
Transfer to statutory reserves	–	–	6,213	(6,213)	–	–	–
At 31 December 2018	–	123,251	82,336	394,290	599,877	3,817	603,694
At 1 January 2019	–	123,251	82,336	394,290	599,877	3,817	603,694
Total comprehensive income for the period	–	(3,520)	–	43,924	40,404	135	40,539
At 30 June 2019	–	119,731	82,336	438,214	640,281	3,952	644,233
(unaudited)							
At 1 January 2018	–	192,917	76,123	366,439	635,479	3,710	639,189
Total comprehensive income for the period	–	(19,822)	–	34,928	15,106	109	15,215
At 30 June 2018	–	173,095	76,123	401,367	650,585	3,819	654,404

Consolidated Statements of Cash Flows

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Operating activities					
Profit before tax	93,905	51,093	45,425	47,412	60,254
Adjustments for:					
Interest income	(1,533)	(1,139)	(1,695)	(805)	(860)
(Gain)/loss on disposals of property, plant and equipment	(1,460)	(257)	(548)	–	47
Depreciation of property, plant and equipment	142,693	127,504	120,882	63,447	72,089
Finance costs	2,781	2,710	2,395	1,421	959
Operating cash flows before working capital changes	236,386	179,911	166,459	111,475	132,489
Net changes in trade and other receivables	(6,043)	21,039	(33,131)	(12,618)	(319)
Net changes in deposits and prepayments	6,566	5,477	5,092	(570)	(300)
Net changes in inventories	24,695	(53,574)	(19,549)	(61,016)	(19,690)
Net changes in trade payables, other payables and accruals	(16,973)	45,225	(33,331)	29,121	73,882
Net changes in deposits received	39,822	(7,656)	24,583	11,177	12,686
Net changes in contract liabilities	(15,262)	(29,579)	(24,926)	(302,055)	(248,190)
Net cash generated from/(used in) operations	269,191	160,843	85,197	(224,486)	(49,442)
Income tax paid	(109,609)	(27,965)	(24,607)	(20,886)	(22,692)
Net cash generated from/(used in) operating activities	159,582	132,878	60,590	(245,372)	(72,134)
Investing activities					
Interest received	1,533	1,139	1,696	805	860
Purchases of property, plant and equipment	(54,548)	(101,565)	(37,106)	(5,226)	(41,199)
Proceeds from disposal of property, plant and equipment	10,516	5,938	19,294	1,672	24
Increase in amounts due from fellow subsidiaries	17,653	5,916	70,820	180,803	71,543
Decrease in amounts due from fellow subsidiaries	(64,617)	(155,808)	(7,392)	(56,927)	(176,823)

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Net cash (used in)/from investing activities	(89,463)	(244,380)	47,312	121,127	(145,595)
Financing activities					
Finance cost paid	(2,781)	(2,710)	(2,395)	(1,421)	(992)
Payment of principal portion of lease liabilities	(202)	(215)	(237)	(278)	(266)
Dividends paid to non-controlling interest	(3,221)	–	–	–	–
Increase in amounts due to fellow subsidiaries	18,305	678	5,294	3,709	1,059
Decrease in amounts due to fellow subsidiaries	(5,269)	(547)	(1,176)	(127)	(120)
Net cash from/(used in) financing activities	6,832	(2,794)	1,486	1,883	(319)
Net increase/(decrease) in cash and cash equivalents	76,951	(114,296)	109,388	(122,362)	(218,048)
Cash and cash equivalents at the beginning of the year/period	245,340	311,735	206,543	206,543	310,106
Effect of exchange rate changes	(10,556)	9,104	(5,825)	(3,915)	(4,090)
Cash and cash equivalents at the end of the year/period	311,735	206,543	310,106	80,266	87,968
Analysis of the balances of cash and cash equivalents					
Bank and cash balances	311,735	206,543	310,106	80,266	87,968

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION

China Overseas Public Utility Investment Limited (the "Target Company") is a private limited company incorporated in British Virgin Islands with limited liability. During the Track Record Period, the immediate holding company of the Target Company is Ever Power Group Limited, a company incorporated in British Virgin Islands. Its intermediate holding companies are China State Construction International Holdings Limited ("CSCIHL"), a company incorporated in the Cayman Islands with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), China Overseas Holdings Limited ("COHL"), a company incorporated in Hong Kong, and China State Construction Engineering Corporation Limited ("CSCECL"), a joint stock company with its shares listed on the Shanghai Stock Exchange, respectively. Its ultimate holding Company is 中國建築集團有限公司 (China State Construction Engineering Corporation*, "CSCEC"). Both CSCECL and CSCEC are established in the People's Republic of China (the "PRC") and controlled by the PRC Government. The address of the registered office and the principal place of business of the Target Company is 29th Floor, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong.

The Target Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 12.

The Historical Financial Information are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

2 BASIS OF PREPARATION

The Historical Financial Information of Target Company and its subsidiaries (the "Target Group") have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Historical Financial Information have been prepared under the historical cost convention.

The preparation of Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 5.

As at 31 December 2016, 2017, 2018 and 30 June 2019, the Target Group had net current liabilities of HK$373,988,000, HK$259,422,000, HK$157,832,000 and HK$66,049,000 respectively. Historically, the Target Group principally relied on both operational sources of cash and non-operational sources of financing from immediate holding company and fellow subsidiaries to fund its operation and business development. The Target Group's ability to continue as a going concern is dependent on management's ability to successfully execute its business plan. Based on the Target Group's historical operating performance and its expected future working capital requirements, the directors consider that there are sufficient financial resources available to the Target Group to meet its obligations as and when they fall due. Accordingly, the Historical Financial Information has been prepared on a going concern basis.

(a) New standards, amendments and improvements to existing standards and interpretation not yet effective

The Target Group has not early adopted the following new standards, amendments and improvements to existing standards and interpretation that have been issued but are not yet effective:

Amendments to HKAS 1 and HKAS 8	Definition of material[1]
Amendments to HKFRS 3	Business combinations[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 17	Insurance Contracts[2]
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting 2018[1]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 The mandatory effective date has yet to be determined

* The English name is a translated name and is for identification purpose only.

The Target Group will adopt the above new standards, amendments and improvements to existing standards and interpretation as and when they become effective. None of the above is expected to have a significant effect on the consolidated financial statements of the Target Group.

The Target Group has applied HKFRS 9 "Financial instruments" ("HKFRS 9"), HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15") and HKFRS 16 "Leases" ("HKFRS 16") consistently throughout the Track Record Period.

3 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Consolidation

The Historical Financial Information include the financial information of the Target Company and all its subsidiaries.

(a) Subsidiaries

Subsidiaries are entities (including structured entities) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which the control is transferred to the Target Group. They are deconsolidated from the date that control ceases.

3.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions.

3.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the Historical Financial Information of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The Historical Financial Information are presented in Hong Kong dollar ("HK$"), which is the Target Company's functional and the Target Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "Investment income, other income and other gains, net".

(c) Group companies

The results and financial position of all the Target Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

3.4 Property, plant and equipment

Buildings comprise mainly factories and offices. Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation of property, plant and equipment and right-of-use assets is calculated as follows:

Buildings	Over the shorter of the term of the relevant leases or 50 years
Right-of-use assets	Over the term of the relevant leases
Heat and electricity supply facilities	Over the shorter of the license operation period or 20 years
Furniture, fixtures and equipment and motor vehicle	3 to 8 years

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases of twelve months or less and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress represents buildings and heat and electricity supply facilities under construction and machinery pending installation, and is stated at cost less impairment losses. It will be reclassified to the relevant property, plant and equipment category upon completion and depreciation begins when the relevant assets are available for use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of comprehensive income.

3.5 Financial assets

(i) Classification

The Target Group classifies its financial assets as those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Target Group reclassifies debt securities when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Target Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Target Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Target Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of debt securities depends on the Target Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in consolidated statement of comprehensive income and presented in "Investment income, other income and other gains, net" together with foreign exchange gains and losses or "Finance income/(cost)".

(iv) Impairment

The Target Group assesses on a forward looking basis the expected credit losses associated with its debt securities carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Target Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Provision for impairment of receivables account for other debt securities carried at amortised cost will be determined based on whether their credit risk are low at each reporting date, and if so by recognising a 12 months expected losses amount until the financial asset is derecognised. If the financial asset is not of a low credit risk, the corresponding provision for doubtful debts account will be recognised as equal to lifetime expected losses.

3.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount are reported in the consolidated statement of financial position where there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

3.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in selling expenses.

3.8 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

3.9 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits with financial institutions with original maturities of three months or less and bank balances.

3.10 Share capital

Ordinary shares are classified as equity.

3.11 Trade payables, other payables and accruals

Trade payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Trade payables, other payables and accruals are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables, other payables and accruals are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

3.13 Borrowing costs

Relevant general and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in consolidated statement of comprehensive income in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of lease liabilities and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on forward currency rates at the inception of the borrowings.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

3.14 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the country where the Company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on temporary differences arising from Investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets are recognised to the extent that their future utilisation is probable. Deferred income tax arising from revaluation of investment properties is recognised on the rebuttable presumption that the recovery of the carrying amount of the properties would be through sale and calculated at the applicable tax rates.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.15 Provisions

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle that obligation, and the amount has been reliably estimated. Provisions, including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the granter, are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.16 Employee benefits

Retirement benefits

Pursuant to the relevant regulations of the government in Mainland China, the subsidiaries in Mainland China participate in the municipal government contribution scheme whereby the subsidiaries are required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government of Mainland China is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Target Group with respect to the scheme is to pay the ongoing contributions required by the scheme. The Target Group's contributions to the scheme are expensed as incurred.

3.17 Revenue recognition

Revenue is recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time. Control of the good or service is transferred over time if the Target Group's performance:

(a) Provides all of the benefits received and consumed simultaneously by the customer;

(b) Creates or enhances an asset that the customer control as the Target Group performs; or

(c) Does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

If control of the good or service transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the good or service.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Target Group's performance in satisfying the performance obligation:

(a) Direct measurements of the value transferred by the Target Group to the customer; or

(b) The Target Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract related assets and subsequently amortised when the related revenue is recognised.

(a) Revenue from contracts with customers

Revenue from contracts with customers primarily represents supply of heat, steam and electricity and pipeline construction service.

(i) Revenue from supply of heat, steam and electricity

Revenue from supply of heat, steam and electricity is recognised over time based upon output delivered and capacity provided at rates specified under contract terms. The revenue from supply of heat, steam and electricity includes the receipt of the government subsidy to the customers.

(ii) Revenue from pipeline construction service

Revenue on pipeline construction service is recognised over time using output method, which is measured based on actual completed area relative to the total area specified under contract terms. The customers will provide final statement when the whole project is completed and may have adjustments according to the final completed area. In addition when determining the transaction price, the Group consider factors such as location, area and complexity of the contract.

(b) Revenue from other sources

(i) Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the statement of profit or loss as part of other income. Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

3.18 Contract related assets and contract liabilities

Upon entering into a contract with a customer, the Target Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer.

The combination of those rights and performance obligations gives rise to a net contract asset or a net contract liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the cumulative revenue recognised in profit or loss exceeds cumulative payments made by customers. Conversely, the contract is a liability and recognised as contract liabilities if the cumulative payments made by customers exceeds the revenue recognised in profit or loss.

Contract assets are assessed for impairment under the same approach adopted for impairment assessment of trade receivables. Contract liabilities are recognised as revenue when the Target Group transfers the goods or services to the customers and therefore satisfied its performance obligation.

The incremental costs of obtaining a contract with a customer are capitalised and presented as contract related assets, if the Target Group expects to recover those costs, and are subsequently amortised on a systematic basis that is consistent with the transfer to the customers of the goods or services to which the assets relate. The Target Group recognises an impairment loss in the consolidated statement of comprehensive income to the extent that the carrying amount of the contract related assets recognised exceeds the remaining amounts of consideration that the Target Group expects to receive less the costs that relate directly to providing those goods or services that have not been recognised as expenses.

3.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders/directors.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Target Group's activities expose it to a variety of financial risks: interest rate risk, credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

(a) Interest rate risk

The Target Group's interest rate risk arises from bank deposits held at variable rates.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, if interest rates had been 50 basis points higher/lower with all other variables held constant, the consolidated profit before tax would increase/decrease by HK$1,428,000, HK$1,011,000, HK$1,530,000 and HK$419,000 respectively.

(b) Credit risk

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Target Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Target Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks in Mainland China.

The amounts due from fellow subsidiaries are closely monitored by the directors through exercising control over its financial and operating policy decisions and reviewing its financial positions on a regular basis.

