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

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

**If you have sold or transferred** all your shares in China Communications Construction Company Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**中國交通建設股份有限公司**  
**CHINA COMMUNICATIONS CONSTRUCTION COMPANY LIMITED**

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 1800)**

**DISCLOSEABLE TRANSACTIONS AND CONNECTED TRANSACTIONS:  
TRANSFER OF SHARES AND CAPITAL INCREASE  
IN CCCC DREDGING BY CCCG**

**Financial Adviser to the Company**



**BOC INTERNATIONAL**



**CITIC SECURITIES**

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



**SOMERLEY CAPITAL LIMITED**

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A letter from the Board is set out on pages 1 to 12 of this circular. A letter from the Independent Board Committee is set out on pages 13 to 14 of this circular. A letter from Somerley Capital Limited, the independent financial adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 46 of this circular.

The EGM of the Company will be held as originally scheduled at CCCC Building, 85 De Sheng Men Wai Street, Xicheng District, Beijing, the PRC at 2:00 p.m. on Monday, 5 August 2019. For details, please refer to the notice of the EGM dated 20 June 2019 published on the websites of the Hong Kong Stock Exchange and the Company.

Whether or not you intend to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time appointed for holding the EGM or any adjournment thereof (i.e. before 2:00 p.m. on Sunday, 4 August 2019). Completion and return of the form of proxy will not preclude you as a Shareholder from attending and voting in person at the EGM or at any adjourned meeting should you so wish.

10 July 2019

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## DEFINITIONS

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

“A Share(s)”	domestic share(s) in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange under the stock code 601800 and traded in RMB
“Board”	the board of Directors
“CCCC Dredging”	CCCC Dredging (Group) Co., Ltd. (中交疏浚(集團)股份有限公司), being directly owned as to 99.9% by the Company and 0.1% by CRBC respectively, a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“CCCCG”	China Communications Construction Group (Limited) (中國交通建設集團有限公司), a state-owned enterprise established under the laws of the PRC and the controlling Shareholder of the Company as at the Latest Practicable Date
“China Tong Cheng”	China Tong Cheng Assets Appraisal Co. Ltd. (中通誠資產評估有限公司), a qualified independent valuer in the PRC
“Company” or “CCCC”	China Communications Construction Company Limited, a joint stock limited company duly incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange under the stock code 1800 and the A Shares of which are listed on the Main Board of the Shanghai Stock Exchange under the stock code 601800
“connected person”	has the meaning ascribed to it under the Hong Kong Listing Rules
“CRBC”	China Road and Bridge Corporation (中國路橋工程有限責任公司), a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company scheduled to be convened and held on Monday, 5 August 2019 for the purpose of considering and, if thought fit, approving, among other matters, the Proposed Share Transfer and the Proposed Capital Increase

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## DEFINITIONS

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“Equity Transfer and Capital Increase Agreement”	the conditional equity transfer and capital increase agreement dated 18 June 2019 entered into among the Company, CCCG and CCCC Dredging in respect of the Proposed Share Transfer and the Proposed Capital Increase
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“H Share(s)”	overseas-listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
“Independent Board Committee”	the committee of Directors consisting of Mr. HUANG Long, Mr. ZHENG Changhong and Mr. NGAI Wai Fung who are independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Proposed Share Transfer and the Proposed Capital Increase
“Independent Shareholders”	the Shareholders, other than CCCG and its associates who will abstain from voting on the relevant resolution in relation to the Proposed Share Transfer and the Proposed Capital Increase at the EGM
“Latest Practicable Date”	3 July 2019, being the latest practicable date for ascertaining certain information included herein before the printing of this circular
“PRC”	the People’s Republic of China and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Capital Increase”	the proposed capital increase in CCCC Dredging by CCCG pursuant to the Equity Transfer and Capital Increase Agreement
“Proposed Share Transfer”	the proposed transfer of 3,495,604,287 shares in CCCC Dredging by the Company to CCCG pursuant to the Equity Transfer and Capital Increase Agreement

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## DEFINITIONS

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“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	the shareholder(s) of the Company
“Somerley”	Somerley 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, being the independent financial adviser appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders in relation to the Proposed Share Transfer and the Proposed Capital Increase
“Supervisor(s)”	the supervisor(s) of the Company
“%”	per cent

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## LETTER FROM THE BOARD

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中國交通建設股份有限公司  
**CHINA COMMUNICATIONS CONSTRUCTION COMPANY LIMITED**

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 1800)**

*Executive Directors*

LIU Qitao  
SONG Hailiang  
CHEN Yun

*Registered Office:*

85 De Sheng Men Wai Street  
Xicheng District  
Beijing 100088  
the PRC

*Non-executive Directors*

LIU Maoxun  
QI Xiaofei

*Principal Place of Business in Hong Kong:*

Room 2805, 28th Floor  
Convention Plaza Office Tower  
1 Harbour Road, Wanchai  
Hong Kong

*Independent non-executive Directors*

HUANG Long  
ZHENG Changhong  
NGAI Wai Fung

10 July 2019

*To the Shareholders,*

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTIONS AND CONNECTED TRANSACTIONS:  
TRANSFER OF SHARES AND CAPITAL INCREASE  
IN CCCC DREDGING BY CCG**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 18 June 2019 in relation to the Proposed Share Transfer and the Proposed Capital Increase.

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## LETTER FROM THE BOARD

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On 18 June 2019, the Company entered into the Equity Transfer and Capital Increase Agreement with CCCG and CCCC Dredging, pursuant to which CCCG agreed (i) to acquire 3,495,604,287 shares in CCCC Dredging from the Company at the purchase price of RMB2.47 per share, representing 29.69% of the current issued share capital of CCCC Dredging and 25.33% of the enlarged issued share capital of CCCC Dredging; and (ii) to subscribe for 2,024,291,498 shares in CCCC Dredging at the subscription price of RMB2.47 per share, representing 17.19% of the current issued share capital of CCCC Dredging and 14.67% of the enlarged issued share capital of CCCC Dredging.

Upon completion of the Proposed Share Transfer and the Proposed Capital Increase, the shares in CCCC Dredging to be held by the Company and its subsidiary, CRBC, will represent 60% of the enlarged issued share capital of CCCC Dredging in total (among which, the shares in CCCC Dredging held by CRBC will represent 0.09% of the enlarged issued share capital of CCCC Dredging); while the shares in CCCC Dredging to be held by CCCG will represent 40% of the enlarged issued share capital of CCCC Dredging. An ordinary resolution will be proposed at the EGM to approve the Proposed Share Transfer and the Proposed Capital Increase.

Apart from the Proposed Share Transfer, the Company proposed to further transfer not more than 5,519,895,784 shares in CCCC Dredging to third parties (other than CCCG and its subsidiaries) at the floor purchase price of RMB2.47 per share on an equity exchange in the PRC by way of public tender, representing not more than 40% of the enlarged issued share capital of CCCC Dredging. Assuming that the Company will further transfer such 40% of the enlarged issued share capital of CCCC Dredging, the Company and its subsidiary, CRBC will hold 20% of the enlarged issued share capital of CCCC Dredging in total. Therefore, CCCC Dredging will cease to be a subsidiary of the Company and its financial results will be de-consolidated from those of the Company. The Company will comply with the reporting, announcement and Shareholders' approval requirements (if applicable) in respect of the potential further transfer pursuant to the Hong Kong Listing Rules in due course.

The purpose of this circular is to provide Shareholders with the following information, so that the Shareholders can make properly informed decisions on the resolution in relation to the Proposed Share Transfer and the Proposed Capital Increase at the EGM:

- (i) details of the Proposed Share Transfer and the Proposed Capital Increase under the Equity Transfer and Capital Increase Agreement;
- (ii) a letter from the Independent Board Committee with its recommendation to the Independent Shareholders in relation to the Proposed Share Transfer and the Proposed Capital Increase;
- (iii) a letter from Somerley containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Share Transfer and the Proposed Capital Increase; and

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## LETTER FROM THE BOARD

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- (iv) a summary of valuation report of CCCC Dredging.

### **EQUITY TRANSFER AND CAPITAL INCREASE AGREEMENT**

The principal terms of the Equity Transfer and Capital Increase Agreement are summarized as follows:

#### **Date of the Agreement**

18 June 2019

#### **Parties**

- (1) CCCG;
- (2) the Company; and
- (3) CCCC Dredging

#### **Proposed Share Transfer**

Pursuant to the terms and conditions of the Equity Transfer and Capital Increase Agreement, the Company agreed to sell and CCCG agreed to acquire 3,495,604,287 shares in CCCC Dredging at the purchase price of RMB2.47 per share, representing 29.69% of the current issued share capital of CCCC Dredging and 25.33% of the enlarged issued share capital of CCCC Dredging.

#### **Proposed Capital Increase**

Pursuant to the terms and conditions of the Equity Transfer and Capital Increase Agreement, CCCG agreed to subscribe for 2,024,291,498 shares with a nominal value of RMB1.00 in CCCC Dredging at the subscription price of RMB2.47 per share, representing 17.19% of the current issued share capital of CCCC Dredging and 14.67% of the enlarged issued share capital of CCCC Dredging.

#### **Consideration**

Pursuant to the Equity Transfer and Capital Increase Agreement, the consideration for the Proposed Share Transfer shall be RMB8,634,142,588.89 and the capital contribution made by CCCG under the Proposed Capital Increase shall be RMB5,000,000,000.06, determined after arm's length negotiations based on (a) the appraised net assets value of CCCC Dredging as at 31 December 2018 (the "**Valuation Benchmark Date**") of RMB28,969,953.0 thousand as set out in the valuation report prepared by China Tong Cheng using the asset-based approach, the summary of which is set out in Appendix I to this circular; and (b) each of the purchase price and the subscription price, being RMB2.47 per share (round up to the nearest



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## LETTER FROM THE BOARD

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2 decimal places), is calculated by dividing such appraised net assets value by the current number of total issued share capital of CCCC Dredging (i.e. 11,775,447,964 shares). Having reviewed the valuation report (including the assumptions set out therein), after taking into account the operational performance and financial conditions of CCCC Dredging and the related industry environment, the Board is of the view that the assumptions used in the valuation report are fair and reasonable. As the Latest Practicable Date, the Board is not aware of any material adverse change in the operational performance and financial conditions of CCCC Dredging since the Valuation Benchmark Date.

### **Payment**

The consideration for the Proposed Share Transfer (i.e. RMB8,634,142,588.89) shall be paid to the Company and the capital contribution for the Proposed Capital Increase (i.e. RMB5,000,000,000.06) shall be paid to CCCC Dredging, by CCCG in one lump-sum before the Completion Date, respectively.

### **Conditions Precedent**

The Equity Transfer and Capital Increase Agreement shall become effective upon fulfilment of the following conditions:

- (1) the Proposed Share Transfer and the Proposed Capital Increase having been approved by CCCG;
- (2) the Proposed Share Transfer and the Proposed Capital Increase having been approved at the EGM of the Company; and
- (3) the Proposed Capital Increase having been approved at the general meeting of CCCC Dredging.

None of the above conditions is waivable. As at the Latest Practicable Date, the above conditions precedent have not been fulfilled except for condition (1).

### **Completion**

CCCC Dredging shall, and the Company shall procure CCCC Dredging to, complete the filing or registration procedures for the change with the competent authority for industry and commerce within 60 days from the effective date of the Equity Transfer and Capital Increase Agreement or other dates as agreed by the parties. The completion shall take place on the date when the filing or registration procedures for the change with the competent authority for industry and commerce in relation to the Proposed Share Transfer and the Proposed Capital Increase has been completed (the “**Completion Date**”).

The Company expects that all the outstanding conditions precedent will be fulfilled by end of August 2019, and the Equity Transfer and Capital Increase Agreement will take effect on the same date. So the payment and the completion are expected to take place by end of October 2019.

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## LETTER FROM THE BOARD

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### **Profit or loss during the transition period**

The amount of the profit or loss during the transition period from the Valuation Benchmark Date (excluding the date hereof) to the Completion Date (including the date hereof) shall be determined based on the auditor's report for the transition period prepared by the auditor within 60 days from the Completion Date. If CCCC Dredging records profit during the transition period pursuant to the auditor's report, CCCC Dredging shall pay such profit to the existing shareholders, i.e. CCCC and its subsidiary, CRBC, by way of dividend distribution in proportion to their shareholdings in CCCC Dredging; if CCCC Dredging records loss during the transition period pursuant to the auditor's report, the Company guarantees that the existing shareholders, i.e. CCCC and its subsidiary, CRBC, will pay such loss to CCCC Dredging in cash in proportion to their shareholdings in CCCC Dredging. The Company expects that CCCC Dredging will not record loss during the transition period. The Company will make further announcement(s), if necessary, in due course pursuant to the Hong Kong Listing Rules.

If the Completion Date falls before the 15th day (including the date hereof) of a month, the audit period will commence from the Valuation Benchmark Date (excluding the date hereof) and end at the end of the preceding month; if the Completion Date falls after the 15th day (excluding the date hereof) of a month, the audit period will commence from the Valuation Benchmark Date (excluding the date hereof) and end at the end of that month.

### **POTENTIAL DISPOSAL OF NOT MORE THAN 40% OF THE ENLARGED ISSUED SHARE CAPITAL OF CCCC DREDGING BY THE COMPANY**

Pursuant to the relevant PRC regulatory requirements, state-owned shares shall be transferred to third parties (other than the parent company and its subsidiaries) on an equity exchange in the PRC by way of public tender.

Apart from the Proposed Share Transfer, the Company proposed to further transfer not more than 5,519,895,784 shares in CCCC Dredging to third parties (other than CCCG and its subsidiaries) at the floor purchase price of RMB2.47 per share on an equity exchange in the PRC by way of public tender, representing not more than 40% of the enlarged issued share capital of CCCC Dredging.

Assuming that the Company will further transfer such 40% of the enlarged issued share capital of CCCC Dredging, the Company and its subsidiary, CRBC will hold 20% of the enlarged issued share capital of CCCC Dredging in total. Therefore, CCCC Dredging will cease to be a subsidiary of the Company and its financial results will be de-consolidated from those of the Company.

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## LETTER FROM THE BOARD

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The Company will comply with the reporting, announcement and Shareholders' approval requirements (if applicable) in respect of the potential further transfer pursuant to the Hong Kong Listing Rules in due course.

The shareholding structure of CCCC Dredging as at the Latest Practicable Date and upon completion of the proposed transactions (assuming that the Company will further transfer 40% of the enlarged issued share capital of CCCC Dredging to third parties (other than CCCG and its subsidiaries)) is as follows:

		<b>Shareholding immediately after the Proposed Share Transfer, the Proposed Capital Increase and the potential further transfer</b>
	<b>Shareholding as at the Latest Practicable Date</b>	<b>Share Transfer and the Proposed Capital Increase</b>
<b>Shareholders</b>		
The Company	99.90%	59.91%
CRBC	0.10%	0.09%
CCCG	—	40.00%
The third parties	—	—

### GENERAL INFORMATION

#### (1) The Company

The Company is a leading transportation infrastructure enterprise in the PRC. It is primarily engaged in providing customers with integrated solutions services for each stage of the infrastructure projects leveraging on its extensive operating experience, expertise and know how accumulated from projects undertaken in a wide range of areas over the past six decades.

#### (2) CCCG

CCCG is a state-owned enterprise established under the laws of the PRC. It is the controlling Shareholder of the Company, holding approximately 59.91% interests in the issued ordinary shares of the Company as at the Latest Practicable Date. CCCG is primarily engaged in real estate development and property management, shipbuilding, ship chartering and maintenance, ocean engineering, technical consultation services for ships and corollary equipment of harbours, import and export business, investment in and management of transportation industry, and other businesses.

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## LETTER FROM THE BOARD

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### (3) CCCC Dredging

CCCC Dredging is an enterprise established under the laws of the PRC and a wholly-owned subsidiary of the Company as at the Latest Practicable Date. The business scope of CCCC Dredging as set out in its business license includes waterway dredging, port and waterway construction, international shipping, domestic waterway transportation, international maritime auxiliary business, domestic ship management business, water conservancy and hydropower construction, geotechnical engineering survey, soil and water geological survey, engineering survey and investigation, mineral resources exploitation, technology development, technical services, technology transfer and technical consultation in the field of new energy science, professional construction of offshore petroleum engineering, port management, professional construction of environmental protection engineering, municipal public projects engineering, project investment management, warehousing (except dangerous goods), construction materials, reinforced concrete products, chemical products (excluding dangerous chemicals, monitoring chemicals, fireworks, inflammable and explosive materials, poisonous chemicals), machinery equipment, building installation equipment, marine engineering equipment, ship sales, leasing of self-owned equipment, overseas engineering projects contracting within strength, scale and performance, labor despatch for the overseas engineering projects, import and export business of goods and technology, and business information consultation.

As at 31 December 2018, the audited equity attributable to owners of the parent of CCCC Dredging was RMB30,332 million. The audited net profits of CCCC Dredging before and after taxation for the year ended 31 December 2018 were RMB1,553 million and RMB1,267 million, respectively. The audited net profits of CCCC Dredging before and after taxation for the year ended 31 December 2017 were RMB2,519 million and RMB1,955 million, respectively.

On 30 April 2019, CCCC Dredging declared to distribute special dividends of RMB4,081 million to its existing shareholders, i.e. CCCC and its subsidiary, CRBC. According to the auditor's report issued by Ruihua CPAs (Special) LLP on CCCC Dredging prepared for the Proposed Share Transfer and the Proposed Capital Increase, after excluding the special dividends of RMB4,081 million from RMB30,332 million as set out above, the audited equity attributable to owners of the parent of CCCC Dredging was RMB26,251 million as at 31 December 2018.

The financial data in relation to CCCC Dredging as disclosed in this circular was prepared in accordance with the China Accounting Standards for Business Enterprises.

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## LETTER FROM THE BOARD

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### REASONS FOR AND BENEFITS OF THE TRANSACTIONS

Upon completion of the Proposed Share Transfer and the Proposed Capital Increase, the shares in CCCC Dredging to be held by CCCG will represent 40% of the enlarged issued share capital of CCCC Dredging. Assuming that the Company will further transfer 40% of the enlarged issued share capital of CCCC Dredging to third parties (other than CCCG and its subsidiaries) on an equity exchange in the PRC by way of public tender, the Company and its subsidiary, CRBC, will hold an aggregate of 20% of the enlarged issued share capital of CCCC Dredging in total. Therefore, CCCC Dredging will cease to be a subsidiary of the Company and its financial results will be de-consolidated from those of the Company.

The Company is a leading integrated service provider for ultra-large infrastructure in the global market, and its principal business is providing various customers in all parts of the world with integrated solution services for transportation infrastructure projects in the areas of investment, design, construction, operation and management. Meanwhile, CCCC Dredging is primarily engaged in dredging and land reclamation with core competitiveness from its all-round dredging vessels with optimized functions, which is capital-intensive and technology-intensive, and different from the Company in development characteristics and resources necessary for the operation. The proposed transactions will enable the Company to better concentrate on and make more centralized investment in its principal business of infrastructure, thus further strengthening its core competitiveness.

As of 31 December 2016, 2017, 2018 and 31 March 2019, the asset-liability ratios of the Company prepared in accordance with the China Accounting Standards for Business Enterprises were 76.67%, 75.78%, 75.05% and 74.56%, respectively, representing a moderate decrease year over year. The cash inflow generated from the Proposed Share Transfer is expected to be RMB8,634 million, and the cash inflow generated from the potential further transfer (assuming that the Company will further transfer 5,519,895,784 shares in CCCC Dredging to third parties (other than CCCG and its subsidiaries) at the floor purchase price of RMB2.47 per share) is expected to be RMB13,634 million. Upon completion of the transactions, the Company intends to use the proceeds to repay its bank loans, further lowering the asset-liability ratio, reducing finance costs and optimizing the capital structure of the Company.

The Company will continue to enjoy the shareholder's returns from the reform and development of CCCC Dredging through the retainment of 20% equity interest in CCCC Dredging upon completion of the proposed transactions. CCCC Dredging acts as one of the enterprises that participates in the "Double Hundred Actions" for the reform of state-owned enterprises, and the transactions will allow CCCG to strengthen and improve the efficiency in its management and control over CCCC Dredging, increase CCCC Dredging's recognition from external markets as becoming tier-one subsidiary of CCCG, which will in turn be conducive for CCCC Dredging to obtaining more support from national policies.

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## LETTER FROM THE BOARD

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The Directors (including the independent non-executive Directors) are of the view that the terms of the Equity Transfer and Capital Increase Agreement are fair and reasonable and on normal commercial terms and that the Proposed Share Transfer and the Proposed Capital Increase, although not conducted in the Company's ordinary and usual course of business, are in the interests of the Company and the Shareholders as a whole.

