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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your 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 Hong Kong International Construction Investment Management Group Co., Limited (the “**Company**”), you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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HONG KONG INTERNATIONAL CONSTRUCTION INVESTMENT MANAGEMENT GROUP CO., LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 687)

(1) CONNECTED TRANSACTIONS (2) CONTINUING CONNECTED TRANSACTIONS AND (3) NOTICE OF SPECIAL GENERAL MEETING

Independent Financial Adviser to the Company



SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 6 to 26 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 27 to 28 of this circular. A letter from Somerley Capital Limited, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 54 of this circular.

A notice convening the SGM to be held at 10 a.m. on Monday, 4 September 2017 at 20th Floor, One Island South, No. 2 Heung Yip Road, Wong Chuk Hang, Hong Kong is set out on pages SGM-1 to SGM-2 of this circular. A proxy form for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case maybe). Completion and return of the proxy form shall not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case maybe) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

15 August 2017

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DEFINITIONS

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

“2014 Master Agreement”	the master agreement dated 3 November 2014 entered into between Tysan Foundation, Tysan Engineering, Proficiency Equipment and Tysan Building in respect of the subcontracting of works, whether in whole or in part, among them in the manner prescribed thereunder
“6562 Land Parcel”	the piece or parcel of ground registered in the Land Registry as New Kowloon Inland Lot No. 6562 together with the messuages erections and buildings thereon, which was held by Denco as at the Latest Practicable Date
“6562 Project Development Agreement”	the project development agreement dated 6 July 2017 entered into between Denco as owner and Gainful as representative in relation to the development of the 6562 Land Parcel
“6563 Land Parcel”	the piece of land parcel known as New Kowloon Inland Lot No. 6563, on Kai Tak Area 1L Site 2, Kai Tak, Kowloon, Hong Kong with a total site area of approximately 9,482 square metres, which was held by Milway as at the Latest Practicable Date
“6564 Land Parcel”	the piece of land parcel known as New Kowloon Inland Lot No. 6564, on Kai Tak Area 1L Site 1, Kai Tak, Kowloon, Hong Kong with a total site area of approximately 7,318 square metres, which was held by Top Genius as at the Latest Practicable Date
“6565 Land Parcel”	the piece or parcel of ground registered in the Land Registry as New Kowloon Inland Lot No. 6565 together with the messuages erections and buildings thereon, which was held by HIC as at the Latest Practicable Date
“6565 Project Development Agreement”	the project development agreement dated 6 July 2017 entered into between HIC as owner and Gainful as representative in relation to the development of the 6565 Land Parcel
“Annual Caps”	the maximum aggregate value of the contract sum in respect of each category of works to be subcontracted under the New Master Agreement for each financial year concerned as set out in this circular
“Appointee”	any member of the Group or the Fung Group which has been subcontracted by the Appointor under the New Master Agreement in respect of the whole or any part or parts of the works that the Appointor has been awarded or appointed with

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“Appointor”	any member of the Group or the Fung Group which has been awarded or appointed with a contract for works for which it may deem appropriate to subcontract the whole or any part or parts of such works to any members of the Group or the Fung Group under the New Master Agreement
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Hong Kong International Construction Investment Management Group Co., Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange
“Conditions of Sale”	the conditions of sale of the 6562 Land Parcel and the 6565 Land Parcel imposed by the Hong Kong Government (as the case may be), which are binding as between the relevant Owners and the Hong Kong Government. Gainful, as the project management company of the Development, is not a party to the said conditions of sale
“connected person”	has the meaning ascribed to it under the Listing Rules
“Connected Transactions”	the non-exempt connected transactions contemplated under the Project Development Agreements
“Continuing Connected Transactions”	the non-exempt continuing connected transactions and their respective Annual Caps contemplated under the New Master Agreement
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Denco”	Denco Properties Limited, a company incorporated in Hong Kong with limited liability and a non-wholly-owned subsidiary of HNA Group
“Development”	the development of the 6562 Land Parcel and/or the 6565 Land Parcel by complying in all respects with the development conditions and all the other covenants of the Conditions of Sale in respect of the 6562 Land Parcel and/or the 6565 Land Parcel
“Director(s)”	the director(s) of the Company
“EM works”	electrical and mechanical engineering works