(c) Liquidity risk

The Target Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The table below analyses the Target Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The Target Group

	Within 1 year *HK$'000*	**Between 1 and 2 years** *HK$'000*	**Between 2 and 5 years** *HK$'000*	**Total** *HK$'000*
At 31 December 2016				
Amount due to Ever Power Group Limited	1,348,172	–	–	1,348,172
Amounts due to fellow subsidiaries	14,237	–	–	14,237
Trade payables, other payables and accruals	135,275	–	–	135,275
Deposit received	40,080	–	–	40,080
Lease liabilities	288	288	864	1,440
Loan from a fellow subsidiary	2,494	37,442	–	39,936
	1,540,546	37,730	864	1,579,140

	Within 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Total HK$'000
At 31 December 2017				
Amount due to Ever Power Group Limited	1,348,172	–	–	1,348,172
Amounts due to fellow subsidiaries	14,383	–	–	14,383
Trade payables, other payables and accruals	192,862	–	–	192,862
Deposit received	31,169	–	–	31,169
Lease liabilities	309	309	620	1,238
Loan from a fellow subsidiary	37,623	–	–	37,623
	1,624,518	309	620	1,625,447
At 31 December 2018				
Amount due to Ever Power Group Limited	1,348,172	–	–	1,348,172
Amounts due to fellow subsidiaries	18,451	–	–	18,451
Trade payables, other payables and accruals	148,873	–	–	148,873
Deposit received	35,405	–	–	35,405
Lease liabilities	294	294	294	882
Loan from a fellow subsidiary	2,548	2,683	44,198	49,429
	1,553,743	2,977	44,492	1,601,212
At 30 June 2019				
Amount due to Ever Power Group Limited	724,672	–	–	724,672
Amounts due to fellow subsidiaries	19,375	–	–	19,375
Trade payables, other payables and accruals	242,277	–	–	242,277
Deposit received	36,171	–	–	36,171
Lease liabilities	294	294	–	588
Loan from a fellow subsidiary	1,811	2,548	45,489	49,848
	1,024,600	2,842	45,489	1,072,931

The Target Company

	Within 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Total HK$'000
At 31 December 2016				
Amount due to Ever Power Group Limited	1,345,488	–	–	1,345,488
Amounts due to fellow subsidiaries	23	–	–	23
Other payables	10	–	–	10
Amounts due to subsidiaries	2,684	–	–	2,684
	1,348,205	–	–	1,348,205

	Within 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Total HK$'000
At 31 December 2017				
Amount due to Ever Power Group Limited	1,345,488	–	–	1,345,488
Amounts due to fellow subsidiaries	23	–	–	23
Other payables	10	–	–	10
Amounts due to subsidiaries	2,684	–	–	2,684
	1,348,205	–	–	1,348,205
At 31 December 2018				
Amount due to Ever Power Group Limited	1,345,488	–	–	1,345,488
Amounts due to fellow subsidiaries	23	–	–	23
Other payables	10	–	–	10
Amounts due to subsidiaries	2,684	–	–	2,684
	1,348,205	–	–	1,348,205
At 30 June 2019				
Amount due to Ever Power Group Limited	721,989	–	–	721,989
Other payables	10	–	–	10
Amounts due to subsidiaries	2,684	–	–	2,684
	724,683	–	–	724,683

4.2 Capital risk management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, issue new shares or sell assets to reduce debt.

The Target Group monitors capital on the basis of the gearing ratio. The Target Group is in a net cash position.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

5.1 Revenue recognition on pipeline construction service

The Target Group recognises revenue on pipeline construction service according to the stand-alone selling price received or receivable from customers on this performance obligation. Because of the nature of the activities undertaken in pipeline construction contracts, the stand-alone selling price related to this performance obligation is based on management's estimation and judgements, taking into account location, area and complexity of the contract.

5.2 Recoverability of receivables and amounts due from related parties

The provision for receivables and amounts due from related parties are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

5.3 Impairment of property, plant and equipment

The Target Group regularly reviews whether there are any indications of impairment and recognises an impairment loss if the carrying amount of an asset is lower than its recoverable amount. The recoverable amounts have been determined based on the higher of the fair value less costs of disposal and value in use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates.

5.4 Income and deferred tax

The Target Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Target Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts and relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

6 REVENUE

Revenue from contracts with customers for the year/period is analyzed as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Revenue from supply of heat, steam and electricity	584,585	571,136	607,634	344,762	324,079
Revenue from pipeline construction service	24,601	51,780	23,763	12,322	–
	609,186	622,916	631,397	357,084	324,079

Revenue from contracts with customers during the year/period is recognised over time.

7 SEGMENT INFORMATION

The directors of the Target Company are the Target Group's CODM who review the Target Group's internal reporting in order to assess performance of the Target Group on a regular basis and allocate resources.

During the Track Record Period, the Target Group is principally engaged in the supply of heat, steam and electricity and pipeline construction service in the PRC. The CODM review the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the CODM of the Target Group consider that there is only one segment which is used to make strategic decisions.

All operating entity of the Target Group is domiciled in the PRC. Accordingly, all of the Target Group's revenue are derived in the PRC.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, all of the non-current assets were located in the PRC.

Information about major customers:

There was no individual customer who accounted for over 10% of the Target Group's revenue for each of the years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2018 and 2019. Revenue from fellow subsidiaries of the Target Company is disclosed in Note 25 to the Historical Financial Information.

8 INVESTMENT INCOME, OTHER INCOME AND OTHER GAINS, NET

	Year ended 31 December			**Six months ended 30 June**	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Interest income on bank deposits	1,533	1,140	1,695	805	860
Service income	9,947	3,056	2,944	1,980	662
Gain/(loss) from disposal of property, plant and equipment, net	1,460	257	548	–	(47)
Others	804	357	747	274	281
	13,744	4,810	5,934	3,059	1,756

9 INCOME TAX EXPENSES

	Year ended 31 December			**Six months ended 30 June**	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Current tax PRC	32,400	29,297	16,097	800	(2,560)
Withholding tax on dividend distribution by a subsidiary	70,336	–	–	–	–
Deferred tax *(Note 16)*	(8,783)	(16,347)	(4,843)	11,575	18,755
Income tax expense for the year/period	93,953	12,950	11,254	12,375	16,195

Provision for PRC profits tax has been made at 25% of the assessable profit in the Historical Financial Information.

The income tax expense for the year/period can be reconciled to the profit before tax per consolidated statement of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000 (unaudited)*	*HK$'000*
Profit before tax	93,905	51,093	45,425	47,412	60,254
Tax charge at PRC profits tax rate of 25%	23,476	12,773	11,356	11,853	15,063
Withholding tax on dividend distribution	70,336	–	–	–	–
Tax effect on expenses not deductible for tax purpose	1,469	1,987	1,555	1,351	1,298
Tax effect on income not taxable	(1,328)	(1,810)	(1,657)	(829)	(166)
Income tax expense	93,953	12,950	11,254	12,375	16,195

10 FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000 (unaudited)*	*HK$'000*
Interest on loan from a fellow subsidiary	2,679	2,626	2,326	1,382	932
Interest on lease liabilities	102	84	69	39	27
	2,781	2,710	2,395	1,421	959

11 COSTS OF SALES AND ADMINISTRATIVE, SELLING AND OTHER OPERATING EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000 (unaudited)*	*HK$'000*
Raw materials and consumables used	203,247	255,789	263,247	161,796	134,112
Depreciation of property, plant and equipment	144,165	128,949	122,363	63,447	72,089
Bad debt provision	1,002	157	387	–	–
Audit fee	107	105	107	111	105
Business tax	8,662	–	–	–	–
Staff cost					
– salaries, bonuses and allowances	37,581	50,759	51,840	25,044	23,878
– retirement benefits	4,060	9,808	10,593	2,567	2,121
Directors' emoluments	4,876	5,661	5,366	2,783	2,635
Electricity	36,380	39,199	34,789	22,620	14,291
Others	86,164	83,496	100,819	32,942	15,527
	526,244	573,923	589,511	311,310	264,758

(a) Directors' emoluments

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Basic salaries, allowances and benefits-in-kind	1,027	1,127	1,262	655	877
Performance-related bonuses	3,305	3,822	3,357	1,740	1,341
Contribution to pension fund schemes	544	712	747	388	417
	4,876	5,661	5,366	2,783	2,635

12 INVESTMENT IN A SUBSIDIARY

The Company

The carrying amounts of the investment in a subsidiary are as follows:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Investment in a subsidiary	745,446	745,446	745,446	745,446

Details of the Company's subsidiaries as at 31 December 2016, 2017 and 2018 and 30 June 2019 are as follows:

Name of company	Place of establishment operations	Issued and fully paid up shares	Percentage of ownership interest				Principal activities
			2019	**2018**	**2017**	**2016**	
		RMB	*%*	*%*	*%*	*%*	
Directly held by the Company							
瀋陽皇姑熱電有限公司	PRC	678,560	99.69	99.69	99.69	99.69	Generation and supply of heat and electricity
Indirectly held by the Company							
瀋陽皇姑粉煤灰建材有限公司	PRC	8,000	99.69	99.69	99.69	99.69	Trading of coal

13 BALANCES WITH EVER POWER GROUP LIMITED, FELLOW SUBSIDIARIES AND SUBSIDIARIES

The Target Group

Balances with Ever Power Group Limited and fellow subsidiaries are unsecured, interest-free and repayable on demand. The balances are denominated in the following currencies:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from fellow subsidiaries				
HK$	1,149,659	1,382,323	1,283,939	772,313
Amounts due to fellow subsidiaries				
HK$	(13,766)	(13,879)	(17,963)	(18,917)
RMB	(471)	(504)	(488)	(458)
Amount due to Ever Power Group Limited				
HK$	(1,348,172)	(1,348,172)	(1,348,172)	(724,672)

The Target Company

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from fellow subsidiaries HK$	623,522	623,522	623,522	–
Amount due to Ever Power Group Limited HK$	(1,345,488)	(1,345,488)	(1,345,488)	(721,989)
Amounts due to fellow subsidiaries HK$	(23)	(23)	(23)	–
Amounts due to subsidiaries HK$	(2,684)	(2,684)	(2,684)	(2,684)

14 LOAN FROM A FELLOW SUBSIDIARY

The loan from a fellow subsidiary was unsecured, interest-bearing at 7.68%, 7.68%, 5.46% and 5.46% per annum at 31 December 2016, 2017 and 2018 and 30 June 2019 respectively, and denominated in Renminbi. The loan is repayable in 2023.

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and equipment	Heat and electricity supply facilities	Motor Vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At 1 January 2016	469,400	16,556	1,761,948	6,444	189,157	2,443,505
Additions	889	74	22,030	177	31,378	54,548
Reclassification upon the completion of construction	16,163	–	197,224	–	(213,387)	–
Disposals	(2,176)	(3)	(6,999)	(314)	–	(9,492)
Exchange difference	(31,812)	(1,097)	(102,741)	(421)	(2,715)	(138,786)
At 31 December 2016	452,464	15,530	1,871,462	5,886	4,433	2,349,775
At 1 January 2017	452,464	15,530	1,871,462	5,886	4,433	2,349,775
Additions	601	63	77,217	374	23,310	101,565
Reclassification upon the completion of construction	772	–	12,736	–	(13,508)	–
Disposals	(158)	(3,341)	(5,960)	(845)	–	(10,304)
Exchange difference	34,388	1,060	114,201	432	691	150,772
At 31 December 2017	488,067	13,312	2,069,656	5,847	14,926	2,591,808
At 1 January 2018	488,067	13,312	2,069,656	5,847	14,926	2,591,808
Additions	825	35	13,267	–	22,979	37,106
Reclassification upon the completion of construction	–	–	18,472	–	(18,472)	–
Disposals	–	(541)	(21,591)	–	–	(22,132)
Exchange difference	(24,603)	(651)	(72,064)	(294)	(927)	(98,539)
At 31 December 2018	464,289	12,155	2,007,740	5,553	18,506	2,508,243
At 1 January 2019	464,289	12,155	2,007,740	5,553	18,506	2,508,243
Additions	–	–	34,010	–	7,189	41,199
Reclassification upon the completion of construction	1,054	–	1,789	–	(2,843)	–
Disposals	–	–	(1,226)	–	–	(1,226)
Exchange difference	(23)	–	(11,900)	–	(94)	(12,017)
At 30 June 2019	465,320	12,155	2,030,413	5,553	22,758	2,536,199

	Buildings	Furniture, fixtures and equipment	Heat and electricity supply facilities	Motor Vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated depreciation						
At 1 January 2016	140,157	13,359	661,961	3,818	–	819,295
Charge for the year	21,878	762	117,499	539	–	140,678
Disposals	(130)	(2)	(4)	(299)	–	(435)
Exchange difference	(10,428)	(924)	(49,186)	(265)	–	(60,803)
At 31 December 2016	151,477	13,195	730,270	3,793	–	898,735
At 1 January 2017	151,477	13,195	730,270	3,793	–	898,735
Charge for the year	19,478	823	104,670	553	–	125,524
Disposals	(82)	(3,174)	(678)	(689)	–	(4,623)
Exchange difference	12,198	518	58,779	282	–	71,777
At 31 December 2017	183,071	11,362	893,041	3,939	–	1,091,413
At 1 January 2018	183,071	11,362	893,041	3,939	–	1,091,413
Charge for the year	17,949	436	99,943	527	–	118,855
Disposals	–	(514)	(2,872)	–	–	(3,386)
Exchange difference	(9,914)	(569)	(49,270)	(217)	–	(59,970)
At 31 December 2018	191,106	10,715	940,842	4,249	–	1,146,912
At 1 January 2019	191,106	10,715	940,842	4,249	–	1,146,912
Charge for the year	8,824	204	61,820	245	–	71,093
Disposals	–	–	(1,154)	–	–	(1,154)
Exchange difference	(191)	(4)	(1,527)	(5)	–	(1,727)
At 30 June 2019	199,739	10,915	999,981	4,489	–	1,215,124
Net book value						
At 30 June 2019	265,581	1,240	1,030,432	1,064	22,758	1,321,075
At 31 December 2018	273,183	1,440	1,066,898	1,304	18,506	1,361,331
At 31 December 2017	304,996	1,950	1,176,615	1,908	14,926	1,500,395
At 31 December 2016	300,987	2,335	1,141,192	2,093	4,433	1,451,040

(a) Lease

This note provides information for leases where the group is a lessee.

