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

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

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中國建築國際集團有限公司

CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 3311)

**CONTINUING CONNECTED TRANSACTIONS
WITH 中國建築股份有限公司
(CHINA STATE CONSTRUCTION ENGINEERING CORPORATION LIMITED)
IN RELATION TO CONSTRUCTION WORKS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



紅日資本有限公司

RED SUN CAPITAL LIMITED

A letter from the Board is set out on pages 5 to 17 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 18 to 19 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 38 of this circular.

A notice convening the EGM to be held at Meeting Room S221, Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong on Tuesday, 12 January 2021 at 3:00 p.m. is set out on pages EGM-1 to EGM-3 of this circular.

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

In view of the ongoing Novel Coronavirus (COVID-19) epidemic, the Company will implement the following precautionary measures at the EGM, including:

- (a) compulsory body temperature checks (any person with fever, respiratory symptoms or a body temperature of over 37 degree Celsius will not be permitted access to the meeting venue);
- (b) request of wearing of surgical face masks throughout the meeting and not wearing surgical face masks will not be permitted access to the meeting venue;
- (c) hand sanitiser will be provided;
- (d) no distribution of gifts or cake coupons and no refreshments or drinks will be served; and
- (e) other safety measures as appropriate.

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DEFINITIONS

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

“associates”, “connected persons”, “controlling shareholder(s)”, “percentage ratios” and “subsidiary(ies)”	each has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“COHL”	China Overseas Holdings Limited (中國海外集團有限公司), a company incorporated in Hong Kong with limited liability, is a wholly owned subsidiary of CSCECL and the controlling shareholder of the Company;
“COLI”	China Overseas Land & Investment Ltd. (中國海外發展有限公司), a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board of the Stock Exchange (stock code: 688);
“Company”	China State Construction International Holdings Limited (中國建築國際集團有限公司), 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);
“Contractors”	collectively, construction contractor (main contractor and sub-contractor), project management contractor, project consultant and/or construction material supplier;
“CSC Construction Engagement Cap”	the maximum total contract sum of the construction contracts, project management contracts, project consultancy contracts and construction material supplying contracts that may be awarded by the CSCECL Group to the Group for each year under the New CSCECL Construction Engagement Agreement;
“CSC Construction Engagement Transactions”	the engagement by the CSCECL Group of the Group as Contractors for the CSCECL Group’s construction works as described under the section headed “LETTER FROM THE BOARD — THE NEW CSCECL CONSTRUCTION ENGAGEMENT AGREEMENT — CSC Construction Engagement Transactions” of this circular;

DEFINITIONS

“CSCEC”	中國建築集團有限公司(China State Construction Engineering Corporation*), a state-owned corporation organised and existing under the laws of the PRC, and the ultimate holding company of each of CSCECL, COHL and the Company;
“CSCECL”	中國建築股份有限公司(China State Construction Engineering Corporation Limited), a joint stock company established in the PRC whose shares are listed on the Shanghai Stock Exchange (stock code: 601668), is a non-wholly owned subsidiary of CSCEC and holding company of COHL;
“CSCECL Construction Engagement Cap”	the maximum total contract sum of the construction contracts, project management contracts, project consultancy contracts and construction material supplying contracts that may be awarded by the Group to the CSCECL Group for each year under the New CSCECL Construction Engagement Agreement;
“CSCECL Construction Engagement Transactions”	the engagement by the Group of the CSCECL Group as Contractors for the Group’s construction works as described under the section headed “LETTER FROM THE BOARD — THE NEW CSCECL CONSTRUCTION ENGAGEMENT AGREEMENT — CSCECL Construction Engagement Transactions” of this circular;
“CSCECL Group”	CSCECL and its subsidiaries (excluding subsidiary(ies) listed on the Stock Exchange and their respective subsidiary(ies)) from time to time;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be held to consider and approve the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder;
“Group”	the Company and its subsidiaries (excluding subsidiary(ies) listed on the Stock Exchange) 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;

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors to advise the Independent Shareholders in respect of the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder;
“Independent Financial Adviser” or “Red Sun”	Red Sun Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder;
“Independent Shareholders”	Shareholders other than CSCECL and its associates;
“Latest Practicable Date”	19 November 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein, as the case may be;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time;
“Macau”	the Macao Special Administrative Region of the PRC;
“New CSCECL Construction Engagement Agreement”	the engagement agreement entered into between the Company and CSCECL on 19 October 2020 in respect of the CSCECL Construction Engagement Transactions and the CSC Construction Engagement Transactions;
“PRC”	People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, Macau and Taiwan;
“Previous CSCECL Sub-construction Engagement Agreement”	the engagement agreement entered into between the Company and CSCECL on 6 October 2017 in respect of continuing connected transactions of the Company involving (i) the engagement by the Group of the CSCECL Group as sub-Contractors for the Group’s construction works; and (ii) the engagement by the CSCECL Group of the Group as sub-Contractors for CSCECL Group’s construction works;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);

DEFINITIONS

“Share(s)”	ordinary share(s) of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

* *English translation for identification purpose only*

LETTER FROM THE BOARD



中國建築國際集團有限公司

CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 3311)

Non-executive Director:

Mr. Yan Jianguo (*Chairman*)

Executive Directors:

Mr. Zhang Haipeng (*Chief Executive Officer*)

Mr. Tian Shuchen (*Vice President*)

Mr. Zhou Hancheng (*Financial Controller*)

Mr. Hung Cheung Shew (*Vice President*)

Independent Non-executive Directors:

Mr. Adrian David Li Man Kiu

Dr. Raymond Leung Hai Ming

Mr. Lee Shing See

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Head office and principal place
of business in Hong Kong:*

28th Floor

China Overseas Building

139 Hennessy Road

Wanchai

Hong Kong

24 November 2020

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

WITH 中國建築股份有限公司

(CHINA STATE CONSTRUCTION ENGINEERING CORPORATION LIMITED)

IN RELATION TO CONSTRUCTION WORKS

INTRODUCTION

References are made to:

- (1) the announcement of the Company dated 6 October 2017, and the circular of the Company dated 6 November 2017, in relation to, among other things, the Previous CSCECL Sub-construction Engagement Agreement entered into between the Company and CSCECL which will expire on 31 December 2020; and

LETTER FROM THE BOARD

- (2) the announcement of the Company dated 19 October 2020 in respect of the entering into of the New CSCECL Construction Engagement Agreement between the Company and CSCECL to renew the Previous CSCECL Sub-construction Engagement Agreement for a term of three years commencing from 1 January 2021 and ending on 31 December 2023 subject to the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap respectively.

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

- the particulars of the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap);
- the letter from the Independent Board Committee with its recommendation to the Independent Shareholders on the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap);
- the letter from Red Sun with their advice on the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap) to the Independent Board Committee and the Independent Shareholders,

as well as to seek the approval of the Independent Shareholders in respect of the entering into of the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap).

THE NEW CSCECL CONSTRUCTION ENGAGEMENT AGREEMENT

Date

19 October 2020

Parties

1. the Company; and
2. CSCECL.

On 19 October 2020, the Company and CSCECL entered into the New CSCECL Construction Engagement Agreement to renew the Previous CSCECL Sub-construction Engagement Agreement for a term of three years commencing from 1 January 2021 and ending on 31 December 2023.

LETTER FROM THE BOARD

CSCECL Construction Engagement Transactions

The Directors expect that the Group will continue to invite the CSCECL Group to participate in competitive tender as Contractors for the Group's construction works from time to time. Accordingly, under the New CSCECL Construction Engagement Agreement, the Company and CSCECL agreed, among other things, that for a term of three years commencing from 1 January 2021 and ending on 31 December 2023:

- (a) any member of the CSCECL Group may tender for the Group's construction works as Contractors in accordance with the tendering procedures of the Group from time to time and on the same and normal terms as offered to other independent third parties;
- (b) if any contract is granted in favour of the CSCECL Group as a result of the above tender, the CSCECL Group may act as Contractors for the Group's construction works based on the terms of the successful tender provided that the maximum total contract sum that may be awarded by the Group to the CSCECL Group for each of the three financial years ending 31 December 2023 shall not exceed RMB55,000 million (i.e. the CSCECL Construction Engagement Cap); and
- (c) the construction fees payable by the Group to the CSCECL Group will be settled pursuant to the payment terms set out in the tender documents for the specific construction, project management, project consultancy and/or construction material supplying contracts.

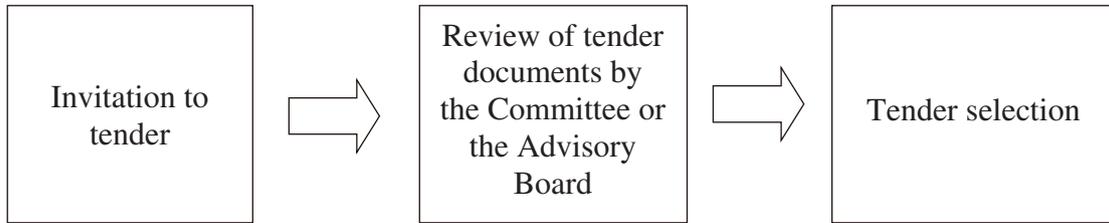
Pricing basis of the contract sum awarded by the Group to the CSCECL Group

The contract sum and the terms awarded by the Group to the CSCECL Group for the Group's construction works will be negotiated on an arm's length basis and determined between the Group and the CSCECL Group subject to standard and systematic tender review procedures maintained by the Group, which apply to tenders obtained from both connected persons and independent third parties, in order to ensure that the contract sum and terms of the tender granted by the Group to the CSCECL Group are no more favourable to the CSCECL Group, and no less favourable to the Group, than those granted to independent third parties.