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“Fung Group”	the companies owned or controlled by Mr. Victor Fung including but not limited to Tysan Building and Tysan Engineering
“Gainful”	Gainful Engineering Limited, a company incorporated in Hong Kong with limited liability and an indirectly wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“HIC”	Hongkong Island Construction Properties Co., Limited, a company incorporated in Hong Kong with limited liability and a non-wholly-owned subsidiary of HNA Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HNA Finance I”	HNA Finance I Co., Ltd., a company incorporated in Anguilla with limited liability and an indirect subsidiary of HNA Group
“HNA Group”	HNA Group Co., Ltd., a company incorporated in the PRC and the holding company of HNA Finance I
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Fan Chor Ho, Mr. Tse Man Bun, Mr. Lung Chee Ming, George, Mr. Li Kit Chee and Mr. Leung Kai Cheung
“Independent Financial Adviser” or “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
“Independent Shareholders”	the Shareholders other than those Shareholders who have a material interest in the Connected Transactions and/or the Continuing Connected Transactions (as the case may be), if any
“Land Parcels”	the 6562 Land Parcel and the 6565 Land Parcel
“Latest Practicable Date”	Friday, 11 August 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

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“Milway”	Milway Development Limited, a company incorporated in Hong Kong with limited liability and an indirectly wholly-owned subsidiary of the Company
“Mr. Victor Fung”	Mr. Fung Chiu Chak, Victor, an Executive Director, a Vice Chairman of the Board and the President of Operations of the Group
“New Master Agreement”	the master agreement dated 6 July 2017 entered into between the Company (for itself and on behalf of other members of the Group) and Mr. Victor Fung (for himself and on behalf of companies owned or controlled by him) in respect of the subcontracting of works, whether in whole or in part, among them in the Prescribed Manner
“Owner(s)”	<ol style="list-style-type: none">(1) in relation to the 6562 Land Parcel and/or the 6562 Project Development Agreement, Denco; and(2) in relation to the 6565 Land Parcel and/or the 6565 Project Development Agreement, HIC
“PRC”	the People’s Republic of China
“Prescribed Manner”	<ol style="list-style-type: none">(1) the subcontracting of foundation works by the members of the Fung Group to the members of the Group, or(2) the subcontracting of building and construction works by the members of the Group to the members of the Fung Group or vice versa, or(3) the subcontracting of EM works by the members of the Group to the members of the Fung Group, or(4) the subcontracting of rental of tower cranes and provision of engineering services by the members of the Fung Group to the members of the Group
“Proficiency Equipment”	Proficiency Equipment Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Project Development Agreements”	the 6562 Project Development Agreement and the 6565 Project Development Agreement
“Remuneration”	the remuneration payable by the Owners to Gainful under the Project Development Agreements
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting of the Company to be convened and held at which resolutions will be proposed to consider, and, if thought fit, to approve, among other things, the Project Development Agreements and the Connected Transactions
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Top Genius”	Top Genius Holdings Limited, a company incorporated in Hong Kong with limited liability and an indirectly wholly-owned subsidiary of the Company
“Tysan Building”	Tysan Building Construction Company Limited, a company incorporated in Hong Kong with limited liability, an indirectly wholly-owned subsidiary of Mr. Victor Fung
“Tysan Engineering”	Tysan Engineering (H.K.) Company Limited, a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of Tysan Engineering Company Limited which is owned as to 78% by Mr. Victor Fung and 22% by Mr. Wong Kay, a member of senior management of the Company
“Tysan Foundation”	Tysan Foundation (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, a directly wholly-owned subsidiary of the Company
“%”	per cent