(i) Amounts recognised in the balance statement of financial position

The balance sheet shows the following amounts relating to leases:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Right-of-use assets				
Land-use rights	132,775	141,080	134,004	133,161
Buildings	1,143	951	639	507
	133,918	142,031	134,643	133,668

Additions to the right-of-use assets during the years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2018 and 2019 were HK$1,502,000, nil, nil, nil and nil respectively.

Lease liabilities				
Current	207	239	246	255
Non-current	1,004	841	552	277
	1,211	1,080	798	532

A maturity analysis of lease liability is shown in the table below:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Leases are payable:				
Within one year	288	309	294	294
Later than one year but not later than two years	288	309	294	294
Later than two years but not later than five years	864	620	294	–
	1,440	1,238	882	588
Future finance charge	(229)	(158)	(84)	(56)
Total lease liabilities	1,211	1,080	798	532
Present value of lease liabilities:				
Within one year	207	239	246	255
Later than one year but not later than two years	223	258	265	277
Later than two years but not later than five years	781	583	287	–
	1,211	1,080	798	532

(ii) Amounts recognised in the consolidated statement of comprehensive income

The consolidated statement of comprehensive income shows the following amounts relating to leases:

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Depreciation charge of right-of-use assets					
Land-use rights	1,742	1,712	1,752	908	861
Buildings	273	268	275	143	135
	2,015	1,980	2,027	1,051	996
Interest expense	102	84	68	39	27

The total cash outflow for leases for the years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2018 and 2019 were HK$304,000, HK$299,000, HK$306,000, HK$306,000 and HK$294,000.

(iii) Net book value of property, plant and equipment including right-of-use assets

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	1,451,040	1,500,395	1,361,331	1,321,075
Right-of-use assets	133,918	142,031	134,643	133,668
	1,584,958	1,642,426	1,495,974	1,454,743

16 DEFERRED TAX ASSETS

Details of the deferred tax assets recognised and movements during the the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019:

	Contract liabilities	**Provision**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2016	41,693	9,977	51,670
Credited to profit or loss for the year *(Note 9)*	8,532	251	8,783
Exchange difference	(2,109)	(430)	(2,539)
At 31 December 2016	48,116	9,798	57,914
At 1 January 2017	48,116	9,798	57,914
Credited to profit or loss for the year *(Note 9)*	16,308	39	16,347
Exchange difference	4,326	661	4,987
At 31 December 2017	68,750	10,498	79,248
At 1 January 2018	68,750	10,498	79,248
Credited to profit or loss for the year *(Note 9)*	4,746	97	4,843
Exchange difference	(3,652)	(526)	(4,178)
At 31 December 2018	69,844	10,069	79,913

	Contract liabilities	Provision	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2019	69,844	10,069	79,913
Charged to profit or loss for the period *(Note 9)*	(18,755)	–	(18,755)
Exchange difference	341	67	408
At 30 June 2019	51,430	10,136	61,566
(Unaudited)			
At 1 January 2018	68,750	10,498	79,248
Charged to profit or loss for the period *(Note 9)*	(11,575)	–	(11,575)
Exchange difference	(1,842)	(338)	(2,180)
At 30 June 2018	55,333	10,160	65,493

17 INVENTORIES

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials, at cost	47,820	106,960	120,364	139,626

18 TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	90,760	74,511	104,560	102,845
Less: provision for impairment of receivables	(39,470)	(42,017)	(40,273)	(40,274)
Trade receivables – net	51,290	32,494	64,287	62,571
Other receivables	2,489	3,567	1,801	3,829
	53,779	36,061	66,088	66,400

The receivables arising from construction contracts which are billed and immediately payable in accordance with the terms of the relevant agreement.

The Target Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group determines the provision for expected credit losses by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. For trade receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance. As at 31 December 2016, 2017 and 2018, and 30 June 2019, the expected credit loss rates are ranging from 30% to 60%.

The balances are mainly denominated in Renminbi.

The analysis of trade receivables, including the aging analysis of trade receivables net allowance for doubtful debts, presented based on the invoice date or the term of the related contract, is as follows:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 – 30 days	24,277	26,938	33,583	–
31 – 90 days	276	–	644	–
Over 90 days	26,736	5,556	30,060	62,571
	51,289	32,494	64,287	62,571

Movement in the provision for impairment of trade receivables

	HK$'000
1 January 2016	39,908
Provision charged	1,002
Exchange difference	(1,440)
31 December 2016	39,470
1 January 2017	39,470
Provision charged	157
Exchange difference	2,390
31 December 2017	42,017
1 January 2018	42,017
Provision charged	387
Exchange difference	(2,131)
31 December 2018	40,273
1 January 2019	40,273
Exchange difference	1
30 June 2019	40,274
(Unaudited)	
1 January 2018	42,017
Exchange difference	(500)
30 June 2018	41,517

19 CONTRACT LIABILITIES

Contract liabilities related to payments received in advance of the performance under supply of heat, steam and electricity and pipeline construction contracts.

The following table shows the amount of the revenue recognised in the current reporting period relating to contract liability balance at the beginning of the year/period:

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Revenue recognised that was included in the contract liability balance at the beginning of the year/period	299,308	370,190	347,052	341,817	335,584

The following shows the amount of unfulfilled performance obligations resulting from supply of heat, steam and electricity and pipeline construction services with an original expected duration of one year or more:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Expected to be recognised within one year	379,286	347,804	364,471	124,340
Expected to be recognised after one year	732,516	822,222	780,629	772,570
	1,111,802	1,170,026	1,145,100	896,910

20 BANK AND CASH BALANCES

The Target Group

Bank balances, excluding bank current accounts, carry interest at market rates. Bank balances comprise fixed deposits held by the Target Group with an original maturity of three months or less.

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash on hand	253	320	14	83
Cash at bank	311,482	206,223	310,092	87,885
	311,735	206,543	310,106	87,968

Bank and cash balances are denominated in the following currencies:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	71	70	80	79
RMB	311,597	206,406	309,969	87,832
United States Dollars ("USD")	67	67	57	57
	311,735	206,543	310,106	87,968

The Target Company

Bank balances, excluding bank current accounts, carry interest at market rates. Bank balances comprise fixed deposits held by the Target Company with an original maturity of three months or less.

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank	138	137	137	136
	138	137	137	136

Bank and cash balances are denominated in the following currencies:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	71	70	80	79
United States Dollars ("USD")	67	67	57	57
	138	137	137	136

The range of interest rates of bank deposits of the Target Group and the Target Company are as follows:

Year/period ended	**Range of market rates (per annum)**
31 December 2016	0.001%
31 December 2017	0.001% to 0.25%
31 December 2018	0.125% to 0.35%
30 June 2018	0.001% to 0.25%
30 June 2019	0.25% to 0.3%

21 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

An analysis of trade payables, other payables and accruals, including the aging analysis of trade payables, presented based on the invoice date, is as follows:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables				
0 – 30 days	39,454	89,659	64,571	144,501
31 – 90 days	6,803	11,434	9,044	18,441
Over 90 days	69,543	69,970	76,211	65,129
	115,800	171,063	149,826	228,071
Other payables and accruals	38,756	42,073	20,524	19,756
Lease liabilities - current portion	207	239	246	255
	154,763	213,375	170,596	248,082

The balances are mainly denominated in Renminbi.

22 SHARE CAPITAL

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Issued and fully paid:				
1 ordinary share of 1 USD each at 1 January 2016, 31 December 2016, 2017, 2018 and 30 June 2019	8	8	8	8

23 DIVIDEND

	As at 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Interim dividend paid	625,000	–	–	–	–

During the year ended 31 December 2016, the Target Company's board of directors declared an interim dividend of HK$625,000,000 per ordinary share, totaling HK$625,000,000.

24 MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2016, the Target Company paid dividend of HK$625,000,000 by way of crediting "Amount due to Ever Power Group Limited". During the period ended 30 June 2019, the Target Group has agreed to net off certain intercompany balances by crediting "Amounts due from fellow subsidiaries" of HK$623,533,000 and debiting "Amount due to Ever Power Group Limited" of HK$623,500,000 and "Amounts due to fellow subsidiaries" of HK$33,000.

25 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Lease liabilities	Amounts due to fellow subsidiary	Amount due to Ever Power Group Limited	Loan from a fellow subsidiary	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January	–	1,330	723,172	34,772	759,274
Cash flows	(304)	13,036	–	(2,679)	10,053
Exchange difference	(89)	(129)	–	(2,297)	(2,515)
Other non-cash movements	1,604	–	625,000	2,679	629,283
As at 31 December 2016	1,211	14,237	1,348,172	32,475	1,396,095
Cash flows	(299)	131	–	(2,626)	(2,794)
Exchange difference	84	15	–	2,465	2,564
Other non-cash movements	84	–	–	2,626	2,710
As at 31 December 2017	1,080	14,383	1,348,172	34,940	1,398,575
Cash flows	(306)	4,118	–	(2,326)	1,486
Exchange difference	(45)	(50)	–	(1,759)	(1,854)
Other non-cash movements	69	–	–	2,326	2,395
As at 31 December 2018	798	18,451	1,348,172	33,181	1,400,602
As at 1 January 2019	798	18,451	1,348,172	33,181	1,400,602
Cash flows	(294)	939	–	(932)	(287)
Exchange difference	1	(15)	–	–	(14)
Other non-cash movements	27	–	(623,500)	932	(622,541)
As at 30 Jun 2019	532	19,375	724,672	33,181	777,760
(Unaudited)					
As at 1 January 2018	1,080	14,383	1,348,172	34,940	1,398,575
Cash flows	(306)	3,582	–	(1,382)	1,894
Exchange difference	(14)	(140)	–	(416)	(570)
Other non-cash movements	39	–	–	1,382	1,421
As at 30 Jun 2018	799	17,825	1,348,172	34,524	1,401,320

26 RELATED PARTY TRANSACTIONS

Apart from the balances due from or to related parties as set out in notes 13 and 14, the Target Group had the following transactions with its related parties during the year/period.

(a) The Target Group had the following transactions with its fellow subsidiaries during the year/period:

				Six months ended 30 June	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Fellow subsidiaries					
Interest expense	2,679	2,625	2,326	1,382	932
Pipeline construction fee	14,948	11,837	12,422	6,441	–

(b) Transactions with other state-controlled entities in the PRC

The Target Group's business is operated in an economic environment currently predominated by entities directly or indirectly owned, controlled or significantly influenced by the PRC government. In addition, the Target Company is itself part of a larger group of companies under CSCEC which is controlled by the PRC government.

The Target Company's subsidiaries have entered into various transactions with state-controlled entities, including general banking facilities transactions with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

(c) Compensation of key management personnel

Directors are key management personnel of the Target Group.

27 CAPITAL COMMITMENT

At 31 December 2016, 2017 and 2018 and 30 June 2019, the Target Group had the following commitments contracted but not provided for in the consolidated financial statements.

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted but not provided for – construction in progress for property, plant and equipment	35,426	18,096	37,965	19,530

28 SUBSEQUENT FINANCIAL INFORMATION

No audited financial statements of the Target Group, the Target Company or any of its subsidiaries have been prepared in respect of any period subsequent to 30 June 2019 and up to the date of this report. No dividend or distinction has been declared or made by the Target Company or any of its subsidiaries in respect of any period subsequent to 30 June 2019.

29 RESERVES – THE TARGET COMPANY

	Translation reserve	**Retained earnings**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2016	7,888	5,870	13,758
Profit and total comprehensive income for the year	–	632,143	632,143
Dividend paid	–	(625,000)	(625,000)
At 31 December 2016	7,888	13,013	20,901
At 1 January 2017	7,888	13,013	20,901
Loss and total comprehensive loss for the year	–	(1)	(1)
At 31 December 2017	7,888	13,012	20,900
At 1 January 2018	7,888	13,012	20,900
Loss and total comprehensive loss for the year	–	–	–
At 31 December 2018	7,888	13,012	20,900

	Translation reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
At 1 January 2019	7,888	13,012	20,900
Loss and total comprehensive loss for the period	–	(1)	(1)
At 30 June 2019	7,888	13,011	20,899
(Unaudited)			
At 1 January 2018	7,888	13,012	20,900
Loss and total comprehensive loss for the period	–	–	–
At 30 June 2018	7,888	13,012	20,900

BASIS OF OPERATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**"), which has been prepared on the basis of the notes set out below and in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effects of the Proposed Acquisition on the Group, as if it has taken place on 30 June 2019 for the pro forma consolidated statement of assets and liabilities.

The Unaudited Pro Forma Financial Information has been prepared using accounting policies consistent with that of the Group, as set out in the published interim report of the Group for the six months ended 30 June 2019.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group contained in the interim report of the Group for the six months ended 30 June 2019 and the accountant's report of the Target Group as set out in Appendix II to this Circular.