In light of the following reasons, the Board is of the view that the terms of the Equity Transfer and Capital Increase Agreement (including the purchase price and subscription price of RMB2.47 per share) is on normal commercial terms:

- (i) The terms of the Equity Transfer and Capital Increase Agreement are determined by the Company after arm's length negotiations with CCCG taking into account of various factors, including but not limited to the operating performance and financial conditions of CCCC Dredging, the reasons for and benefits of the Proposed Share Transfer and the Proposed Capital Increase as elaborated above, and the applicable regulatory requirements on transfer of assets involving state-owned entities in the PRC;
- (ii) It is common in market that the parties engage an asset valuer to conduct valuation on the target asset and determine the final transfer consideration. The Company has adopted such commonly-used market approach. Each of the purchase price and subscription price of RMB2.47 per share under the Equity Transfer and Capital Increase Agreement is calculated by dividing such appraised net assets value by the current number of total issued share capital of CCCC Dredging (round up to the nearest 2 decimal places), which is fair and reasonable; and
- (iii) The implied price-to-earnings multiples of the Proposed Share Transfer and the Proposed Capital Increase of 22.9 times is higher than that of the comparable companies, while the implied price-to-book multiples for the Proposed Share Transfer and the Proposed Capital Increase of 1.1 times is higher than that of the comparable companies.

The total gain from the Proposed Share Transfer and the potential further transfer (before taxation payable in relation to the Proposed Share Transfer and the potential further transfer and other expenses, assuming that the Company will further transfer 5,519,895,784 shares in CCCC Dredging to third parties (other than CCCG and its subsidiaries) at the floor purchase price of RMB2.47 per share) is expected to be RMB2,170,335.0 thousand, which has been calculated using the formula that the considerations for the Proposed Share Transfer and the potential further transfer deducts the corresponding audited value of equity attributable to owners of the parent of CCCC Dredging as at 31 December 2018. Wherein, the total gains from the Proposed Share Transfer and the potential further transfer are expected to be RMB841,509.9 thousand and RMB1,328,825.1 thousand respectively. Shareholders are reminded that the actual gain to be recognized shall be determined following the completion of the proposed transactions and is subject to the final amount disclosed in the annual report of the Company.

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## LETTER FROM THE BOARD

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The Company intends to use approximately 67% of the proceeds from the Proposed Share Transfer (i.e. approximately RMB5,784,875.5 thousand) for repayment of its bank loans and replenishment of its working capital, while approximately 33% of such proceeds (i.e. approximately RMB2,849,267.1 thousand) for the development of principal business of infrastructure, such as investment in construction projects of toll road, metro, etc.

Upon completion of the Proposed Share Transfer, the financial results of CCCC Dredging will still be consolidated into the consolidated financial statements of the Company when the Company does not lose control in CCCC Dredging. The consolidated assets of the Company will increase due to the receipt of the consideration for the Proposed Share Transfer, while the consolidated liabilities of the Company will remain unchanged. Upon completion of the Proposed Share Transfer and the potential further transfer, the assets and the liabilities of CCCC Dredging will be derecognized from the consolidated financial statements of the Company. The receipt of the consideration for the Proposed Share Transfer and the potential further transfer will increase the assets in the consolidated financial statements of the Company and the remaining shares in CCCC Dredging held by the Company will increase its long term equity investment.

### IMPLICATIONS UNDER THE HONG KONG LISTING RULES

CCCCG is the controlling Shareholder of the Company, holding approximately 59.91% interests in the issued ordinary shares of the Company as at the Latest Practicable Date. Accordingly, it is a connected person of the Company under the Hong Kong Listing Rules. The Proposed Share Transfer and the Proposed Capital Increase therefore constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. Meanwhile, the Proposed Share Transfer and the Proposed Capital Increase shall be aggregated under Rules 14.22 and 14A.81 of the Hong Kong Listing Rules.

As the highest applicable percentage ratio when aggregated in respect of the Proposed Share Transfer and the Proposed Capital Increase under the Equity Transfer and Capital Increase Agreement exceeds 5% but is less than 25%, the transactions thereunder constitute discloseable transactions and connected transactions of the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

Mr. LIU Qitao and Mr. SONG Hailiang, being the Directors of the Company, are also the directors of CCCC, and therefore are deemed to have material interests in the Proposed Share Transfer and the Proposed Capital Increase contemplated under the Equity Transfer and Capital Increase Agreement, and have abstained from voting on the relevant Board resolution. Save for the abovementioned Directors, none of the other Directors has or is deemed to have a material interest in the abovementioned connected transactions.

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## LETTER FROM THE BOARD

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CCCG, which holds approximately 59.91% interests in the issued ordinary shares of the Company as at the Latest Practicable Date, shall abstain from voting on the resolution approving the Proposed Share Transfer and the Proposed Capital Increase at the EGM. Saved as mentioned above, to the best of the Directors' knowledge, information and belief, none of the other Shareholders has any material interest in the Proposed Share Transfer and the Proposed Capital Increase and therefore will be required to abstain from voting on the resolution approving the Proposed Share Transfer and the Proposed Capital Increase at the EGM. According to the Hong Kong Listing Rules, the resolution approving the Proposed Share Transfer and the Proposed Capital Increase shall be passed as an ordinary resolution and the voting shall be taken by way of poll.

### RECOMMENDATION

Based on the relevant information disclosed herein, the Directors, including the independent non-executive Directors, are of the view that the terms of the Equity Transfer and Capital Increase Agreement are on normal commercial terms and fair and reasonable, and that the Proposed Share Transfer and the Proposed Capital Increase under the Equity Transfer and Capital Increase Agreement, although not conducted in the Company's ordinary or usual course of business due to the nature of such transactions, are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that the Independent Shareholders vote in favor of the resolution at the EGM.

### THE EGM

The EGM of the Company will be held as originally scheduled at CCCC Building, 85 De Sheng Men Wai Street, Xicheng District, Beijing, the PRC at 2:00 p.m. on Monday, 5 August 2019, and the notice of the EGM was despatched to the Shareholders on 20 June 2019.

The reply slip and form of proxy for the EGM were despatched to the Shareholders in conjunction with the notice of the EGM. Such notice, reply slip and form of proxy are also published on the website of the Hong Kong Stock Exchange at [www.hkexnews.com.hk](http://www.hkexnews.com.hk). Whether or not you intend to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time appointed for holding the EGM or any adjournment thereof (i.e. before 2:00 p.m. on Sunday, 4 August 2019). Completion and return of the form of proxy will not preclude you as a Shareholder from attending and voting in person at the EGM or at any adjourned meeting should you so wish.

For details of the eligibility and registration procedures for attending the EGM, the book closure and other matters in relation to the EGM, please refer to the notice of the EGM of the Company dated 20 June 2019.



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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

The Independent Board Committee comprising all independent non-executive Directors has been formed by the Company to advise the Independent Shareholders on the Proposed Share Transfer and the Proposed Capital Increase. Somerley, the independent financial adviser, has been appointed in accordance with the Hong Kong Listing Rules to advise the Independent Board Committee and the Independent Shareholders on the Proposed Share Transfer and the Proposed Capital Increase. Your attention is also drawn to the letter from the Independent Board Committee set out on pages 13 to 14, the letter from Somerley set out on pages 15 to 46 and the other information set out in the appendices to this circular.

By order of the Board

**China Communications Construction Company Limited**

**ZHOU Changjiang**

*Company Secretary*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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中國交通建設股份有限公司  
**CHINA COMMUNICATIONS CONSTRUCTION COMPANY LIMITED**

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 1800)**

10 July 2019

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTIONS AND CONNECTED TRANSACTIONS:  
TRANSFER OF SHARES AND CAPITAL INCREASE  
IN CCCC DREDGING**

Reference is made to the circular of the Company dated 10 July 2019 (the “**Circular**”). Unless the content otherwise requires, capitalized terms used in this letter shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as the Independent Board Committee for the purpose of providing you with our opinion as to whether the Equity Transfer and Capital Increase Agreement and the Proposed Share Transfer and the Proposed Capital Increase are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Somerley has been appointed by the Company as the independent financial adviser to advise you and us in this respect. Details of its recommendation, together with the principal factors and reasons it has taken into consideration in arriving at its recommendation are set out in the letter from Somerley set out on pages 15 to 46 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 1 to 12 of the Circular. Having taken into consideration the information contained in the letter from the Board, the interests of Independent Shareholders and the advice and recommendation of Somerley, we consider that the Equity Transfer and Capital Increase Agreement is on normal commercial terms, which is fair and reasonable, and the Proposed Share Transfer and the Proposed Capital Increase contemplated thereunder are on normal commercial terms, although not conducted in the ordinary or usual course of business of the Company due to the nature of such transactions, are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend that the Independent Shareholders vote in favor of the resolution in relation to the Equity Transfer and Capital Increase Agreement and the Proposed Share Transfer and the Proposed Capital Increase at the EGM.

Yours faithfully

For and on behalf of

the Independent Board Committee of

**China Communications Construction Company Limited**

**HUANG Long**

*Independent Non-executive*

*Director*

**ZHENG Changhong**

*Independent Non-executive*

*Director*

**NGAI Wai Fung**

*Independent Non-executive*

*Director*

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## LETTER FROM SOMERLEY

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*Set out below is the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Share Transfer and the Proposed Capital Increase, which has been prepared for the purpose of inclusion in this circular.*



**SOMERLEY CAPITAL LIMITED**

20th Floor  
China Building  
29 Queen's Road Central  
Hong Kong

10 July 2019

*To: The Independent Board Committee and the Independent Shareholders of  
China Communications Construction Company Limited*

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS: TRANSFER OF SHARES AND CAPITAL INCREASE IN CCCC DREDGING BY CCCG**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Proposed Share Transfer and the Proposed Capital Increase. Details of the Proposed Share Transfer and the Proposed Capital Increase are set out in the circular issued by the Company to the Shareholders dated 10 July 2019 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 18 June 2019, the Company entered into the Equity Transfer and Capital Increase Agreement with CCCG and CCCC Dredging, pursuant to which CCCG agreed (i) to acquire 3,495,604,287 shares in CCCC Dredging from the Company at the purchase price of RMB2.47 per share, representing 29.69% of the current issued share capital of CCCC Dredging and 25.33% of the enlarged issued share capital of CCCC Dredging; and (ii) to subscribe for 2,024,291,498 shares in CCCC Dredging at the subscription price of RMB2.47 per share, representing 17.19% of the current issued share capital of CCCC Dredging and 14.67% of the enlarged issued share capital of CCCC Dredging.

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## LETTER FROM SOMERLEY

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Apart from the Proposed Share Transfer, the Company proposed to further transfer not more than 5,519,895,784 shares in CCCC Dredging to third parties (other than CCCG and its subsidiaries) (the “**Third Party Transfer**”) at the floor purchase price of RMB2.47 per share on an equity exchange in the PRC by way of public tender, representing not more than 40% of the enlarged issued share capital of CCCC Dredging. Assuming that the Company will further transfer such 40% of the enlarged issued share capital of CCCC Dredging, the Group will hold 20% of the enlarged issued share capital of CCCC Dredging in total. Therefore, CCCC Dredging will cease to be a subsidiary of the Company and its financial results will be de-consolidated from those of the Company. The Proposed Share Transfer and the Proposed Capital Increase are not conditional on the Third Party Transfer. For the avoidance of doubt and in the circumstances, it is not part of our assignment to advise the Third Party Transfer. Details of the shareholding structure of CCCC Dredging (i) as at the Latest Practicable Date; (ii) immediately after the Proposed Share Transfer and the Proposed Capital Increase; and (iii) immediately after the Proposed Share Transfer, the Proposed Capital Increase and the Third Party Transfer, are set out in section headed “Potential disposal of not more than 40% of the enlarged issued share capital of CCCC Dredging by the Company” in the letter from the Board contained in the Circular.

CCCG is the controlling shareholder of the Company holding approximately 59.91% interest in the issued ordinary shares of the Company as at the Latest Practicable Date, it is therefore a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratio when aggregated in respect of the Proposed Share Transfer and the Proposed Capital Increase under the Equity Transfer and Capital Increase Agreement exceeds 5% but is less than 25%, the transactions thereunder constitute discloseable and connected transactions of the Company and are subject to the reporting, announcement and Independent Shareholders’ approval requirements under the Hong Kong Listing Rules.

CCCG is considered to have material interests under the Equity Transfer and Capital Increase Agreement and the transactions contemplated thereunder. CCCG, together with its associates, is required to abstain from voting on the resolution to be proposed at the EGM to approve the Proposed Share Transfer and the Proposed Capital Increase.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Huang Long, Mr. Zheng Changhong and Mr. Ngai Wai Fung, has been established to advise the Independent Shareholders on the terms of the Proposed Share Transfer and the Proposed Capital Increase and to make a recommendation as to voting. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

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## LETTER FROM SOMERLEY

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We are not associated with the Company, CCCC Dredging, CCCG or their respective core connected persons, close associates or associates (all defined under the Hong Kong Listing Rules) and accordingly are considered eligible to give independent advice on the above matters. Apart from normal professional fees payable to us in connection with this and similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company, CCCC Dredging, CCCG or their respective core connected persons, close associates or associates.

In formulating our opinion, we have reviewed, among other things, the Equity Transfer and Capital Increase Agreement, the annual report of the Company for the years ended 31 December 2018 (the “**2018 Annual Report**”) and 31 December 2017, the audited financial statements of CCCC Dredging for the years ended 31 December 2018 and 31 December 2017, the auditor’s report issued by Ruihua CPAs (Special) LLP on CCCC Dredging prepared for the Proposed Share Transfer and the Proposed Capital Increase, after excluding the special dividends of approximately RMB4,081 million declared on 30 April 2019 (the “**Ruihua Auditor’s Report**”), the announcement of the Company in relation to the Proposed Share Transfer and the Proposed Capital Increase dated 18 June 2019 (the “**Announcement**”) and the information as set out in the Circular. We have also discussed with the management of the Group regarding the future prospects of the remaining business of the Group after completion of the Proposed Share Transfer and the Proposed Capital Increase (the “**Completion**”).

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group or CCCC Dredging, nor have we carried out any independent verification of the information supplied.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation, we have considered the principal factors and reasons set out below.

#### 1. Information of the Group

##### *(a) Business*

The Company was incorporated on 8 October 2006 and was initiated and founded by CCCG. The Company's H shares (stock code: 1800) were listed on the Main Board of the Stock Exchange on 15 December 2006. The Company was one of the earliest ultra large state-owned transportation infrastructure groups entering the overseas capital market. The Company's A shares (stock code: 601800) were listed on the Shanghai Stock Exchange on 9 March 2012. The Group's principal business includes primarily infrastructure construction, infrastructure design, dredging and other business.

The Group has four segments, namely construction, design, dredging and other operations. The construction operation is the major contributor to the Group's revenue and profits. The construction operation includes infrastructure construction of ports, roads, bridges, railways and municipal projects in the PRC and other regions (including countries in Africa, South East Asia, Australia and Middle East). The construction operation is the core business segment of the Group, accounting for more than 80% of the total revenue for the year ended 31 December 2018. The design operation represents infrastructure design of ports, roads and bridges. The dredging operation, mainly represented by CCCC Dredging and its subsidiaries (the "**CCCC Dredging Group**"), includes capital dredging, maintenance dredging, environmental dredging and reclamation and related supporting projects.

## LETTER FROM SOMERLEY

**(b) Financial results**

Set out in the table below is a summary of the Group's financial performance for the three years ended 31 December 2018, 2017 and 2016 (the "Review Period") prepared in accordance with the International Financial Reporting Standards (the "IFRSs").

	For the year ended 31 December		
	2018	2017	2016
	(RMB million)	(RMB million)	(RMB million)
			(Restated)
<b>Revenue</b>			
Construction	431,817	410,014	357,158
Design	31,557	26,965	26,328
Dredging	32,796	34,108	30,282
Other operations	12,402	9,546	7,678
Elimination (Note 1)	(19,906)	(20,566)	(15,115)
	488,666	460,067	406,331
<b>Segment results</b>			
Construction	27,726	25,846	23,604
Design	3,510	3,207	3,203
Dredging	1,769	2,766	2,740
Other operations	604	(50)	525
Elimination (Note 1) and unallocated income	(288)	(1)	(681)
	33,321	31,768	29,391
Net interest expenses	(7,346)	(8,105)	(6,929)
Share of profits and losses of joint ventures and associates	71	(12)	173
Profit for the year from a discontinued operation (Note 2)	-	3,184	231
Taxation	(5,608)	(5,109)	(5,177)
Non-controlling interests	(619)	(783)	(479)
<b>Profit attributable to the owners of the Company</b>	<b>19,819</b>	<b>20,943</b>	<b>17,210</b>



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## LETTER FROM SOMERLEY

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*Notes:*

1. The elimination represents the eliminations of intra-group and intra-segment transactions.
2. In November 2017, the Group disposed of 29.99% of total issued share capital of Shanghai Zhenhua Heavy Industries Co. Ltd. (“ZPMC”, the then heavy machinery operation segment of the Group). Upon completion of the disposal of ZPMC, the financial results of the remaining approximately 16.24% equity interest in ZPMC held by the Group and the gain on the disposal of ZPMC were recorded as “profit for the year from a discontinued operation”.

For the year ended 31 December 2017, the revenue of the Group’s construction segment increased by approximately 14.8% from approximately RMB357,158 million in prior year to approximately RMB410,014 million, mainly attributable to the increase in revenue from overseas projects and PPP investment projects. The revenue of the dredging segment was approximately RMB34,108 million, representing an increase by approximately 12.6% from the prior year. The contribution of the dredging segment to total revenue of the Group decreased slightly from approximately 7.5% for the year ended 31 December 2016 to approximately 7.4% for the year ended 31 December 2017. Profit attributable to the owners of the Company amounted to approximately RMB20,943 million, representing an increase of approximately 21.7% from the prior year. The growth in the profit attributable to the owners of the Company was mainly attributable to the profit for the year from the discontinued operation of ZPMC (i.e. the heavy machinery segment) and the ZPMC Disposal. Excluding the profit from the discontinued operation, the profit attributable to the owners of the Company would be approximately RMB17,759 million, representing an increase of approximately 4.6% compared to that for prior year (excluding the profit contribution from ZPMC). The construction segment continued to be the major contributor of the Group’s profit, accounting for approximately 81.4% of the total segment profit, whereas the dredging segment contributed approximately 8.7% of total segment profit.

For the year ended 31 December 2018, the revenue of the Group’s construction segment grew by approximately 5.3% over the last year to approximately RMB431,817 million. Such increase was mainly attributable to the increase in construction contract generated from PPP investment projects. The dredging segment recorded decrease in revenue by approximately 3.8% to approximately RMB32,796 million primarily due to the decline in dredging activities during the year. The contribution of dredging segment to total revenue reduced from approximately 7.4% for the year ended 31 December 2017 to approximately 6.7% for the year ended 31 December 2018. Profit attributable to the owners of the Company amounted to approximately RMB19,819 million, representing an improvement of approximately 11.6% compared with that for the prior year (after excluding the profit from the discontinued operations). The construction segment result accounted for approximately 83.2% of the total segment profit of the Group, while the dredging segment result reduced to approximately 5.3% of the total segment profit of the Group.

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## LETTER FROM SOMERLEY

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As set out in the above, while the Group recorded growths in revenue and profit during the period under review, the dredging segment has become less significant to the Group in terms of the revenue and segment results contribution.

**(c) Financial position**

Set out in the table below is a summary of the financial position of the Group as at 31 December 2018, 2017 and 2016 prepared in accordance with the IFRS.

	As at 31 December		
	2018	2017	2016
	(RMB million)	(RMB million)	(RMB million)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	188,370	161,158	143,380
Property, plant and equipment	56,365	52,751	66,775
Trade and other receivables	118,967	112,710	95,558
Others	115,272	73,724	58,223
	<u>478,974</u>	<u>400,343</u>	<u>363,936</u>
<b>Current assets</b>			
Trade and other receivables	195,887	181,745	190,485
Cash and cash equivalents	127,413	129,197	108,720
Others	158,202	138,603	137,941
	<u>481,502</u>	<u>449,545</u>	<u>437,146</u>
<b>Total assets</b>	<u>960,476</u>	<u>849,888</u>	<u>801,082</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	314,496	332,703	292,990
Interest-bearing bank and other borrowings	79,243	82,680	99,484
Others	86,130	31,328	31,480
	<u>479,869</u>	<u>446,711</u>	<u>423,954</u>

## LETTER FROM SOMERLEY

	As at 31 December		
	2018	2017	2016
	(RMB million)	(RMB million)	(RMB million)
<b>Net current assets</b>	<u>1,633</u>	<u>2,834</u>	<u>13,192</u>
<b>Non-current liabilities</b>			
Interest-bearing bank and other borrowings	215,384	178,522	173,996
Others	<u>25,541</u>	<u>19,061</u>	<u>16,562</u>
	240,925	197,583	190,558
<b>Net assets</b>	<u><u>239,682</u></u>	<u><u>205,594</u></u>	<u><u>186,570</u></u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Capital and reserves	172,752	161,491	139,892
Financial instruments classified as equity	24,426	19,431	19,431
<b>Non-controlling interests</b>	<u>42,504</u>	<u>24,672</u>	<u>27,247</u>
	<u><u>239,682</u></u>	<u><u>205,594</u></u>	<u><u>186,570</u></u>

As at 31 December 2018, total assets of the Group were approximately RMB960,476 million, representing an increase of approximately 13.0% from that as at 31 December 2017. The Group has a significant portion, around 19.6%, of its total assets as at 31 December 2018 represented by intangible assets, which were the assets under “Build-Operate-Transfer” service concession arrangements of toll roads in Mainland China.

The Group was largely financed by interest-bearing bank and other borrowings and shareholders’ equity. As at 31 December 2018, the total interest-bearing bank and other borrowings were approximately RMB294,627 million, of which approximately RMB74,293 million were due within one year.