LETTER FROM THE BOARD



**HONG KONG INTERNATIONAL CONSTRUCTION
INVESTMENT MANAGEMENT GROUP CO., LIMITED**

(Incorporated in Bermuda with limited liability)

(Stock code: 687)

Executive Directors

Mr. HUANG Qijun (*Chairman*)

Mr. ZHAO Quan (*Vice Chairman and Chief Executive Officer*)

Mr. FUNG Chiu Chak, Victor (*Vice Chairman*)

Mr. LIU Junchun (*Vice Chairman*)

Mr. MU Xianyi

Mr. WONG Tai Lun Kenneth

Non-executive Directors

Mr. TANG King Shing

Mr. TANG Kit

Independent Non-executive Directors

Mr. FAN Chor Ho

Mr. TSE Man Bun

Mr. LUNG Chee Ming, George

Mr. LI Kit Chee

Mr. LEUNG Kai Cheung

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Principal place of business
in Hong Kong:*

20th Floor, One Island South

No. 2 Heung Yip Road

Wong Chuk Hang

Hong Kong

15 August 2017

To the Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTIONS
(2) CONTINUING CONNECTED TRANSACTIONS
AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

I. INTRODUCTION

Reference is made to the Company's announcement dated 6 July 2017 in relation to the Project Development Agreements and the New Master Agreement.

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Each of the Project Development Agreements and the New Master Agreement constitutes connected transactions of the Company under the Listing Rules. The purpose of this circular is to provide you with further details of the Project Development Agreements and the New Master Agreement and the general information of the Group.

II. THE PROJECT DEVELOPMENT AGREEMENTS

Reference is made to the announcement of the Company dated 19 January 2017 in respect of, amongst others, the memorandum of understanding entered into by Gainful with Denco and HIC in connection with the potential engagement of Gainful by Denco and HIC to provide certain engineering, procurement, construction, designing, project management and other services in relation to a proposed residential and non-industrial project on the 6562 Land Parcel and the 6565 Land Parcel.

On 6 July 2017, Gainful entered into the 6562 Project Development Agreement and the 6565 Project Development Agreement with Denco and HIC respectively, pursuant to which Denco and HIC (each as an Owner of the respective Land Parcels) agreed to exclusively appoint Gainful as their respective sole agents to develop the 6562 Land Parcel and the 6565 Land Parcel respectively in accordance with the conditions of the respective Project Development Agreements and the Conditions of Sale.

	6562 Project Development Agreement	6565 Project Development Agreement
Date:	6 July 2017	6 July 2017
Parties:	(i) Denco; and (ii) Gainful	(i) HIC; and (ii) Gainful
Land Parcel:	The 6562 Land Parcel	The 6565 Land Parcel

Apart from the parties, the Land Parcels and the estimated Project Costs (as defined and described below), other terms of the 6562 Project Development Agreement and the 6565 Project Development Agreement are substantially the same. The principal terms of the 6562 Project Development Agreement and the 6565 Project Development Agreement are set out below.

Subject matter: Gainful has agreed that, for the purpose of carrying out the Development, it will (by itself or by engaging the appropriate professional team, as determined by Gainful as its discretion):-

(a) procure the design, construction and completion of the Development by complying in all respects with, amongst other things, the Project Development Agreements, the Conditions of Sale and any other subsequent supplemental agreements in relation to the Development;

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- (b) procure the issuance of the occupation permit in respect of the Development;
- (c) procure the issuance of all requisite consents and approvals under the Conditions of Sale (including without limitation the certificate of compliance and where applicable, consent to assign); and
- (d) procure the grant of consent for the sale or leasing of the units (including residential units and any commercial areas) of the Development such as pre-sale consent and promotional consent, and approval of the deed of mutual covenant and management agreement of the Development by the Government of Hong Kong.

The scope of work contemplated under each of the Project Development Agreements does not include the disposal (whether sale or pre-sale), marketing, promotion and leasing of the units in the relevant Development and the property management of the completed Development. Any requirement to undertake such additional work by Gainful will be subject to further negotiations.