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purposes only and is based on a number of assumptions, estimates and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not reflect the true picture of the financial position of the Enlarged Group had the Proposed Acquisition been completed as at 30 June 2019, where applicable, or at any future date.

A. Unaudited pro forma consolidated statement of assets and liabilities of the Target Group

	The Group as at 30 June 2019	The Target Group as at 30 June 2019	Pro forma adjustments		Unaudited pro forma statement of assets and liabilities of the Target Group as at 30 June 2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	
Non-current Assets					
Property, plant and equipment	530,796	1,454,743			1,985,539
Interests in infrastructure project investments	220,839	–			220,839
Goodwill	138,149	–			138,149
Deferred tax assets	93,068	61,566			154,634
	982,852	1,516,309			2,499,161
Current Assets					
Contract assets	1,182,883	–			1,182,883
Trade and other receivables	1,341,460	66,400			1,407,860
Deposits and prepayments	61,480	16,935			78,415
Interests in infrastructure project investments	60,235	–			60,235
Inventories	9,468	139,626			149,094
Tax recoverable	1,783	3,349			5,132
Amounts due from fellow subsidiaries	41,574	772,313			813,887
Amounts due from related companies	3,951	–			3,951
Bank and cash balances	443,024	87,968			530,992
	3,145,858	1,086,591			4,232,449
	4,128,710	2,602,900			6,731,610

	The Group as at 30 June 2019	The Target Group as at 30 June 2019	Pro forma adjustments		Unaudited pro forma statement of assets and liabilities of the Target Group as at 30 June 2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	
Current Liabilities					
Bank borrowings	511,771	–			511,771
Trade payables, other payables and accruals	1,210,354	248,082		1,630	1,460,066
Contract liabilities	245,131	124,340			369,471
Lease liabilities	7,360	–			7,360
Deposits received	–	36,171			36,171
Current tax payables	102,395	–			102,395
Dividend payables	25,867	–			25,867
Amounts due to fellow subsidiaries	644,188	19,375	673,580		1,337,143
Amount due to Ever Power Group Limited	–	724,672			724,672
Amounts due to related companies	1,494	–			1,494
	2,748,560	1,152,640			4,576,410
Total Assets less Current Liabilities	1,380,150	1,450,260			2,155,200
Non-current Liabilities					
Bank borrowings	211,964	–			211,964
Contract liabilities	–	772,570			772,570
Loan from a fellow subsidiary	–	33,180			33,180
Lease liabilities	18,906	277			19,183
Deferred tax liabilities	24,500	–			24,500
	255,370	806,027			1,061,397
Net Assets	1,124,780	644,233			1,093,803

B. Notes to the unaudited pro forma statement of assets and liabilities of the Enlarged Group

1. The balances were extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2019 as set out in the published interim report of the Group for the six months ended 30 June 2019.

2. The balances were extracted from the audited consolidated statement of financial position of the Target Group as at 30 June 2019 included in the accountant's report of the Target Group as set out in Appendix II to this circular.

3. Pursuant to the terms and conditions of the Sale and Purchase Agreement dated 14 October 2019, the Group will acquire the entire registered capital of Shenyang Huanggu Company by way of sale and purchase of (i) the Sale Share, representing the entire issued share capital of the Target Company which owns 99.69% of the registered capital of Shenyang Huanggu Company; and (ii) the Remaining Onshore Interest, representing the 0.31% of the registered capital of Shenyang Huanggu Company held by Shenzhen Haifengde, for an aggregate consideration of approximately HK$674 million.

   The Consideration will be settled by the internal resources and bank borrowings and according to the payment schedule as set out in "LETTER FROM THE BOARD – THE SALE AND PURCHASE AGREEMENT – Consideration" in this circular.

   The Proposed Acquisition will be accounted as a business combination as the Group and the Target Group are under the common control of China State Construction International Holdings Limited before and after the Proposed Acquisition. Accordingly, the Proposed Acquisition is accounted for using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by HKICPA.

4. The adjustment represents the estimated amount for legal and professional fees and other transaction costs payable by the Company which is directly attributable to the Proposed Acquisition.

5. For the purpose of the Unaudited Pro Forma Financial Information, the balances arising from the Transaction stated in Renminbi have been converted to Hong Kong dollars at the exchange rate of RMB0.8740:HK$1.00.

6. No other adjustments have been made to reflect any trading results or other transactions of the Group and of the Target Group entered into subsequent to 30 June 2019.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of China State Construction Development Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China State Construction Development Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") and China Overseas Public Utility Investment Limited and its subsidiaries (the "**Target Group**") (collectively the "**Enlarged Group**") by the Directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2019 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages III-1 to III-4 of the Company's circular dated 22 November 2019, in connection with the proposed acquisition of the Target Group (the "**Transaction**") by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages III-1 to III-4.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Transaction on the Group's financial position as at 30 June 2019 as if the Transaction had taken place at 30 June 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the six months period ended 30 June 2019, on which no audit or review report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("**AG 7**") issued by HKICPA.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 30 June 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 22 November 2019

MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

Set out below is the management discussion and analysis of the Target Group's operations for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 (i.e. the Track Record Period). The following financial information is based on the accountants' report of the Target Group as set out in Appendix II to this circular.

A. Business review

The Target Group is principally engaged in the provision of connection services for heating pipes, and the supply of heat, electricity and steam in Shenyang, PRC. As at 31 December 2016, 2017, 2018 and 30 June 2019, the heat service area was approximately 16.5 million sq.m, 16.5 million sq.m, 17 million sq.m, and 17 million sq.m, respectively. During the Track Record Period, our heat was sourced from heat produced by its cogeneration plant and provided to its residential customers located within its heat service area. As at 31 December 2016, 2017, 2018 and 30 June 2019, the Target Group had approximately 170,000, 180,000, 190,000 and 190,000 customers, respectively.

B. Financial review

Financial performance

The Target Group is principally engaged in the provision of connection services for heating pipes, and the supply of heat, electricity and steam in Shenyang, PRC.

Revenue

The revenue of the Target Group represents revenue from supply of heat, electricity and stream and the provision of connection services. The breakdown of revenue by business segment for the Target Group for and the years ended 31 December 2016, 2017, 2018 and for the six month periods ended 30 June 2018 and 30 June 2019, is set out below:

	Year ended 31 December			Six months ended 30 June	Six months ended 30 June
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from supply of heat, steam and electricity	584,585	571,136	607,634	344,762	324,079
Revenue from connection service income	24,602	51,780	23,763	12,322	–
	609,186	622,916	631,397	357,084	324,079

Revenue increased by approximately 2.3% from approximately HK$609 million in 2016 to approximately HK$623 million in 2017 as a result of an increase in revenue from connection service income which was partially offset by a slightly decrease in revenue from supply of heat, steam and electricity. Revenue further increased by approximately 1.3% to approximately HK$631 million in 2018 as a result of an increase in revenue from supply of heat, steam and electricity which was partially offset by a decrease in revenue from connection service income. Revenue decreased by approximately 9.2% from approximately HK$357 million for the six months ended 30 June 2018 to approximately HK$324 million for the six months ended 30 June 2019 as a result of an decrease in revenue from supply of heat, steam and electricity and the absence of contribution of the connection service income from newly awarded projects.

Gross profit

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the gross profit for the Target Group was approximately HK$115 million, HK$71 million, HK$64 million and HK$67 million. The gross profit margin for the Target Group decreased from approximately 18.9% in 2016 to approximately 11.4% in 2017 and further decreased to approximately 10.1% in 2018 and increased to approximately 20.8% for the six months ended 30 June 2019. The decrease in gross profit margin in 2017 and 2018 were primarily due to the increase in the cost of coal and the increase in gross profit margin for the six months ended 30 June 2019 was primarily due to the decrease in cost of coal.

Other net income

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the other net income for the Target Group was approximately HK$14 million, HK$5 million, HK$6 million and HK$2 million respectively. The other net income primarily consisted of interest income on bank deposits, gain on disposal of property, plant and equipment, relocation compensation and maintenance service income from replacement of used pipeline for customers.

Finance costs

The finance costs for the Target Group mainly represented the interest expenses in relation to the borrowings from a subsidiary of the CSC group and lease liabilities from a rental agreement. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the finance costs for the Target Group was approximately HK$3 million, HK$3 million, HK$2 million and HK$1 million respectively. The decrease in finance costs in 2018 was primarily due to the decrease in the interest rate.

Income tax

The income tax expense mainly represents the PRC corporate income tax based on the assessable profits generated by the PRC subsidiaries of the Target Group and withholding tax on dividend distribution. The income tax expense for the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019 was approximately HK$24 million, HK$13 million, HK$11 million and HK$16 million, respectively. In 2016, the Target Company paid the withholding tax on dividend distribution of approximately HK$70 million.

Profit for the year

As a result of the discussions above, the Target Group recorded the loss of approximately HK$48,000 for the year ended 31 December 2016 and profits for the years ended 31 December 2017, 2018 and the six months ended 30 June 2019 of approximately HK$38 million, HK$34 million and HK$44 million, respectively.

Liquidity and financial resources

As at 31 December 2016, 2017, 2018 and 30 June 2019, the Target Group had net current liabilities of approximately HK$374 million, HK$259 million, HK$158 million, and HK$66 million, respectively. The decrease in net current liabilities primarily reflected the increase in inventories and trade and other receivables, and the decrease in contract liabilities, which together outweighed the increases in trade payables, other payables and accruals.

The bank balances and cash as at 31 December 2016, 2017, 2018 and 30 June 2019 was approximately HK$312 million, HK$207 million, HK$310 million and HK$88 million, respectively.

The total borrowings of the Target Group in as at 31 December 2016, 2017, 2018 and 30 June 2019 were approximately HK$32 million, HK$35 million, HK$33 million and HK$33 million, respectively, which were borrowed from a subsidiary of the CSC Group and denominated in Renminbi. The Target Group's effective interest rates per annum on the borrowings were in the range of 5.46% to 7.68% in the track record period. The borrowings are unsecured and do not carry any restrictive covenants.

The total equity of the Target Group as at 31 December 2016, 2017, 2018 and 30 June 2019 was approximately HK$503 million, HK$639 million, HK$604 million and HK$644 million, respectively.

Capital commitments

The Target Group's commitments, as contracted but not provided for, in respect of construction in progress for property, plant and equipment as at 31 December 2016, 2017, 2018 and 30 June 2019 was approximately HK$35 million, HK$18 million, HK$38 million and HK$20 million, respectively. For details of the capital commitments of the Target Group as at 31 December 2016, 2017, 2018 and 30 June 2019, please refer to note 27 of the accountants' report of the Target Group as set out in Appendix II to this circular.

Treasury Policy

The Target Group adopts a conservative treasury policy in cash and financial management. The Target Group's treasury activities are centralised in order to achieve better risk control and minimise cost of funds. Cash is generally placed in short-term deposits mostly denominated in Renminbi. The Target Group's liquidity and financing requirements are frequently reviewed. In anticipating new investments or maturity of the borrowings, the Target Group will consider new financing while maintaining an appropriate level of gearing.

Gearing ratio

The net gearing ratio of the Target Group, which is equal to the sum of total loans and borrowings less cash and cash equivalents and bank deposits over equity attributable to the equity holders of the Target Group. The Target Group is in net cash position as at 31 December 2016, 2017 and 2018 and 30 June 2019.

Lease liabilities

As at 31 December 2016, 2017, 2018 and 30 June 2019, the lease liabilities in respect of a rental agreement was approximately HK$1.2 million, HK$1 million, HK$0.8 million and HK$0.5 million respectively, for details on lease liabilities, please refer to note 15a of the accountants' report of the Target Group as set out in Appendix II to this circular.

Contingent liabilities

As at 31 December 2016, 2017, 2018 and 30 June 2019, the Target Group had no material contingent liabilities.

Financial risk management

For the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, the Target Group was mainly exposed to credit, liquidity, interest rate and currency risks arising in the normal course of business. For details of the exposure to such risks and the relevant risk management policies and practices adopted by the Target Group, please refer to note 4 of the accountants' report of the Target Group as set out in Appendix II to this circular.

Employee and remuneration policies

As at 31 December 2016, 2017, 2018 and 30 June 2019, the Target Group had an average of 613, 597, 581, and 578 employees, respectively. The staff costs of the Target Group for the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019 were approximately HK$42 million, HK$61 million, HK$62 million and HK$26 million, respectively, details of which are set out in note 11 of the accountants' report of the Target Group as set out in Appendix II to this circular.

The Target Group adopts a remuneration policy with equal emphasis on the market-competitiveness of the remuneration and fairness among the employees. For the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, the employees of the Target Group were mainly members of a state-managed retirement scheme operated by the PRC government. In addition, with the implementation of the rewards systems, all the departments of the Target Group have to determine their business indicators and plans according to the annual financial indicator and assessment target presented by the Target Group as the key basis for their respective performance assessment. To maintain a competitive remuneration position within the marketplace and set reasonable pay level to its staff, the Target Group carries out salary survey and benefit policy review from time to time so as to strike a balance between corporate development and staff satisfaction.

Prospects for new business

The Target Company had not introduced or announced any new product or service during the Track Record Period.