Net asset value (“NAV”) attributable to the owners of the Company was approximately RMB197,178 million as at 31 December 2018, representing an increase of approximately 9.0% from that as at 31 December 2017. As at 31 December 2018, the Group was in a net current asset position of approximately RMB1,633 million with a current ratio of 1.00.

### 2. Information on CCCC Dredging

#### (a) *Business*

CCCC Dredging is an enterprise established under the laws of the PRC and a wholly-owned subsidiary of the Company as at the Latest Practicable Date. The business scope of CCCC Dredging as set out in its business license includes waterway dredging, port and waterway construction, international shipping, domestic waterway transportation, international maritime auxiliary business, domestic ship management business, water conservancy and hydropower construction, geotechnical engineering survey, soil and water geological survey, engineering survey and investigation, mineral resources exploitation, technology development, technical services, technology transfer and technical consultation in the field of new energy science, professional construction of offshore petroleum engineering, port management, professional construction of environmental protection engineering, municipal public projects engineering, project investment management, warehousing (except dangerous goods), construction materials, reinforced concrete products, chemical products (excluding dangerous chemicals, monitoring chemicals, fireworks, inflammable and explosive materials, poisonous chemicals), machinery equipment, building installation equipment, marine engineering equipment, ship sales, leasing of self-owned equipment, overseas engineering projects contracting within strength, scale and performance, labor despatch for the overseas engineering projects, import and export business of goods and technology, and business information consultation. As stated in the 2018 Annual Report, the Group is the largest dredging enterprise in China and even in the world and enjoy absolute influence in China's coastal dredging market.

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## LETTER FROM SOMERLEY

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**(b) Financial results**

Set out in the table below is a summary of financial performance of the CCCC Dredging Group for the two years ended 31 December 2018 and 2017 prepared in accordance with China Accounting Standards for Business Enterprises (“CASBE”):

	<b>For the year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>
Revenue	34,228	34,582
Cost of sales	<u>(29,278)</u>	<u>(29,669)</u>
Gross profit	4,950	4,913
Selling and marketing expenses	(128)	(89)
Administrative expenses	(2,249)	(2,316)
Research expenses	(695)	(515)
Net finance expense	(427)	(384)
Other income and expenses, net	<u>52</u>	<u>838</u>
Operating profit	1,503	2,447
Other non-operating income	<u>49</u>	<u>72</u>
Net profit before tax	1,552	2,519
Income tax expense	<u>(285)</u>	<u>(564)</u>
Profit for the year	1,267	1,955

For the year ended 31 December 2018, the revenue of the CCCC Dredging Group decreased slightly to approximately RMB34,228 million from approximately RMB34,582 million for the year ended 31 December 2017. The decline was primarily due to the decreasing dredging activities during 2018. Nevertheless, the gross profit increased from approximately RMB4,913 million for the year ended 31 December 2017 to approximately RMB4,950 million for the year ended 31 December 2018 due to the higher profit margin for certain dredging projects.

## LETTER FROM SOMERLEY

Although the CCCC Dredging Group recorded higher gross profit for the year ended 31 December 2018, the operating profit decreased from approximately RMB2,447 million for the year ended 31 December 2017 to approximately RMB1,503 million for the year ended 31 December 2018. The decrease was mainly due to the gain from disposal of financial assets of approximately RMB1,643 million for the year ended 31 December 2017, and the absence of relevant gains in 2018.

**(c) Financial position**

Set out in the table below is a summary of the financial position of the CCCC Dredging Group as at 31 December 2018 and 2017 prepared in accordance with CASBE:

	<b>As at 31 December</b>	
	<b>2018</b>	<b>2017</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Fixed assets	15,396	14,701
Trade and other receivables	12,252	10,815
Long-term equity investment	5,662	4,691
Others	9,105	7,465
	<u>42,415</u>	<u>37,672</u>
<b>Current assets</b>		
Trade and other receivables	16,836	13,185
Cash and cash equivalents	8,019	8,332
Others	27,769	26,868
	<u>52,624</u>	<u>48,385</u>
<b>Total assets</b>	<u>95,039</u>	<u>86,057</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	25,963	22,171
Others	19,402	20,815
	<u>45,365</u>	<u>42,986</u>

## LETTER FROM SOMERLEY

	As at 31 December	
	2018	2017
	(RMB million)	(RMB million)
<b>Net current assets</b>	<u>7,259</u>	<u>5,399</u>
<b>Non-current liabilities</b>		
Bond payable	9,981	5,987
Bank and other borrowings	2,931	3,377
Others	<u>3,972</u>	<u>3,577</u>
	16,884	12,941
<b>Net assets</b>	<u><u>32,790</u></u>	<u><u>30,130</u></u>
<b>EQUITY</b>		
Capital and reserves attributable to the owners of		
CCCC Dredging	30,332	28,644
Non-controlling interests	<u>2,458</u>	<u>1,486</u>
	<u><u>32,790</u></u>	<u><u>30,130</u></u>

As at 31 December 2018, total assets of the CCCC Dredging Group were approximately RMB95,039 million, representing an increase of approximately 10.4% from that as at 31 December 2017. The CCCC Dredging Group has a significant portion, around 16.2%, of its total assets as at 31 December 2018 represented by its fixed assets, which were primarily the ships, equipment and machinery for dredging.

The CCCC Dredging Group was largely financed by shareholders' equity and, in a lesser extent, bond, bank and other borrowings. As at 31 December 2018, the total bond payable and bank and other borrowings were approximately RMB12,912 million.

Equity attributable to the owners of CCCC Dredging was approximately RMB30,332 million as at 31 December 2018, representing an increase of approximately 5.9% from that as at 31 December 2017. The increase was primarily attributable to profit for 2018.

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## LETTER FROM SOMERLEY

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As set out in the letter from the Board in the Circular, CCCC Dredging declared to distribute special dividends of RMB4,081 million to its existing shareholders, i.e. the Company and its subsidiary, CRBC. According to the Ruihua Auditor's Report, the audited equity attributable to owners of the parent of CCCC Dredging was approximately RMB26,251 million as at 31 December 2018. The major difference between the net assets of the CCCC Dredging Group of approximately RMB32,790 million (comprising equities attributable to the owners of CCCC Dredging and the non-controlling interests of approximately RMB30,332 million and approximately RMB2,458 million respectively) as at 31 December 2018 as set out in the table above and the total equity of shareholders of CCCC Dredging of approximately RMB28,696 million (comprising equities attributable to the owners of CCCC Dredging and the non-controlling interests of approximately RMB26,251 million and approximately RMB2,445 million respectively) in the Valuation Report was the distribution of the special dividends as mentioned above.

**(d) Outlook**

As discussed in the 2018 Annual Report, due to the upgrading of environmental policies and the implementation of strict control over sea reclamation by the Chinese government, the dredging and reclamation business was adversely affected and the revenue of the CCCC Dredging Group was reduced, primary as a result of the decreasing dredging activities. Faced with the difficulties and challenges, the management of the CCCC Dredging Group adopted several initiatives to seize opportunities in both traditional business and emerging business. In the domestic market, the CCCC Dredging Group obtained contracts of projects in mainland China, maintaining its shares in domestic coastal dredging and reclamation market at approximately 70%. In overseas market, the CCCC Dredging Group managed to accomplish its overseas development strategy by having value of contracts from overseas dredging business represented approximately 10% of the value of total new contracts.

Having considered above, we are of the view that the outlook of the CCCC Dredging Group remains uncertain.

**3. Reasons for and benefits of the Proposed Share Transfer and the Proposed Capital Increase**

As stated in the letter from the Board in the Circular, the Company is a leading integrated service provider for ultra-large infrastructure in the global market, and its principal business is providing various customers in all parts of the world with integrated solution services for transportation infrastructure projects in the areas of investment, design, construction, operation and management. Meanwhile, CCCC Dredging is primarily engaged in dredging and land reclamation with core competitiveness from its all-round dredging vessels with optimized functions, which is capital-intensive and technology-intensive, and different from the Company in development characteristics



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## LETTER FROM SOMERLEY

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and resources necessary for the operation. The proposed transactions will enable the Company to better concentrate more on and make more centralised investment in its principal business of infrastructure, thus further strengthening its core competitiveness.

As at 31 December 2016, 2017, 2018 and 31 March 2019, the asset-liability ratios of the Company prepared in accordance with the CASBE were 76.67%, 75.78%, 75.05% and 74.56%, respectively, representing a moderate decrease year over year. The cash inflow generated from the Proposed Share Transfer is expected to be RMB8,634 million, and the cash inflow generated from the Third Party Transfer (assuming that the Company will further transfer 5,519,895,784 shares in CCCC Dredging to third parties (other than CCCG and its subsidiaries) at the floor purchase price of RMB2.47 per share) is expected to be RMB13,634 million. Upon completion of the transactions, the Company intends to use the proceeds to repay its bank loans, further lowering the asset-liability ratio, reducing finance costs and optimising the capital structure of the Company.

The Company will continue to enjoy the shareholder's returns from the reform and development of CCCC Dredging through the retainment of 20% equity interest in CCCC Dredging upon completion of the proposed transactions. CCCC Dredging acts as one of the enterprises that participates in the "Double Hundred Actions" for the reform of state-owned enterprises, and the transactions will allow CCCG to strengthen and improve the efficiency in its management and control over CCCC Dredging, increase CCCC Dredging's recognition from external markets as becoming tier-one subsidiary of CCCG, which will in turn be conducive for CCCC Dredging to obtaining more support from national policies.

Furthermore, the total gain from the Proposed Share Transfer (before taxation payable in relation to the Proposed Share Transfer and other expenses) is expected to be not more than approximately RMB842 million, which has been calculated using the formula that the consideration for the Proposed Share Transfer deducts the corresponding audited value of equity attributable to owners of the parent of CCCC Dredging as at 31 December 2018. The total gain from the Proposed Share Transfer and the Third Party Transfer (before taxation payable in relation to the Proposed Share Transfer and the potential Third Party Transfer and other expenses, assuming that the Company will further transfer 5,519,895,784 shares in CCCC Dredging to third parties (other than CCCG and its subsidiaries) at the floor purchase price of RMB2.47 per share) is expected to be approximately RMB2,170 million, which has been calculated using the formula that the considerations for the Proposed Share Transfer and the potential Third Party Transfer deducts the corresponding audited value of equity attributable to owners of the parents of CCCC Dredging as at 31 December 2018. Shareholders are reminded that the actual gain from the Proposed Share Transfer and the Third Party Transfer shall be determined following the completion of the Proposed Share Transfer and the Third Party Transfer and is subject to the final amount disclosed in the annual report of the Company. The Company intends to use approximately 67% of the proceeds from the Proposed Share Transfer (i.e. approximately RMB5,784.9 million) for repayment of its bank loans and replenishment of its

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## LETTER FROM SOMERLEY

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working capital, while approximately 33% of the proceeds (i.e. approximately RMB2,849.3 million) for the development of principal business of infrastructure, such as investment in construction projects of toll road, metro, etc.

Upon completion of the Proposed Share Transfer, the financial results of CCCC Dredging will still be consolidated into the consolidated financial statements of the Company when the Company does not lose control in CCCC Dredging. The consolidated assets of the Company will increase due to the receipt of the consideration for the Proposed Share Transfer, while the consolidated liabilities of the Company will remain unchanged. Upon completion of the Proposed Share Transfer and the potential Third Party Transfer, the assets and the liabilities of CCCC Dredging will be derecognised from the consolidated financial statements of the Company. The consideration for the Proposed Share Transfer and the potential Third Party Transfer will increase the assets in the consolidated financial statements of the Company and the remaining shares in CCCC Dredging held by the Company will increase its long term equity investment.

The revenue and profit contributions from the dredging segment has generally become less and less in the recent years. In 2018, the dredging segment only provided approximately 6.7% of revenue and approximately 5.3% of segment profit to the Group. More importantly, due to the upgrading of environmental policies and the implementation of strict control over sea reclamation by the Chinese government as mentioned above, the dredging segment recorded a relatively lower return in general as compared with other segments of the Group (except for other operations, which are not identifiable on a stand-alone basis). Set out below are the comparisons of segmental return and return on equity of the continuing operation of the Group (inclusive of the dredging segment) and the dredging segment of the Group or the CCCC Dredging Group:

	For the year ended 31 December		
	2018	2017	2016
Segmental return on net segment assets			
(Note 1)			
- the continuing operations of the Group	8.2%	9.6%	8.1%
- dredging segment	4.2%	7.3%	7.4%
Return on equity (Note 2)			
- the continuing operations of the Group	10.1%	9.8%	11.0%
- the CCCC Dredging Group	4.2%	6.8%	6.3%

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## LETTER FROM SOMERLEY

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*Notes:*

1. The segmental return on net segment assets of the continuing operations of the Group and the dredging segment are calculated as the segment results of the continuing operations of the Group and the dredging segment divided by the net segment assets (i.e. segment assets minus segment liabilities) of the continuing operations of the Group and the dredging segment respectively as set out in the financial statements of the Group prepared in accordance with the IFRS.
2. The return on equity of the continuing operations of the Group and the CCCC Dredging Group are calculated as the net profits (after excluding the profit from the discontinued operations, if applicable) for the year attributable to the owners of the Company and CCCC Dredging divided by the equity attributable to the owners of the Company and CCCC Dredging as set out in the financial statements of the Group prepared in accordance with the IFRS and the financial statements of the CCCC Dredging Group prepared in accordance with the CASBE respectively as at the respective year end date.

Given it is the intention of the Company to use part of the net proceeds from the Proposed Share Transfer for investment in its principal business of infrastructure and repayment of bank borrowings, it is also expected that the profitability of the Group will be further enhanced. Having considered the above, we consider that the Proposed Share Transfer will also benefit the Company by allowing the Directors and the management of the Group with additional resources to develop the Group's main business.

#### **4. Principal terms of the Equity Transfer and Capital Increase Agreement**

Set out below is a summary of the principal terms of the Equity Transfer and Capital Increase Agreement.

**(a) Date**

18 June 2019

**(b) Parties**

- (1) the Company;
- (2) CCCG; and
- (3) CCCC Dredging

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## LETTER FROM SOMERLEY

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**(c) *Proposed Share Transfer***

Pursuant to the terms and conditions of the Equity Transfer and Capital Increase Agreement, the Company has agreed to sell and CCCG has agreed to acquire 3,495,604,287 shares in CCCC Dredging at the purchase price of RMB2.47 per share, representing 29.69% of the current issued share capital of CCCC Dredging and 25.33% of the enlarged issued share capital of CCCC Dredging.

**(d) *Proposed Capital Increase***

Pursuant to the terms and conditions of the Equity Transfer and Capital Increase Agreement, CCCG has agreed to subscribe for 2,024,291,498 shares with a nominal value of RMB1.00 in CCCC Dredging at the subscription price of RMB2.47 per share, representing 17.19% of the current issued share capital of CCCC Dredging and 14.67% of the enlarged issued share capital of CCCC Dredging.

**(e) *Consideration***

Pursuant to the Equity Transfer and Capital Increase Agreement, the consideration for the Proposed Share Transfer shall be RMB8,634,142,588.89 and the capital contribution made by CCCG under the Proposed Capital Increase shall be RMB5,000,000,000.06 (together with the consideration for the Proposed Share Transfer (the “**Consideration**”)), determined after arm’s length negotiations based on (a) the appraised net assets value of CCCC Dredging as at 31 December 2018 (i.e. the “**Valuation Benchmark Date**”) of approximately RMB28,970.0 million as set out in the valuation report prepared by China Tong Cheng using the asset-based approach, the summary of which is set out in Appendix I to this circular; and (b) each of the purchase price and the subscription price, being RMB2.47 per share (round up to the nearest 2 decimal places), is calculated by dividing such appraised net assets value by the current number of total issued share capital of CCCC Dredging (i.e. 11,775,447,964 shares).

**(f) *Payment***

The consideration for the Proposed Share Transfer (i.e. RMB8,634,142,588.89) shall be paid to the Company and the capital contribution for the Proposed Capital Increase (i.e. RMB5,000,000,000.06) shall be paid to CCCC Dredging, by CCCG in one lump-sum before the Completion Date, respectively.

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## LETTER FROM SOMERLEY

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*(g) Conditions precedent*

The Equity Transfer and Capital Increase Agreement shall become effective upon fulfilment of the following conditions:

- (1) the Proposed Share Transfer and the Proposed Capital Increase having been approved by CCCG;
- (2) the Proposed Share Transfer and the Proposed Capital Increase having been approved at the EGM of the Company; and
- (3) the Proposed Capital Increase having been approved at the general meeting of CCCC Dredging.

As set out in the letter from the Board contained in the Circular, none of the above conditions is waivable. As at the Latest Practicable Date, the above conditions precedent have not been fulfilled except for condition (1).

*(h) Completion*

CCCC Dredging shall, and the Company shall procure CCCC Dredging to, complete the filing or registration procedures for the change with the competent authority for industry and commerce within 60 days from the effective date of the Equity Transfer and Capital Increase Agreement or other dates as agreed by the parties. The completion shall take place on the date when the filing or registration procedures for the change with the competent authority for industry and commerce in relation to the Proposed Share Transfer and the Proposed Capital Increase has been completed (the “**Completion Date**”).

As set out in the letter from the Board contained in the Circular, the Company expects that all the outstanding conditions precedent will be fulfilled by end of August 2019, and the Equity Transfer and Capital Increase Agreement will take effect on the same date. So the payment and the completion are expected to take place by end of October 2019.

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## LETTER FROM SOMERLEY

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*(i) Profit or loss during the transition period*

The amount of the profit or loss during the transition period from the Valuation Benchmark Date (excluding the date thereof) to the Completion Date (including the date thereof) shall be determined based on the auditor's report for the transition period prepared by the auditor within 60 days from the Completion Date. If CCCC Dredging records profit during the transition period pursuant to the auditor's report, CCCC Dredging shall pay such profit to the existing shareholders, i.e. CCCC and its subsidiary, CRBC, by way of dividend distribution; in proportion to their shareholdings in CCCC Dredging; if CCCC Dredging records loss during the transition period pursuant to the auditor's report, the Company guarantees that the existing shareholders, i.e. CCCC and its subsidiary, CRBC, will pay such loss to CCCC Dredging in cash in proportion to their shareholdings in CCCC Dredging. As set out in the letter from the Board contained in the Circular, the Company expects that CCCC Dredging will not record loss during the transition period. The Company will make further announcement(s), if necessary, in due course pursuant to the Hong Kong Listing Rules.

If the Completion Date falls before the 15th day (including the date thereof) of a month, the audit period will commence from the Valuation Benchmark Date (excluding the date thereof) and end at the end of the preceding month; if the Completion Date falls after the 15th day (excluding the date thereof) of a month, the audit period will commence from the Valuation Benchmark Date (excluding the date thereof) and end at the end of that month.

**5. Evaluation of the consideration for the Proposed Share Transfer and the Proposed Capital Increase**

*(a) Comparable Companies*

CCCC Dredging is primarily engaged in dredging, land reclamation, pre-dredging and post-dredging services, water-basin environmental treatment and ocean engineering. In assessing the fairness and reasonableness of the Consideration, we have attempted to identify and compare the price-to-earnings multiple (the "**P/E Multiple**") and the price-to-book multiple (the "**P/B Multiple**") represented by the Consideration against the market valuation of companies engaging in dredging business and listed on the Stock Exchange. Under the above criteria, we could identify only one company listed on the Stock Exchange engaging in dredging business similar to CCCC Dredging, namely China Dredging Environment Protection Holdings Limited ("**China Dredging**", stock code in the Stock Exchange: 871).

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## LETTER FROM SOMERLEY

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Given the limited number of directly comparable company, we therefore expand our review to companies (i) listed on the Stock Exchange; and (ii) with principal activities of infrastructure construction, design and dredging in the PRC together with China Dredging (the “**Comparable Companies**”). The list of the Comparable Companies, in our opinion, represents an exhaustive list based on the above selection criteria and is considered appropriate for the evaluation of the Consideration.