The procedures generally involve three stages: (i) invitation to tender; (ii) review of tender documents; and (iii) tender selection. For contracts with an amount of less than RMB5,000,000, the Company's regional management team will form a committee (the "**Committee**") in reviewing the tender documents. For contracts with an amount of more than or equal to RMB5,000,000, the review of the tender documents will be conducted by the Group's construction contracting advisory board (the "**Advisory Board**"), comprising not less than five members, which include Directors who are not employees and directors of the CSCECL Group, the directors, management staff and supervisor of the

LETTER FROM THE BOARD

relevant member of the Group and the finance personnel of the Group. In both cases, the members of the Committee or the Advisory Board shall not be employees or directors of the CSCECL Group and shall have no relationship with the CSCECL Group.



The Group will invite submission of tender from at least three Contractors, including Contractors with or without prior working history with the Group. They are subject to qualification and evaluation from time to time based on selection criteria which are consistent with the selection criteria of Contractors by the Committee or the Advisory Board as detailed in the paragraph below.

The Committee or the Advisory Board will shortlist at least three tenders and make the final decision with reference to the following selection criteria:

- (1) quality of work;
- (2) measures on environmental protection, safety and workers' health undertaken;
- (3) time management and project management plan;
- (4) financial arrangement and financial ability;
- (5) material and supply management; and
- (6) past cooperation record with the Group, if any.

In determining the pricing terms, the Committee or the Advisory Board will also review the cost information for materials and pricing information of previous tenders submitted to the Group in assessment of the pricing terms.

The Committee or the Advisory Board will also review and compare previous tender prices granted to both connected persons and independent third parties, so as to ensure that the contract sum and terms of the tender to be granted by the Group to the CSCECL Group are no more favourable to the CSCECL Group, and no less favourable to the Group, than those granted to independent third parties.

Having reviewed the above factors and information, the Committee or the Advisory Board will select the Contractor with the lowest tender amount on the condition that it also satisfies the selection criteria and principles as set out above and as set out in the tender invitation.

The relevant letter of award or contract will be issued once the final decision is made in the meeting of the Committee or the Advisory Board.

LETTER FROM THE BOARD

Calculation of the CSCECL Construction Engagement Cap

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

- (a) the maximum total contract sum that might be awarded by the Group to the CSCECL Group in respect of the Group's construction works for each of the three financial years ending 31 December 2020 under the Previous CSCECL Sub-construction Engagement Agreement of not exceeding RMB55,000 million (i.e. the previous annual cap);
- (b) total contract sum of construction projects of the Group engaging the CSCECL Group for each of the three financial years ended 31 December 2019 amounted to RMB44,181 million, RMB15,825 million and RMB13,868 million respectively, and in the period between 1 January 2020 and 30 June 2020 of RMB1,159 million, which are used to calculate the three-year historical average percentage, being the aforementioned historical total contract sum of construction projects of the Group engaging the CSCECL Group divided by the total contract sum of PRC construction projects of the Group for the respective three years ended 31 December 2019, after taking into account certain adjustment, such as material cost ("**CSCECL Historical Average Percentage**"); and
- (c) total expected contract sums of new PRC construction projects of the Group that may be awarded by the Group to the CSCECL Group for the three years ending 31 December 2023 amounted to approximately RMB49.6 billion, RMB49.6 billion and RMB51.8 billion, respectively (after taking into consideration, among other things, the timing difference of the time of tender and the time of signing the contract). This is calculated based on the projects in relation to public—private—partnership ("**PPP**") projects, government target repurchase ("**GTR**"), engineering procurement construction ("**EPC**") and other infrastructure investments such as highways, bridges, public works and affordable housing in the PRC as set out under the Group's projected investments of approximately RMB73.5 billion, RMB77.0 billion and RMB81.0 billion for the three years ending 31 December 2023, respectively, as prepared for the planning of the 14th Five-Year Plan submitted to the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) multiplied by the CSCECL Historical Average Percentage.

The CSCECL Construction Engagement Cap is estimated based on the expected total sums of new PRC construction projects that may be awarded by the Group to the CSCECL Group for the three years ended 31 December 2023 plus a buffer of not more than 10%, which is to cater for any unforeseen changes in market conditions including an unexpected increase in demand of construction works and/or unexpected increase in the contract sum contracted to the CSCECL Group, thereby providing a degree of flexibility.

LETTER FROM THE BOARD

The CSCECL Construction Engagement Transactions contemplated under the New CSCECL Construction Engagement Agreement (together with the CSCECL Construction Engagement Cap) will take effect conditional upon the Independent Shareholders' approval having been obtained at the EGM.

CSC Construction Engagement Transactions

The Directors also expect that the CSCECL Group will continue to invite the Group to participate in competitive tender as Contractors for the CSCECL Group's construction works from time to time. Accordingly, under the New CSCECL Construction Engagement Agreement, the Company and CSCECL also agreed, among other things, that for a term of three years commencing from 1 January 2021 and ending on 31 December 2023:

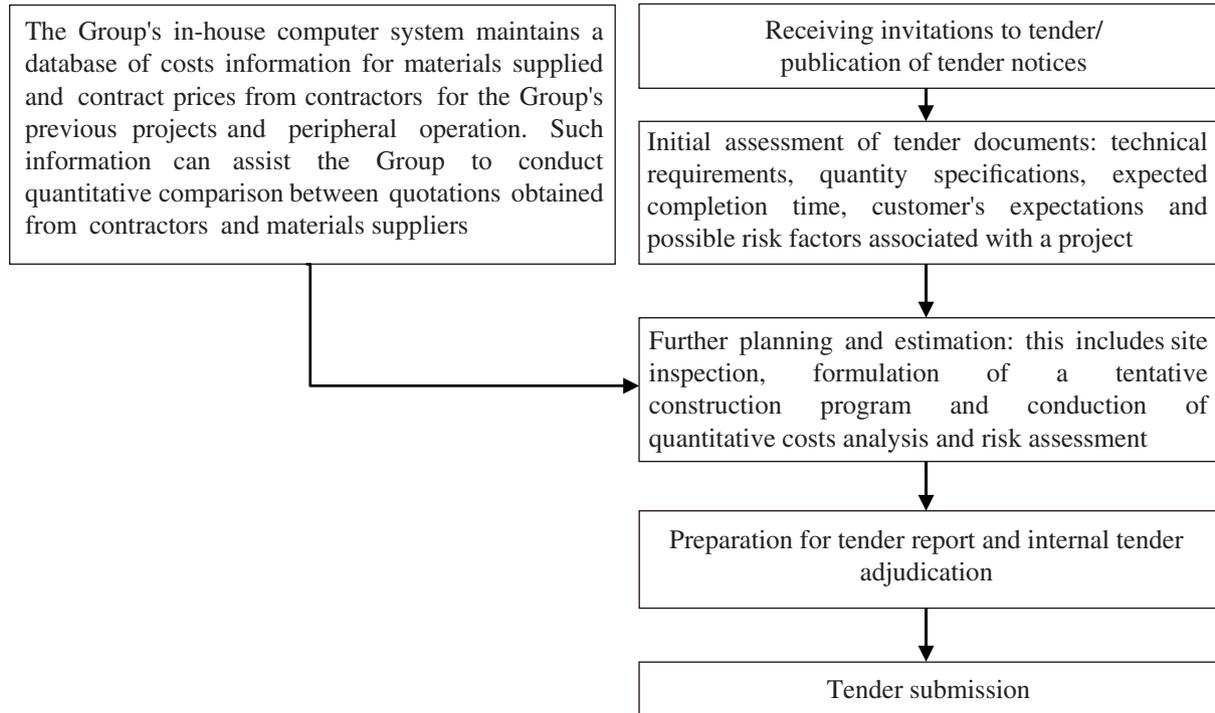
- (a) any member of the Group may tender for the CSCECL Group's construction works as Contractors in accordance with the tendering procedures of the CSCECL Group from time to time and on the same and normal terms as offered to other independent third parties;
- (b) if any contract is granted in favour of the Group as a result of the above tender, the Group may act as Contractors for the CSCECL Group's construction works based on the terms of the successful tender provided that the maximum total contract sum that may be awarded by the CSCECL Group to the Group for each of the three financial years ending 31 December 2023 shall not exceed RMB18,000 million (i.e. the CSC Construction Engagement Cap); and
- (c) the construction fees payable by the CSCECL Group to the Group will be settled pursuant to the payment terms set out in the tender documents for the specific construction, project management, project consultancy and/or construction material supplying contracts.