Significant investments held and their performance

As at 31 December 2016, 2017, 2018 and 30 June 2019, the Target Group had no significant investments held.

Material acquisitions and disposal of subsidiaries and associated companies

As at 31 December 2016, 2017, 2018 and 30 June 2019, the Target Group had no material acquisitions and disposal of subsidiaries and associated companies.

Charges on group assets

As at 31 December 2016, 2017, 2018 and 30 June 2019, the Target Group had no charges on group assets

Future plans for material investment and acquisition of capital assets

The Target Group had no specific plan for material investments and acquisition of capital assets during the Track Record Period.

The following is the text of a letter and a summary of valuations received from Greater China Appraisal Limited, prepared for the purpose of incorporation in the circular, in connection with its opinion of the value of the Target Company as at 30 September 2019.

GREATER CHINA APPRAISAL LIMITED
漢 華 評 值 有 限 公 司

Room 2703, 27th Floor,
Shui On Centre,
6-8 Harbour Road,
Wanchai, Hong Kong

Valuation of 100% Equity Interest in China Overseas Public Utility Investment Limited

TO THE BOARD OF DIRECTORS OF CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED

In accordance with the instructions from China State Construction Development Holdings Limited (the "**Company**"), we were engaged to perform a valuation analysis in relation to the market value of 100% equity interest (the "**Equity Interest**") in China Overseas Public Utility Investment Limited (the "**Target Company**") and its subsidiaries (collectively referred to as the "**Target Group**") as at 30 September 2019 (the "**Valuation Date**").

It is our understanding that our analysis will be used by the management of the Company for the transaction relating to the Company's potential acquisition in the Target Group. Our analysis was conducted for the above-mentioned purpose only and this report should be used for no other purpose without our express written consent. The standard of value is market value; whilst the premise of value is going concern.

The approaches and methodologies used in our work did not comprise an examination in accordance with generally accepted accounting principles, the objective of which is an expression of an opinion regarding the fair presentation of financial statements or other financial information, whether historical or prospective, presented in accordance with generally accepted accounting principles.

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 is accurate and complete, and we have relied upon this information in performing our valuation.

I. PURPOSE OF ENGAGEMENT

It is our understanding that our analysis will be used by the management of the Company solely for transaction reference purpose.

II. SCOPE OF SERVICES

We were engaged by the management of the Company in evaluating the market value of the Equity Interest as at the Valuation Date.

III. BASIS OF VALUATION

We have performed valuation of the Equity Interest on the basis of market value. The opinion of value in the valuation will be on the basis of market value which we would define as intended to mean *"the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties"*.

Our valuation has been prepared in accordance with the International Valuation Standards (2017 Edition) on business valuation published by International Valuation Standards Council. This standard contains guideline on the basis and valuation approaches used in business valuation.

IV. LEVEL OF VALUE

Valuation is a range concept and current valuation theories suggest that there are three basic "levels" of value applicable to a business or business interest. The levels of value are respectively:

- **Controlling interest**: the value of the controlling interest, always evaluate an enterprise as a whole;

- **As if freely tradable minority interest**: the value of a minority interest, lacking control, but enjoying the benefit of market liquidity; and

- **Non-marketable minority interest**: the value of a minority interest, lacking both control and market liquidity.

This valuation is primarily prepared on controlling interest basis.

V. PREMISE OF VALUE

Premise of value relates to the concept of valuing a subject in the manner that would generate the greatest return to the owner of the property. It takes account of what is physically possible, financially feasible and legally permissible. Premise of value includes the following:

- **Going concern**: appropriate when a business is expected to continue operating without the intention or threat of liquidation in the foreseeable future;

- **Orderly liquidation**: appropriate for a business that is clearly going to cease operations in the near future and is allowed sufficient time to sell its assets in the open market;

- **Forced liquidation**: appropriate when time or other constraints do not allow an orderly liquidation; and

- **Assembled group of assets**: appropriate when all assets of a business are sold in the market piecemeal instead of selling the entire business.

This valuation is prepared on going concern basis.

VI. SOURCES OF INFORMATION

Our analysis and conclusion of opinion of value were based on our discussions with the management of the Company, as well as our review of relevant documents, including but not limited to:

- Audited financial statements of the Target Group for the years ended 31 December 2016, 2017 and 2018; and

- Audited financial statements of the Target Group for the six-months ended 30 June 2018 and 2019.

We also relied upon publicly available information from sources on capital markets, including industry reports, and various databases of publicly traded companies and the news.

VII. COMPANY OVERVIEW

1. China State Construction Development Holdings Limited

The Company was incorporated in the Cayman Islands with limited liability. The Company is a public company listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 830). In March of 2012, the Company was successfully acquired by China State Construction International Holdings Limited ("**CSC**") and became a subsidiary of China State Construction Engineering Corporation Limited which is the leading investment and construction group in China. The Company and its subsidiaries are principally engaged in the general contracting business and facade contracting business (including design, engineering, manufacture and installation of curtain wall system) and operating management business.

2. Ever Power Group Limited (the "Vendor")

The Vendor is a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of CSC. It acts as an investment holding company. As at the Valuation Date, the Vendor holds 100% equity interest in the Target Company.

3. China Overseas Public Utility Investment Limited

The Target Company was incorporated in British Virgin Islands with limited liability acting as investment holding company and is a wholly owned subsidiary of the Vendor. As at the Valuation Date, the Target Company holds 99.69% equity interest in Shenyang Huanggu Company and Shenyang Huanggu Fenmeihui.

4. 深圳海豐德投資有限公司 ("Shenzhen Haifengde")

Shenzhen Haifengde is a limited liability company established in the PRC and an indirect wholly-owned subsidiary of CSC, and its principal business is investment holding. As at the Valuation Date, Shenzhen Haifengde holds 0.31% equity interest in Shenyang Huanggu Company.

5. 瀋陽皇姑熱電有限公司 ("Shenyang Huanggu Company")

Shenyang Huanggu Company is a limited liability company established in the PRC and principally engaged in production and supply of heat, electricity and steam and the provision of installing service heat distribution network.

6. 瀋陽皇姑粉煤灰建材有限公司 ("Shenyang Huanggu Fenmeihui")

Shenyang Huanggu Fenmeihui is a limited liability company established in the PRC and principally engaged in manufacturing and sales of fly ash products and fly ash adhesive. As at the Valuation Date, Shenyang Huanggu Fenmeihui is a wholly owned by Shenyang Huanggu Company.

VIII. TRANSACTION OVERVIEW

On 14 October 2019, the Company and the Vendor entered into a sale and purchase agreement, pursuant to which the Company conditionally agreed to acquire and the Vendor conditionally agreed to sell or procure the sale of the entire registered capital of Shenyang Huanggu Company by way of sale and purchase of (i) the entire issued share capital of the Target Company which owns 99.69% of the registered capital of Shenyang Huanggu Company; and (ii) the 0.31% of the registered capital of Shenyang Huanggu Company held by Shenzhen Haifengde (the "**Proposed Transaction**") for an aggregate consideration of HK$673,580,000.

The Target Group is mainly engaged in production and supply of heat, electricity and steam and the provision of installing service heat distribution network in Shenyang, Liaoning Province, PRC. The intention of the acquisition is to expand the Company's operating asset portfolio while the Target Group provide a steady cash flow and income. The Proposed Transaction provides an opportunity for the Company to enhance the operating management business which is considered as one of its core segments.

IX. ECONOMIC OVERVIEW

In conjunction with the preparation of this valuation, we have reviewed and analysed the current economic conditions of China where the profit of the Target Group is derived, and how the valuation of the Equity Interest may be impacted.

1. Nominal GDP Growth in China

In the period of 12th Five-year Plan (2011-2015), the status of economic development has been altered from rapid growth to medium-high speed growth. Under the current 13th Five-Year Plan (2016-2020), economy growth is expected to shift into lower gear as the country pursues a more sustainable and balanced expansion based on consumption, while striving to achieve a moderately prosperous society. Although the authorities are unlikely to roll out large-scale measures to drive growth, supply side reforms should gradually free up market vitality. A number of initiatives, notably the Belt and Road Initiative, Internet Plus and Made in China 2025, should also facilitate economic upgrading and increased global integration. As such, efforts to boost consumption are likely to whet an appetite for consumer goods, whereas industry upgrading is expected to stimulate demand for capital goods.

Since the inauguration of Chinese President Mr. Xi Jinping and the new government officials in 2013, the core of economic policy has shifted from focusing on short-term stimulus to no stimulus, deleveraging and structural reform on the national economy. It can be observed that the real gross domestic products ("**GDP**") annual growth rate has been stabilised in the recently 5 years and remained at around 7%, whereas the inflation has remained moderate around 2% in 2018. The slowdown of the economic expansion was not a turning signal of economic downturn, but in fact it was matched with the expectation of Chinese government.

Table 9- 1 Real GDP Annual Growth Rate and Inflation of China

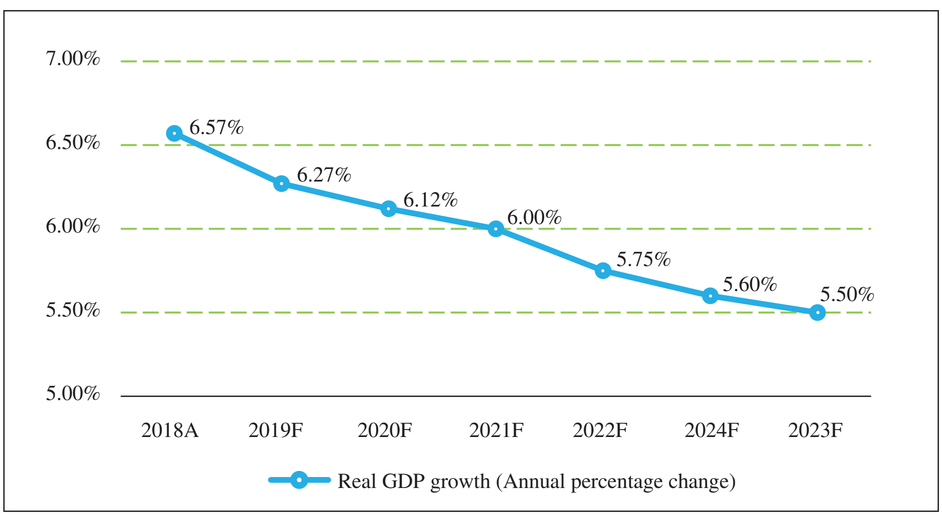
	2014	**2015**	**2016**	**2017**	**2018**
Real GDP Annual Growth Rate (%)	7.30	6.90	6.73	6.76	6.57
Inflation (%)	1.99	1.44	2.00	1.56	2.10

Source: World Economic Outlook Database (April 2019), International Monetary Fund

In accordance with the forecast published by International Monetary Fund ("**IMF**") in April 2019, the overall real GDP growth is at 6.57% in 2018, while the projection of the real GDP growth in the next five years would follow a steady decline from 6.27% in 2019 to 5.50% in 2024.

The following diagram shows the real GDP annual growth rate forecasts from 2018 to 2024.

Figure 9- 1 Forecasts of Real GDP Annual Growth Rate of China



Source: World Economic Outlook Database (April 2019), International Monetary Fund

According to "World Economic Outlook Database (April 2019)" by IMF, the Chinese economy was ranked 2nd in terms of size in 2018; it possesses the greatest growth prospect among the top six economies in the world. The Chinese economy is forecast to grow from USD13,407 billion in 2018 to USD21,310 billion in 2024 with a compound annual growth rate ("**CAGR**") of 8.03%. It is worth noting that the gap between the United States and China is projected to be narrowing over time.

Table 9- 2 Worldwide GDP

Country	**GDP – Billions of the United States Dollar ("USD")**						
	2018A	**2019F**	**2020F**	**2021F**	**2022F**	**2023F**	**2024F**
United States	20,494	21,345	22,198	23,060	23,923	24,813	25,729
China	13,407	14,217	15,468	16,807	18,207	19,714	21,310
Japan	4,972	5,176	5,495	5,808	6,134	6,476	6,849
Germany	4,000	3,964	4,157	4,335	4,527	4,714	4,912
United Kingdom	2,829	2,829	2,927	3,027	3,142	3,266	3,399
India	2,717	2,972	3,258	3,577	3,924	4,306	4,729

Source: World Economic Outlook Database (April 2019), International Monetary Fund

In the near-term outlook, there are several challenges affecting the China's economy. The trade dispute between China and the United States will have some negative impacts on China's economy and drag China's economy growth. For China, the newly proposed tariffs will have a greater economic impact than the earlier measures targeting steel and aluminium. Data from the National Bureau of Statistics shows that China exported nearly USD460 billion of products to the US in 2018, accounting for 19% of its total exports. A research report issued by PBOC shows that the USD50 billion trade war will slow China's GDP growth by 0.2% compared to the baseline scenario. Besides, the rapid growth in credit financing has derived a so-called 'shadow banking system', raising concerns about the quality of investment and the ability on repayment, especially when capital is flowing through less-well supervised parts of the financial system. Since China suffered from the first corporate bond default in March 2014, the bond investors in the current market became more cautious on reviewing the credibility of the borrowers and the stability of the market.