Set out below is the list of the Comparable Companies:

Company name	Stock code	Principal business activities	Latest financial reporting date	Market capitalisation	P/E Multiple <i>(Note 1)</i> <i>(RMB million)</i>	P/B Multiple <i>(Note 2)</i> <i>(times)</i>
				as at the Latest Practicable Date <i>(RMB million)</i>		
The Company <i>(Note 3)</i>	1800	The Group is primarily engaged in infrastructure construction, infrastructure design, dredging and other business.	31 December 2018	161,271.6	8.1	0.8
China Railway Group Limited (“ <b>China Railway</b> ”)	390	China Railway is principally engaged in infrastructure construction business. It is also engaged in survey, design and consulting services business, the manufacture of engineering equipment and components, and real estate development.	31 December 2018	145,034.8	8.4	0.8

## LETTER FROM SOMERLEY

Company name	Stock code	Principal business activities	Latest financial reporting date	Market capitalisation as at the Latest Practicable Date	P/E	P/B
				(RMB million)	Multiple (Note 1)	Multiple (Note 2)
China Railway Construction Corporation Limited (“China Railway Construction”)	1186	China Railway Construction is principally engaged in the engineering contracting businesses including the construction of railways, highways, urban tracks, water conservancy and hydropower projects, buildings, municipal projects, bridges, tunnels, airports and marine ports, among others. It is also engaged in industrial manufacturing, real estate development, logistics and materials trading businesses, as well as provision of survey, design and consulting services.	31 December 2018	132,868.7	7.4	0.8
China State Construction International Holdings Limited (“China State Construction International”)	3311	China State Construction International is principally engaged in construction contracts business. It is also engaged in infrastructure project investments, facade contracting business and infrastructure operation. It is also engaged in building construction, civil and foundation engineering works.	31 December 2018	35,946.0	9.1	1.1



## LETTER FROM SOMERLEY

Company name	Stock code	Principal business activities	Latest financial reporting date	Market capitalisation as at the Latest Practicable Date	P/E	P/B
				(RMB million)	Multiple (Note 1)	Multiple (Note 2)
China Energy Engineering Company Limited ("China Energy Engineering")	3996	China Energy Engineering is principally engaged in construction contracts business. It is engaged in the provision of survey and design services, the provision of consulting services, the provision of construction and contracting services and undertaking other types of construction projects, design, manufacture and sales of various types of equipment and manufacture and sales of civil explosives and cement and the provision of blasting services for construction projects.	31 December 2018	25,097.1	5.5	0.5
China Machinery Engineering Corporation ("China Machinery Engineering")	1829	China Machinery Engineering is principally engaged in international engineering contracting business in power, transportation, telecommunications and other sectors. It also provides design consulting services, logistics services, exhibition services, tendering agency services and export-import agency services. It is also engaged in overseas and domestic concession investments in engineering contracting projects and associated financing business.	31 December 2018	12,707.2	6.0	0.8

# LETTER FROM SOMERLEY

Company name	Stock code	Principal business activities	Latest financial reporting date	Market capitalisation as at the Latest Practicable Date		
				(RMB million)	P/E Multiple (Note 1)	P/B Multiple (Note 2)
Beijing Urban Construction Design and Development Company Limited ("BJUCD")	1599	BJUCD is principally engaged in the design, survey, consultancy and construction contracting business. It provides services on designing, surveying and mapping, monitoring and consulting services in the engineering of urban rail transit, municipal management.	31 December 2018	2,812.8	5.0	0.7
China Dredging	871	China Dredging is principally engaged in capital and reclamation dredging businesses. It mainly operates in capital and reclamation dredging segment, environmental protection dredging and water management segment and dredging related construction segment.	31 December 2018	168.6	N/A (Note 4)	0.1
				Average	7.1	0.7
				Median	7.4	0.8
				Maximum	9.1	1.1
				Minimum	5.0	0.1
The Proposed Share Transfer and the Proposed Capital Increase					22.9 (Note 5)	1.1 (Note 6)

*Notes:*

1. The P/E Multiples of the Comparable Companies are calculated based on the market capitalisation of the Comparable Companies in the Stock Exchange as at the Latest Practicable Date divided by the trailing twelve-month profit attributable to the shareholders of the Comparable Companies, net of one-off extraordinary items (if any), as shown in their respective annual reports.
2. The P/B Multiples of the Comparable Companies are calculated based on the market capitalisation of the Comparable Companies in the Stock Exchange as at the Latest Practicable Date divided by the consolidated NAV attributable to the shareholders of the respective Comparable Companies as shown in their respective latest published annual reports.

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## LETTER FROM SOMERLEY

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3. Having considered the principal business activities of the Company, we are of the view that the Company meets the selection criteria of the Comparable Companies.
4. According to the annual report of China Dredging for the year ended 31 December 2018, China Dredging recorded loss after tax attributable to shareholders of China Dredging for the year ended 31 December 2018, rendering the P/E Multiple of China Dredging not meaningful. Therefore, the P/E Multiple of China Dredging was excluded from those of the Comparable Companies.
5. The implied P/E Multiple of the Proposed Share Transfer and the Proposed Capital Increase of approximately 22.9 times is calculated based on the Consideration of approximately RMB13,634 million divided by 46.9% (being the sum of the percentage of current issued share capital of CCCC Dredging to be transacted in the Proposed Share Transfer and the Proposed Capital Increase) of the net profit of CCCC Dredging of approximately RMB1,267 million.
6. The implied P/B Multiple of the Proposed Share Transfer and the Proposed Capital Increase of approximately 1.1 times is calculated based on the Consideration of approximately RMB13,634 million divided by 46.9% (being the sum of the percentage of current issued share capital of CCCC Dredging to be transacted in the Proposed Share Transfer and the Proposed Capital Increase) of the NAV of CCCC Dredging as at 31 December 2018 of approximately RMB26,251 million (after adjusted for the dividend distribution of approximately RMB4,081 million subsequent to 31 December 2018).

The P/E Multiples of the Comparable Companies ranged from approximately 5.0 times to approximately 9.1 times with an average and a median of approximately 7.1 times and approximately 7.4 times respectively. The implied P/E Multiple of the Proposed Share Transfer and the Proposed Capital Increase of approximately 22.9 times is higher than all of the P/E Multiples of the Comparable Companies.

The P/B Multiples of the Comparable Companies ranged from approximately 0.1 times to approximately 1.1 times with an average and median of approximately 0.7 times and 0.8 times respectively. The implied P/B Multiple for the Proposed Share Transfer and the Proposed Capital Increase of approximately 1.1 times is at the upper bound of the range of the P/B Multiples of the Comparable Companies.

As the implied P/E Multiple and P/B Multiple for the Proposed Share Transfer and the Proposed Capital Increase of approximately 22.9 times and approximately 1.1 times are higher than the P/E Multiples and P/B Multiples of the Comparable Companies respectively and having considered the other factors as discussed in this letter, we are of the view that the Consideration to be fair and reasonable.

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## LETTER FROM SOMERLEY

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**(b) Business valuation**

The considerations for the Proposed Share Transfer and the Proposed Capital Increase have been determined based on the appraised net asset value of CCCC Dredging as at 31 December 2018 of approximately RMB28,970.0 million as appraised by China Tong Cheng. We have reviewed the valuation report of CCCC Dredging (the “**Valuation Report**”), a summary of which is set out in appendix I to the Circular, and have discussed with China Tong Cheng regarding the valuation of CCCC Dredging with details set out below.

*(i) Scope of work and qualification of the valuer*

We have discussed with China Tong Cheng regarding its expertise and the experience of the responsible valuer for the valuation. We understand that China Tong Cheng is an independent firm of qualified PRC valuer (designated by the relevant governmental authorities to conduct asset valuation including state-owned assets) and is authorised by the Ministry of Finance of the PRC and China Securities Regulatory Commission to provide valuation services in the PRC. We also understand that the responsible valuer signing the valuation report for CCCC Dredging has over 20 years of experience in conducting valuation. We also reviewed the terms of engagement of China Tong Cheng and discussed with it regarding its work performed as regards the valuation.

*(ii) Valuation approach*

Based on our review on the Valuation Report and our discussions with China Tong Cheng, China Tong Cheng has adopted the asset-based approach when valuing CCCC Dredging. We understand that China Tong Cheng has considered the three commonly used valuation approaches for valuation of a company, namely the asset-based approach, the market approach and the income approach. China Tong Cheng considers that the market approach is not applicable in valuing CCCC Dredging as there are differences between CCCC Dredging and comparable companies in terms of, among other things, product structure, operation model and company size. We understand from China Tong Cheng that income approach is not considered appropriate for determining the final valuation of CCCC Dredging since the income approach cannot fully reflect the future development and the value of CCCC Dredging because of: (i) the non-fully opened capital platform of CCCC Dredging; (ii) the insignificant scale of capital and credit limit of CCCC Dredging; and (iii) the uncertainties in the future capital and business of CCCC Dredging.

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## LETTER FROM SOMERLEY

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The asset-based approach is based on the judgment of the overall asset value with the amount of investment needed to re-build an enterprise identical to the valuation target on the appraisal date. In particular, the equity value of the valuation target is arrived at by summing up the appraised values of each component asset forming the enterprise and then deducting the appraised values of its liabilities. We understand from China Tong Cheng that the asset-based approach is considered appropriate for determining the final valuation of CCCC Dredging as there were reliable records of the assets and liabilities of the subject companies and sufficient information could be obtained for the purpose of performing the valuation based on asset-based approach. We have reviewed the audited financial information of CCCC Dredging, and major assets and liabilities of CCCC Dredging as at the valuation date are set out in the section headed “2. Information on CCCC Dredging” of this letter. Valuation methodologies of different assets and liabilities of CCCC Dredging under the asset-based approach are discussed below. Based on our review of the financial information and our discussions with China Tong Cheng, we are not aware of any unusual asset or liability items which cannot be valued using the assets-based approach. Based on the above and taking into account our discussions with China Tong Cheng regarding its selection of valuation approach as set out above, we consider that the use of assets-based approach in valuing CCCC Dredging to be acceptable.

*(iii) Valuation assumptions*

We have reviewed the Valuation Report and discussed with China Tong Cheng in respect of the assumptions adopted for performing the valuation under asset-based approach. We noted that certain assumptions were adopted by China Tong Cheng in the valuation, which include, among other things, (i) the subject asset is in a status available to be transferred; (ii) there is an open market for sale and purchase of the subject asset; (iii) the subject company under valuation will operate on a going concern basis; and (iv) there will not be any material change in government regulations and policies, environment and tax rates and any adverse change. We understand from China Tong Cheng that these assumptions are commonly adopted in other valuations of similar assets and there is no unusual assumption which has been adopted when valuing CCCC Dredging. We also consider the assumptions adopted in the Valuation Report general in nature and are not aware of any material facts which lead us to doubt the assumptions adopted by China Tong Cheng.

(iv) *Details of valuation*

We have discussed with China Tong Cheng its valuation methodologies to value different assets and liabilities of CCCC Dredging under the asset-based approach. We note that China Tong Cheng has applied the methodologies as summarised below in the valuation of CCCC Dredging.

*Current assets*

For cash and bank deposits, they are valued based on the carrying value after verification procedures including (a) physical count of cash; (b) checking to underlying books and records against bank statements; and (c) obtaining bank confirmations. For other receivables, they are valued after taking into account their recoverability which was assessed by investigating the underlying repayment records, reasons for recognition of the receivables and creditability of the debtors and reviewing ageing analysis. For dividend receivables, they are valued based on the carrying value after examining the underlying books and records.

*Non-current assets*

Fixed assets are substantially ships and they are valued based on replacement costs and adjusted for newness rate. Replacement cost of ships include, among other things, manufacturing costs, manufacturing profit, taxes and cost of capital. Manufacturing costs are estimated after procedures such as reviewing the construction materials in the ship design plan and checking to prevailing market price of various construction materials. Newness rates were determined based on the physical conditions and estimated remaining life of the subject assets after physical inspection. For trade and other receivables, they are valued after taking into account their recoverability which was assessed by investigating the underlying repayment records, reasons for recognition of the receivables and creditability of the debtors and reviewing ageing analysis. For long-term equity investment without control, they are valued based on the net asset value of the investees, after reviewing the financial statements and relevant operating information provided by the investees, and multiply by the percentage of the equity interest held in the relevant investee.

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## LETTER FROM SOMERLEY

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### *Liabilities*

For liabilities, they are valued based on the carrying values of the actual liabilities payable by CCCC Dredging as at the valuation date. Valuation procedures include checking to the underlying records and documents and verifying the existence of the amount of liabilities.

We understand from China Tong Cheng that the above valuation methodologies in valuing the equity interest in CCCC Dredging under the asset-based approach are commonly used in the industry, and are based on commonly adopted valuation basis. They have also made reference to their internal database and market data when performing the valuations. Physical inspection was carried out by China Tong Cheng and no abnormalities were noted. Having considered the above, we concur with the Board that the assumptions used in the Valuation Report are fair and reasonable.

## **6. Financial effects of the Proposed Share Transfer and the Proposed Capital Increase on the Group**

### **(a) Earnings**

The profit attributable to owners of the Company for the year ended 31 December 2018 was approximately RMB19,819 million and the profit of the CCCC Dredging Group for the year ended 31 December 2018 was approximately RMB1,267 million. Upon Completion (i.e. the Proposed Share Transfer and the Proposed Capital Increase only but excluding the Third Party Transfer), the Group will hold 60% of the equity interest in CCCC Dredging. CCCC Dredging will continue to be a subsidiary of the Group. The financial results of CCCC Dredging will continue to be consolidated into the financial statements of the Group, but the profit or loss of CCCC Dredging attributable to the owners of the Company will be reduced by 40%, which will be taken up by the non-controlling interest of the Group (i.e. CCCG) upon Completion. As advised by the management of the Group, there is no significant deviation between the IFRSs and the CASBE in preparation of the financial statements of the CCCC Dredging Group. Assuming Completion took place in the beginning of 2018, the profit attributable to the owners of the Company for the year ended 31 December 2018 would be reduced by approximately RMB507 million or approximately 2.6%.

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## LETTER FROM SOMERLEY

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Furthermore, upon Completion, an one-off gain on the Proposed Share Transfer (excluding the Third Party Transfer) of not more than approximately RMB842 million (before taxation payable in relation to the Proposed Share Transfer and other expenses), which has been calculated using the formula that the consideration for the Proposed Share Transfer deducts the corresponding audited value of equity attributable to owners of CCCC Dredging as at 31 December 2018.

For information only, upon completion of the Third Party Transfer, the Company, CCCG and the transferee of the Third Party Transfer will own 20%, 40% and 40% of the enlarged issued share capital of CCCC Dredging respectively. CCCC Dredging will be de-consolidated from the Company and its financial results will no longer be consolidated into that of the Group. An one-off gain on the Proposed Share Transfer and the Third Party Transfer of approximately RMB2,170 million (before taxation payable in relation to the Proposed Share Transfer and the Third Party Transfer and other expenses, assuming that the Company will further transfer 5,519,895,784 shares in CCCC Dredging to third parties (other than CCCG and its subsidiaries) at the floor purchase price of RMB2.47 per share), which has been calculated using the formula that the considerations for the Proposed Share Transfer and the Third Party Transfer deducts the corresponding audited value of equity attributable to owners of CCCC Dredging as at 31 December 2018.

Shareholders are reminded that the actual gain to be recognised following completion of the Proposed Share Transfer and the Proposed Capital Increase shall be determined with reference to various factors such as the consolidated net assets of CCCC Dredging upon Completion, which may be different from the abovementioned gain.

**(b) NAV**

As at 31 December 2018, the NAV of the Company attributable to the owners of the Company was approximately RMB197,178 million, and the NAV of the CCCC Dredging Group was approximately RMB32,790 million. Upon Completion, CCCC Dredging will continue to be a subsidiary of the Company and the assets and liabilities of the CCCC Dredging Group will continue to be consolidated into the consolidated statement of financial position of the Company. Nevertheless, the net asset value of the CCCC Dredging Group attributable to the owners of the Company will be reduced 40% upon Completion. As advised by the management of the Group, there is no significant deviation between the IFRS and the CASBE in preparation of the financial statements of the CCCC Dredging Group. Assuming Completion took place as at 31 December 2018, the NAV of the Company attributable to the owners of the Company would increase by not more than approximately RMB842 million or approximately 0.4%.



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## LETTER FROM SOMERLEY

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For information only, as mentioned in paragraph (a) above, upon completion of the Third Party Transfer, CCCC Dredging will be deconsolidated from the Company and hence the assets and liabilities of CCCC Dredging will also be deconsolidated from that of the Group.

Upon completion of the Proposed Share Transfer and the Third Party Transfer, the NAV of the Group will be enhanced by approximately RMB2,170 million for the one-off gain on the Proposed Share Transfer and the Third Party Transfer as discussed in paragraph (a) above.

**(c) Liquidity**

As at 31 December 2018, the Group had cash and bank balances of approximately RMB127,413 million and net current assets (i.e. total current assets less total current liabilities) of approximately RMB1,633 million. Based on the cash balance of approximately RMB8,019 million and the net current asset position of approximately RMB7,259 million of the CCCC Dredging Group as at 31 December 2018 and given the Consideration will be solely satisfied in cash of approximately RMB8,634 million, both the cash and the net current asset positions of the Group are anticipated to improve upon Completion.

For information only, the cash inflow generated from the Proposed Share Transfer and the Third Party Transfer is expected to be approximately RMB13,634 million (assuming that the Company will further transfer 5,519,895,784 shares in CCCC Dredging to third parties (other than CCCG and its subsidiaries) at the floor purchase price of RMB2.47 per share). The impact on the liquidity of the Group following completion of the Third Party Transfer will be subject to various factors such as the consideration and the consolidated net assets and the liquidity position of CCCC Dredging upon completion of the Third Party Transfer, which are not determinable as at the Latest Practicable Date.

**(d) Gearing**

As at 31 December 2018, the Group's gearing ratio, being net debt (i.e. total borrowings of approximately RMB294,627 million less cash and cash equivalents of approximately RMB127,413 million) divided by total capital (i.e. total equity of approximately RMB239,682 million plus net debt of approximately RMB167,214 million), was approximately 41.1%. Based on the net debt of the CCCC Dredging Group of approximately RMB4,893 million as at 31 December 2018 and given the Consideration will be entirely satisfied in cash and the expected gain on the Proposed Share Transfer and the Proposed Capital Increase, it is expected that the Group's gearing ratio will be reduced upon Completion.

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## LETTER FROM SOMERLEY

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For information only, the impact on the gearing of the Group following completion of the Third Party Transfer will be subject to various factors such as the consideration and the consolidated net assets and the cash position of CCCC Dredging upon completion of the Third Party Transfer, which are not determinable as at the Latest Practicable Date.

### DISCUSSION AND ANALYSIS

The Group's principal business includes primarily infrastructure construction, infrastructure design, dredging and other business. During the Review Period, both the infrastructure construction and infrastructure design segments continued to record growth in terms of revenue and segment profit. The overall net profit margin and return on equity from continuing operations of the Group for the year ended 31 December 2018 were approximately 4.1% and approximately 10.1% respectively.

The CCCC Dredging Group is principally engaged in dredging, land reclamation and other business. For the year ended 31 December 2018, the CCCC Dredging Group saw a flat revenue and a decline in profit. Also, the contribution of revenue and segment profit by the CCCC Dredging Group to the Group (according to the Group's financial performance prepared in accordance with the IFRS) decreased from 7.4% to 6.7% and from 8.7% to 5.3% respectively. The financial performance was chiefly due to the upgrading of environmental policies and the implementation of strict control over sea reclamation by the Chinese government in the historical periods.

According to the management of the Group, the dredging is different from the Group in development characteristics and resources necessary for the operation. Furthermore, the revenue and profit contributions of the Group were substantially come from the construction segment and the contributions from the dredging segment have become smaller in the recent years. Furthermore, the return on equity of the Group (inclusive of the dredging segment) were higher than that of the CCCC Dredging Group during the period under review.

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## LETTER FROM SOMERLEY

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The considerations for the Proposed Share Transfer and the Proposed Capital Increase have been determined based on the appraised net asset value of CCCC Dredging as at 31 December 2018 of approximately RMB28,971 million as appraised by an independent valuer. Asset-based approach is adopted in valuing the equity interest in CCCC Dredging and such approach is commonly used in the industry.

The P/E Multiples of the Comparable Companies ranged from approximately 5.0 times to approximately 7.1 times with an average and a median of approximately 7.1 times and 7.4 times respectively. The implied P/E Multiple of the Proposed Share Transfer and the Proposed Capital Increase of 22.9 times is higher than all of the P/E Multiples of the Comparable Companies. The P/B Multiples of the Comparable Companies ranged from approximately 0.1 times to approximately 1.1 times with an average and median of approximately 0.7 times and 0.8 times respectively. The implied P/B Multiple for the Proposed Share Transfer and the Proposed Capital Increase of approximately 1.1 times is at the upper bound of the range of the P/B Multiples of the Comparable Companies.

The financial effects of the Proposed Share Transfer and the Proposed Capital Increase on the Group are expected to be positive. It is anticipated that there will be a gain on the Proposed Share Transfer and the Proposed Capital Increase and with enhancement to the NAV of the Group. Also, both the working capital and gearing of the Group are expected to improve upon Completion as the consideration for the Proposed Share Transfer will be entirely satisfied in cash.

### OPINION AND RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the Proposed Share Transfer and the Proposed Capital Increase, though not in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole and the terms of the Equity Transfer and Capital Increase Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Proposed Share Transfer and the Proposed Capital Increase.

Yours faithfully,

for and on behalf of

**SOMERLEY CAPITAL LIMITED**

**Danny Cheng**

*Director*

*Set out below is the summary of the valuation report dated 12 June 2019 prepared for, among other purposes, incorporation in this circular. In the event of any inconsistency between the English version and the Chinese version of the text below, the Chinese version shall prevail to the extent of such inconsistency.*

**The Report is prepared under Chinese Valuation Standards**

**PROPOSED TRANSFER OF THE ENTIRE SHAREHOLDERS' EQUITY  
INTEREST IN CCCC DREDGING (GROUP) CO., LTD. BY  
CHINA COMMUNICATIONS CONSTRUCTION COMPANY LIMITED  
ASSET VALUATION REPORT**

**Zhong Tong Ping Bao Zi [2019] No. 12120**

**Vol. 1 of 1**

**Disclaimer, Text**

**China Tong Cheng Assets Appraisal Co. Ltd.**

**12 June 2019**

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**ASSET VALUER'S DISCLAIMER**

- I. This asset valuation report was prepared in accordance with the Asset Valuation Standards – Basic Standards issued by the Ministry of Finance and the Principles of Asset Appraisal Practice and Code of Ethics issued by China Appraisal Society.
- II. The principals or other users of the asset valuation report shall use the report in accordance with the laws and administrative rules and regulations and the scope of application set out in the asset valuation report. Where the principals or other users of the asset valuation report fail to use the asset valuation report in accordance with the above requirement, the asset appraisal agency and asset valuers would not bear the responsibilities.