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

The prices and terms of the Group's tenders submitted to the CSCECL Group for the CSCECL Group's construction works are subject to standard and systematic tender submission procedures maintained by the Group, which apply to tenders submitted to both connected persons and independent third parties, in order to ensure that the prices and terms of the proposed tenders submitted by the Group to the CSCECL Group are no more favourable to the CSCECL Group, and no less favourable to the Group, than those submitted to independent third parties.

LETTER FROM THE BOARD

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



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

In determining the pricing terms, the Group will review the costs information maintained by its in-house computer database for materials supplied and contract prices from contractors for the Group's previous projects and peripheral operation. This information will assist the Group to conduct quantitative comparison between quotations obtained from contractors and materials suppliers. The Group will review details of the tender to be submitted for bidding including the price analysis of each item in the tender for both tenders to be submitted to connected persons and independent third parties, and compare them with previous tenders submitted to both connected persons and independent third parties, so as to ensure that the prices and terms of the tender to be submitted to the CSCECL Group are not more favourable to the CSCECL Group, and no less favourable to the Group, than those submitted to independent third parties.

LETTER FROM THE BOARD

The review committee of the CSCECL Group which is independent of the Group (the “**Review Committee**”) may approve or reject the tenders submitted by the Group based on the analysis result of its tender review process. In addition, the Review Committee is also responsible for deciding the contents and pricing terms of the proposed tenders. If any contract is granted in favour of the Group as a result of the competitive tender, the relevant project owner of the CSCECL Group will issue a letter of award to the Group and the Group will act as the Contractor for the relevant construction works of the CSCECL Group based on the terms of the successful tender.

Calculation of the CSC Construction Engagement Cap

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

- (a) the maximum total contract sum that might be awarded by the CSCECL Group to the Group in respect of the CSCECL Group’s construction works for each of the three financial years ending 31 December 2020 under the Previous CSCECL Sub-construction Engagement Agreement of not exceeding RMB25,000 million (i.e. the previous annual cap);
- (b) total contract sum of construction projects of the CSCECL Group engaging the Group for each of the three financial years ended 31 December 2019 amounted to RMB14,218 million, RMB2,814 million and RMB10,659 million respectively, and in the period between 1 January 2020 and 30 June 2020 of RMB11 million, which are used to calculate the three-year historical average percentage, being the aforementioned historical total contract sum of construction projects of the CSCECL Group engaging the Group divided by the total contact sum of PRC construction projects of the Group for the respective three years ended 31 December 2019, after taking into account of certain adjustment, such as material cost (“**CSC Historical Average Percentage**”); and
- (c) total expected contract sums of new PRC construction projects that may be awarded by the CSCECL Group to the Group for the three years ending 31 December 2023 amounted to approximately RMB16.3 billion, RMB16.3 billion and RMB17.0 billion, respectively (after taking into consideration, among other things, the timing difference of the time of tender and the time of signing the contract). This is calculated based on the projects in relation to PPP projects, GTR, EPC and other infrastructure investments such as highways, bridges, public works and affordable housing in the PRC as set out under the Group’s projected investments of approximately RMB73.5 billion, RMB77.0 billion and RMB81.0 billion for the three years ending 31 December 2023, respectively, as prepared for the planning of the 14th Five-Year Plan submitted to the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) multiplied by the CSC Historical Average Percentage.

The CSC Construction Engagement Cap is estimated based on the expected total sums of new PRC construction projects that may be awarded by the CSCECL Group to the Group for the three years ended 31 December 2023 plus a buffer of not more than 10%, which is to cater for any unforeseen changes in market conditions including an unexpected increase in demand of construction works and/or unexpected increase in the contract sum contracted to the Group, thereby providing a degree of flexibility.

LETTER FROM THE BOARD

The CSC Construction Engagement Transactions contemplated under the New CSCECL Construction Engagement Agreement (together with the CSC Construction Engagement Cap) will take effect conditional upon the Independent Shareholders' approval having been obtained at the EGM.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

As the Previous CSCECL Sub-construction Engagement Agreement entered into between the Company and CSCECL will expire on 31 December 2020, the Company and CSCECL have entered into the New CSCECL Construction Engagement Agreement.

CSCECL has substantial experience in construction markets. In the cases where the Group considers that contracting its construction, project management and/or project consultancy works, and/or procuring project construction material from suppliers for its construction works would be more efficient and effective, the CSCECL Construction Engagement Transactions contemplated under the New CSCECL Construction Engagement Agreement provides the Company with the option to engage the CSCECL Group (subject to successful tender) as Contractors for its construction works. The Directors believe that such arrangement will continue to benefit the Group by leveraging the substantial experience and the specific construction qualifications of the CSCECL Group, and by better cost and time efficiency in managing its construction projects.

The CSCECL Group has been engaging in many construction works in various cities of the PRC. The Directors consider that the CSC Construction Engagement Transactions contemplated under the New CSCECL Construction Engagement Agreement will continue to provide opportunities for the Group to strengthen and further develop its construction related business and qualifications in the PRC through its participation in CSCECL Group's construction works in the PRC as Contractors.

In addition, the Directors consider that the CSCECL Construction Engagement Transactions and the CSC Construction Engagement Transactions will allow the Group to draw on the substantial construction experiences and resources of the CSCECL Group in the PRC whereby creating favourable conditions for the Group's business development in the PRC.

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

LETTER FROM THE BOARD

INFORMATION ON THE PARTIES TO THE NEW CSCECL CONSTRUCTION ENGAGEMENT AGREEMENT

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

CSCECL is the holding company of COHL which, in turn, is the controlling shareholder of the Company. CSCECL is a contractor which is principally engaged in construction works in various cities in the PRC and various countries around the world.

CSCEC is the ultimate holding company of each of CSCECL, COHL and the Company. CSCEC, together with its subsidiaries (excluding those listed on any stock exchange), is a conglomerate principally engaged in building construction, international contracting, real estate development and investment, infrastructure construction and investment and design and prospecting.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, CSCEC is the ultimate holding company of COHL which, in turn, is the controlling shareholder of the Company by virtue of it being interested in approximately 64.66% of the issued share capital of the Company. CSCECL is the intermediate holding company of the Company. Accordingly, members of the CSCECL Group are connected persons of the Company. Each of the CSCECL Construction Engagement Transactions and the CSC Construction Engagement Transactions contemplated under the New CSCECL Construction Engagement Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

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

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

LETTER FROM THE BOARD

None of the Directors has any material interest in the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder. However, Mr. Yan Jianguo, being the Chairman and non-executive director of the Company and the Chairman and President of COHL, and Mr. Zhang Haipeng, being executive Director and director of COHL, have voluntarily abstained from voting on the Board resolutions approving the entering into of the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap).

Shareholders should note that each of the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap represents the best estimates by the Directors of the amount of the relevant transactions based on the information currently available. Each of the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap bears no direct relationships to, nor should be taken to have any direct bearings to, the Group's financial or potential financial performance. The Group may or may not retain the CSCECL Group to engage in construction related works up to the level of the CSCECL Construction Engagement Cap, if at all, as its engagement is subject to tender procedures which are open to other independent third parties. Similarly, the CSCECL Group may or may not retain the Group to engage in construction related works up to the level of the CSC Construction Engagement Cap, if at all, as its engagement is subject to tender procedures which are open to other independent third parties.

EGM

A notice convening the EGM to be held at Meeting Room S221, Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong on Tuesday, 12 January 2021 at 3:00 p.m. is set out on pages EGM-1 to EGM-3 of this circular. Ordinary resolution will be proposed to the Independent Shareholders at the EGM to consider and, if thought fit, to approve the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap).

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

The register of members of the Company will be closed, for the purpose of determining the identity of members who are entitled to attend and vote at the EGM from Thursday, 7 January 2021 to Tuesday, 12 January 2021, both days inclusive, during which period no transfers of shares will be effected. In order to be entitled to attend the EGM, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Standard Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 6 January 2021.

LETTER FROM THE BOARD

VOTING BY WAY OF POLL

In accordance with Rule 13.39(4) of the Listing Rules, voting at the EGM will be conducted by poll. The chairman of the EGM will demand a poll for the resolution to be proposed at the EGM in accordance with the Company's articles of association.

As at the Latest Practicable Date, CSCECL and its associates held in aggregate 3,264,976,136 Shares, representing approximately 64.66% of the issued share capital of the Company, of which 118,787,644 Shares were held by Silver Lot Development Limited, a direct wholly-owned subsidiary of COHL, and 3,146,188,492 Shares were held by COHL. COHL is a direct wholly-owned subsidiary of CSCECL. CSCECL and its associates will abstain from voting at the EGM on the resolution relating to the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap).

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 CSCECL;
- (ii) CSCECL 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 CSCECL'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.

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

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed to advise and provide recommendation to the Independent Shareholders on the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap). Red Sun has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same respect.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to the letter of advice from the Independent Board Committee set out on pages 18 to 19 of this circular which contains its recommendation to the Independent Shareholders in relation to the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap).