Gainful (as an agent of the Owners) will have the right and authority to select, appoint and terminate the professional team in connection with the execution of the Development Works (as defined below).

The Owners have authorized Gainful, as agent, to enter into construction contracts in the name and on behalf of the Owners, and to administer, manage and supervise construction contracts and contracts with all the professional teams. As such, under the Project Development Agreements, Gainful will not participate as a contractor, unless it chooses to. Gainful also has the right to join, in its own name, as a party to any of the construction contracts and in such case the capacity of Gainful shall be confined to an agent and representative of the Owners. In case Gainful (as an agent of the Owners) chooses to join as a party to the relevant construction contracts, Gainful will require the respective Owners to also join as a party to the relevant construction contracts and guarantee the performance of the obligations on the part of Gainful under the relevant construction contracts.

Condition precedent: The Project Development Agreements and the terms and conditions thereof are subject to the condition precedent that the Project Development Agreements and the Connected Transactions are approved by the Independent Shareholders in accordance with the Listing Rules and (if applicable) other approval of the Stock Exchange, and if such approval is not obtained on or before 31 December 2017 (or such later date as may be agreed by the parties to the Project Development Agreements), the Project Development Agreements will automatically terminate and no party thereto shall have any claim against the other party.

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Funding of the Development:	<p>The Owners shall be solely responsible for the fees, costs, expenses and sums incurred or paid in connection with the carrying out of the works (or any part thereof) of or in connection with the commencement, carrying out and completion of the construction of the Development (the “Development Works”) including without limitation:-</p> <ul style="list-style-type: none">(a) as from the date of possession of the Land Parcels by Gainful, all outgoings of a recurring nature in respect of the Land Parcels and any building thereon;(b) all fees payable to the works contractors and the professional teams; and(c) all fees, costs and expenses for carrying out the Development Works, including without limitation the cost overrun and costs and expenses incurred as a result of the delay in carrying out the Development Works, <p>(collectively, the “Project Costs”).</p>
	<p>The Project Costs will be paid by the Owners through Gainful. To reflect that payment obligation of the Project Costs essentially rests with the Owners, when inviting tenders for construction and development works for the Development, the Group will incorporate a condition in the relevant construction and development contracts that Gainful shall only pay the relevant construction and development fees to the contractors and professional teams upon receiving the relevant payment from the Owners, and that all payment obligations rest with the Owners instead of Gainful.</p> <p>The Owners shall be responsible for all the risks for the Development (including the carrying out of the Development Works and for any cost overrun and the costs and expenses incurred as a result of the delay in carrying out the Development Works).</p>
Indemnification:	<p>Under the Project Development Agreements, the Owners are required to indemnify Gainful against all actions, proceedings, claims, demands, costs and expenses which may be suffered or incurred by Gainful directly or indirectly in connection with it acting as the Owners’ agent. Conversely, Gainful is required to indemnify the Owners against all actions, proceedings, claims, demands, costs and expenses which may be suffered or incurred by the Owners arising out of or in connection with any breach by Gainful of its obligations as a result of the gross negligence, wilful default or fraud on the part of Gainful.</p>
Remuneration:	<p>Each of the Owners shall pay to Gainful an amount which is equal to five percent (5%) of the Project Costs incurred up to the end of the twelve (12) months after practical completion of the Development (the “Defects Liability Period”).</p>

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The Remuneration shall be paid by each of the Owners to Gainful under each of the Project Development Agreements in the following manner:

- (a) a sum of HK\$15 million (representing part of the estimated expenses and administrative costs to be incurred by Gainful for performing its obligations under the Project Development Agreements up to the completion of the foundation of the Development) (the “**Advance Payment**”) shall be paid by each of the Owners to Gainful on the date on which the condition precedent to the Project Development Agreements is satisfied as advance payment of part of the Remuneration. The Advance Payment shall be applied towards off-setting any monthly Remuneration payable by the Owners to Gainful in accordance with paragraph (b) below until fully utilized;
- (b) Gainful shall on a monthly basis commencing from the expiry of the first month after the appointment of an authorized person as defined under the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) being appointed in respect of the Development (the “**Authorized Person**”) submit to the Owners a written statement (the “**Written Statement**”), which shall be certified by the Authorized Person stating (1) the Project Costs incurred by Gainful in the preceding month, (2) amount of the Remuneration due to Gainful by reference to such Project Costs incurred, (3) the amount of the balance of Advance Payment (if any) after deduction of the amount of the Remuneration due to Gainful and (4) the net amount of Remuneration payable (if any) by the Owners to Gainful.

To prepare the Written Statement, construction costs and professional fees incurred for the preceding month will first be calculated separately. In respect of construction costs, a project architect and quantity surveyor will prepare payment certificates for construction costs incurred for the preceding month and make recommendation to project directors, project managers and a contract manager regarding construction costs to be charged. Project directors, project managers and the contract manager will then review the payment certificates, finalize and confirm the construction costs to be charged and submit the same to the Authorized Person. In respect of professional fees, fixed professional consultancy fees and payment schedules will be agreed when engagement contracts are signed. Project directors, project managers and the contract manager will review the bills prepared by external consultants, then confirm and finalize the professional fees incurred and submit the same to the Authorized Person. The Authorized Person will then review and consolidate the construction costs and professional fees incurred and prepare a draft Written Statement, which will be reviewed by project directors, project managers and the contract manager. Once the Written Statement is agreed among the parties, the Authorized Person will certify and submit the Written Statement. For experience of our project directors, project managers and the contract manager, please refer to the section headed “Reasons and Benefits of the Project Development Agreements and the Connected Transactions” below.

The Owners shall pay the amount of the monthly Remuneration due to Gainful (if any) within fourteen days after the receipt of the Written Statement.

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As at the Latest Practicable Date, the estimated Project Costs in respect of the 6562 Project Development Agreement and the 6565 Project Development Agreement are HK\$1,900 million and HK\$3,100 million respectively, which was determined by reference to the multiple of the respective gross floor area of approximately 36,972 square metres and 60,814 square metres/respective construction floor area of approximately 51,761 square metres and 85,140 square metres of the 6562 Land Parcel and the 6565 Land Parcel and the construction cost estimation from the independent external quantity surveyors engaged by the Company on behalf of the Owners based on other high-end residential projects which are under construction in Hong Kong, such as the materials used in such residential projects and the costs of such materials. For each of the 6562 Project Development Agreement and the 6565 Project Development Agreement, the Project Costs are allocated mainly towards: foundation works (of approximately HK\$300 million and HK\$330 million, respectively), building and construction works (of approximately HK\$1,100 million and HK\$2,000 million, respectively), EM works (of approximately HK\$360 million and HK\$550 million, respectively) and professional fees (of approximately HK\$130 million and HK\$210 million, respectively).

Based on the estimated Project Costs of HK\$1,900 million for developing the 6562 Land Parcel and HK\$3,100 million for developing the 6565 Land Parcel, the Remuneration payable by the Owners to Gainful in respect of the 6562 Project Development Agreement and the 6565 Project Development Agreement will be HK\$95 million and HK\$155 million respectively. If the Remuneration exceeds such amount, the Company will re-comply with the announcement and shareholders' approval requirements, as applicable, of the relevant Listing Rules.

The Remuneration was determined after arm's length negotiations between Gainful and the Owners, taking into account (i) the scale and size of the Development; (ii) resources to be engaged by Gainful in the Development; and (iii) the percentage of remuneration payable by other developers for developing the land parcel of similar nature and size compared with the Land Parcels.

The Remuneration (i.e. 5% of the Project Costs) to be received by Gainful will be recognised as revenue in the income statement of the Group, which will lead to an increase in profit and assets of the Group. The revenue will be presented in gross amount and the relevant costs incurred in generating such income such as staff costs and administrative expenses will be presented as expenses incurred in the income statement of the Group.