This asset valuation report shall only be used by the principals, other users of the asset valuation report specified in the asset valuation entrustment contract, and users of the asset valuation report under the provisions of laws and administrative rules and regulations. Save for the above, this asset valuation report shall not be used by any other institution or individual.

The asset appraisal agency and the asset valuers advised that users of the asset valuation report shall properly acknowledge the valuation conclusion, which should not be viewed as the realizable value of the subject of valuation nor should it be deemed to be a guarantee for the realizable value of the subject of valuation.

- III. The asset appraisal agency and its asset valuers have complied with the laws, administrative rules and regulations and asset valuation standards and abided by the principles of independence, objectivity and impartiality, and are responsible, under the laws, for the asset valuation report issued by them.
- IV. The list of assets and liabilities related to the subject of valuation has been reported and confirmed with signatures and seals or otherwise under the laws by the principals and the appraised entity; the truthfulness, completeness and legality of the information provided shall be the responsibility of the principals and other relevant parties.
- V. The asset appraisal agency and the asset valuers have no existing or expected relationship of interests with the subject of valuation set out in the asset valuation report or with the relevant parties, and have no prejudice against the relevant parties.

- VI. The asset valuers have carried out on-site inspection on the subject of valuation in the asset valuation report and its assets involved; we have put necessary emphasis on the legal ownership of the subject of valuation and the assets involved, verified the information of the legal ownership of the subject of valuation and the assets involved, made proper disclosure in respect of the issues identified, and requested the principals and other relevant parties to consummate the title in order to fulfill the requirements for the issuance of the asset valuation report.
- VII. The analyses, judgements and results in the asset valuation report issued by the asset appraisal agency are subject to the assumptions and limitations in the asset valuation report. Users of the asset valuation report shall take into full account of the assumptions, limitations and special notes stipulated in the asset valuation report and their impact on the conclusion of valuation.

**Proposed Transfer of the Entire Shareholders' Equity Interest in  
CCCC Dredging (Group) Co., Ltd. by China Communications  
Construction Company Limited  
ASSET VALUATION REPORT  
Zhong Tong Ping Bao Zi [2019] No. 12120**

China Communications Construction Company Limited:

China Tong Cheng Assets Appraisal Co. Ltd. accepted the appointment by the Company to appraise the market value of the entire shareholders' equity interest in CCCC Dredging (Group) Co., Ltd. proposed to be transferred by China Communications Construction Company Limited as at 31 December 2018 through necessary valuation procedures in accordance with relevant laws, administrative regulations and asset valuation standards abiding by the principles of independence, objectivity and impartiality. The valuation results by adopting the asset-based approach were the final valuation conclusion for this valuation. The asset valuation is hereby reported as follows:

**I. THE PRINCIPAL, APPRAISED ENTITY AND OTHER USERS OF THE VALUATION REPORT SPECIFIED IN THE ASSET VALUATION ENTRUSTMENT CONTRACT**

**(I) The principal is China Communications Construction Company Limited:**

Name:	China Communications Construction Company Limited (hereafter referred to as "CCCC")
Unified credit code:	91110000710934369E
Address:	85 De Sheng Men Wai Street, Xicheng District, Beijing
Legal representative:	Liu Qitao
Registered capital:	RMB16.175 billion
Principal scope of business:	infrastructure design, infrastructure construction, dredging and manufacture of heavy machineries.



China Communications Construction Company Limited was incorporated on 8 October 2006 and was initiated and founded by CCCG (a state-owned enterprise under the SASAC) through restructuring as approved by the State Council. China Communications Construction Company Limited was listed on the Main Board of the Hong Kong Stock Exchange on 15 December 2006, which became the first ultra large state-owned infrastructure group listed outside the PRC. In July 2008, China Communications Construction Company Limited was successfully selected as one of the world's top 500, ranking 426th, while it ranked 213rd in 2013. China Communications Construction Company Limited ranked top among the construction enterprises in mainland China and is the most representative company in the construction industry of the PRC.

**(II) Appraised entity is CCCC Dredging (Group) Co., Ltd.:**

Company name:	CCCC Dredging (Group) Co., Ltd.
Address:	Room 201, No. 1296, Xuchang Road, Yangpu District, Shanghai
Legal representative:	Zhou Jingbo
Registered capital:	RMB11,775,447,964
Paid-in capital:	RMB11,775,447,964
Type of company:	joint stock company (unlisted, state-controlled)

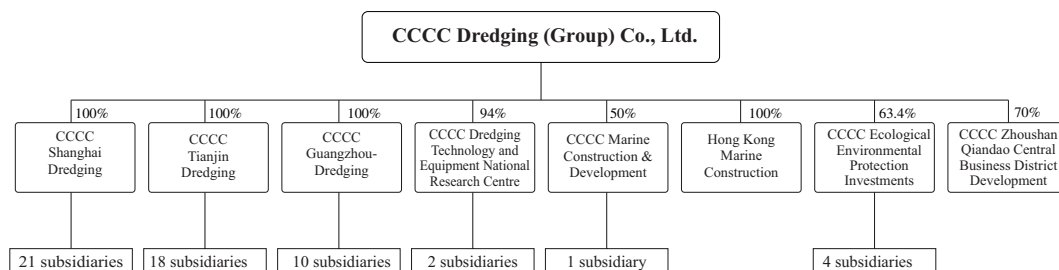
Business scope: waterway dredging, port and waterway construction, international shipping, domestic waterway transportation, international maritime auxiliary business, domestic ship management business, water conservancy and hydropower construction, geotechnical engineering survey, soil and water geological survey, engineering survey and investigation, mineral resources exploitation, technology development, technical services, technology transfer and technical consultation in the field of new energy science, professional construction of offshore petroleum engineering, port management, professional construction of environmental protection engineering, municipal public projects engineering, project investment management, warehousing (except dangerous goods), construction materials, reinforced concrete products, chemical products (excluding dangerous chemicals, monitoring chemicals, fireworks, inflammable and explosive materials, poisonous chemicals), machinery equipment, building installation equipment, marine engineering equipment, ship sales, leasing of self-owned equipment, overseas engineering projects contracting within strength, scale and performance, labor despatch for the overseas engineering projects, import and export business of goods and technology, and business information consultation. (For projects that require approval under the law, business can be carried out after the approval by the relevant departments)

As of the valuation base date, its shareholders and capital contributions are as follows:

*Unit: RMB0,000*

Name of shareholder	Capital contributions	Capital contribution proportions
China Communications Construction Company Limited	11,763,672,516	99.9%
China Road and Bridge Corporation	11,775,448	0.1%
Total	11,775,447,964	100%

As of the valuation base date, the shareholding structure of CCCC Dredging (Group) Co., Ltd. are as follows:



The major financial figures (audited by the accounting firm) of CCCC Dredging (Group) Co., Ltd. in recent years are as follows:

**Major financial figures of CCCC Dredging (Group) Co., Ltd. (single unit)**

*Unit: RMB*

Item	2018	2017	2016
Total asset	49,916,347,260	41,917,777,719	36,654,867,712
Total fixed asset	41,459,171	39,058,482	43,715,353
Total liability	25,616,917,978	17,863,669,735	13,063,469,441
Net asset	24,299,429,282	24,054,107,984	23,591,398,271
Revenue	948,569,454	25,728,413	10,370,427
Total profit	4,704,550,219	789,164,255	12,210,738
Net profit	4,701,727,639	789,164,255	12,210,738

## Major financial figures of CCCC Dredging (Group) Co., Ltd. (Consolidated)

Unit: RMB

Item	2018	2017	2016
Total asset	95,039,213,727	86,056,665,617	80,948,923,585
Total fixed asset	15,396,071,789	14,701,155,454	14,928,866,951
Total liability	66,343,182,040	55,926,723,935	52,334,586,185
Total equity attributable to			
shareholders of the parent	26,250,608,856.00	28,643,688,996.00	27,273,930,590.00
Minority interests	2,445,422,831.00	1,486,252,686.00	1,340,406,810.00
Total equity of shareholders	28,696,031,687.00	30,129,941,682.00	28,614,337,400.00
Revenue	34,228,362,237	34,581,721,275	31,549,219,201
Total profit	<u>1,552,583,248</u>	<u>2,518,693,422</u>	<u>2,401,734,774</u>
Net profit	<u>1,266,918,722</u>	<u>1,955,035,772</u>	<u>1,712,875,394</u>

**(III) Relationship between the principal and the appraised entity**

China Communications Construction Company Limited, the principal, is the shareholder of CCCC Dredging (Group) Co., Ltd., the appraised entity, with the shareholding percentage of 99.9%. China Communications Construction Company Limited held 0.1 % through China Road and Bridge Corporation. The final shareholding percentage is 100%.

**(IV) Other users of the valuation report**

Except for parties in action (including intermediaries), competent administrative review authorities and users of the report as required by the laws and regulations, there is no stipulation of other users of the valuation report in the asset valuation entrustment contract.

Unless otherwise required by the national laws and regulations, no institutions or individuals without confirmation granted by the appraisal agency and the principal shall become the user of this report as a result of possession thereof.

**II. PURPOSE OF VALUATION**

China Communications Construction Company Limited proposed to transfer the entire shareholders' equity interest in CCCC Dredging (Group) Co., Ltd.. The purpose of the valuation is to provide value reference for the above economic behavior.

The economic behavior corresponding to the valuation has been approved by CCCG, and the "Reply on Equity Reorganization of CCCC Dredging" (Zhong Jiao Jin Fa [2019] No. 216) has been issued.

**III. SUBJECT AND SCOPE OF VALUATION**

The subject and scope of valuation shall be consistent with those involved in the economic behavior.

The subject of valuation is the entire shareholders' equity interest of CCCC Dredging (Group) Co., Ltd..

The scope of valuation covers the assets and liabilities in and off the balance sheet of CCCC Dredging (Group) Co., Ltd. as at the valuation base date. The financial statements corresponding to the assets and liabilities within the scope of valuation have been audited by Ruihua Certified Public Accountants LLP, which issued the special audit report on CCCC Dredging (Group) Co., Ltd. (Rui Hua Shen Zi [2019] No. 01610325) on 30 April 2019. The details are as follows:

*Unit: RMB*

<b>No.</b>	<b>Items</b>	<b>Carrying amount</b>
<b>1</b>	<b>I Total current assets</b>	<b>23,230,365,851.24</b>
2	Cash at bank and on hand	5,342,110,842.50
3	Accounts receivable	39,335,133.46
4	Prepayments	71,560,913.87
5	Dividends receivable	6,175,436,850.12
6	Other receivables	11,599,976,436.22
7	Inventory	1,945,533.62
8	Other current assets	141.45

No.	Items	Carrying amount
<b>9</b>	<b>II Total non-current assets</b>	<b>26,685,981,409.05</b>
10	Long-term equity investments	26,543,128,319.77
11	Fixed assets	41,459,170.68
12	Intangible assets	15,480,344.88
13	Long-term deferred expenses	590,294.70
14	Deferred tax assets	150,052.86
15	Other non-current assets	85,173,226.16
<b>16</b>	<b>III Total assets</b>	<b>49,916,347,260.29</b>
<b>17</b>	<b>IV Total current liabilities</b>	<b>15,635,679,782.22</b>
18	Account payables	160,060,610.36
19	Advances from customers	266,435,222.05
20	Employee benefits payable	2,798,594.22
21	Taxes payable	3,037,071.60
22	Interests payable	135,962,712.15
23	Dividends payable (profits payable)	5,071,729,565.43
24	Other payables	9,995,656,006.41
<b>25</b>	<b>V Total non-current liabilities</b>	<b>9,981,238,196.49</b>
26	Debentures payable	9,981,238,196.49
<b>27</b>	<b>VI Total liabilities</b>	<b>25,616,917,978.71</b>
<b>28</b>	<b>VII Net asset</b>	<b>24,299,429,281.58</b>

Types, quantities and carrying amount (or appraised value) of the assets involved in the conclusions of the reports are issued by other institutions.

Nil.

#### IV. TYPES AND DEFINITION OF VALUE

The types of appraised value include market value and other value types. Value types other than market value generally include (but are not limited to) investment value, value in use, liquidation value, residual value and so on. The purpose of the valuation is to provide value reference for normal transactions. There are no special limitations and requirements on the use of market conditions, the subject of valuation and so on. Therefore, market value shall be selected as the type of value for the valuation in accordance with industry practice.

The market value is defined as the estimated price of the subject of valuation in a normal and arm's length transaction as at the valuation base date between a willing purchaser and a willing seller acting reasonably and without compulsion.

## **V. VALUATION BASE DATE**

The valuation base date is 31 December 2018.

Such date has been determined by the principal taking into account various considerations, mainly including selecting the proper time required for realizing the economic behavior and fixing the time at the end of an accounting period for clear definition of the scope of Valuation and accurate and efficient assets checking.

## **VI. BASIS OF VALUATION**

### **(I) Basis of economic behavior**

“Reply on Equity Reorganization of CCCC Dredging” (Zhong Jiao Jin Fa [2019] No. 216).

### **(II) Basis of laws and regulations**

1. Asset Valuation Law of the People's Republic of China (《中華人民共和國資產評估法》) (adopted at the 21st meeting of the Standing Committee of the Twelfth National People's Congress of the People's Republic of China on 2 July 2016);
2. Law of the People's Republic of China on State-owned Assets of Enterprises (《中華人民共和國企業國有資產法》) (adopted at the 5th meeting of the Standing Committee of the Eleventh National People's Congress on 28 October 2008);
3. Securities Law of the People's Republic of China (《中華人民共和國證券法》) (revised at the 3rd meeting of the Standing Committee of the Twelfth National People's Congress on 29 June 2013);
4. Administration Measures on the Valuation of State-owned Assets (Decree No. 91 of the State Council) (《國有資產評估管理辦法》)(國務院令第91號));
5. Implementation Rules of Administration Measures on the Valuation of State-owned Assets (Guo Zi Ban Fa [1992] No. 36) (國有資產評估管理辦法施行細則)(國資辦發[1992]36號));

6. Interim Measures for the Supervision and Administration of State-owned Assets of Enterprises (Decree No. 378 of the State Council) (《企業國有資產監督管理暫行條例》(國務院第378號令));
7. Opinions of on Reforming State-owned Asset Appraisal Administration Method and Strengthening Asset Appraisal Administration Work (Guo Ban Fa [2001] No. 102) (《關於改革國有資產評估行政管理方式加強資產評估監督管理工作的意見》(國辦發[2001]102號));
8. Interim Measures on the Administration of State-owned Assets Appraisal of Enterprises (Decree No. 12 of the SASAC of the State Council) (《企業國有資產評估管理暫行辦法》(國務院國資委令第12號));
9. Rules on Certain Issues concerning the Administration of State-owned Assets Valuation (Order No. 14 of the Ministry of Finance) (《國有資產評估管理若干問題的規定》(財政部令第14號));
10. Measures for the Supervision and Administration of State-owned Assets Transaction of Enterprises (Decree No. 32 of the Ministry of Finance of the SASAC of the State Council) (《企業國有資產交易監督管理辦法》(國務院國資委財政部令第32號));
11. Notice on the Issuance of Guidelines for the Filing of the Appraisal Projects of State-owned Assets of Enterprises (Guo Zi Fa Chan Quan [2013] No. 64) (《關於印發〈企業國有資產評估項目備案工作指引〉的通知》(國資發產權[2013]64號));
12. Financial Supervision and Management Measures of Assets Evaluation Industry (《資產評估行業財政監督管理辦法》) (Decree No. 86 of the Ministry of Finance) (財政部令第86號);
13. Notice on Strengthening the Administration of State-owned Assets Appraisal (Guo Zi Wei Chan Quan [2006] No. 274) (《關於加強企業國有資產評估管理工作有關問題的通知》(國資委產權[2006]274號));
14. The Company Law of the People's Republic of China (《中華人民共和國公司法》) (adopted at the 6th meeting of the Standing Committee of the Twelfth National People's Congress on 28 December 2013);
15. Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法》) (revised at the 11th meeting of the Standing Committee of the Tenth National People's Congress on 28 August 2004);



16. Interim Regulations of the People's Republic of China Concerning the Assignment and Transfer of the Right to the Use of the State-owned Land in Urban Areas (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》);
17. The Urban Real Estate Administration Law of the People's Republic of China (《中華人民共和國城市房地產管理法》) (revised in 2009);

**(III) Basis of valuation standards**

1. Basic Standards on Valuation (Cai Zi [2017] No. 43) (《評估基本準則》(財資[2017]43號));
2. Code of Professional Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30) (《資產評估職業道德準則》(中評協[2017]30號));
3. Practicing Guidelines for Asset Valuation – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36) (《資產評估執業準則—資產評估程序》(中評協[2018]36號));
4. Practicing Guidelines for Asset Valuation – Asset Valuation Reports (Zhong Ping Xie [2018] No. 35) (《資產評估執業準則—資產評估報告》(中評協[2018]35號));
5. Practicing Guidelines for Asset Valuation – Asset Valuation Engagement Contracts (Zhong Ping Xie [2017] No. 33) (《資產評估執業準則—資產評估委托合同》(中評協[2017]33號)) ;
6. Practicing Guidelines for Asset Valuation – Engagement of Experts and Relevant Reports (Zhong Ping Xie [2017] No. 35) (《資產評估執業準則—利用專家工作及相關報告》(中評協[2017]35號));
7. Practicing Guidelines for Asset Valuation – Enterprise Values (Zhong Ping Xie [2018] No. 38) (《資產評估執業準則—企業價值》(中評協[2018]38號));
8. Practicing Guidelines for Asset Valuation – Intangible assets (Zhong Ping Xie [2017] No. 37) (《資產評估執業準則—無形資產》(中評協[2017]37號));
9. Practicing Guidelines for Asset Valuation – Real Estate (Zhong Ping Xie [2017] No. 38) (《資產評估執業準則—不動產》(中評協[2017]38號));
10. Practicing Guidelines for Asset Valuation – Machinery Equipment (Zhong Ping Xie [2017] No. 39) (《資產評估執業準則—機器設備》(中評協[2017]39號));

11. Practice Guidelines for Asset Valuation—Asset Valuation File (Zhong Ping Xie [2018] No. 37) (《資產評估執業準則—資產評估檔案》(中評協[2018]37號));
12. Guidance on Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42) (《企業國有資產評估報告指南》(中評協[2017]42號));
13. Guidelines for Business Quality Control of Asset Valuation Institutions (Zhong Ping Xie [2017] No. 46) (《資產評估機構業務質量控制指南》(中評協[2017]46號));
14. Guiding Opinions on Types of Values for Asset Valuation (Zhong Ping Xie [2017] No. 47) (《資產評估價值類型指導意見》(中評協[2017]47號));
15. Guiding Opinions on Legal Ownership of the Subjects of Valuation (Zhong Ping Xie [2017] No. 48) (《資產評估對象法律權屬指導意見》(中評協[2017]48號));
16. Guiding Opinions on Valuation of Patent Assets (Zhong Ping Xie [2017] No. 49) (《專利資產評估指導意見》(中評協[2017]49號));
17. Guiding Opinions on Valuation of Copyright Assets (Zhong Ping Xie [2017] No. 50) (《著作權資產評估指導意見》(中評協[2017]50號));
18. Guiding Opinions on Investment Properties Valuation (Zhong Ping Xie [2017] No. 53) (《投資性房地產評估指導意見》(中評協[2017]53號));

**(IV) Basis of ownership**

1. Business License of the appraised entity;
2. Real Estate Ownership Certificate of the appraised entity;
3. Motor Vehicle Driving License of the appraised entity;
4. Ship Ownership Certificate of the appraised entity;
5. Other related title materials.

**(V) Basis of pricing**

1. Information on the industry and securities market in which valuers operate obtained through public channels by valuers;
2. Information obtained from RoyalFlush;
3. Information on price consultation obtained from relevant equipment providers;
4. Records of on-site inspection by valuers;
5. Application materials for valuation and relevant information provided by the appraised entity.