In addition, China's economic growth in the past was highly dependent on continuous investment in infrastructure projects. Redundant and duplicate developments resulted in a mismatch and wastage of resources. The recovery of these substantial investments, which was mainly financed by borrowing, is challenging. After the inauguration of Chinese President Xi, the China's government tried to tighten the funding channel, the capital market has immediately quaked. Not only the GDP growth rate but also the stability of the entire capital market system in China would potentially be impacted if the problem cannot be handled properly.

Furthermore, President Xi's campaign against corruption and extravagant spending will improve the image of the government and increase the operational efficiency. On the other hand, it will affect the customer spending sector, especially, the luxury goods, fine dining and business travelling which used to be the unofficial fringe benefits of the government officers.

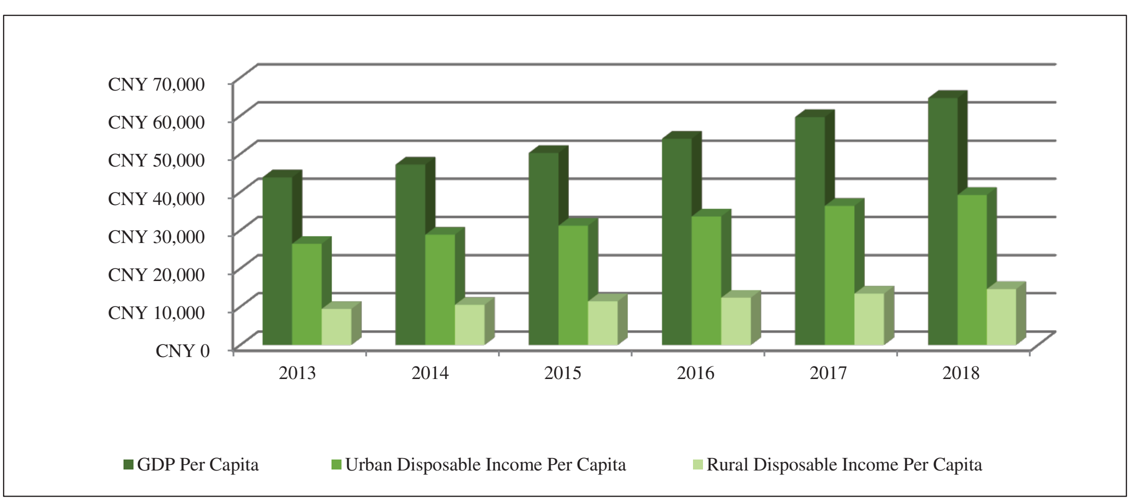
While the GDP growth of China's market stalls, the other markets start recovering. The World Bank commented that the major obstacles to the recovery, including a Eurozone meltdown have been overcome. The Chinese policymaker must clamp down on lending to prevent asset bubbles. Unless the Chinese economy faces imminent risk of collapse, the "temporary hard-landing" will not deter the long-term growth prospect of China.

2. GDP per Capita in China

Improving standard of living was one of the main issues in social aspects of the 12th Five-year plan. The disposable income level, being a good measure, has grown significantly over the past few years. According to the National Bureau of Statistics of China, annual disposable income per capita of urban households in China has increased from RMB24,565 in 2012 to RMB39,251 in 2018, representing a CAGR of approximately 9.8%; annual disposable income per capita of rural households has increased from RMB7,920 in 2012 to RMB14,617 in 2018, representing a CAGR approximate to 13.0%. In comparison to the inflationary figures, the annual inflation rate is between 1.44% and 2.65% during the period from 2012 to 2018. Hence, there were improvements in the standard of living of Chinese people overall in the period from 2012 to 2018.

The following diagram shows the GDP per capita, annual urban and rural disposal income per capita from 2013 to 2018.

Figure 9- 2 GDP per Capita of China



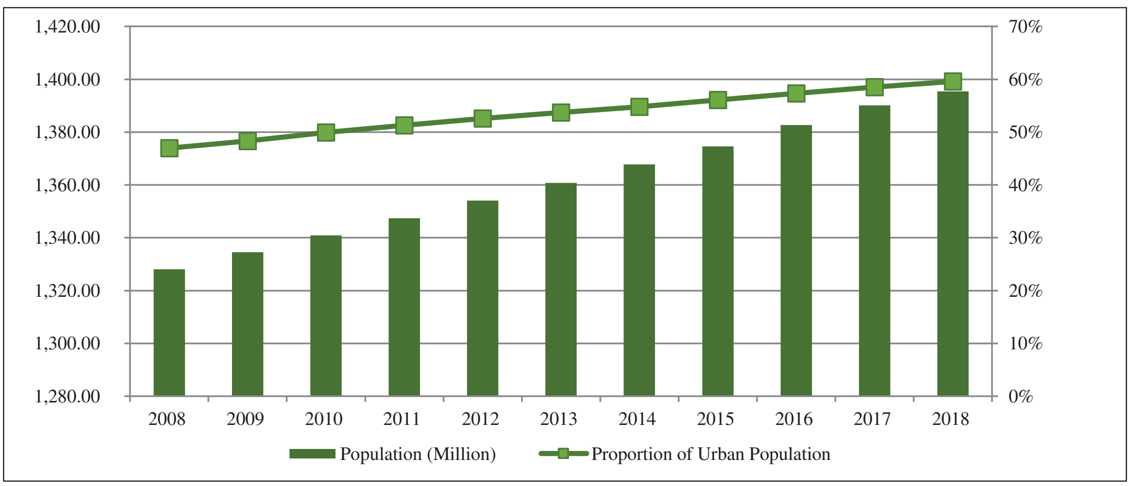
Source: National Bureau of Statistics of China

3. Population Growth

The population of China accounts for almost one fifth of the world's population. According to the World Bank, the population has grown from 1.32 billion in 2008 to 1.39 billion in 2018, representing a CAGR of approximately 0.49%.

According to the National Bureau of Statistics of China, the proportion of urban population in China increased from 46.99% in 2008 to 59.58% in 2018, representing a CAGR of approximately 2.40%. The following diagram shows the population growth and corresponding urban population growth in China from 2007 to 2018.

Figure 9- 3 Population and Portion of Urban Population in China



Source: National Bureau of Statistics of China

Population growth is expected to be steady over the balance of this decade. Population growth, along with increasing urbanization and expansion of the middle class, are particularly important to support the future growth of the domestic demand on affordable luxury goods, such as vehicles, luxury watches, etc. Steady growth in population together with improving living standard continuously supports a strong demand in housing and transportation. On the other hand, the unemployment rate was recorded at around 3.9% for the past few years, and it is estimated the rate will remain slightly lower at 3.8% from 2019 to 2024.

Table 9 – 3 Population Forecast of China

	2018A	2019F	2020F	2021F	2022F	2023F
Population (Million)	1,395.38	1,400.17	1,404.44	1,408.17	1,411.33	1,411.18
Unemployment rate (%)	3.8	3.8	3.8	3.8	3.8	3.8

Source: World Economic Outlook Database (April 2019), International Monetary Fund

Although the one-child policy has curbed the growth in birth rate in China, the rising trend of China's population has not been slowed down in recent decades. At the same time, a side effect of the policy has started to take effect in the current decade; the number of elderly people is rising and this age group is forecasted to grow over the next few decades. However, the Government recognised this trend and introduced the two-child policy, which came into effect throughout the country from October 2015. Hopefully this policy will offset the aging population structure over the next few decades.

Table 9 – 4 Age Distribution of China from 2008 to 2017 and CAGR

Age distribution	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	CAGR
0-14(Million)	247	223	222	223	223	226	227	230	233	235	-0.52%
15-64(Million)	975	999	1,003	1,004	1,006	1,005	1,004	1003	998	994	0.21%
>=65(Million)	113	119	123	127	132	138	144	150	158	167	4.40%

Source: National Bureau of Statistics of China

4. Inflation

Managing inflation risk has been one of the key missions for the China's government over this decade. The latest economic data released by National Bureau of Statistics of China indicated that the inflation rate was reported at 2.20% in November 2018 on year-over-year basis, with food prices increasing by 2.50% and non-food prices increasing by 2.10%. China is expected to continue a prudent monetary policy, reduce debt financing ratio in the state-led investment to a reasonable level and optimize financing and credit structures in the future.

In comparison to the inflation rate of the world's average and of emerging and developing economies, the outlook for China's inflation is left far behind. The continual appreciation of RMB and the dominating role of exports in the Chinese economy were the primary reasons. On one hand, with the Federal Reserve raising interest rates in 2018, a new round of currency depreciations is expected to occur in emerging countries; on the other hand, the total import trading volume of China keeps increasing. Due to these two factors, expectation for RMB depreciation becomes much stronger and this situation has been kept prevailing in 2018.

Table 9 – 5 Annual Inflation Forecasts of China

	Inflation, Average Consumer Prices Changes (%)						
	2018A	**2019F**	**2020F**	**2021F**	**2022F**	**2023F**	**2024F**
World	3.638	3.577	3.621	3.484	3.451	3.438	3.42
Emerging and developing economies	4.814	4.912	4.659	4.498	4.377	4.308	4.241
China	2.10	2.28	2.51	2.80	2.90	3.00	3.00

Source: World Economic Outlook Database (October 2018), International Monetary Fund

Since a currency war on top of a trade war with the US would further upset nervous markets and potentially spur capital flight, the PBOC is likely to limit moves by the currency before it weakens too much.

Figure 9 – 4 Exchange Rates of RMB to USD from 2014 to 2018

Source: Bloomberg

5. Government Policy

The Chinese government's 13th Five-Year Plan (2016-2020) has supply side reform as its main focus. The plan aims at 1) maintaining modest economy growth on a balanced, inclusive and sustainable basis, targeting to double GDP and per capita income of urban and rural residents comparing to 2010 by 2020; 2) upgrading the industry towards high-end level accompanied with contributions of consumption to economic growth accounting more, and improving the urbanization rate to a higher level; 3) enhancing agricultural modernization, improving people's living standards and quality, and helping the rural poor population out of poverty; 4) improving core socialist values, ecological environment quality and social civilization significantly; 5) implementing a more mature and stereotyped political system and achieving significant progress in national governance systems and governance capacity modernization.

The 19th National Congress of the Communist Party of China commenced on 8th October 2017 with a keynote report delivered by President Xi Jinping. The Congress is China's most important political event and reviews the progress of the past five years and shapes the social and economic development for the next five-year term. President Xi's report to the Congress included a pledge to deepen supply-side structural reform; encourage innovation; reduce financial risks; reform state-owned enterprises; and expand market access to foreign companies. In the Central Economic Work Conference held in Beijing at the end of 2018, the top leaders of the Communist Party of China emphasised that the main tasks in 2019 were as follows:

- High-quality manufacturing sector: Technological innovation will be strengthened, with the establishment of an open, coordinated and effective platform for the research and development of generic technology;

- Stronger domestic market: China will accelerate the development of the service industry, including education, childcare, elderly care, medical care, culture and tourism while improving consumption and boosting spending power;

- Rural vitalization strategy: To improve the living environment in rural areas, the country should promote garbage and sewage water treatment, and continue deepening rural land system reform.

- Capital market reform: China will speed up the launch of a science and technology innovation board on the Shanghai Stock Exchange and experiment with a registration system.

- Further opening-up: Market access should be loosened. Pre-establishment national treatment and the negative list management should be fully implemented to protect legitimate interests of foreign companies in China, especially intellectual property rights.

- More exports and imports: Greater efforts will be made to increase imports and exports, pushing for a more diversified export market, and cut institutional costs of importing procedures.; and

- Healthy property market: The meeting called for constructing a long-term mechanism to keep the sound development of the real estate market and adhering to the principle that "housing is for living in, not speculation."

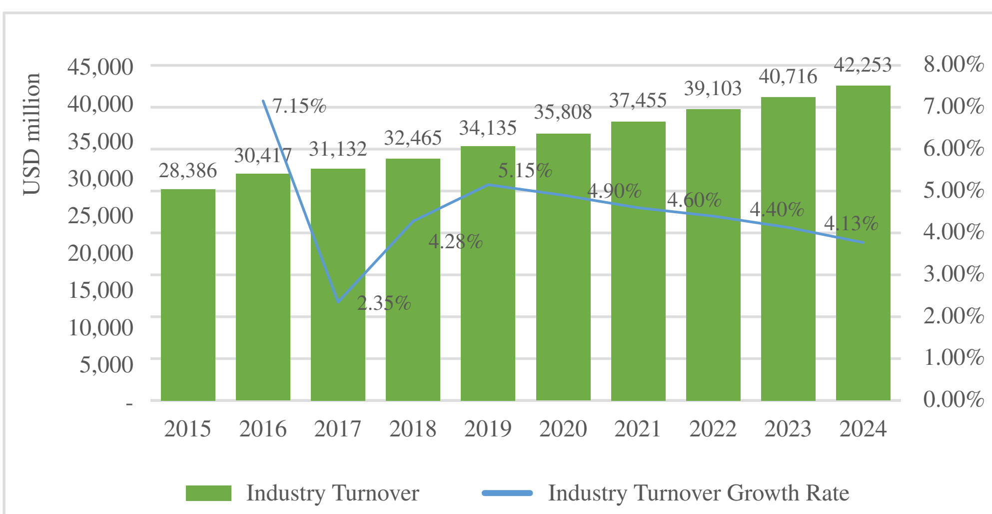
Overall speaking, inflation was mild and the economy may suffer a short-term slowdown. Currently, it leaves policy makers sufficient flexibility if they believe the economy needs any stimulus policies.