Your attention is also drawn to the letter from Red Sun set out on pages 20 to 38 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap).

The Directors (including the Independent Non-executive Directors whose views have been set out in this circular together with the advice of the Independent Financial Adviser) consider that the New CSCECL Construction Engagement Agreement (and the transactions contemplated thereunder) have been entered into on normal commercial terms and in ordinary and usual course of business of the Group, and the terms and conditions therein (including the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

ADDITIONAL INFORMATION

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

Yours faithfully,

By Order of the Board

China State Construction International Holdings Limited

Yan Jianguo

Chairman and Non-executive Director



中國建築國際集團有限公司

CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 3311)

24 November 2020

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
WITH 中國建築股份有限公司
(CHINA STATE CONSTRUCTION ENGINEERING CORPORATION LIMITED)
IN RELATION TO CONSTRUCTION WORKS**

We refer to the circular dated 24 November 2020 (the “**Circular**”) issued by the Company to the Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether, in its opinion, the terms of the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap) 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. Red Sun has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap).

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 17 of the Circular and the text of a letter of advice from Red Sun, as set out on pages 20 to 38 of the Circular, both of which provide details of the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap).

Having considered (i) the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap); (ii) the advice of Red Sun; and (iii) the relevant information contained in the letter from the Board, we are of the opinion that the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap) 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.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

Yours faithfully,

For and on behalf of

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

Adrian David Li Man Kiu
Independent Non-executive Director

Raymond Leung Hai Ming
Independent Non-executive Director

Lee Shing See
Independent Non-executive Director

LETTER FROM RED SUN

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders in respect of the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap) for inclusion in this circular.



紅日資本有限公司

RED SUN CAPITAL LIMITED

24 November 2020

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

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS
WITH 中國建築股份有限公司
(CHINA STATE CONSTRUCTION ENGINEERING CORPORATION LIMITED)
IN RELATION TO CONSTRUCTION WORKS**

I. INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company (the “**Circular**”) to the Shareholders dated 24 November 2020, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 19 October 2020, the Company and CSCECL entered into the New CSCECL Construction Engagement Agreement to renew the Previous CSCECL Sub-construction Engagement Agreement for a term of three years commencing from 1 January 2021 and ending on 31 December 2023.

As at the Latest Practicable Date, CSCEC is the ultimate holding company of COHL, which, in turn, is the controlling shareholder of the Company by virtue of it being interested in approximately 64.66% of the issued share capital of the Company. CSCECL is the intermediate holding company of the Company. Accordingly, members of the CSCECL Group are connected persons of the Company. Each of the CSCECL Construction Engagement Transactions and the CSC Construction Engagement Transactions contemplated under the New CSCECL Construction Engagement Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

LETTER FROM RED SUN

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

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

II. THE INDEPENDENT BOARD COMMITTEE

The Board currently comprises Mr. Yan Jianguo as Chairman and non-executive Director; Mr. Zhang Haipeng as chief executive officer and executive Director; Mr. Tian Shuchen, Mr. Zhou Hancheng and Mr. Hung Cheung Shew as executive Directors; and Mr. Adrian David Li Man Kiu, Dr. Raymond Leung Hai Ming and Mr. Lee Shing See as Independent non-executive Directors.

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed to advise and provide recommendation to the Independent Shareholders on the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap).

We, Red Sun, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in these respects and to give our opinion in respect of the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap), for the Independent Board Committee's consideration when making their recommendation to the Independent Shareholders.

III. OUR INDEPENDENCE

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

LETTER FROM RED SUN

As at the Latest Practicable Date, we did not have any relationship with or interest in the Group or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have acted as the independent financial adviser to the then independent board committee and the then independent shareholders of the Group, details of which are set out in the relevant circulars dated (i) 10 July 2019 in relation to continuing connected transactions; and (ii) 24 March 2020 in relation to continuing connected transactions.

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

IV. BASIS OF OUR ADVICE

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

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

LETTER FROM RED SUN

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap), and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

V. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap), we have taken into consideration the following principal factors and reasons:

1. Background information of the Group and CSCECL Group

1.1. Principal business and the financial information of the Group

The Group is principally engaged in construction business, infrastructure investments, prefabricated constructions, engineering consultancy and facade contracting business.

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

Financial performance of the Group

	For the year ended		For the six months	
	31 December	31 December	ended 30 June	ended 30 June
	2018	2019	2019	2020
	(audited)	(audited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	55,626,304	61,669,678	27,542,500	28,002,101
- Construction contracts	22,000,707	26,286,314	12,433,320	12,184,372
- Infrastructure investment projects	29,311,340	31,031,737	12,872,306	13,826,687
- Facade contracting business	2,909,636	2,678,001	1,441,775	1,267,187
- Infrastructure operation	849,358	834,113	412,213	366,460
- Others (Note)	555,263	839,513	382,886	357,395

Note: Revenue from others mainly comprise of revenue from project consultancy services, sales of building materials, machinery leasing, logistics services, insurance contracts and rental income from investment properties.

LETTER FROM RED SUN

Based on the 2019 Annual Report, revenue for the year ended 31 December 2018 and 2019 was approximately HK\$55.6 billion and HK\$61.7 billion, respectively, representing a growth rate of approximately 10.9%. Such increase was mainly attributable to (i) the increase in revenue generated from the Group's infrastructure investment projects from approximately HK\$29.3 billion for the year ended 31 December 2018 to approximately HK\$31.0 billion for the year ended 31 December 2019; and (ii) the increase in revenue generated from the Group's construction contracts from approximately HK\$22.0 billion for the year ended 31 December 2018 to approximately HK\$26.3 billion for the year ended 31 December 2019. Revenue generated from construction contracts and infrastructure investment projects accounted for approximately 42.6% and 50.3% of the Group's total revenue for the year ended 31 December 2019, respectively.

Based on the 2020 Interim Report, revenue for the six months ended 30 June 2019 and 2020 was approximately HK\$27.5 billion and HK\$28.0 billion, respectively, representing a growth rate of approximately 1.7%. Such increase was mainly attributable to the increase in revenue generated from the Group's infrastructure investment projects from approximately HK\$12.9 billion for the six months ended 30 June 2019 to approximately HK\$13.8 billion for the six months ended 30 June 2020. Revenue generated from construction contracts and infrastructure investment projects accounted for approximately 43.5% and 49.4% of the Group's total revenue for the six months ended 30 June 2020, respectively.

1.2. Principal activities of the CSCECL Group

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

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

1.3. Overview of the PRC economy

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

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

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

Source: NBS

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

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

Source: NBS

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

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

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

LETTER FROM RED SUN

2. The New CSCECL Construction Engagement Agreement

2.1. Principal terms of the New CSCECL Construction Engagement Agreement

The New CSCECL Construction Engagement Agreement shall commence from 1 January 2021 and ending on 31 December 2023.

Details of the terms of the New CSCECL Construction Engagement Agreement, including, amongst others, the pricing basis of the contract sum awarded by the Group to the CSCECL Group, the calculation of the CSCECL Construction Engagement Cap, the pricing basis of the Group's tenders submitted to the CSCECL Group and the calculation of the CSC Construction Engagement Cap, are set out in the section headed "The New CSCECL Construction Engagement Agreement" in the Letter from the Board.

2.2. Reasons for and benefits of entering into the New CSCECL Construction Engagement Agreement

As set out from the Letter from the Board, CSCECL has substantial experience in construction markets. In the cases where the Group considers that contracting its construction, project management and/or project consultancy works, and/or procuring project construction material from suppliers for its construction works would be more efficient and effective, the CSCECL Construction Engagement Transactions contemplated under the New CSCECL Construction Engagement Agreement provides the Company with the option to engage the CSCECL Group (subject to successful tender) as Contractors for its construction works. The Directors believe that such arrangement will continue to benefit the Group by leveraging the substantial experience and the specific construction qualifications of the CSCECL Group, and by better cost and time efficiency in managing its construction projects.

The CSCECL Group has been engaging in many construction works in various cities of the PRC. The Directors consider that the CSC Construction Engagement Transactions contemplated under the New CSCECL Construction Engagement Agreement will continue to provide opportunities for the Group to strengthen and further develop its construction related business and qualifications in the PRC through its participation in CSCECL Group's construction works in the PRC as Contractors.

In addition, the Directors consider that the CSCECL Construction Engagement Transactions and the CSC Construction Engagement Transactions will allow the Group to draw on the substantial construction experiences and resources of the CSCECL Group in the PRC whereby creating favourable conditions for the Group's business development in the PRC.

Taking into account the principal businesses of both the Group and the CSCECL Group and to ensure the continuation for the Group to invite the CSCECL Group to participate in competitive tender as Contractors for the Group's construction works from time to time and vice versa, we concur with the Directors that the entering into the New CSCECL Construction Engagement Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

LETTER FROM RED SUN

2.3. Our review on the Group's tender review procedures and tender submission procedures

CSCECL Construction Engagement Transactions

As set out in the Letter from the Board, the contract sum and the terms awarded by the Group to the CSCECL Group for the Group's construction works will be negotiated on an arm's length basis and determined between the Group and the CSCECL Group subject to standard and systematic tender review procedures (the "**Tender Review Procedures**") maintained by the Group, which apply to tenders obtained from both connected persons and independent third parties, in order to ensure that the contract sum and terms of the tender granted by the Group to the CSCECL Group are no more favourable to the CSCECL Group, and no less favourable to the Group than those granted to independent third parties.