**(VI) Other basis of valuation**

1. Annual audit report and 2018 special audit report of the appraised entity;
2. Information on the industry and securities market in which valuers operate obtained through public channels by valuers;
3. Information on fuel cost obtained from RoyalFlush by valuers;
4. The Latest Manual of Data and Parameters Frequently Used in Assets Valuation;
5. Circular on the Pilot Program for Overall Implementation of the Collection of Value Added Tax Instead of Business Tax (Ministry of Finance and the State Administration of Taxation Cai Shui [2016] No. 36) (《關於全面推開營業稅改征增值稅試點的通知》(財政部國家稅務總局財稅[2016]36號));
6. Updated Results of the Benchmark Land Premium for Towns of Tianjin (Binhai New Area) (《天津市城鎮基準地價更新成果報告濱海新區》);
7. Benchmark Land Price of State-owned Construction Land Use Rights in Guangzhou City for 2017 (《廣州市2017年國有建設用地使用權基準地價》);
8. Notice on Adjusting Land Grant Price of Bayuquan District (Ba Zheng Fa [2018] No. 31) (《關於調整鮫魚圈區土地出讓單價的通知》(鮫政發[2018]31號));
9. Notice on Announcement and Implementation of Land Level and Benchmark Land Price for Towns of Bayuquan District (《關於公布實施鮫魚圈區城鎮土地級別及基準地價的通知》);

10. Updated Results of the Benchmark Land Premium in Shanghai for 2013 (《上海市2013年基準地價更新成果》) ;
11. Statistics information on production and business operation provided by the appraised entity;
12. Announcement on Relevant Policies on Deepening Value-Added Tax Reform (Ministry of Finance, the State Administration of Taxation and General Administration of Customs [2019] No. 39) ;
13. Code of Bills of Quantities and Valuation for Construction Works (《建設工程工程量清單計價規範》) (GB50500-2013) ;
14. Management Rules Regarding the Pricing of the Contract and Sub-contract Price of Construction Projects (Decree No. 16 of MOHURD) ((《建築工程施工發包與承包計價管理辦法》) (住建部令第16號)) ;
15. Prevailing Composition of Expenses of Construction and Installation Project (《建築安裝工程費用項目組成》) (Jian Biao [2013] No. 44) (建標[2013]44號文件)) issued by the Ministry of Housing and Urban-Rural Development and the Ministry of Finance;
16. Notice on the Relevant Policies on the Cancellation and Adjustment of Certain Governmental Funds issued by the Ministry of Finance (Cai Shui [2017] No. 18) (《財政部關於取消、調整部分政府性基金有關政策的通知》(財稅[2017]18號)) ;
17. Budget Quota for Construction and Decoration Projects in Shanghai (2016);
18. Budget Quota for Installation Works in Shanghai (2016);
19. Budget Quota for Public Utilities Works in Shanghai (2016);
20. Budget Quota for Landscape Works in Shanghai (2016);
21. Budget Quota for Maintenance and Repair of Building Construction Projects in Shanghai (2016) ;
22. Budget Quota for Hydraulic works in Shanghai (2016);
23. Budget Quota for Construction and Decoration Projects in Shanghai (2000);
24. Information on Construction Cost in Shanghai (2018);

25. Quota for Port and Hydraulic Works of Coastal Projects (2004);
26. Cost Information of Works of Coastal Harbor (2018);
27. Code for Appraisal of Real Estate (《房地產估價規範》)(GB/T50291-2015).

## VII. VALUATION METHOD

In accordance with Asset Valuation Standards – Enterprise Value (Zhong Ping Xie [2018] No. 38), asset valuers engaged in the valuation of enterprise's value shall select valuation method by analyzing the applicability of the three basic approaches of asset valuation, namely, income approach, market approach and cost approach (asset-based approach), in light of relevant conditions such as the valuation purpose, subject of valuation, valuation type and information collection.

The market approach refers to the valuation method that calculates the value of the subject of valuation by conducting comparison and analysis with comparable companies in the capital market. Due to the differences between the appraised entity and such comparable companies in terms of product structure, business model and company scale, the market approach shall not be applied in the valuation.

The income approach assesses the value of an asset by its expected profitability, which is the essential basis for determining the prevailing fair market value of the asset. As such, the income approach conforms to the basic definition of asset. The methodology adopted in the income approach is to determine the market value by capitalising or discounting the expected revenue of the appraised entity in the future. Upon investigation, we understand that the correlation among the income, costs and expenses of CCCC Dredging (Group) Co., Ltd. is relatively stable, thus we are able to estimate and quantify the future income. Since the risks in relation to the income may also be estimated and quantified, it satisfies the requirements to be adopted for the income approach which shall be applied in the valuation.

The value of each asset and liability of CCCC Dredging may be appraised and confirmed individually with clear structure of assets and liabilities. As such, the asset-based approach shall also be applied in the valuation.

The specific valuation methods used in this valuation are as follows:

**(I) Asset-based approach**

**1. Current assets**

The appraised value of monetary funds contained in the current assets are determined by checking and verifying the carrying amount on the list of items provided by the enterprise; the appraised value of notes and accounts receivable and other receivables are determined subject to the recoverable amount of each item by the method of economic content and aging analysis based on the adjusted amount checked and verified on the list of items provided by the enterprise.

**2. Inventories**

As for construction engineering inventories (such as construction engineering design, and procurement and construction (EPC) general contracting projects), the appraised value is determined after reconciliation against account books, sample check on vouchers and verification of contracts and payment status as well as confirmation on the truthfulness and completeness thereof and upon calculation of project costs and profits in the manner as stipulated in the contract in accordance with the valuation procedures.

**3. Dividends receivable**

The actual amount of dividends receivable is determined after reconciliation against account books, sample check on vouchers and verification of the relevant distribution plans and documents as well as confirmation on the truthfulness and completeness thereof in accordance with the valuation procedures.

**4. Other current assets**

Other current assets refer to input taxes to be deducted. Valuers confirm the truthfulness and accuracy of the carrying amount as of the base date upon reconciliation against the general ledger, breakdowns and the statements. In this valuation, the appraised value is determined based on the verified carrying amount.

### 5. Long-term equity investment

- (1) For long-term equity investment that is subject to thorough valuation, we survey the assets and liabilities of the investees on site. First, we adopt appropriate valuation methods in conducting overall valuation so as to determine the net assets of the investees as of the valuation base date, then calculate and determine the appraised value based on the percentage of equity investment.
- (2) For non-controlled long-term equity investment, the appraised value is calculated and determined based on the amount of net assets and the percentage of equity investment of invested enterprises set out in the financial statements as of the valuation base date. The appraised value shall be determined based on the carrying amount in case of failure in obtaining the financial statements of such investees.

The valuation methods adopted by various companies are set out below:

No.	Name of investees	Investment date	Shareholding percentage (%)	Valuation methods
1	CCCC Southern Latin American Regional Company (中國交建南部拉美區域公司)	2018	15.00	Net assets into shares
2	CCCC Xiong'an Financial Leasing Co., Ltd. (中交雄安融資租賃有限公司)	2018	24.00	Net assets into shares
3	CCCC Tianjin Dredging Co. Limited (中交天津航道局有限公司)	2015	100.00	Asset-based approach, income approach

No.	Name of investees	Investment date	Shareholding percentage (%)	Valuation methods
4	CCCC Shanghai Dredging Co., Ltd. (中交上海航道局有限公司)	2015	100.00	Asset-based approach, income approach
5	CCCC Guangzhou Dredging Co., Ltd. (中交廣州航道局有限公司)	2015	100.00	Asset-based approach, income approach
6	CCCC Ocean Construction and Development Co., Ltd. (中交海洋建設開發有限公司)	2016	50.00	Asset-based approach, income approach
7	CCCC Ecological Environmental Protection Investment Co., Ltd. (中交生態環保投資有限公司)	2016	63.40	Asset-based approach
8	CCCC Zhoushan Qiandao Central Commercial Complex Development Co., Ltd. (中交舟山千島中央商務區開發有限公司)	2017	70.00	Asset-based approach
9	CCCC Dredging Technology and Equipment National Research Centre Limited (中交疏浚技術裝備國家工程研究中心有限公司)	2018	38.00	Asset-based approach
10	Hong Kong Marine Construction Limited (香港海事建設有限公司)	2015	25.00	Asset-based approach
11	Yongding River Investment Limited (永定河流域投資有限公司)	2018	6.00	Net assets into shares



**6. Fixed assets under equipment category**

For the purpose of this valuation and under the principle of ongoing use, replacement cost approach is adopted for the valuation with reference to the market price as of the valuation base date.

① *Determination of full replacement cost*

A. Machinery equipment

a. Determination of full replacement cost

For the equipment of which prevailing market price is available, the full replacement cost is determined based on its analyzed and selected prevailing market price, and taking into account the transportation and miscellaneous fees as well as installation and adjustment fees; for the equipment of which prevailing market price is unavailable, the full replacement cost is determined by selecting the market price of the substitutes with similar function and making corresponding adjustments thereon as equipment purchase price, plus transportation and miscellaneous fees, installation and debugging cost, preliminary and other expenses, cost of capital and other reasonable expenses. The company is a general VAT taxpayer. The formula is as follows:

Full replacement cost = equipment purchase price (tax exclusive)  
+ transportation and miscellaneous fees (tax exclusive) +  
installation and debugging cost (tax exclusive)

b. Determination of major price determination parameter data

- Equipment purchase price

Equipment purchase price is determined mainly based on the quotation provided by manufacturers and vendors of the equipment and the knockdown price of similar machinery equipment purchased by the company recently.

- Transportation and miscellaneous rates for equipment

Equipment transportation and miscellaneous fees mainly include freight, loading and unloading fees, insurance fees, etc. Generally, for the purpose of valuation, the fees are determined according to the standard fee rate stipulated in the Latest Handbook of Commonly Used Data and Parameters in Asset Valuation in valuation.

- Installation and debugging cost for equipment

The fee is determined according to the standard fee rate stipulated in the Latest Handbook of Commonly Used Data and Parameters in Asset Valuation in valuation.

**B. Vehicles**

The full replacement cost is determined by adding vehicle purchase tax, license fee and other reasonable costs at the prevailing market price (tax exclusive).

**C. Electronic device**

For the electronic device of which prevailing market price is available, the full replacement cost is directly determined based on its analyzed and selected prevailing market price (after tax); for the electronic device of which prevailing market price is unavailable, the full replacement cost is determined by selecting the market price (after tax) of the substitutes with similar function and making corresponding adjustments.

## D. Ships

Basic formula: Appraised value = full replacement cost  $\times$  newness rate

## (1) Determination of full replacement cost

Full replacement cost refers to the full cost necessary for the repurchase, construction or formation of ships in brand-new condition which is identical or substantially similar to the ship under the prevailing condition. The following formula is adopted in the calculation:

Full replacement cost = shipbuilding costs (tax exclusive) + profits + taxes and surcharges + adjusted factor of the construction country + capital cost

## ① Shipbuilding costs

- A. Main materials fee and auxiliary materials fee: main materials comprise steel (sheets, sections and tubes), wood, solder, paint, cables, non-ferrous metals, castings and forgings, decoration materials, insulation materials and construction materials, etc. Among all types of main materials, the final amounts of steel (sheets, sections and tubes), wood, solder, paint, cables, non-ferrous metals, and castings and forgings are subject to those on the materials list included in the design construction drawing. If the materials list in the design construction drawing is unavailable, the amount of such materials is determined with reference to the amount of consumed main materials of ships set out in the Concise Ship Valuation Measures (《簡明船舶估

價辦法》) and the Practical Handbook for Modern Ship Operation (《現代船舶經營實用手冊》), and the material price is determined based on the prevailing market price. The cost of each type of materials will be derived after obtaining the information on consumption and unit price. Among all types of main materials, the cost of decoration materials, insulation materials and construction materials is determined based on the actual amount consumed for ships. The auxiliary materials fee is determined according to a certain percentage of the main materials fee and the equipment fee.

- B. Equipment fee: the number and size of the equipment shall be in line with the equipment list of marine engine, outfit and electrical equipment. For upgraded or newly-purchased equipment, the unit price shall be the prevailing market price based on the actual model, size, and number.
- C. Cost of attachment and spare parts: it is determined by market inquiry based on the list of attachment and spare parts.
- D. Labour fee based on working hours: it is estimated according to the Ship-building Products Quotation Manual (《造船產品報價手冊》) and the actual situation of the shipyard. The total working hours of a whole ship are determined by making reference to the average hours in the shipbuilding industry nationwide, based on the specific condition of the appraised ships. The unit price based on working hours refers to the average unit price of domestic shipyards. The labour fee for a whole ship is calculated by the total working hours of a whole ship multiplying by the unit price based on working hours.

- E. Production expenses: production expenses mainly consist of design and drawing fees, steel pretreatment fees, ship lofting and model formulating fees, bracket and support costs, galvanizing and plastic plating fees for steel pipes, shipyard fees, water charges, dockyard fees, mooring and light load navigation test fee, ship inspection fee, insurance fee, terminal fee, special fixture and mold fee and cabin model fee, technical service fee and other unexpected fees. The fees are calculated according to a certain percentage of the sum of raw materials fee, equipment fee, attachment and spare parts fee and labour fee based on working hours.

The sum of the above raw materials fee, equipment fee, attachment and spare parts fee and labour fee based on working hours and production expenses forms the shipbuilding cost.

- ② Shipbuilding profits shall be determined based on a certain percentage of shipbuilding costs.
- ③ Taxes and surcharges shall be calculated based on the national standard tax rate.

The sum of the above shipbuilding costs, shipbuilding profits and taxes and surcharges forms the construction cost of ship.

- ④ The value added tax is calculated based on 16% of the construction cost of ship in accordance with relevant provisions on ship valuation.

- ⑤ The adjusted factor of the construction country is determined based on the relevant statistics published by China State Shipbuilding Corporation. As ships built at domestic shipyards do not need to be adjusted, the adjusted factor of the construction country is nil.
- ⑥ The capital cost refers to the time value of capital, which is calculated based on the applicable benchmark loan interest rate for the same period by the bank as of the valuation base date, assuming even contribution of capital during the construction period.

*D. Equipment for the Third Runway at the Hong Kong Airport*

For the Third Runway at the Hong Kong Airport, as the project is jointly operated with China Harbour Engineering Company Ltd., all assets under the project are accounted for based on the percentage of 45% as stipulated in relevant agreements. In the valuation, the appraise value is determined based on the verified carrying amount.

② *Determination of newness rate*

- A. For machinery equipment, the observation method and the useful life method are the primary methods to ascertain the newness rate. The formula is as follows:

$$\text{Newness rate} = \text{Newness rate under the observation method} \times 60\% + \text{Newness rate under the useful life method} \times 40\%$$

- a. Observation method. The observation method is applied to assess each main part of the appraised equipment from a technical perspective, and analyze factors such as design, manufacturing, usage, wear and tear, maintenance, repair, extensive repairs, and improvement of asset as well as physical life on a consolidated basis. The impacts on the function, efficiency of asset as a result of wear in service and natural deterioration will be assessed by comparing the subject of valuation with the one in new condition. As such, the newness rate of the appraised equipment would be determined.

- b. Life method. The formula is as follows:

$$\text{Newness rate using the useful life method} = \frac{\text{Economic useful life} - \text{Used life}}{\text{Economic useful life}} \times 100\%$$

Economic useful life refers to the term of asset commencing from the date of service to the date of discontinuation when uneconomical.

- B. For vehicles, the observation method and the theoretical newness rate are the primary methods to ascertain the newness rate. The formula is as follows:

$$\text{Newness rate} = \text{Newness rate under the observation method} \times 60\% + \text{Theoretical newness rate} \times 40\%$$

- a. Observation method. The observation method is applied to assess each part of the vehicle after observation, and considers factors such as design, manufacturing, usage, wear and tear, maintenance and repair of asset as well as physical life on a consolidated basis. The impacts on the function, efficiency of asset as a result of wear in service and natural deterioration will be assessed by comparing the subject of valuation with the one in new condition. As such, the newness rate of the appraised vehicle would be determined.
- b. Theoretical newness rate. The theoretical newness rate shall be determined based on the lower of the newness rate under the useful life method and newness rate by kilometers method, pursuant to the Provisions on the Standards for Compulsory Retirement of Motor Vehicles (《機動車強制報廢標準規定》) (Decree [2012] No. 12 of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection). The formula for the useful life method is as follows:

$$\text{Newness rate using the life method} = \frac{(\text{Economic useful life} - \text{Used life})}{\text{Economic useful life}} \times 100\%$$

The formula for newness rate by kilometers method is as follows:

$$\text{Newness rate by kilometers method} = \frac{\text{Specific mileage} - \text{Mileage driven}}{\text{Specific mileage}} \times 100\%$$

#### C. Electronic device

The newness rate of electronic devices is primarily determined based on the life method. The formula is as follows:

$$\text{Newness rate using the life method} = \frac{\text{Remaining useful life}}{\text{Remaining useful life} + \text{Used life}} \times 100\%$$

#### D. Ships

In this valuation, the newness rate is mainly arrived based on the life method and the observation method. The formula is as follows:

$$\text{Newness rate} = \text{Newness rate under the observation method} \times 60\% + \text{Newness rate using the life method} \times 40\%$$

##### a. Life method

The newness rate of ships using the life method shall be determined based on the total useful life and remaining useful life of ships which are determined with reference to the designated useful life and the economic useful life of ships.

$$\text{Newness rate} = \frac{\text{Remaining useful life}}{(\text{Used life} + \text{Remaining useful life})} \times 100\%$$



b. Observation method

The valuers obtained ratings by on-site inspection combined with the maintenance, repair, and transformation of the ship as well as the operation records. The rating for hull was given based on the inspection report, whether there was any collision and deformation, and the rusting condition of the hull; ratings for the marine engine, electrical equipment, outfit, and other parts were given based on the depletion condition, whether there was any upgrade, operation time, and the actual conditions of the equipment. The newness rate under the observation method was obtained by combining the ratings for the hull, marine engine, electrical equipment, outfit and other parts.

When the newness rate under the observation method and that under the useful life method (or theoretical newness rate) differs greatly, the relatively reasonable one out of the two may be selected based on experience and judgment after analyzing related reasons. In general, the newness rate of equipment under normal operation shall be no less than 15%.

**7. *Other intangible assets – software***

The valuers reviewed the amount, time, economic content and amortization status, checked against relevant contracts, proof of account entry and other information, and verified the rationality and accuracy of the original recorded value based on consistency between accounts, statements and lists. The valuation is performed by adopting appropriate method depending on the specific condition of each of the technologies.

As for business software which is developed by entrusted external enterprises or standard business software, the corresponding depreciation shall be deducted according to the verified research and development price and the latest market price.

As for standard purchased software, the replacement cost approach is adopted to conduct the valuation. The formula for the replacement cost approach is as follows:

Appraised value = full replacement cost × (1- depreciation rate)

**8. Long-term deferred expenses**

Long-term deferred expenses are mainly calculated for office renovation expenses. The valuers carefully verified the relevant contracts and original records, such as time of occurrence, specific content and amount, with respect of such long-term deferred expenses, confirmed their authenticity, and double-checked their original amount, income years, amortization and other matters. The appraised value is determined based on the verified carrying amount based on the income years as agreed in the relevant contract.

**9. Other non-current assets**

The valuers understood the audited items of other non-current assets, analyzed the reason and rationality for the occurrence of each item, and determined the appraised value upon specific judgment based on the aforesaid.

**10. Deferred income tax assets**

The audited item of deferred income tax assets refers to the difference between the carrying amount of assets and their tax base arising from different accounting policies and tax laws applicable to different enterprises. The valuer understood the reason for and formation of such difference by reviewing the relevant accounts and vouchers, so as to verify the accuracy of the amount. Upon verification, the calculation of the amount of such item is in line with the relevant provisions of the enterprise accounting system and the tax law. The deferred income tax assets are calculated and recognized based on the valuation and treatment of the corresponding item.

**11. Liabilities**

On the basis of verification, the amount of liabilities actually required to be borne by the appraised entity on the valuation base date is taken as the appraised value of the liabilities. The liability items that are no longer required to be borne by the appraised entity after the valuation purpose has been achieved is appraised as zero.

**(II) Income approach**

The income approach in the business appraisal refers to the appraisal method used in determining the value of the appraisal subject by capitalizing or discounting the expected income. The income approach normally consists of the dividend discount method and the discounted cash flow method.

This valuation adopted the discounted free cash flow model of enterprise in the discounted cash flow method. Specifically, using the Weighted Average Cost of Capital (WACC) as the discount rate, the overall assets value of firm is arrived at by adding the expected Free Cash Flow of Firm (FCFF) for each of the coming years to the operational asset values plus the value of the surplus assets and non-operational assets and less the value of interest-bearing debt to the entire shareholders' equity. The basic formula is as follows:

$$\begin{aligned} \text{Entire shareholders' equity} = & \text{Operational asset value} - \text{Value of interest-bearing debt} + \text{Non-} \\ & \text{operational assets value} - \text{Non-operational liabilities value} + \\ & \text{Surplus assets value} \end{aligned}$$
**VIII. IMPLEMENTATION PROCESS AND DETAILS OF VALUATION PROCEDURES****(I) Acceptance of entrustment**

Upon negotiation and communication with the principal, the valuer understood the basic information on the appraised assets, clarified the valuation purpose, subject of valuation and scope, valuation base date and other basic matters for valuation engagement, determined to accept the entrustment upon comprehensive analysis of professional competence, independence and risks of the valuation engagement, entered into the asset valuation entrustment contract with the appraised entity, determined the types of value under asset valuation on a case-by-case basis, formulated a valuation work plan, and organized the valuation team.

**(II) On-site survey and material collection**

The valuer advised the appraised entity to conduct asset inventory and prepare valuation materials, conducted an on-site survey on the subject of valuation and collected the information necessary for the asset valuation engagement to understand the assets, business and financial situations of the subject of valuation, the macro and regional economic factors affecting the business operation of the appraised entity, the current situations and prospects of the industry in which the appraised entity operates, etc., paid attention to the legal ownership of the subject of valuation, and checked and verified the information used in the asset valuation in accordance with the laws.