X. INDUSTRY OVERVIEW

As an efficient and clean approach, combined heat and power (CHP) allows an industrial or commercial facility to generate heat energy and electric power from a single fuel source.[1] The heating supply and power production industry in China has been developing steadily along with the urbanization and industrialization in the past decades. Referring to the study of Mordor Intelligence, more than 10 percent of the nation's electricity and around two-thirds percent of urban central heating is generated with CHP. The National Development and Reform Commission has set a goal of 200,000 MW of CHP by 2020, which accounts for around 20 percent of the installed power capacity expected that year.[2]

Driven by increasing popularity of central heating in households, rising heating prices, and improved efficiency, the industry revenue has grown steadily in past five years at annualized 5.5% and is forecast to grow at an annualized 4.4% over the five years through 2024 to 42.3 billion.[3]

Figure 10 – 1 Heating Supply and Power Production Industry Revenue in China from 2015 To 2024



Source: IBISWorld

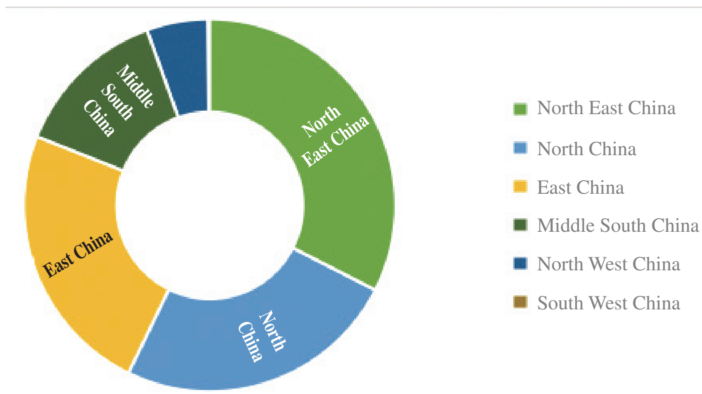
1 Mordor Intelligence. China Combined Heat and Power Market Outlook. Retrieved from https://www.mordorintelligence.com/industry-reports/china-combined-heat-and-power-market-industry.

2 National Development and Reform Commission. 2010 Combine Heat and Power Development Plan and 2020 Outlook.

3 IBISWorld. Heating Power Production and Supply in China.

The heating supply and power production industry serves different markets focusing on households and industrial enterprise and is mainly concentrated in northern China, where numbers of provinces and municipalities face severe cold in winter. According to IBISWorld statistics, households are the largest consumption group for heating, who expected to consume 50% of total consumption in 2019, since the demand is boosted by the increase in urban population and improving living standards. Followed by industrial enterprises requires steam as an energy source for production, which accounts for 40% of total consumption.

Figure 10 – 2 Heating Supply and Power Production Industry Geographical Segments Revenue in 2019



Source: IBISWorld

Government has been implementing heating system reforms aiming at commercialization and monetization of the industry since 2005, before that, the government supplies the residential heating for free. The heating supply and power production industry in China is semi-public, as a result, it is heavily regulated and assisted. Heating supply prices are determined by local development and reform commission and price bureaus while the industry is facing the volatile cost of production. Policymaker also raises the barrier of entry, for instance, enterprises must get approval from the National Development and Reform Commission for CHP projects with an installed capacity of 25 MW per unit. Besides, the government prevents suspension of production considering that heating is essential to the welfare of citizens in some regions. Since the enterprises in this industry have no pricing rights and operate at low-profit margin or even make a loss sometimes, the government pays effort to help them survive. The government has been encouraged central heating supplied by the industry and ruled that indoor temperature cannot be lower than 16 degrees Celsius making a positive impact on the industry. Heating supply and power production enterprises enjoy preferential policies including value-added tax, property taxes, and land use taxes. In the meantime, local governments subsidize them to tackle the rising cost of production or purchasing.

Over the next few years, CHP in China would grow to keep pace with urbanization and industrialization while improving efficiency and minimalize the carbon emission. Growing investment in clean fuel energy along with regulatory compliance to environment protection, more alternative fuels such as natural gas will be adopted.

XI. VALUATION METHODOLOGY

The valuation of the any asset or business can be broadly classified into one of the three approaches, namely the asset approach, the income approach and the market 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 market value analysis of that asset.

1. Asset Approach

This is a general way of determining an market value indication of a business, business ownership interest, security, or intangible asset by using one or more methods based on the value of the assets net of liabilities.

Value is established based on the cost of reproducing or replacing the asset, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable.

2. Income Approach

This is a general way of determining an market value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that convert anticipated benefits into a present value amount.

In the income approach, an economic benefit stream of the asset under analysis is selected, usually based on historical and/or forecasted cash flow. The focus is to determine a benefit stream that is reasonably reflective of the asset's most likely future benefit stream. This selected benefit stream is then discounted to present value with an appropriate risk-adjusted discount rate. Discount rate factors often include general market rates of return at the valuation date, business risks associated with the industry in which the company operates, and other risks specific to the asset being valued.

3. Market Approach

This is a general way of determining an market value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

Value is established based on the principle of competition. This simply means that if one thing is similar to another and could be used for the other, then they must be equal. Furthermore, the price of two alike and similar items should be approximate to one another.

4. Selection of Valuation Approach

4.1 Asset approach – Rejected

Under the asset approach, the value of the Equity Interest is determined based on the replacement cost or reproduction cost rather than the ability to generate streams of benefits in the future. For the Target Group, it has been operated for certain years with established business. As such, the asset approach cannot reliably reflect the value of the Equity Interest and the asset approach was rejected accordingly.

4.2 Income approach – Rejected

Under the income approach, the value of the Equity Interest is determined based on the estimation of the projected inputs, such as projected revenue, operating costs and risk-adjusted discount rate. A major challenge to income approach is its sensitivity to model inputs, as slight deviation in discount rate and forecasted operating cash flows would result in significantly different valuation results. It is noted that the revenue of main products, heat and electricity, is significantly affected by the government policy. Both price and quantity of supply are determined by the government. Hence, we considered that the historical results may not be representative to the future in this case. Regarding the correlation between the aforementioned factors and performance of the industry, uncertainty would be involved inevitably in forming a reliable financial forecast, i.e. revenue forecast, revenue growth rate, profit margin. Comparatively, market approach referred to the public information of the market participants, which involve fewer assumptions on the input in the valuation and reflecting the market expectation and view on the industry. The result derived from the market approach is considered to be fairer in this case. As such, the market approach is more preferable, and the income approach was rejected.

4.3 Market approach – Accepted

Under the market approach, the value of the Equity Interest could be determined based on the recently published financial data of listed comparable companies such as the trading prices and fundamentals. Market expectation on the industry is also reflected in the valuation of the comparable companies. As there were sufficient numbers of comparable public companies available in markets which facilitate a meaningful comparison and provide inputs for determining the valuation multiple, the market approach was considered as appropriate and reliable.

XII. GENERAL VALUATION ASSUMPTIONS

A number of general valuation assumptions had to be established in order to sufficiently support our conclusion. The general assumptions adopted in this valuation were:

- The selected guideline public company (the "**Guideline Public Companies**") share sufficient similarities to the underlying business of the Target Group so as to provide a meaningful comparison;

- The median multiple assumed to reflect a fair and objective market expectation on the industry;

- Performance of the Target Group is expected not significantly deviate from the performance of its industry peers;

- There would be no material changes in the existing political, legal, fiscal, foreign trade and economic conditions in countries where the Target Group is operated;

- There would be no significant deviation in the industry trends and market conditions from the current market expectation;

- There would be no major change in the current taxation law in PRC and countries of origin of our comparable companies;

- There would be no material changes in interest rates or foreign currency exchange rates from those currently prevailing;

- All relevant legal approvals, business certificates or licenses for the normal course of operation have been formally obtained, in good standing and that no additional costs or fees are needed to procure such during the application; and

- The Target Group would retain competent management, key personnel, and technical staff to support the ongoing operation of its business.

XIII. MARKET APPROACH

Guideline Public Company Method

The premise behind the Guideline Public Company Method is that prices of publicly traded stocks in the same or a similar industry provide objective evidence as to values at which investors are willing to buy and sell interest of companies in that industry.

In applying Guideline Public Company Method, we compute a valuation multiple for various benefit streams for each Guideline Public Company. The appropriate valuation multiple is determined and adjusted for the unique aspects of the subject company being valued. This multiple is then applied to the subject company being valued to arrive at an estimate of value for the appropriate ownership interest. The selected valuation multiples are based on equity value, which can be derived form the formula below:

$$\text{Equity Value} = \text{Guideline multiple} \times \begin{array}{c}\text{the corresponding item representing the}\\ \text{financial performance of the subject company}\end{array}$$

A valuation multiple represents a ratio that using a comparative company's market value as at the Valuation Date as the numerator and a measure of the company's operating results (or financial position) as the denominator. In this valuation, the most preferable valuation multiples for valuing equity value is Price-to-Earnings multiple ("**P/E**"). P/E is an appropriate valuation multiple for the valuation because it measures the amount an investor, or a shareholder, is paying for a dollar of earnings and earnings power is the primary determinant of investment value.

Once we have selected a number of Guideline Public Companies and make the necessary adjustments to their financial information, the next step is to determine and compute the appropriate valuation multiples, and the calculation method is the same for all selected Guideline Public Companies. The process of computing the valuation multiple in this case consists of the following procedures:

1. Determination of the equity value for each Guideline Public Companies as at the Valuation Date. The equity value for each Guideline Public Companies, which is the market capitalization, is made reference to Bloomberg as at the Valuation Date.

2. Determination of the measure of operating results – Earnings for the appropriate time period. This measure of operating result represents the denominators of the multiple.

Selection of Guideline Public Companies

The application of this method depends on the selection of the Guideline Public Companies that are similar enough to the underlying business of the subject companies so as to provide a meaningful comparison. We exercised due care in the selection of the Guideline Public Companies by using reasonable criteria in deciding whether or not a particular Guideline Public Companies is relevant.

The comparability analysis started with the fundamental information of the potential companies, in terms of lines of business, major location of business, exchange of listing, financial results and other criteria. It was our first step to identify a pool of potential Guideline Public Companies operates and listed in the PRC which were mainly engaged in supply of heat and electricity generation (over 80% of total revenue). Then we conducted ratio analysis, assessing the profitability, leverage, efficiency, growth and liquidity of these potential Guideline Public Companies, in which the ones whose results deviate significantly from the Target Group were rejected. Given that the valuation multiple applied in this case is P/E, we have studied the profit margin of Guideline Public Companies. It is noted that profit margin of potential Guideline Public Companies ranged from 3.1% to 11.2%, with a mean of 5.8%. The profit margin of Target Group is 5.4% which is close to the mean profit margin of these potential Guideline Public Companies. Thus, we are in opinion that these potential Guideline Public Companies and the Target Group share a certain level of similarity in terms of profit margin.

Based on the comparability analysis above, six comparable companies are ultimately selected as Guideline Public Companies for this valuation and we believed that the selected listed companies are sufficiently comparable to the operations of the Target Group and gave a meaningful comparison.

The following is the list of the six Guideline Public Companies that we have selected in connection with the valuation of the Equity Interest:

Table 13 – 2 Guideline Public Companies

	Guideline Public Companies	Ticker	Business Activities
1.	Zhejiang Fuchunjiang Environmental Thermoelectric Co Ltd	002479 CH	• mainly engaged in the co-generation of heat and power with its main products including steam and electricity
2.	Beijing Huayuanyitong Thermal Technology Co Ltd	002893 CH	• mainly engaged in the provision of heat supply and energy saving technology services
3.	Beijing Jingneng Power Co Ltd	600578 CH	• generates electrical power, thermal power, and other power products
4.	SPIC Dongfang New Energy Corp	000958 CH	• generates and distributes electric power and supplies heat in the Shijiazhuang City
5.	Fujian Funeng Co Ltd	600483 CH	• mainly engaged in power generation, heating, electric power industry
6.	Jointo Energy Investment Co Ltd Hebei	000600 CH	• mainly engaged in thermal power generation and heat supply

Source: Bloomberg; Companies' annual reports

Details of the calculation of valuation multiples for the Guideline Public Companies were as follows:

Table 13 – 3 P/E for the Guideline Public Companies as at the Valuation Date

	Ticker	Market Capitalisation *(in CNY millions)*	Net Income *(in CNY millions)*	P/E
1.	002479 CH	6,535.87	137.71	47.46x
2.	002893 CH	2,162.16	62.57	34.55x
3.	600578 CH	20,307.67	1,264.07	16.07x
4.	000958 CH	6,878.18	176.51	38.97x
5.	600483 CH	13,299.19	1,138.30	11.68x
6.	000600 CH	9,656.87	635.78	15.19x
	Median			**25.31x**

Source: Bloomberg
**All the Market Capitalisation and Net Income are rounded to 2 decimal places*

Table 13 – 4 Summary of the Selected Multiples

Valuation Date	Selected Multiple	Median
As at 30 September 2019	P/E	25.31x

Determination of Value

Based on the investigation and analysis stated above and on the valuation method employed, it was our opinion that the market value of the Equity Interest as at the Valuation Date was as follows:

Table 13 – 5 Equity Interest in the Target Group as at the Valuation Date

		30 September 2019
Selected Multiple: P/E		25.31x
Trailing 12-months net income for the period ended 30 June 2019 *(Note 1)*	HKD	43,068,391
Implied Equity Value before Control Premium	HKD	1,090,066,240
Control Premium *(Note 2)*	7%	76,304,637
Implied Equity Value before DLOM	HKD	1,166,370,877
Less: DLOM *(Note 3)*	-34%	(396,566,098)
Implied 100% Equity Value after DLOM	HKD	769,804,779
Market Value of 100% Equity Interest in the Target Group (rounded)	**HKD**	**769,805,000**

**Products of the figures and sum of the figures may not equal to the total of the figures due to rounding*

Note 1: The financial information for the period ended 30 June 2019 is the latest available one to us. According to the management, there is no significant difference in trailing 12-months net income between 30 June 2019 and Valuation Date.