We have discussed with the Management and noted that the Tender Review Procedures generally involve three stages: (i) invitation to tender; (ii) review of tender documents; and (iii) tender selection. For contracts with an amount of less than RMB5,000,000, the Company's regional management team will form a committee (the "**Committee**") in reviewing the tender documents. For contracts with an amount of more than or equal to RMB5,000,000, the review of the tender documents will be conducted by the Group's construction contracting advisory board (the "**Advisory Board**"), comprising not less than five members, which include Directors who are not employees and directors of the CSCECL Group, the directors, management staff and supervisor of the relevant member of the Group and the finance personnel of the Group. In both cases, the members of the Committee or the Advisory Board shall not be employees or directors of the CSCECL Group and shall have no relationship with the CSCECL Group.

Furthermore, we noted that the Committee or the Advisory Board will shortlist at least three tenders and make the final decision with reference to (i) quality of work; (ii) measures on environmental protection, safety and workers' health undertaken; (iii) time management and project management plan; (iv) financial arrangement and financial ability; (v) material and supply management; and (vi) past cooperation record with the Group (if any), of the tender applicants.

The Committee or the Advisory Board will also review the cost information for materials and pricing information of previous tenders submitted to the Group in assessment of the pricing terms.

The Committee or the Advisory Board will also review and compare previous tender prices granted to both connected persons and independent third parties, so as to ensure that the contract sum and terms of the tender to be granted by the Group to the CSCECL Group are no more favourable to the CSCECL Group, and no less favourable to the Group, than those granted to independent third parties.

Having reviewed the above factors and information, the Committee or the Advisory Board will select the Contractor with the lowest tender amount on the condition that it also satisfies the selection criteria and principles as set out above and as set out in the tender invitation.

The relevant letter of award or contract will be issued once the final decision is made in the meeting of the Committee or the Advisory Board.

LETTER FROM RED SUN

For our assessment in connection with the Tender Review Procedures, we have (i) reviewed the internal procedure setting out the Tender Review Procedures; and (ii) obtained and reviewed a total of five random sample tender review reports of the Group reviewed by the Advisory Board for tender submitted by connected persons and independent third parties taking into account the following factors, including (i) relatively sizeable tender sums exceeded RMB40 million; (ii) the construction projects being tendered would be carried out in the PRC; and (iii) the tenders were reviewed within the terms of three years commencing from 1 January 2018 and ending 31 December 2020 under the Previous CSCECL Sub-construction Engagement Agreement, among which four sample tender review reports contained tenders submitted from both connected persons and independent third parties while the remaining one sample tender review report contained tenders from connected persons. Based on our review on the aforesaid sample tender review reports, we noted that (i) same tender selection criteria, including but not limited to cost competitiveness of the tenders and historical performance, experience, quality of work of the Contractors, had been applied to tenders submitted by the CSCECL Group and other independent Contractors; (ii) for the four sample tender review reports contained tenders submitted from both connected persons and independent third parties, at least three tenders were selected and compared for tenders submitted by the CSCECL Group and/or other independent Contractors and, for the remaining one sample tender review report contained tenders from connected persons, at least three tenders were selected and compared for tender submitted by the CSCECL; and (iii) the respective tender with the highest score was selected as the Contractor of the corresponding construction contracts under the tender review report.

Having considered that the internal procedure for tender review (i.e. Tender Review Procedures) which applies to both connected persons or independent third party, we concur with the Directors' view that the Company has sufficient internal control procedures to govern the terms of the CSCECL Construction Engagement Transactions under the New CSCECL Construction Engagement Agreement.

CSC Construction Engagement Transactions

As stated in the Letter from the Board, the price and terms of the Group's tenders submitted to the CSCECL Group for the CSCECL Group's construction works are subject to standard and systematic tender submission procedures (the "**Tender Submission Procedures**") maintained by the Group, which apply to tenders submitted to both connected persons and independent third parties, in order to ensure that the price and terms of the proposed tender submitted by the Group to the CSCECL Group are no more favourable to the CSCECL Group, and no less favourable to the Group, than those submitted to independent third parties.

We have discussed with the Management and noted that the Tender Submission Procedures generally involve (i) receiving invitation to tender/publication of tender notices; (ii) initial assessment of tender documents; (iii) further planning and estimation; (iv) preparation for tender report and internal tender adjudication; and (v) tender submission. In preparing and assessing the tender documents, the Group will take into account factors including technical requirements, quantity specifications, expected completion time, customer's expectations and possible risk factors associated with a project. The Group will then perform site inspection, formulate a tentative construction program and conduct quantitative costs analysis and risk assessment.

LETTER FROM RED SUN

In determining the pricing terms, the Group will review the costs information maintained by its in-house computer database for materials supplied and contract prices from contractors for the Group's previous projects and peripheral operation. This information will assist the Group to conduct quantitative comparison between quotations obtained from contractors and material suppliers. The Group will review details of the tender to be submitted for bidding including the price analysis of each item in the tender for both tenders to be submitted to connected persons and independent third parties, and compare them with previous tenders submitted to both connected persons and independent third parties, so as to ensure that the prices and terms of the tender to be submitted to the CSCECL Group are not more favourable to the CSCECL Group, and no less favourable to the Group, than those submitted to independent third parties.

The review committee of the CSCECL Group which is independent of the Group (the "**Review Committee**") may approve or reject the tenders submitted by the Group based on the analysis result of its tender review process. In addition, the Review Committee is also responsible for deciding the contents and pricing term of the proposed tender. If any contract is granted in favour of the Group as a result of the competitive tender, the relevant project owner of the CSCECL Group will issue a letter of award to the Group and the Group will act as the Contractor for the relevant construction works of the CSCECL Group based on the terms of the successful tender.

In connection with our works performed on assessing whether the Tender Submission Procedures implemented by the Group, we have (i) reviewed the internal procedure setting out the Tender Submission Procedures; and (ii) obtained and reviewed five random sample tender submission review reports of the Group for tender submissions made to connected persons or independent third parties taking into the following factors, including (i) relatively sizeable tender sums exceeded RMB40 million; (ii) the construction projects being tendered would be carried out in the PRC; and (iii) the tenders were submitted within the terms of three years commencing from 1 January 2018 and ending 31 December 2020 under the Previous CSCECL Sub-construction Engagement Agreement, among which two sample tender submission review reports involving tenders submitted to independent third parties while three sample tender submission review reports involving tenders submitted to connected persons. Based on our review, we noted that (i) the Tender Submission Procedures maintained by the Group is applicable to tender submitted to both connected persons and independent third parties; and (ii) the pricing terms of the tenders were determined by the Group with reference to the project cost and profit estimation, technical requirements, quantity specifications, expected completion time, customer's expectations and possible risk factors associated with a project.

Having considered that the internal procedure for tender submission (i.e. Tender Submission Procedures) which applies to both connected persons or independent third party, we concur with the Directors' view that the Company has sufficient internal control procedures to govern the terms of the CSC Construction Engagement Transactions under the New CSCECL Construction Engagement Agreement.

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2.4. Basis for determining the annual caps

Set out below are the proposed CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap under the New CSCECL Construction Engagement Agreement:

CSCECL Construction Engagement Cap

For the year ending 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023
RMB55,000 million	RMB55,000 million	RMB55,000 million

CSC Construction Engagement Cap

For the year ending 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023
RMB18,000 million	RMB18,000 million	RMB18,000 million

As set out in the Letter from the Board, the CSCECL Construction Engagement Cap is calculated with reference to, the following factors:

- (a) the maximum total contract sum that might be awarded by the Group to the CSCECL Group in respect of the Group's construction works for each of the three financial years ending 31 December 2020 under the Previous CSCECL Sub-construction Engagement Agreement of not exceeding RMB55,000 million (i.e. the previous annual cap);
- (b) total contract sum of construction projects of the Group engaging the CSCECL Group for each of the three financial years ended 31 December 2019 amounted to RMB44,181 million, RMB15,825 million and RMB13,868 million respectively, and in the period between 1 January 2020 and 30 June 2020 of RMB1,159 million, which are used to calculate the three-year historical average percentage, being the aforementioned historical total contract sum of construction projects of the Group engaging the CSCECL Group divided by the total contract sum of PRC construction projects of the Group for the respective three years ended 31 December 2019, after taking into account certain adjustment, such as material cost ("**CSCECL Historical Average Percentage**"); and

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- (c) total expected contract sums of new PRC construction projects of the Group that may be awarded by the Group to the CSCECL Group for the three years ending 31 December 2023 amounted to approximately RMB49.6 billion, RMB49.6 billion and RMB51.8 billion, respectively (after taking into consideration, among other things, the timing difference of the time of tender and the time of signing the contract). This is calculated based on the projects in relation to public—private—partnership (“PPP”) projects, government target repurchase (“GTR”), engineering procurement construction (“EPC”) and other infrastructure investments such as highways, bridges, public works and affordable housing in the PRC as set out under the Group’s projected investments of approximately RMB73.5 billion, RMB77.0 billion and RMB81.0 billion for the three years ending 31 December 2023, respectively, as prepared for the planning of the 14th Five-Year Plan submitted to the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) multiplied by the CSCECL Historical Average Percentage.