**(III) Assessment and estimation**

Based on the actual situations of the asset valuation engagement, the valuer analyzed, summarized and reorganized the valuation information collected, formed the basis for assessment and estimation and preparation of the valuation report, and selected the valuation methods in accordance with the Rules of Practicing for Asset Appraisal based on the valuation purpose and subject of valuation, types of value, information collected, etc.. Based on the valuation methods adopted, the valuer selected the corresponding formulas and parameters for analysis, calculation and judgment, analyzed and determined the valuation assumptions and limitations that may affect the valuation engagement and valuation conclusions, and came up with the calculation results. The valuation conclusions were then formed after comparing the calculation results by adopting different valuation methods.

**(IV) Issuance of the valuation report**

The person in charge of the valuation prepared a preliminary asset valuation report after formulating the valuation conclusions based on assessment and estimation. The Company conducted the internal review of the preliminary asset valuation report in accordance with the laws, administrative regulations, asset valuation standards and internal quality control system. The valuation report was issued upon necessary communication with the principal and other relevant parties on the contents of the valuation report.

**IX. VALUATION ASSUMPTIONS**

The main valuation assumptions on assets adopted in this valuation report include:

1. Transaction assumption: Transaction assumption represents that all assets to be valued are in the course of transaction and the valuation assessed is based on comparable market including terms of transaction of the target assets.
2. Assumption of open market: Assumption of open market represents that assets may be traded freely in a highly competitive market and the price of which is determined based on the judgment of both independent trading parties over the value of assets under certain supply and demand conditions. An open market refers to a market which is highly competitive with various buyers and sellers. In the open market, both parties of a transaction are equal, which means they are given the opportunity and time to acquire enough market information. Buyers and sellers are supposed to be voluntary and rational rather than being coerced or confined during the transaction.
3. **General assumption**
  - (1) It is assumed that there will be no material changes to the relevant prevailing laws and policies, or macro-economic situations in the country as well as the political, economic and social environment of regions where the parties to the transaction are located, and there are no other material adverse effects caused by unpredictable and force majeure factors;
  - (2) CCCC Dredging (Group) Co., Ltd. shall continue its businesses on ongoing basis and maintain its current operation model;
  - (3) There is no material change in the prevailing tax base and rates, preferential tax policies, bank loan interest rates and other policies on fees in the PRC;
  - (4) There are no force majeure events or unforeseeable factors that result in significant adverse impact;
  - (5) It is assumed that the dividend amount of China Harbour Engineering Company Ltd. (中國港灣工程有限責任公司) for 2019 is in line with the amount set out in the Reply on Agreeing Proposed Transfer of the Undistributed profit of the Company for 2012–2016 (《關於同意你司2012–2016年度未分配利潤擬轉增資本的復函》) issued by CCCC Shanghai Dredging. It is also assumed that the dividend amounts for the future years will be consistent with those for historical years, being 20% of the net profit for the previous year.

## X. VALUATION CONCLUSION

## (I) Valuation results and analysis under the asset-based approach

On the valuation base date (i.e. 31 December 2018), the carrying amount of assets of CCCC Dredging (Group) Co., Ltd. amounted to RMB49,916.3473 million, while the carrying amount of liabilities amounted to RMB25,616.918 million and the carrying amount of net assets amounted to RMB24,299.4293 million. After the valuation, the appraised value of total assets amounted to RMB54,586.871 million, while the appraised value of liabilities amounted to RMB25,616,918,000 and the appraised value of net assets amounted to RMB28,969.953 million. The appraised value of total assets represents an increment of RMB4,670.5237 million, or appreciation rate of 9.36%, over its carrying amount; while the appraised value of net assets represents an increment of RMB4,670.5237 million, or appreciation rate of 19.22%, over its carrying amount. Details are set out below:

## Summary of Asset Valuation Results

Valuation base date: 31 December 2018

Appraised entity: CCCC Dredging (Group) Co., Ltd.

Unit: RMB0'000

		Carrying amount	Appraised value	Increase or decrease	Appreciation rate
Item		A	B	C=B-A	D=C/A × 100%
1	Current assets	2,323,036.59	2,323,036.59	0.00	0.00%
2	Non-current assets	2,668,598.14	3,135,650.52	467,052.38	17.50%
3	Long-term equity investments	2,654,312.83	3,120,609.23	466,296.40	17.57%
4	Fixed assets	4,145.92	4,691.85	545.93	13.17%
5	Intangible assets	1,548.03	1,758.08	210.05	13.57%
6	Long-term deferred expenses	59.03	59.03	0.00	0.00%
7	Deferred tax assets	15.01	15.01	0.00	0.00%
8	Other non-current assets	8,517.32	8,517.32	0.00	0.00%
9	<b>Total assets</b>	<b>4,991,634.73</b>	<b>5,458,687.10</b>	<b>467,052.37</b>	<b>9.36%</b>
10	Current liabilities	1,563,567.98	1,563,567.98	0.00	0.00%
11	Non-current liabilities	998,123.82	998,123.82	0.00	0.00%
12	<b>Total liabilities</b>	<b>2,561,691.80</b>	<b>2,561,691.80</b>	<b>0.00</b>	<b>0.00%</b>
13	<b>Net assets (shareholders' equity)</b>	<b>2,429,942.93</b>	<b>2,896,995.30</b>	<b>467,052.37</b>	<b>19.22%</b>

Major reasons for the differences between the appraised value and the carrying amount are as below:

**Comparison table on the appraised value and the carrying amount**

*Unit: RMB*

No.	Item	Carrying amount	Appraised value	Increase or decrease	Appreciation rate
1	Current assets	23,230,365,851.24	23,230,365,851.24	0.00	0.00%
2	Non-current assets	26,685,981,409.05	31,356,505,165.93	4,670,523,756.88	17.50%
3	Long-term equity investments	26,543,128,319.77	31,206,092,283.41	4,662,963,963.64	17.57%
4	Fixed assets	41,459,170.68	46,918,528.11	5,459,357.43	13.17%
5	Equipment in total	41,459,170.68	46,918,528.11	5,459,357.43	13.17%
6	Machinery equipment	36,275,577.32	41,477,659.41	5,202,082.09	14.34%
7	Vehicles	1,695,048.86	2,021,201.69	326,152.83	19.24%
8	Electronic device	3,488,544.50	3,419,667.01	-68,877.49	-1.97%
9	Other intangible assets	15,480,344.88	17,580,780.69	2,100,435.81	13.57%
10	Total liabilities	25,616,917,978.71	25,616,917,978.71	0.00	0.00%
11	Total appreciation			4,670,523,756.88	

The changes in the appraised value and the carrying amount were mainly due to:

1. The appraisal increment of long-term equity investments amounted to RMB4,662,963,963.64 with an appreciation rate of 17.57%. The main reason is that, on one hand, some subsidiaries recorded certain operating income as the carrying amount of long-term equity investments is calculated according to the cost approach; on the other hand, there are increases in the property, land and equipment of some subsidiaries to certain extent on the valuation base date, which led to the appreciation of valuation.
2. The appraisal increment of fixed assets (equipment) amounted to RMB5,459,357.43 with an appreciation rate of 13.17%. Among which, the appreciation of vehicles after the valuation amounted to RMB326,152.83 with an appreciation rate of 19.24%. Depreciation of electronic device after the valuation amounted to RMB68,877.49 with a depreciation rate of 1.97%. The appreciation of ships after the valuation amounted to RMB5,202,082.09 with an appreciation rate of 14.96%.

Overall, the changes arising from the comparison between the appraisal depreciation and the carrying amount of fixed assets (equipment) of CCCC Dredging Group Co., Ltd. were reflected in several areas:

- (1) Equipment: the major reason for the appraisal appreciation is that the financial depreciation period is shorter than that of the economic life of equipment with relatively rapid depreciation rate, which resulted in relatively low net carrying amount.
  - (2) Vehicles: an appraisal depreciation was resulted from a downward trend of purchase price of vehicles in recent years.
  - (3) Electronic device: the major reason for the appraisal depreciation of electronic device is that a fast decline in the price of electronic device (such as computers) was recorded due to shorter life cycle.
  - (4) Ships: the appraisal increment was resulted from a relatively low net carrying amount led by a relatively short depreciation period over ships.
3. Intangible assets – the valuation appreciation of other intangible assets amounted to RMB2,100,435.81, which was mainly attributable to the continuous use of purchased software within a certain period.

To conclude, in the valuation, the appraisal increment of net assets of CCCC Dredging (Group) Co., Ltd. amounted to RMB4,670,523,756.88 with an appreciation rate of 19.22 %.

## **(II) Valuation results under the income approach**

The appraised value of the entire shareholders' equity of CCCC Dredging (Group) Co., Ltd. amounted to RMB27,278.62 million, representing an appraisal appreciation of RMB2,979.1907 million, when comparing with the carrying amount of the entire shareholders' equity of RMB24,299.4293 million.

## **(III) Valuation conclusion**

The asset-based approach is a way of company valuation through assessment of the value of each single asset taking into consideration the relevant liabilities from the perspective of asset replacement. The income approach is a way of asset valuation through capitalisation or discount of the expected revenue of the appraised assets from the perspective of making judgment of the profitability of assets.



Considering that CCCC Dredging has only participated in three engineering projects and its future business has not been determined, leading to certain uncertainties in its operating revenue, its future development and value cannot be fully reflected in the results by adopting the income approach. While the asset-based approach, from the perspective of assets, is comparably in line with the current actual situations of the enterprise. Upon comprehensive analysis, the valuation results by adopting the asset-based approach were the final valuation conclusion.

The valuation conclusion is that, on the valuation base date (i.e. 31 December 2018), the appraised value of the entire shareholders' equity of CCCC Dredging (Group) Co., Ltd. is RMB28,969.953 million. (rounded up to: twenty-eight billion nine hundred sixty-nine million nine hundred and fifty-three thousand dollars).

The valid period of the valuation conclusion shall be one year commencing from the valuation base date (i.e. 31 December 2018) and ending on 30 December 2019.

## **XI. SPECIAL NOTES**

### **(I) Material use of professional report**

For the purpose of the valuation, the Special Audit Report of CCCC Dredging (Group) Co., Ltd. (中交疏浚集团股份有限公司) (Rui Hua Zhuan Shen Zi [2019] No. 01610325) issued by Ruihua CPAs (Special) LLP on 30 April 2019 was used.

For the purpose of the Special Audit Report, pursuant to the Approval for the Special Dividend Distribution by CCCC Dredging dated 30 April 2019 (Zhong Jiao Gu Cai Bian [2019] No. 134), CCCC Dredging (Group) Co., Ltd. will distribute dividends to CCCC, amounting to RMB4,080.96 million; pursuant to the resolutions of the 49th meeting of the first session of the Board of CCCC Dredging (Group) Co., Ltd. on 16 April 2019, CCCC Shanghai Dredging Co., Ltd. (中交上海航道局有限公司), CCCC Tianjin Dredging Co., Ltd. (中交天津航道局有限公司) and CCCC Guangzhou Dredging Co., Ltd. (中交廣州航道局有限公司), subsidiaries of CCCC Dredging (Group) Co., Ltd., will distribute dividends to CCCC Dredging (Group) Co., Ltd., amounting to RMB2,181.92 million, RMB1,348.57 million and RMB1,070.89 million, respectively. Pursuant to the resolutions of the general meeting of CCCC Marine Construction & Development Co., Ltd. (中交海洋建設開發有限公司), CCCC Marine Construction & Development Co., Ltd. will distribute dividends of RMB25.78 million, including RMB12.89 million attributable to CCCC Dredging (Group) Co., Ltd. For the purpose of the Special Audit Report, it is assumed that above dividend distributions have been implemented by 31 December 2018.

**(II) Incomplete or defective information on ownership;**

1. As of the valuation base date, there are patents and software copyrights not recorded in the books of the subsidiaries of the appraised entity were co-owned by a number of related companies. Since there was no agreement on the distribution of related rights between the owners, for the valuation, co-owned patents and software copyrights were calculated as per equal distribution.
2. As of the valuation base date, the owners on ownership certificates of vehicles recorded in the books of the subsidiaries of the appraised entity were related companies within the group. As of the valuation base date, no transfer procedure has been made. Since the holder and the owners on ownership certificates were all subsidiaries of CCCC Dredging (Group) Co., Ltd, impact of such matter on the valuation was not included.
3. ***Subsidiary – CCCC Tianjin Dredging Co., Ltd.***

- (1) As of the valuation base date, title deeds have not been executed for certain properties of CCCC Tianjin Dredging Co., Ltd. with a floor area of 1,471.60 square meters. Details are shown in the table below:

No.	Name of property	Structure	Completion Date	Floor area ( $m^2$ )	Original carrying amount	Net carrying amount
1	Dispatching Building in South Xinjiang	Composite structure	1 January 1987	462.93	484,190.00	0.00
2	Water and Electricity Duty Room in North Xinjiang	Composite structure	1 September 2002	98.63	77,475.00	16,173.75
3	No. 5, Yuanxingli, Hexi District	Brick concrete	1 January 1991	195.88	1,190,700.00	416,745.00
4	No.3, Yuanxingli, Hexi District	Brick concrete	1 January 1991	195.88	1,200,500.00	420,175.14
5	Single-storey Experimental House of Seafarers Training Department	Brick concrete	27 December 2005	176.00	147,005.00	39,383.58
6	Color-steel Mobile House	Color-steel	9 June 2011	342.28	283,000.00	176,874.75
Total				1,471.60	3,382,870.00	1,069,352.22

Impact of such matter on the valuation was not included.

- (2) As of the valuation base date, title deeds have not been executed for certain properties stated in the accounts of Tianjin CCCC BOMESC Offshore Engineering Co., Ltd. (天津中交博邁科海洋船舶重工有限公司), subsidiary of CCCC Tianjin Dredging Co., Ltd., with a floor area of 8,050.97 square meters. Details are set out below:

Property name	Structure	Completion date	Floor area ( $m^2$ )	Carrying amount	Carrying amount
On-site Offshore Engineering Office	Composite structure	1 December 1999	263.50	606,940.67	285,919.82
Warehouse of Shipbuilding Department	Reinforced concrete structure	30 May 2008	489.72	428,569.02	245,665.37
Hull Steel Fabrication Workshop	Steel structure	31 May 2008	592.00	908,821.88	528,761.08
Hull Steel Laying-off Workshop	Steel structure	28 December 2009	833.50	2,164,212.12	1,398,747.46
Pipeline Installation Workshop	Steel structure	28 November 2008	711.00	1,106,093.26	548,438.14
New (Offshore Engineering) Warehouse	Steel structure	28 November 2008	1,616.00	2,564,993.42	1,278,101.05
Air Compressor Plant	Composite structure	29 November 2008	98.00	110,000.00	54,541.86
Supervision (owner) Office	Composite structure	29 November 2008	386.30	634,836.27	547,546.23
Oil Hydraulic Press Plant	Steel structure	28 December 2009	1,041.55	1,504,700.00	972,267.66
Sand Blast Workshop	Steel structure	28 December 2009	1,171.90	3,972,552.37	2,566,880.16
Paint Workshop	Steel structure	28 December 2009	638.00	914,276.71	590,763.20
Suspended Steel Structure Color Plate	Steel structure	21 November 2011			
House of Interior Workshop			47.50	19,350.00	11,043.75
Canteen	Composite structure	29 August 2016	162.00	186,766.00	164,976.68
Total			<u>8,050.97</u>	<u>15,122,111.72</u>	<u>9,193,652.46</u>

Impact of such matter on the valuation was not included.

- (3) As of the valuation base date, title deeds have not been executed for certain properties stated in the accounts of CCCC (Tianjin) Eco Design Institute Co., Ltd. (中交(天津)生態環保設計研究院有限公司), subsidiary of CCCC Tianjin Dredging Co., Ltd., with a floor area of 42 square meters. Details are set out below:

No.	Name of property	Structure	Date of completion	Floor area ( $m^2$ )	Carrying amount	Carrying amount
1	CCCC Tianjin Dredging Test Center (Generator Room)	Brick-concrete structure	April 1995	38.00	133,328.00	32,781.81
3	Tide Station in South Xinjiang Terminal	Simple structure	December 1999	4.00	26,415.00	1,584.78
Total				42.00	159,743.00	34,366.59

Impact of such matter on the valuation was not included.

- (4) As of the valuation base date, title deeds have not been executed for certain properties stated in the accounts of CCCC Yantai Environmental Protection Dredging Co., Ltd. (中交烟台環保疏浚有限公司), subsidiary of CCCC Tianjin Dredging Co., Ltd., with a floor area of 2,911.73 square meters. Details are set out below:

Name of property	Structure	Completion date	Floor area ( $m^2$ )	Carrying amount	Carrying amount
Warehouse Duty Room	Brick-concrete structure	30 December 1992	90.00	60,539.00	4,589.05
Reception Office (North)	Composite structure	31 December 2002	42.80	36,567.00	13,221.67
Bathroom	Brick-concrete structure	31 December 1989	40.00	27,305.00	816.63
Bathroom	Brick-concrete structure	31 December 1979	54.00	33,034.00	–
Bachelor Quarters	Brick-concrete structure	31 October 1976	2,070.00	1,681,610.00	–
Vehicle Fleet House	Masonry-timber structure	31 December 1979	265.20	136,307.00	–
Staff Bath Pool	Composite structure	31 December 1983	349.73	242,574.00	–
Total			2,911.73	2,217,936.00	18,627.35

Impact of such matter on the valuation value was not included.

**4. CCCC Guangzhou Dredging Co., Ltd.**

- (1) As of the valuation base date, title deeds have not been executed for 2 properties in the fixed assets of CCCC Guangzhou Dredging Co., Ltd., with the floor area of 122,061.47 m<sup>2</sup>. Details are set out below:

No.	Name of property	Structure	Date of completion	Floor area (m <sup>2</sup> )
1	Room 901, Unit 3, No. 38. Sushezhi Street	Reinforced concrete structure	1 January 1987	72.50
2	Building A South Project Phase II (Guangzhou Dredging Building)	Reinforced concrete structure	January 2018	121,988.97

Impact of such matter on the appraised value was not included.

- (2) In July 2013, in order to offset the payment for the project, the Committee of Yingkou Economic & Technological Development Zone and CCCC Guangzhou Dredging Co., Ltd. and Yingkou Economic & Technological Development Zone Investment and Development Co., Ltd. (營口經濟級開發區投資開發有限公司) entered into Land Replacement Agreement, pursuant to which, the fees for assignment of the land of 350,000 m<sup>2</sup> shall be used for offsetting partial payment for the project. In June 2015, Liaoning CCCC GDC Construction Co., Ltd. (遼寧省廣航工程建設有限公司), the subsidiary of CCCC Guangzhou Dredging Co., Ltd., won the bid for the land parcel “No. 2015-1-4”. Due to a dispute over the boundary line of the land parcel, land certificate cannot be executed temporarily. For the valuation, impact of certification related costs on the appraised value was not included.

**5. Guangzhou CCCC Logistics Co., Ltd.**

- (1) As of the valuation base date, title deeds have not been executed for 32 properties of Guangzhou CCCC Logistics Co., Ltd., a subsidiary of CCCC Guangzhou Dredging Co., Ltd., with the floor area of 5,150.58 square meters. Details are set out below:

No.	Property name	Structure	Date of completion	Floor area ( <i>m</i> <sup>2</sup> )	Carrying amount ( <i>RMB</i> )	
					Original value	Net value
1	No.1 Building	Brick-concrete structure	January 1973	466.47	117,000.00	–
2	No.2 Building	Brick-concrete structure	January 1973	327.60	43,065.00	–
3	Meeting Room	Brick-concrete structure	January 1973	263.19	37,395.00	–
4	Staff Cafeteria	Brick-concrete structure	January 1996	69.44	18,648.00	–
5	Outside Guard Room	Brick-concrete structure	January 1973	10.66	831.60	–
6	Restroom of Maogang Warehouse	Simple structure	1 January 1979	15.00	48,000.00	40,600.00
7	Inside Guard Room	Brick-concrete structure	1 January 1996	24.70	–	–
8	Wagon Balance Room	Brick-concrete structure	1 January 2009	21.70	–	–
9	On-site Tally Room	Brick-concrete structure	1 January 2009	25.90	–	–
10	Mechanical Devices Room	Brick-concrete structure	1 January 2009	38.36	–	–
11	Maintenance Crew Toolhouse	Brick-concrete structure	1 January 2009	14.56	–	–
12	Shed Warehouse	Light gauge steel (asbestos tile)	12 August 1991	1,360.00	–	–
13	No. 9 Warehouse	Light gauge steel (asbestos tile)	1 January 2003	50.00	–	–
14	No.10 Warehouse	Light gauge steel (asbestos tile)	1 January 2003	500.00	–	–

No.	Property name	Structure	Date of completion	Floor area ( <i>m</i> <sup>2</sup> )	Carrying amount ( <i>RMB</i> )	
					Original value	Net value
15	No. 11 Warehouse	Light gauge steel (asbestos tile)	1 January 1979	400.00	–	–
16	No. 12 Warehouse	Light gauge steel (asbestos tile)	1 January 1979	250.00	–	–
17	No. 13 Warehouse	Light gauge steel (asbestos tile)	1 January 1979	150.00	–	–
18	No. 14 Warehouse	Light gauge steel (asbestos tile)	1 January 1979	200.00	–	–
19	No. 15 Warehouse	Light gauge steel (asbestos tile)	1 January 1979	250.00	–	–
20	No. 16 Warehouse	Light gauge steel (asbestos tile)	1 January 1974	100.00	–	–
21	No. 17 Warehouse	Light gauge steel (asbestos tile)	1 January 1974	150.00	–	–
22	No. 18 Warehouse	Light gauge steel (asbestos tile)	1 January 1974	50.00	–	–
23	Kitchen	Brick-concrete structure	1 January 1974	30.00	–	–
24	No. 20 Warehouse	Brick-concrete structure	1 January 1974	50.00	–	–
25	Utility Room	Brick-concrete structure	1 January 1974	5.00	–	–
26	Guard Room	Brick-concrete structure	1 January 1974	8.00	–	–
27	Office Building	Brick-concrete structure	1 January 1974	240.00	–	–
28	Distribution Room	Brick-concrete structure	1 January 1974	10.00	–	–
29	Fire Pump House	Brick-concrete structure	1 January 1992	15.00	–	–
30	Bathroom	Brick-concrete structure	1 January 1979	15.00	–	–
31	Oil Pump House	Brick-concrete structure	1 January 2003	30.00	–	–
32	Generator Room	Brick-concrete structure	1 January 1979	10.00	–	–
				5,150.58	264,939.60	40,600.00

The enterprise explained that the carrying amount of above assets has been included in the carrying amount of other assets, including housing structures and equipment; accounting details of such assets were unavailable as such assets were completed a long time ago, and therefore the carrying amount and schedules of equipment cannot be separated. For the purpose of the valuation, valuation was conducted by combining the details reported by the enterprise and on-site survey.