Timetable for the
Development

Based on the current timetable, the Owners estimate the Development will take approximately 5 years to complete. It is expected that the general building plans regarding the Development will be submitted to the Buildings Department of the Hong Kong Government for approval in the third quarter of 2017, whilst the foundation and superstructure works are expected to commence by the first quarter of 2018 and first quarter of 2019, respectively. The tendering process for the foundation and the superstructure works are expected to be carried out in the third quarter of 2017 and mid-2018, respectively.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE PROJECT DEVELOPMENT AGREEMENTS AND THE CONNECTED TRANSACTIONS

The Group's principal business includes property development, foundation piling and site investigation in Hong Kong and property investment and management.

HIC is a company incorporated in Hong Kong with limited liability and is principally engaged in property development and property holding.

Denco is a company incorporated in Hong Kong with limited liability and is principally engaged in property development and property holding.

As mentioned in the announcement of the Company dated 19 January 2017, the Company is seeking to extend the Group's property development, investment and management business in the PRC, foundation piling and site investigation in Hong Kong to include project management and construction related businesses in Hong Kong. It is also disclosed in the 2016 annual report of the Group that the Group will explore more property development and related project management opportunities in Hong Kong. The entering into of the Project Development Agreements presents a business opportunity for the Group to enhance its long-term growth potential, which is in line with the development direction of the Group.

Having considered the scale and size of the Development, the Directors believe that by entering into the Project Development Agreements and providing the services in relation to the Development, the Group will be able to build on its project management experience in the PRC and apply its expertise in relation to the development of residential and non-industrial projects in Hong Kong, with a view to strengthening its expertise in project management works and participating in other similar projects in Hong Kong in the future.

Furthermore, the entering into of the Project Development Agreements can provide additional income for the Group. Under the Project Development Agreements, each of the Owners shall pay to the Group an amount which is equal to 5% of the Project Costs incurred, amounting to approximately HK\$95 million in respect of the development of 6562 Land Parcel, and HK\$155 million in respect of the development of the 6565 Land Parcel. Having considered the income from the Remuneration to be awarded under the Project Development Agreements, the Directors consider that it is in the interests of the Company and its Shareholders as a whole to enter into the Project Development Agreements.

As disclosed in the announcements of the Company dated 25 January 2017, 7 February 2017, 15 March 2017 and 28 March 2017 and circulars of the Company dated 13 March 2017 and 28 April 2017, Milway and Top Genius (both being indirectly wholly-owned subsidiaries of the Group) acquired the land use rights over the 6563 Land Parcel and the 6564 Land Parcel respectively. The Directors confirm that as at the Latest Practicable Date, there was no plan or joint arrangement to develop the 6562 Land Parcel, the 6563 Land Parcel, the 6564 Land Parcel and the 6565 Land Parcel as a whole. As the four pieces of land parcels will be developed concurrently, if key staff or a significant number of the members of the project management team resign, there is a risk that the Group will not have sufficient manpower to develop the land parcels concurrently. Nonetheless, the Group will continue to recruit project management professionals and the risk can be mitigated by engaging external consultants for the interim period. Given that the 6562 Land Parcel, the 6563 Land Parcel, the 6564 Land Parcel and the 6565 Land Parcel are all located in the Kai Tak area, the Directors believe by developing its own 6563 Land Parcel and 6564 Land Parcel concurrently with the Land Parcels under the Project Development Agreements, there will be synergistic effect and the Group can benefit from economies of scale for example, where certain fixed costs (e.g. hiring of machinery) can be spread out

LETTER FROM THE BOARD

and utilized for four sites, division of labour between the sites as they enter into different phases of development and bulk purchasing of materials leading to improved efficiency from the sharing of project management expertise between the various projects. The costs (including management costs) will be allocated to the respective projects based on time spent by the relevant staff. The Group will implement a system to record the allocation of costs between the four projects, including requiring the relevant staff to report their time log to the project directors, who will be responsible for keeping track of the time spent by members of the respective project management team to ensure the time and costs are properly allocated to the respective projects.