We noted that total contract sum of construction projects of the Group engaging the CSCECL Group for each of the three financial years ended 31 December 2019 amounted to RMB44,181 million, RMB15,825 million and RMB13,868 million respectively, and in the period between 1 January 2020 to 30 June 2020 of RMB1,159 million, representing an utilisation rate of approximately 80.3%, 28.8%, 25.2% and 2.1%, of the respective annual cap for each of the three financial years ended 31 December 2019 and the period between 1 January 2020 to 30 June 2020. As discussed with the Management, the decrease in utilisation rate for the two years ended 31 December 2019 and the period between 1 January 2020 to 30 June 2020 was due to change in government policy on PPP projects in the PRC. We understand from the Management that since 2018, the PRC government has tightened regulations over infrastructure investment market, in particular the PPP projects, and that (i) Ministry of Finance* (財政部) has commenced a nationwide audit of PPP project database; and (ii) central ministries and commissions issued policies to strengthen the supervision over the PPP projects, which further regulated government purchase of services, and made more detailed restrictions on capital expenditure and repayment sources of local government infrastructure investment in 2019. Accordingly, it led to the decrease in number of potential PPP projects available for tender and the number of PPP projects awarded to the Group, which in turn, indirectly led to the decrease in PPP projects awarded to the CSCECL Group under the Previous CSCECL Sub-construction Engagement Agreement.

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We have reviewed (i) an order¹ published by the National Development and Reform Commission in November 2017; and (ii) a notice² published by the National Development and Reform Commission* (中華人民共和國國家發展和改革委員會) in 2019, which set out policies implemented to strengthen the supervision over the PPP projects. Furthermore, we noted from (i) 2019 Annual Report³ of the National PPP Integrated Information Platform Management Database Project* (全國PPP綜合信息平臺管理庫項目), that (a) the number of potential PPP project for the year ended 31 December 2019 decreased by approximately 2,600 or 64.8% as compared with that of 2018; and (b) the investment amount of the above-mentioned potential PPP project decreased by approximately RMB360 billion or 62.1%; and (ii) the July update⁴ of National PPP Integrated Information Platform Management Database Project*(全國PPP綜合信息平臺管理庫項目), that the investment amount of the potential PPP project for the seven months ended 31 July 2020 was approximately RMB1,044 billion, representing a decrease by approximately RMB180 billion or 14.7% as compared to that of the seven month ended 31 July 2019.

Notwithstanding the decrease in utilisation rate and the more stringent criteria in government policy on PPP projects in the PRC as mentioned above which might continue to impact the number of PPP projects to be awarded to the Group for the three years ending 31 December 2023, as discussed with the Management, the Group is actively expanding its construction business based on a strategy of balance between scale growth, leverage and cash flow, and actively acquired infrastructure projects with a shorter cycle, faster turnover and higher return, including but not limited to government target repurchase (GTR) and engineering procurement construction (EPC). According to the Company's 2020 Interim Report, the Group's net expenditure for infrastructure project and GTR project for the six months ended 30 June 2020 were approximately HK\$3.72 billion, representing a notable increase of approximately 300% as compared to that of approximately HK\$0.93 billion for the six months ended 30 June 2019.

As set out in the Letter from the Board, the CSC Construction Engagement Cap is calculated with reference to, the following factors:

- (a) the maximum total contract sum that might be awarded by the CSCECL Group to the Group in respect of the CSCECL Group's construction works for each of the three financial years ending 31 December 2020 under the Previous CSCECL Sub-construction Engagement Agreement of not exceeding RMB25,000 million (i.e. the previous annual cap);
- (b) total contract sum of construction projects of the CSCECL Group engaging the Group for each of the three financial years ended 31 December 2019 amounted to RMB14,218 million, RMB2,814 million and RMB10,659 million respectively, and in the period between 1 January 2020 and 30 June 2020 of RMB11 million, which are used to calculate the three-year historical average percentage, being the aforementioned historical total contract sum of construction projects of the CSCECL Group engaging the Group divided by the total contact sum of PRC construction projects of the Group for the respective three years ended 31 December 2019, after taking into account of certain adjustment, such as material cost ("**CSC Historical Average Percentage**"); and

¹ "Measures for the Administration of the Engineering Consulting Industry", Order of the National Development and Reform Commission, https://www.ndrc.gov.cn/xxgk/zcxfb/fzggwl/201711/t20171113_960846.html

² "Notice of the National Development and Reform Commission on Legally Strengthening the Administration of Investments in and Construction of PPP Projects", http://www.gov.cn/gongbao/content/2019/content_5442278.htm

³ "National PPP Integrated Information Platform Management Database Project 2019 annual report", <https://www.cpppc.org/opt/pmo/nfs/images/www/202004/17124839ogje.pdf>

⁴ "National PPP Integrated Information Platform Management Database Project July", <http://czt.ah.gov.cn/group6/M00/01/4D/wKg8B19sXN-AWbe6AI8yTznGKBs304.pdf>

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- (c) total expected contract sums of new PRC construction projects that may be awarded by the CSCECL Group to the Group for the three years ending 31 December 2023 amounted to approximately RMB16.3 billion, RMB16.3 billion and RMB17.0 billion, respectively (after taking into consideration, among other things, the timing difference of the time of tender and the time of signing the contract). This is calculated based on the projects in relation to PPP projects, GTR, EPC and other infrastructure investments such as highways, bridges, public works and affordable housing in the PRC as set out under the Group's projected investments of approximately RMB73.5 billion, RMB77.0 billion and RMB81.0 billion for the three years ending 31 December 2023, respectively, as prepared for the planning of the 14th Five-Year Plan submitted to the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) multiplied by the CSC Historical Average Percentage.

We noted that total contract sum of construction projects of the CSCECL Group engaging the Group for each of the three financial years ended 31 December 2019 amounted to RMB14,218 million, RMB2,814 million and RMB10,659 million respectively, and in the period between 1 January 2020 to 30 June 2020 of RMB11 million, representing an utilisation rate of approximately 56.9%, 11.3%, 42.6% and 0.04%, of the respective annual cap for each of the three financial years ended 31 December 2019 and the period between 1 January 2020 to 30 June 2020. As discussed with the Management, the decrease in utilisation rate for the two years ended 31 December 2019 and the period between 1 January 2020 to 30 June 2020 was due to change in government policy on PPP projects in the PRC. We understand from the Management that since 2018, the PRC government has tightened regulations over infrastructure investment market, in particular the PPP projects, and that (i) Ministry of Finance* (財政部) has commenced a nationwide audit of PPP project database since 2017; and (ii) central ministries and commissions issued policies to strengthen the supervision over the PPP projects, which further regulated government purchase of services, and made more detailed restrictions on capital expenditure and repayment sources of local government infrastructure investment in 2019. Accordingly, it led to decrease in number of potential PPP projects available and awarded to the Group which in turn, indirectly led to the decrease in PPP projects awarded to the CSCECL Group under the Previous CSCECL Sub-construction Engagement Agreement.

As discussed with the Management, notwithstanding the more stringent criteria in government policy on PPP projects in the PRC as mentioned above which might continue to impact the number of PPP projects awarded to the CSCECL Group and thus to the Group for the three years ending 31 December 2023, the Group is actively expanding its construction business and tender for other projects besides PPP projects including but not limited to government target repurchase (GTR) and engineering procurement construction (EPC).

Our assessments on the proposed annual caps and its basis

In assessing the reasonableness of the above proposed annual caps, we have reviewed and discussed with the Management the bases and assumptions underlying the projections of the annual caps and, in particular, a schedule prepared by the Management (the “**Schedule**”) which sets out (i) the estimated contract sum which the Group may contract its construction works to the CSCECL Group for the three years ending 31 December 2023; and (ii) the estimated contract sum which the Group may act as Contractors in the construction works of the CSCECL Group for the three years ending 31 December 2023. Based on our review and discussion, we understand from the Management that the Company has taken the following factors into account in determining the annual caps:

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The CSCECL Construction Engagement Cap

Based on our discussion with the Management, we noted that when determining the estimated contract sum which the Group may contract its construction works to the CSCECL Group for the three years ending 31 December 2023 as set out in the Schedule, the Management had taken in to consideration, amongst others, estimation of the total contract sum which is based on the projected investments of the Group in the PRC for the five years ending 31 December 2025 (the “**Total Contract Sum**”).

As advised by the Management, the projected investments include PPP projects, GTR and EPC and other infrastructure investment such as highways, bridges, public works and affordable housing in the PRC. The Total Contract Sum for the three years ending 31 December 2023 are estimated to be approximately RMB73.5 billion, RMB77.0 billion and RMB81.0 billion, respectively.