- (2) Holder of the Certificate of Right to Use Sea Area of Huangpu Terminal (Guangzhou Dredging Terminal) of Guangzhou CCCC Logistics Co., Ltd. is its shareholder, CCCC Guangzhou Dredging Co., Ltd. The right to use sea area expired on 4 December 2014. Costs for using the original sea area were paid annually and payment has been made till 2013. The sea area is 1.3546 hectares, and the purpose is permeable structures and harbour basin. As the company changed the purpose of the sea area without the approval of the Bureau of Ocean and Fishery of Guangzhou City, certification related matter is still under negotiation due to change in the function of the administrative authority, although the fines have been paid. For the valuation, the right to use the sea area without certificate and the land formed by backfilling were not appraised.

**6. CCCC GDC Marine Equipment Co., Ltd. (中交廣航船舶裝備有限公司)**

As of the valuation base date, the following properties of CCCC GDC Marine Equipment Co., Ltd. were built on the land of Guangzhou CCCC Logistics Co., Ltd., therefore, title deeds cannot be executed:

No.	Title deed No.	Property name	Structure	Date of completion	Floor area ( $m^2$ )
1	No title deed	Marine Machinery Parts Warehouse	Steel structure	October 2014	2,912.00
2	No title deed	Comprehensive Office Building for Maintenance Skill Training	Reinforced concrete structure	October 2014	1,008.00
3	No title deed	R&D Base of Technical Center of Maintenance Company	Steel structure	October 2014	2,800.00
4	No title deed	Shaxi Distribution Room	Reinforced concrete structure	October 2014	178.20



Impact of costs for subsequent execution of title deeds on appraised value was not included in the valuation.

**7. Liaoning CCCC GDC Engineering Construction Co., Ltd. (遼寧省廣航工程建設有限公司)**

As of the valuation base date, Liaoning CCCC GDC Engineering Construction Co., Ltd. had the following land without land deed:

No.	Land use right owner	Location	Purpose	Land use right type	Area ( $m^2$ )	Date of acquisition
1	Liaoning CCCC GDC Engineering Construction Co., Ltd.	West of Binhai Avenue, and North of Guanhai Road	Commercial land use	Transfer	8,287.07	31 December 2015

Impact of costs for subsequent execution of deed on appraised value was not included in the valuation.

**(III) Restrictions on valuation process;**

As CCCC TDC (Indonesia) Marine Heavy Industry Co., Ltd. (中交天航局印尼海洋重工有限公司) was unable to conduct field survey, the right to use sea area and the right to use mangrove land stated in accounts are presented in carrying amount.

**(IV) Incomplete information for valuation;**

There is no incomplete information for valuation

## (V) Outstanding matters in respect of laws and economy on the valuation base date;

No.	Case title	Type	Plaintiff / defendant	Time	Units of the enterprise involved	Units of the other party involved	Underlying amount (RMB)
1	The case that CCCC Shanghai Dredging Co., Ltd. filed a litigation against Qinghuangdao ETDZ Harbor Service Co., Ltd. (秦皇島經濟技術開發區港務有限公司), about the dispute over the construction contract for east dike of sea reclamation project phase II	Litigation	Plaintiff	20 November 2018	CCCC Shanghai Dredging Co., Ltd.	Qinghuangdao ETDZ Harbor Service Co., Ltd.	224,963,030.60
2	The case that CCCC Shanghai Dredging Co., Ltd. filed a litigation against Qinghuangdao ETDZ Harbor Service Co., Ltd., about the dispute over the contract for dike and land backfill engineering of south HPEC sea reclamation project	Litigation	Plaintiff	20 November 2018	CCCC Shanghai Dredging Co., Ltd.	Qinghuangdao ETDZ Harbor Service Co., Ltd.	80,125,878.57
3	The case that CCCC Shanghai Dredging Co., Ltd. filed a litigation against Qinghuangdao ETDZ Water Authority (秦皇島市經濟技術開發區水務局), about the dispute over the construction contract for seawall reinforcement engineering and extended section in 2010	Litigation	Plaintiff	20 November 2018	CCCC Shanghai Dredging Co., Ltd.	Qinghuangdao ETDZ Water Authority	60,517,742.83
4	The case that Shanghai Communications Construction Contracting Co., Ltd. (上海交通建設總承包有限公司) filed a litigation against Shandong Shundong Harbor Service Co., Ltd. (山東順東港務有限公司) and Dongying Shundong Chemical Co., Ltd. (東營市順東化工有限責任公司), about the dispute over construction contract	Litigation	Plaintiff	25 July 2018	Shanghai Communications Construction Contracting Co., Ltd.	Shandong Shundong Harbor Service Co., Ltd. and Dongying Shundong Chemical Co., Ltd.	78,535,570.00

# APPENDIX I

# SUMMARY OF VALUATION REPORT

No.	Case title	Type	Plaintiff / defendant	Time	Units of the enterprise involved	Units of the other party involved	Underlying amount (RMB)
5	The case that CCCC SDC Channel Construction Co., Ltd. filed a litigation against Hainan Zhonghui Co., Ltd. (海南中匯公司), about the dispute over payment for works	Litigation	Plaintiff	3 June 2012	CCCC SDC Channel Construction Co., Ltd.	The first defendant: Hainan Zhonghui Hongji Industrial Group Co., Ltd. (海南中匯宏基實業投資有限公司); The second defendant: Zhejiang Zhonghui Holding Co., Ltd. (浙江中匯控股有限公司)	198,170,000.00
6	The dispute over the transfer of control right of Qingdao Zhongjin Coast Industrial Co., Ltd. (青島中金海岸實業有限公司)	Litigation	Plaintiff	10 August 2018	CCCC Yunze	Qingdao International, Qingdao Tongye Group Co., Ltd. (青島統業集團有限公司) and Qingdao Runbang Financing Guarantee Co., Ltd. (青島潤邦融資擔保有限公司)	274,000,000
7	Construction engineering contract dispute	Litigation	Plaintiff	10 July 2013	CCCC-TDC Yantai Environmental Protection Dredging Co., Ltd.	Xianglu Youhua (Zhangzhou) Co., Ltd. (翔鹭右化(漳州)有限公司)	55,558,000
8	Channel and part dredging contract dispute	Litigation	Plaintiff	31 July 2018	CCCC Tianjin Dredging Co., Ltd.	Weifang Port Co., Ltd. (濰坊港務有限公司) and Weifang Port Groups Co., Ltd. (濰坊港集團有限公司)	41,380,000
9	Construction general contract dispute	Litigation	Plaintiff	10 October 2016	CCCC Shanghai Dredging Co., Ltd.	Jinzhou Longxiwan Port Development Co., Ltd. (錦州龍栖灣港口發展有限公司)	304,120,000

For the valuation, the impact of above outstanding legal and economic matters on the appraised value was not included.

**(VI) Nature, amount of guarantee, lease and contingent liabilities (contingent assets) and their relations with the subject of valuation**

1. CCCC Dredging (Group) Co., Ltd. issued asset-backed securities in an aggregate amount of RMB1,151 million in 2017, among which, prioritized asset-backed securities amounted to RMB1,040 million. CCCC Dredging (Group) Co., Ltd. is subject to the obligations of liquidity supplementary payments when the cash available for distribution of the asset-backed securities special schemes and the fixed return and principal payable of prioritized asset-backed securities at the due date is not sufficient.

Impact of such matter on the valuation was not included.

2. **CCCC Tianjin Dredging Co., Ltd.**

CCCC Tianjin Dredging Co., Ltd. provided one external guarantee. Details are set out below:

No.	Contract No.	Guarantee type	Creditor to a primary contract	Secured party	Amount guaranteed (RMB'0,000)	Period of guarantee	Purpose of loan of loan guaranteed
1	2220001062018 210336BZ01	Guarantee	The Export-Import Bank of China Tianjin Branch (中國進出口銀行天津分行)	CCCC TDC (Indonesia) Marine Heavy Industry Co., Ltd.	\$3,376.08	9 February 2018– 8 February 2035	Guarantee for medium and long-term loan

Impact of such matter on the valuation was not included.

## 3. CCCC-TDC Binhai Environmental Channel Dredging Co., Ltd.

Party A	Party B	Contract and contract		Period	Interests	Contents	內容
		name	No. Quota				
CCCC-TDC Binhai Environmental Channel Dredging Co., Ltd.	Hua Xia Bank Co., Ltd. Binhai New Area Branch (華夏銀行股份有限公司濱海新區分行)	Domestic factoring contract	TJ0310320180002	RMB70,550,000	From the effective date of the contract to 7 February 2023	Floating upward from the benchmark interest rate for loan of the People's Bank of China by 15% (floating)	Party A is willing to transfer the accounts receivable under the business contract entered into or to be entered into between Party A and the buyer to Party B, for the receipt of factoring services rendered by Party B within a certain quota and period.
CCCC-TDC Binhai Environmental Channel Dredging Co., Ltd.	Hua Xia Bank Co., Ltd. Binhai New Area Branch	Domestic factoring contract	TJ0510320160003	RMB488,000,000	From the effective date of the contract to 25 July 2019	Benchmark interest rate for loan of the People's Bank of China (floating)	Party A is willing to transfer the accounts receivable under the business contract entered into or to be entered into between Party A and the buyer to Party B, for the receipt of factoring services rendered by Party B within a certain quota and period.

Impact of such matter on the valuation was not included.

**4. Dongying Guangli Port CCCC Harbour Construction Co., Ltd. (東營廣利港中交港灣建設有限公司)**

Dongying Guangli Port CCCC Harbour Construction Co., Ltd. and Bank of China Limited Tianjin Binhai Branch (中國銀行股份有限公司天津濱海分行) entered into the Fixed Assets Loan Contract (Jin Zhong Yin Si RL2017069 Bin Hai) on 20 September 2017, with a loan amount of RMB981,940,000.00, for the PPP Project of Breakwater Channel of Guangli Port Area of Dongying Port, for a period of 123 months. The contact was secured by the accounts receivable pledged by Dongying Guangli Port CCCC Harbour Construction Co., Ltd., and the guarantee contract (Jin Zhong Yin Si RL2017069 Bin Hai-Z) was entered into. Subject matter of the pledge is set out below:

Number of trade contract of accounts receivable	Name of obligor of accounts receivable	Age of accounts receivable	Currency		Amount of accounts receivable	Date of expiry of accounts receivable	Registration authority
			of accounts receivable	of accounts receivable			
PPP Project of Breakwater Channel of Guangli Port Area of Dongying Port (No contract No.)	Dongying Guangli Port CCCC Harbour Construction Co., Ltd.	11 years	RMB		1,687,310,000.00	20 December 2027	Credit Reference Center, The People's Bank of China (中國人民銀行征信中心)

The impact of such matter on the valuation was not included.

**5. CCCC (Fuqing) Investment Co., Ltd.**

- (1) Pursuant to the Agreement on Occupation of Internal Funds entered into between CCCC (Fuqing) Investment Co., Ltd. and China Communications Construction Company Limited, CCCC (Fuqing) Investment Co., Ltd. shall provide a loan of RMB1,000,000,000 to China Communications Construction Company Limited, for a period from 8 May 2018 to 8 May 2019, at an annual interest rate of 3.915%.

- (2) CCCC (Fuqing) Investment Co., Ltd. (Party B) and CCCC Financial Leasing (Guangzhou) Co., Ltd. (中交融資租賃廣州有限公司) (Party A) entered into the Domestic Commercial Resource Factoring Contract (ZJZLS2018B0012-Bao Li-01) on 20 June 2018, pursuant to which, Party B is willing to transfer the Trade Contract (the Sales Contract of Goods, Service Contract or Lease Contract entered into with the buyer or the lessee and any supplement or amendment thereto) to Party A as agreed in the contract, for the receipt of the domestic factoring services rendered by Party A, including factoring finance, management and collection of accounts receivable. Quota of factoring finance shall not exceed RMB200 million, for a period from 20 June 2018 to 20 December 2018. Period of each factoring finance shall not exceed 12 months, quota of factoring finance shall not be renewed, and interest rate shall be fixed at 8%. In case of “circumstances of repurchase”, Party B shall unconditionally in part or in full accept the accounts receivable accepted by and transferred back by Party A as a result of no repayment, and shall return corresponding factoring principal and pay interests as agreed in the contract.
- (3) CCCC (Fuqing) Investment Co., Ltd. (Party B) and China Guangfa Bank Co., Ltd. Fuzhou Branch (廣發銀行股份有限公司福州分行) (Party A) entered into the Credit Line Contract ((2018) Rong Yin Zong Shou E Zi No. 000035) on 31 May 2018, pursuant to which, the maximum credit line is RMB80 million, and shall be effective till 16 May 2019; interests shall be calculated at floating interest rate. The bank acceptance (including electronic bank acceptance) and the establishment of domestic letter of credit agreed in the contract were secured by Party B with deposit.

The impact of such matter on the valuation was not included.

**6. *Dongshan CCCC Tianjin Dredging Investment Co., Ltd.***

Dongshan CCCC Tianjin Dredging Investment Co., Ltd. (Party A) and CCCC Finance Company Limited (Party B) entered into the Domestic Factoring Business Contract with contract No. 2018 Zhong Jiao Bao Li Zi (002) ((2018)年中交保理字(002)號) on 17 January 2018, pursuant to which, Party A agreed to transfer account receivables that it enjoyed as the original creditor under the business contract to Party B on the transfer date (inclusive), so as to enjoy the factoring facility services with recourse provided by Party B. Party B provided factoring facility services to Party A by way of prepayments, with the total factoring facility limit of RMB110,000,000.00, that was expired on 16 January 2019, and the limit is unavailable upon using up. The financing interest rate refers to 20% below the rate equivalent to the benchmark interest rate of loans denominated in RMB as announced by the People’s Bank of China for the corresponding financing term.

Impact of the event on valuation was not included.

The abovementioned matters will not cause material impact on the valuation.

**(VII) Material events after the period**

Nil.

**(VIII) In the economic behaviour relating to this asset valuation, defects may have a material effect on the valuation conclusion.**

Nil.

**(IX) Others**

1. For an intangible asset of CCCC Guangzhou Dredging Co., Ltd.: The Southern Phase II Construction Land Plot among all land use rights is located in Zhenxing Street, Haizhu District, where Tower A and Tower B of Guanghang Building are built. CCCC Guangzhou Dredging Co., Ltd. and CCCC Fourth Harbour Consultants Co., Ltd. entered into the Asset Disposal Agreement for CCCC Southern Headquarters Base (Phase II) Tower B (《中交集團南方總部基地(二期)B座資產處置協議》) on 5 July 2016, pursuant to which, 4–32 floor, Tower B, Guanghang Building, third basement floor to third floor of centered core tube, first floor lobby and parking lot at the third basement floor were transferred to CCCC Fourth Harbour Consultants Co., Ltd.. As of the valuation base date, land deed has not been completed. The settlement upon completion, surveying and property ownership certificates application of Guanghang Building have not been completed. The floor area of the overall projects amounts to 131,858.67 square meters, of which a plot ratio-based floor area of 49,513.91 square meters is transferred to CCCC Fourth Harbor Engineering Co., Ltd. according to the information submitted by the appraised entity, thus the shared area of land use right which is shared based on the plot ratio-based floor area and shall be included in the scope of the valuation amounted to 16,993.07 square meters, i.e. the corresponding area under the valuation.
2. Upon the valuation base date (31 December 2018), CCCC SDC Channel Construction Co., Ltd., a wholly-owned subsidiary of CCCC Shanghai Dredging Co., Ltd. absorbed and merged another subsidiary of CCCC Shanghai Dredging Co., Ltd., the China National Water Resources and Hydropower Engineering Corporation (中交水利水電建設有限公司), which has completed the cancellation procedures on 28 January 2019. China National Water Resources and Hydropower Engineering Corporation is still under the status of subsistence as at the valuation base date.
3. After absorbing and merging the China National Water Resources and Hydropower Engineering Corporation by CCCC SDC Channel Construction Co., Ltd., names, business licenses and qualification certificates of relevant enterprises have been changed, such as the company has changed its name to China National Water Resources and Hydropower Engineering Corporation currently.



4. Due to the lack of basis for analyzing the impacts of the control factor and liquidity on the value of the subject of valuation, as a result of failure to obtain sufficient statistical data on transactions in the relevant market, no control premium or liquidity discount has been taken into account in the valuation.

## **XII. STATEMENT OF RESTRICTIONS ON THE USE OF THE VALUATION REPORT**

- (I) This valuation report only serves for the valuation purpose specified herein; where the whole or part of the contents of the valuation report have been extracted, quoted, or disclosed to public media, the asset appraisal agency shall review relevant contents, unless otherwise stipulated by laws, regulations and agreed by relevant parties;
- (II) The asset appraisal agency and its professional asset valuers disclaim any liability arising from the use of this asset valuation report by the principals or other users of this report in violation of laws, administrative regulations and the scope specified herein;
- (III) Apart from the principals, other users of this asset valuation report stipulate in the asset valuation commission contract, and the report users stipulate under laws and administrative regulations, any other entity or individual shall not be a user hereof;
- (IV) The users of this asset valuation report shall establish a proper understanding of the valuation conclusion. The valuation conclusion is not equal to, and should not be regarded as a guarantee for, the realizable value of the valuation target.

## **XIII. DATE OF VALUATION REPORT**

The date of valuation report was 12 June 2019.

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, 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.

**2. DISCLOSURE OF INTERESTS****(a) Interests and Short Positions of Directors, Supervisors and Chief Executives**

As at the Latest Practicable Date, none of the Directors, Supervisors and chief executives of the Company and their respective associates had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest and short position which any such Director, Supervisor, chief executive or member of senior management was taken or deemed to have under such provisions of the SFO); (b) required to be recorded in the register of interests required to be kept by the Company pursuant to section 352 of the SFO; or (c) otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Hong Kong Listing Rules in force as at the Latest Practicable Date.

Mr. Liu Qitao, the Director of the Company, concurrently acts as the chairman of the board of directors and the secretary of the Party Committee of CCCG. Mr. Song Hailiang, the Director of the Company, concurrently acts as the director, the general manager and a deputy secretary of the Party Committee of CCCG. Mr. Chen Yun, the Director of the Company, concurrently acts as the deputy secretary of the Party Committee of CCCG.

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

**3. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective close associates (as defined in the Hong Kong Listing Rules) was interested in any business (apart from the Group's business) which competes or is likely to compete either directly or indirectly with the Group's business (as would be required to be disclosed under Rule 8.10 of the Hong Kong Listing Rules as if each of them were a controlling Shareholder).

**4. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP**

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

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement, subsisting at the date of this circular, which is significant in relation to the business of the Group.

**5. CONSENTS AND QUALIFICATIONS OF EXPERTS**

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

<b>Name</b>	<b>Qualification</b>
Somerley	A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
China Tong Cheng	Independent and qualified PRC valuer

- (b) As at the Latest Practicable Date, the above experts did not have any shareholding directly or indirectly in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and it had no interest, either directly or indirectly, in any assets which have been, since 31 December 2018 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

- (c) As at the Latest Practicable Date, the above experts have given and have not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and reference to its name and letter, where applicable, in the form and context in which it appears.

## **6. SERVICE CONTRACTS**

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

## **7. MATERIAL ADVERSE CHANGE**

As 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 2018, the date to which the latest published audited consolidated financial statements of the Group were made up.

## **8. DOCUMENTS FOR INSPECTION**

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Room 2805, 28th Floor Convention Plaza Office Tower 1 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including the date of the EGM:

- (a) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (b) the letter from Somerley, the text of which is set out in this circular;
- (c) the valuation report prepared by China Tong Cheng, the summary of which is set out in this circular;
- (d) the written consents of Somerley and China Tong Cheng as referred to in this appendix; and
- (e) the Equity Transfer and Capital Increase Agreement.