Note 2: Premium for control is generally regarded as the amount in excess of the current traded market price that a buyer is willing to pay to acquire the control of a publicly traded company. A buyer is willing to pay a premium for control when obtaining the controlling advantages, they would not receive if only a minority interest was purchased.

Estimating the value of premium for control is necessary when valuing large blocks of shares. The size of the premium for control varies from industry to industry, with the size of the company. In our valuation analysis, the equity interest in the subject companies is at controlling, so it is reasonable to apply a premium for control to reflect this advantage. With reference to the comparison of the median premium offered for a controlling equity interest (acquisitions of more than 50% of a company's shares outstanding) to that for a minority equity interest (purchases of 10% – 50%) during 2013 to 2017 stated in FactSet Mergerstat Review, 2018[1], we believe a premium for control of 7% is fair and reasonable for the valuation of the Equity Interest.

Note 3: Discount for Lack of Marketability ("DLOM") is the valuation adjustment with the largest single monetary impact on the final determination of value. Marketability is defined as the ability to convert an investment into cash quickly at a known price and with minimal transaction costs. DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

In selecting the appropriate DLOM, we considered the length of time and effort required by the management in order to sell a controlling interest. This typically would take at least three to nine months if a transaction could be consummated at all. A controlling interest does enjoy the benefit of controlling the cash flow stream of the business. Lastly, we considered the expenses that are typically incurred to sell a business which are substantial such as legal fees, accounting fees and intermediary fees.

As the Equity Interest is on a non-marketable controlling basis, prudent investors would apply a discount to reflect its lack of marketability. With reference to the comparison of the median price-to-earning offered for public companies to that for private companies during 2013 to 2017 stated in FactSet Mergerstat Review, 2018[1], we believe a 34% DLOM is fair and reasonable for the valuation of the Equity Interest.

XVI. LIMITING CONDITIONS

We have made no investigation of and assumed no responsibility for the title to or any liabilities against the Company and the Target Group.

The opinions expressed in this report have been based on the information supplied to us by the Company/the Target Group and their staff, as well as from various institutes and government bureaus without verification. All information and advice related to this valuation are provided by the management of the Company. Readers of this report may perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key supplied data with expected values, the accuracy of the results and conclusions from the review are reliant on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decision or actions resulting from them.

1 FactSet Mergerstat is one of the world's major providers of financial information and analytical data for investment professionals.

This valuation reflects facts and conditions existing at the Valuation Dates. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

XVII. CONCLUSION OF VALUE

In conclusion, based on the analysis stated above and on the valuation method employed, it is our opinion that the market value of 100% equity interest of China Overseas Public Utility Investment Limited as at 30 September 2019 is as follows:

Subject of Valuation	Market Value
100% Equity Interest in China Overseas Public Utility Investment Limited	HKD769,804,779

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 subject under valuation. Moreover, we have neither personal interests nor bias with respect to the parties involved.

This valuation report is issued subject to our general service conditions.

Yours faithfully,
For and on behalf of
GREATER CHINA APPRAISAL LIMITED

Analysed and Reported by:

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22 November 2019

RESPONSIBILITY STATEMENT

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

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

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

Long positions in the Shares

Name of Director	Capacity	Number of ordinary shares in the Company held	Approximate percentage of the shares in the Company in issue[Note]
Mr. Zhang Haipeng	Beneficial owner	3,078,000	0.143%
Mr. Wu Mingqing	Beneficial owner	5,000,000	0.232%
Mr. Chan Sim Wang	Beneficial owner	50,000	0.002%
Mr. Huang Jiang	Beneficial owner	3,000,000	0.139%

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

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

As at the Latest Practicable Date:

(i) Mr. Zhang Haipeng held 774,000 A-shares of CSCECL in the capacity as beneficial owner, representing approximately 0.002% of the issued voting shares of CSCECL;

(ii) Mr. Wu Mingqing held 294,000 A-shares in CSCECL in the capacity as beneficial owner, representing approximately 0.001% of the issued voting shares of CSCECL;

(iii) Mr. Wang Hai held 210,000 A-shares of CSCECL in the capacity as beneficial owner, representing approximately 0.001% of the issued voting shares of CSCECL;

(iv) Mr. Chan Sim Wang held 32,400 ordinary shares in CSC in the capacity as beneficial owner, representing approximately 0.001% of the issued shares of CSC; and

(v) Mr. Huang Jiang held 210,000 A-shares of CSCECL in the capacity as beneficial owner, representing approximately 0.001% of the issued voting shares of CSCECL.

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

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

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

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

As at the Latest Practicable Date, none of the Directors or proposed Directors had any direct or indirect interest in any assets which had been, since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

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

SERVICE CONTRACTS

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

MATERIAL LITIGATION

At the Latest Practicable Date, there was no litigation or claim of material importance that is known to the Directors to be pending or threatened against any member of the Enlarged Group.

COMPETING BUSINESS INTERESTS OF DIRECTORS

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

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

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

MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) were entered into by the members of the Group within two years immediately preceding the Latest Practicable Date, which were or might be material:

(a) the equity transfer agreement dated 14 March 2018 and entered into between the Company as purchaser and 深圳中建宏達投資有限公司 (Shenzhen CS Grand Wealth Investment Company Limited*) (a wholly-owned subsidiary of CSC) as seller in relation to the acquisition of the entire equity interests in 中海監理有限公司 (China Overseas Supervision Limited*) at a consideration of RMB70,000,000 (further details of the agreement and the transactions contemplated thereunder are set out in the announcement of the Company dated 14 March 2018 and the circular of the Company dated 9 April 2018);

(b) the sale and purchase agreement dated 30 August 2018 and entered into between Hygate Development Corp. (formerly known as Far East Aluminium Works Canada Corp.) (a wholly-owned subsidiary of the Company) (as purchaser) and Crowe Soberman Inc. (as seller) in relation to the acquisition of the Canadian assets (which consists of (i) all of the right, title and interest of Deem Management Services Limited and The Uptown Inc. (the "**Debtors**") in all that piece or parcel of land located at No. 215 and 229 Lexington Road, Waterloo, Ontario, Canada and known as "PT. BLOCK A PLAN 1313, BEING PTS. 1, 4 & 5 ON 58R-6774 & PT. 3 ON 58R-2194, S/T EASEMENT IN GROSS OVER PT. 1 ON 58R-17857, AS IN WR853469; CITY OF WATERLOO (the "**Land**") and other property, assets and undertakings related thereto; (ii) all of the right, title and interest of the Debtors in a subsisting lease on a portion of the Land; and (iii) all of the right, title and interest of the Debtors in the building permit, fees and securities relating to the Land, and certain drawings, plans and reports relating to the possible redevelopment of the Land at the consideration of CAD19,800,000 (further details of the agreement and the transactions contemplated thereunder are set out in the announcement of the Company dated 30 August 2018);

(c) the sale and purchase agreement dated 7 January 2019 and entered into between Far East Global Investment Limited (a direct wholly-owned subsidiary of the Company) as purchaser, the Vendor as vendor and CSC (as vendor's guarantor) in relation to the acquisition of the entire issued share capital of, and shareholders' loan to (i) Value Idea Investments Limited; and (ii) Fuller Sky Enterprises Limited at the consideration of HK$295,000,000 (further details of the agreement and the transactions contemplated thereunder are set out in the announcement of the Company dated 7 January 2019 and the circular of the Company dated 22 February 2019); and

(d) the Sale and Purchase Agreement.

Save as disclosed above, there were no material contracts (not being contracts entered into in the ordinary course of business) which had been entered into by any member of the Enlarged Group within the two years immediately preceding the date of this circular.

QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts who had given its opinion and advice which are contained in this circular:

Name	**Qualification**
Red Sun	A corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance)
PricewaterhouseCoopers	Certified Public Accountants, Hong Kong
Greater China Appraisal Limited	An independent qualified valuer in Hong Kong engaged in valuation

(a) As at the Latest Practicable Date, each of the experts above had no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(b) Each of the experts above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or reports and references to its name in the form and context in which they are included.

(c) As at the Latest Practicable Date, each of the experts above did not have any direct or indirect interest in any assets which have been, since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

(d) Each of (i) the Letter from Red Sun; (ii) the accountants' report of the Target Group set out in Appendix II; (iii) the report from PricewaterhouseCoopers on the unaudited pro forma financial information of the Enlarged Group set out in Appendix III; and (iv) the valuation report on the Target Company from Greater China Appraisal Limited set out in Appendix V, is given as of the date of this circular for incorporation herein.

MISCELLANEOUS

(a) The company secretary of the Company is Ms. LAU Shuk Yin Connie, who is an associate member of The Hong Kong Institute of Chartered Secretaries.

(b) The registered office of the Company is situated at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The head office and principal place of business in Hong Kong is situated at 16th Floor, Eight Commercial Tower, No. 8 Sun Yip Street, Chai Wan, Hong Kong.

(c) The branch share registrar of the Company is Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the office of the Company at 16th Floor, Eight Commercial Tower, No. 8 Sun Yip Street, Chai Wan, Hong Kong from the date of this circular up to and including 18 December 2019 (except Saturdays and Sundays) and will be available for inspection at the EGM:-

(a) the memorandum of association of the Company;

(b) the articles of association of the Company;

(c) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(d) the Framework Agreement;

(e) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;

(f) the letter from the Independent Financial Adviser, the text of which is set out in the section headed "Letter from Red Sun" of this circular;

(g) the accountants' report on the financial information of the Target Group for each of the three years ended 31 December 2018, the text of which is set out in Appendix II to this circular;

(h) the report from PricewaterhouseCoopers on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(i) the valuation report on the Target Company issued by Greater China Appraisal Limited as set out in Appendix V to this circular;

(j) the letters of consent from the experts referred to under the section headed "Qualifications and Consents of Experts" in this appendix;

(k) the annual reports of the Group for each of the two years ended 31 December 2018;

(l) the interim report of the Group for the six months ended 30 June 2019; and

(m) the circular of the Company dated 22 February 2019 regarding the discloseable and connected transaction in relation to the acquisition of the entire issued share capital of, and shareholders' loan to (i) Value Idea Investments Limited; and (ii) Fuller Sky Enterprises Limited, change of company name and re-election of retiring directors.

中國建築興業集團有限公司
CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED

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

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China State Construction Development Holdings Limited (the "**Company**") will be held at 16th Floor, Eight Commercial Tower, No. 8 Sun Yip Street, Chai Wan, Hong Kong on Wednesday, 18 December 2019 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**:

(A) the Sale and Purchase Agreement (as defined in the circular of the Company dated 22 November 2019 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 or one director and the secretary of the Company, in the case of execution of documents under seal) be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Sale and Purchase Agreement and the transactions contemplated thereunder and the implementation thereof including the affixing of seal thereon."

2. "**THAT**:

(A) (i) the Framework Agreement (as defined in the circular of the Company dated 22 November 2019 of which this notice forms part (the "**Circular**")) (a copy of which is tabled at the meeting and marked "B" and initialled by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder and the implementation thereof be and are hereby approved, confirmed and ratified;

(ii) the Annual Caps (as defined in the Circular) for the period from 20 December 2019 to 30 June 2022 be and are hereby approved; and

(B) any one director of the Company (or any two directors of the Company or one director and the secretary of the Company, in the case of execution of documents under seal) be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Framework Agreement and the transactions contemplated thereunder and the implementation thereof including the affixing of seal thereon."

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

Hong Kong, 22 November 2019

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

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

Notes:

1. A form of proxy for the meeting is enclosed.

2. Only members are entitled to attend and vote at the meeting (or at any adjournment thereof).

3. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint one or more proxies (who must be an individual) to attend and vote instead of him. A proxy need not be a member of the Company.

4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorized to sign the same.

5. In order to be valid, the proxy form, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof (as the case may be).

6. Completion and return of a proxy form shall not preclude a member from attending and voting in person at the meeting or any adjournment thereof (as the case may be) should the member so wish, and in such event, the proxy form shall be deemed to be revoked.

7. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

8. The register of members of the Company will be closed from Friday, 13 December 2019 to Wednesday, 18 December 2019, both days inclusive, for the purpose of determining members' entitlement to attend and vote at the meeting. In order to qualify for attending and voting at the meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 12 December 2019.