We have discussed with the Management and noted that (a) such Total Contract Sum is for the planning of the 14th Five-Year Plan which was submitted to the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) (the “SASAC”) and is an aggregated expected contract sum provided by the subsidiaries of the Group; and (b) the expected contract sum provided by the subsidiaries of the Group was forecasted based on the actual contract sum recorded by these subsidiaries for the year ended 31 December 2019 multiplied by a compound annual growth rate estimated by the Management. We noted that such compound annual growth rate is lower than the actual revenue growth rate of the Group for the year ended 31 December 2019 as compared to the year ended 31 December 2018. We have also reviewed a list setting out the aforesaid estimated contract sum provided by the subsidiaries of the Group and noted that the estimated total contract sum stated in the list is in line with the Total Contract Sum stated in the Schedule.

Based on our discussion with the Management and our review of the Schedule, it is estimated that the expected total contract sum that may be awarded by the Group to the CSCECL Group for three years ending 31 December 2023 are approximately RMB49.6 billion, RMB49.6 billion and RMB51.8 billion, respectively, being the results of the estimated contract sum of new PRC construction projects in relation to PPP projects, GTR, EPC and other infrastructure investments such as highways, bridges, public works and affordable housing to be awarded by the Group to the CSCECL Group in 2021, 2022 and 2023 under the Total Contract Sum (after taking into consideration, amongst other things, the timing difference of the time of tender and the time of signing the contract) multiplied by the CSCECL Historical Average Percentage, details are setting out below.

As discussed with the Management, the CSCECL Historical Average Percentage, being the three-year average percentage of historical total contract sum secured by the Group and awarded their construction works to the CSCECL Group as Contractors divided by the total contract sum secured by the Group for the respective three years ended 31 December 2019 after taking into account of certain adjustment, such as material cost. We have reviewed a schedule setting out the aforesaid historical total contract sum secured by the Group for the three years ended 31 December 2019, under which the historical total contract sum secured by the Group and awarded their construction works to the CSCECL Group as Contractors is in line with the above methodology to derive the CSCECL Historical Average Percentage. Having considered the CSCECL Historical Average Percentage is calculated based on historical actual data provided by the Management, we consider it is reasonable to use the CSCECL Historical Average Percentage as the basis for the calculation of the proposed annual caps.

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Moreover, we noted that the Group has applied a buffer of not more than 10.0% to the CSCECL Construction Engagement Cap for the three years ending 31 December 2023. As advised by the Management, it was intended to cater for any unforeseen changes in market conditions including an unexpected increase in demand of construction works and/or unexpected increase in the contract sum contracted to the CSCECL Group, thereby providing a degree of flexibility.

Having considered that the sustainable growth of the Group's infrastructure investment projects in the PRC, the Management expects that the Group's demand for contracting service offered by the CSCECL Group or other independent Contractors will continue to increase during the three years ending 31 December 2023. As the CSCECL Group, which have long-term business relationship with the Group, together with a strong presence and proven track record in the PRC construction market, may tender for the Group's construction works as Contractors over the next three years in accordance with the tendering procedures of the Group from time to time over the next few years, the Directors consider that the CSCECL Construction Engagement Transactions will allow the Group to draw on the substantial construction experiences and resources of the CSCECL Group in the PRC whereby creating favourable conditions for the Group's business development in the PRC.

We also noted from (i) the Group's annual report for the year ended 31 December 2018 and 2019 Annual Report that the Group's revenue for the year ended 31 December 2017, 2018 and 2019 was approximately HK\$50.2 billion, HK\$55.6 billion and HK\$61.7 billion, respectively, representing a growth rate of approximately 10.8% and 11.0%, respectively; and (ii) the 2020 Interim Report that the Group recorded in the second quarter a year-on-year increase of 107.4%, and quarter-on-quarter increase of 347.3% on new contracts signed in the PRC market.

Having considered, amongst others, (i) the CSCECL Construction Engagement Cap is estimated based on the CSCECL Historical Average Percentage in the past multiplied by the estimated contract sum of new PRC construction projects in relation to PPP projects, GTR, EPC and other infrastructure investments such as highways, bridges, public works and affordable housing to be awarded by the Group to the CSCECL Group in 2021, 2022 and 2023 under the Total Contract Sum plus a buffer; (ii) the Total Contract Sum was prepared for the Group's planning of the 14th Five-Year Plan and was submitted to the SASAC; (iii) the Group is actively expanding its construction business including but not limited to GTR and EPC notwithstanding the potential impact of more stringent criteria in government policy on PPP projects; (iv) the revenue growth of the Group for the two years ended 31 December 2019 as set out in the 2019 Annual Report and the growth of new contract signed by the Group as set out in the 2020 Interim Report; and (v) the overview of the PRC economy as set out under the paragraph headed "1.3 Overview of the PRC economy" above, we concur with the Directors' view that the CSCECL Construction Engagement Cap is fair and reasonable.

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The CSC Construction Engagement Cap

We have reviewed the Schedule which also sets out the estimated contract sum which the Group may act as a Contractors in the construction works of the CSCECL Group for the three years ending 31 December 2023. Based on the Schedule, it is estimated that the expected total contract sum that may be awarded to the Group from the CSCECL Group for three years ending 31 December 2023 are approximately RMB16.3 billion, RMB16.3 billion and RMB17.0 billion, respectively, being the results of the estimated contract sum of new PRC construction projects in relation to PPP projects, GTR, EPC and other infrastructure investments such as highways, bridges, public works and affordable housing to be awarded by the CSCECL Group to the Group in 2021, 2022 and 2023 under the Total Contract Sum (after taking into consideration, amongst other things, the timing difference of the time of tender and the time of signing the contract) multiplied by the CSC Historical Average Percentage, details are setting out below.

As discussed with the Management, the CSC Historical Average Percentage, being the three-year average percentage of the historical total contract sum secured by the CSCECL Group and awarded its construction works to the Group as Contractors divided by the total contact sum secured by the CSCECL Group for the respective three years ended 31 December 2019, after taking into account of certain adjustment, such as material cost. We have reviewed a schedule setting out the aforesaid historical total contract sum secured by the CSCECL Group for the three years ended 31 December 2019, under which the historical total contract sum CSCECL Group awarded its construction works to the Group as Contractors is in line with the above methodology to derive the CSC Historical Average Percentage. Having considered the CSC Historical Average Percentage is calculated based on historical actual data provided by the Management, we consider it is reasonable to use the CSC Historical Average Percentage as the basis for the calculation of the proposed annual caps.

We noted that the Group has applied a buffer of not more than 10.0% to the CSC Construction Engagement Cap for the three years ending 31 December 2023. As advised by the Management, it was intended to cater for any unforeseen changes in market conditions including an unexpected increase in demand of construction works and/or unexpected increase in the contract sum contracted to the Group, thereby providing a degree of flexibility.

As advised by the Management, the CSCECL has substantial experience in construction market. It is expected that the continuing urbanisation in the PRC and the PRC government's development policy for infrastructure construction and affordable housings will promote relevant construction in civil constructions, housing and transportation, and construction market demand will grow steadily. Benefited from the overall market environment in the PRC, the Management expects that the total estimated contract sum of new construction projects of the CSCECL Group in the three-year period commencing from 1 January 2021 and ending on 31 December 2023, will continue to grow, and as a result, it will increase the demand for contracting services.

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In addition, as some of the Group's construction contracts may be granted to CSCECL Group through the New CSCECL Construction Engagement Agreement, and the Management expects that CSCECL Group may invite qualified Contractors, including the Group's construction arm in the PRC, to tender for certain parts of such construction works as Contractors in accordance with the tendering procedure of the CSCECL Group from time to time. The Management considers that the CSC Construction Engagement Cap provides the Group flexibility to participate in the tender of the CSCECL Group from time to time over the next three years.

We also noted from (i) the CSCECL Group's published announcement in relation to its operation results for the eight months ended 31 August 2020, the total contract sum of new construction projects amounted to approximately RMB1,934.3 billion, representing an increase of 7.0% as compared to the same period of 2019, among which construction contracts for infrastructure construction amounted to approximately RMB330.5 billion, representing an increase of 19.5% as compared to the same period of 2019; and (ii) the CSCECL 2019 Annual Report, CSCECL recorded revenue for the year ended 31 December 2018 and 2019 of approximately RMB1,199.3 billion and RMB1,419.8 billion, respectively, representing a growth of approximately 18.4%.

Notwithstanding the potential impact of more stringent criteria in government policy on PPP projects, having considered, amongst others, (i) the CSC Construction Engagement Cap is estimated based on the CSC Historical Average Percentage in the past multiplied by the estimated contract sum of new PRC construction projects in relation to PPP projects, GTR, EPC and other infrastructure investments such as highways, bridges, public works and affordable housing to be awarded by the CSCECL Group to the Group in 2021, 2022 and 2023 under the Total Contract Sum, after taking into account certain adjustments, plus a buffer; (ii) the Total Contract Sum was prepared for the Group's planning of the 14th Five-Year Plan and was submitted to the SASAC; (iii) CSCECL is a contractor with extensive experience in construction works in various cities in the PRC and various countries around the world; and (iv) the overview of the PRC economy as set out under the paragraph headed "1.3 Overview of the PRC economy" above, we concur with the Directors' view that the CSC Construction Engagement Cap is fair and reasonable.

VI. RECOMMENDATION

Having considered the factors as set out in this letter above, in particular,

- (i) the basis and reasons for the New CSCECL Construction Engagement Agreement;
- (ii) the transactions contemplated under the New CSCECL Construction Engagement Agreement is a continuance of the Group's businesses;
- (iii) the transactions contemplated under the New CSCECL Construction Engagement Agreement will be conducted in the ordinary and usual course of business of the Group and on normal commercial terms; and
- (iv) the basis for determining the respective CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap are reasonable, details of which are set out in the sections headed "2.4 Basis for determining the annual caps".

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we are of the view that the entering into of the New CSCECL Construction Engagement Agreement, the transactions contemplated thereunder and the terms thereof are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Furthermore, based on our analysis set out above, we consider that the respective CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap under the New CSCECL Construction Engagement Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the independent shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the transactions contemplated under the New CSCECL Construction Engagement Agreement (together with the CSCECL Construction Engagement Cap and the CSC Construction Engagement Cap).

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 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.

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 the 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 were (i) 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 in which they were taken or deemed to have under such provisions of the SFO); or (ii) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

As at the Latest Practicable Date:

- (i) Mr. Zhou Hancheng, Mr. Hung Cheung Shew, Mr. Adrian David Li Man Kiu, Dr. Raymond Leung Hai Ming and Mr. Lee Shing See respectively held 2,930,780; 591,584; 1,027,765; 813,569; and 1,027,765 Shares, representing 0.058%; 0.012%; 0.020%; 0.016%; and 0.020% of Shares in issue. All the Shares held by the Directors are being personal interest, in long positions and in the capacity of beneficial owners;
- (ii) Mr. Yan Jianguo held share options to subscribe 700,000 shares (representing 0.006% of shares in issue) of COLI (an associated corporation of the Company). All the share options held by the Director are being personal interest, in long positions and in the capacity of beneficial owner;
- (iii) Mr. Zhang Haipeng, Mr. Tian Shuchen and Mr. Hung Cheung Shew respectively held 3,750,000 shares, 10,000,000 shares and 30,000 shares of China State Construction Development Holdings Limited (a non-wholly owned subsidiary of the Company), representing 0.174%, 0.464% and 0.001% of shares in issue. All the shares held by the Directors are being personal interest, in long positions and in the capacity of beneficial owner;
- (iv) Mr. Hung Cheung Shew held 7,095 shares (representing 0.000% of shares in issue) of COLI (an associated corporation of the Company). All the shares held by the Director are being personal interest, in long positions and in the capacity of beneficial owner;

- (v) Mr. Hung Cheung Shew held 2,365 shares (representing 0.000% of shares in issue) of China Overseas Property Holdings Limited (an associated corporation of the Company). All the shares held by the Director are being personal interest, in long positions and in the capacity of beneficial owner; and

- (vi) Mr. Zhang Haipeng, Mr. Tian Shuchen and Mr. Zhou Hancheng respectively held 774,000; 284,000; and 684,000 shares of CSCECL (an intermediate holding company of the Company), representing 0.002%; 0.001%; and 0.002% of shares in issue in CSCECL. All the shares held by the Directors are being personal interest, in long positions and in the capacity of beneficial owners. The Company was informed that their CSCECL's shares were granted by CSCECL under its A-shares Restricted Stock Incentive Plan (Phase II).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had, or was deemed to have, or 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 would fall to be (i) 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 in which they were taken or deemed to have under such provisions of the SFO); or (ii) required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

COMPETING INTERESTS

As at the Latest Practicable Date, Mr. Yan Jianguo, the Chairman and non-executive director of the Company, is the Chairman and President of COHL, and Mr. Zhang Haipeng, an executive Director and chief executive officer of the Company, is a director of COHL. Operations of such companies are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group as these companies are engaged in construction, property development and related businesses. As at the Latest Practicable Date, COHL held 3,264,976,136 Shares, representing approximately 64.66% of the issued share capital of the Company.

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

Save as disclosed in this section, as at the Latest Practicable Date, none of the Directors nor any of their respective close associates had any interest in a business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business and would require disclosure under Rule 8.10 of the Listing Rules as if each of them was a controlling shareholder.

MATERIAL ADVERSE CHANGE

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

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the Company or any member of the Group within one year without the payment of compensation (other than statutory compensation)).

ADDITIONAL DISCLOSURE OF INTERESTS

As at the Latest Practicable Date:

- (i) none of the Directors or proposed Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the businesses of the Group;
- (ii) none of the Directors had any interest, direct or indirect, in any asset which had been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, being the date to which the latest published audited accounts of the Group were made up; and
- (iii) save as disclosed in the paragraph headed “COMPETING INTERESTS” above, so far as was known to the Directors, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

QUALIFICATION AND CONSENT OF EXPERT

The following sets out the qualification of the expert who has given its opinions, letter or advice included in this circular:

Name	Qualification
Red Sun Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

The letter from Red Sun is given as of the date of this circular for incorporation herein.

As at the Latest Practicable Date, Red Sun had no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Red Sun had no interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, being the date to which the latest published audited accounts of the Group were made up.

Red Sun has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 28th Floor, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong from the date of this circular up to and including 12 January 2021 (except Saturdays and Sundays):

- (a) the New CSCECL Construction Engagement Agreement;
- (b) the Previous CSCECL Sub-construction Engagement Agreement;
- (c) 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;
- (d) the letter from the Independent Financial Adviser, the text of which is set out in the section headed “LETTER FROM RED SUN” of this circular; and
- (e) the letter of consent from the expert referred to under the section headed “QUALIFICATION AND CONSENT OF EXPERT” in this appendix.

GENERAL

The English text of this circular shall prevail over the Chinese text.

NOTICE OF EGM



中國建築國際集團有限公司

CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 3311)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“**Meeting**”) of the shareholders of China State Construction International Holdings Limited (the “**Company**”) will be held at Meeting Room S221, Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong on Tuesday, 12 January 2021 at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

1. “**THAT:**

- (A) (i) the New CSCECL Construction Engagement Agreement (as defined in the circular of the Company dated 24 November 2020 of which this notice forms part (the “**Circular**”)) (a copy of which is tabled at the meeting and marked “A” and initialled by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder and the implementation thereof be and are hereby approved, confirmed and ratified;
- (ii) the CSCECL Construction Engagement Cap (as defined in the Circular) for the period between 1 January 2021 and 31 December 2023 be and is hereby approved;
- (iii) the CSC Construction Engagement Cap (as defined in the Circular) for the period between 1 January 2021 and 31 December 2023 be and is hereby approved; and
- (B) any one director of the Company (or any two directors of the Company or one director and the secretary of the Company or such other person, in the case of execution of documents under seal) be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the New CSCECL Construction Engagement Agreement and the transactions contemplated thereunder and the implementation thereof including the affixing of common seal thereon.”

By Order of the Board

China State Construction International Holdings Limited

Yan Jianguo

Chairman and Non-executive Director

Hong Kong, 24 November 2020

NOTICE OF EGM

Registered Office:

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

Notes:

- (1) A form of proxy for use at the Meeting is enclosed herewith.
- (2) Any member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
- (3) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer, attorney or other person authorised to sign the same.
- (4) In order to be valid, the form of proxy, together with the power of attorney (if any) or other authority (if any) under which it is signed, or a certified copy of such power or authority, must be deposited at the Company's Hong Kong branch share registrar and transfer office, Tricor Standard Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as practicable and in any event not later than 48 hours before the time appointed for holding the Meeting or any adjourned meeting thereof.
- (5) Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the Meeting, whether in person or by proxy, the joint registered holders present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered joint holders.
- (6) Completion and return of the form of proxy will not preclude members from attending and voting in person at the Meeting or at any adjourned meeting thereof should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
- (7) The register of members of the Company will be closed, for the purpose of determining the identity of members who are entitled to attend and vote at the Meeting from Thursday, 7 January 2021 to Tuesday, 12 January 2021, both days inclusive, during which period no transfers of shares will be effected. In order to be entitled to attend the Meeting, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Standard Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 6 January 2021.
- (8) In view of the ongoing Novel Coronavirus (COVID-19) epidemic, the Company will implement the following precautionary measures at the Meeting, including:
 - (a) compulsory body temperature checks (any person with fever, respiratory symptoms or a body temperature of over 37.2 degree Celsius will not be permitted access to the meeting venue);
 - (b) request of wearing of surgical face masks throughout the Meeting and not wearing surgical face masks will not be permitted access to the meeting venue;

NOTICE OF EGM

- (c) hand sanitiser will be provided;
- (d) no distribution of gifts or cake coupons and no refreshments or drinks will be served; and
- (e) other safety measures as appropriate.