The Group has expanded its project management team from six to twenty members, with the majority of the members possessing qualifications in various areas of project development works such as architectural, structural, electrical and mechanical and quantity surveying, and certain members of the team having 10 to 33 years' of experience in project development works. In particular, Mr. Lau Kin Fai (“**Mr. Lau**”), the President of the Real Estate Development Division of the Group who has over 33 years' experience in the field of quantity surveying, housing development and property development, will be responsible for overseeing the project development works to be conducted by the Group as a project director. Other project directors of the team have 15 to 27 years of post professional qualification experience and all our project managers and the contract manager have 9 to 21 years of post professional qualification experience. The Directors consider that the Group's project management team, which comprises 20 members and experienced professionals, is capable of handling four project management transactions at the same time. It is expected that Mr. Lau will oversee the four projects, one project director will head two projects which are owned by the Group (i.e. 6563 Land Parcel and 6564 Land Parcel), another two project directors will each head one project (i.e. 6562 Land Parcel and 6565 Land Parcel) respectively and the contract manager will be involved in all four projects. Based on the size and experience of the Group's project management team and the expected allocation of manpower, the Directors are of the view that the Company has sufficient capacity to develop the Land Parcels under the Project Development Agreements concurrently with the 6563 Land Parcel and the 6564 Land Parcel.

As at the Latest Practicable Date, the Group had not entered into any construction contract in relation to the construction of the Land Parcels. However, members of the Group may participate in the tender in respect of the main construction contracts for the Development upon considering the terms and conditions of the relevant tender(s). Any such contracts entered into between members of the Group and the Owners (either in the name of the Owners or through Gainful) will constitute connected transactions of the Company and the Company will comply with the Listing Rules at the relevant time.

The Directors (including the independent non-executive Directors but excluding each of Mr. Zhao Quan, Mr. Liu Junchun, Mr. Fan Ning, Mr. Meng Yongtao and Mr. Wong Tai Lun Kenneth, being Directors and former Directors nominated to the Board by HNA Finance I, who had abstained from voting on the Project Development Agreements so as to avoid a perception of conflict of interest) consider that the terms of each of the Project Development Agreements and the Connected Transactions are fair and reasonable and in the interests of the Company and its Shareholders as a whole. At the Board meeting to approve the Project Development Agreements and the Connected Transactions, the Directors and former Directors nominated to the Board by HNA Finance I, were in support of the Project Development Agreements and the Connected Transactions contemplated thereunder, but to avoid a perception of conflict of interest, had abstained from voting on the resolutions to approve the same.

LETTER FROM THE BOARD

III. THE NEW MASTER AGREEMENT

Reference is made to the announcement of the Company dated 3 November 2014 and the circular of the Company dated 28 November 2014 in respect of, amongst others, the 2014 Master Agreement.

The 2014 Master Agreement expired on 31 March 2017. It is expected that the Group may enter into transactions of a nature similar to the transactions under the 2014 Master Agreement from time to time, and therefore, in view of the above and in order to accommodate such transactions between the parties, on 6 July 2017, the Company entered into the New Master Agreement with Mr. Victor Fung (for himself and on behalf of companies owned or controlled by Mr. Victor Fung).

The principal terms of the New Master Agreement are set out below:

Date: 6 July 2017

Parties: (1) The Company (for itself and on behalf of other members of the Group); and
(2) Mr. Victor Fung (for himself and on behalf of companies owned or controlled by Mr. Victor Fung)

Continuing Connected Transactions: Under the New Master Agreement, the Appointor may at its discretion subcontract the whole or any part or parts of the works under a contract of works it has been awarded or appointed, to the Appointee in the ordinary and usual course of its business. The Appointor may do so by entering into separate and definitive agreements from time to time with the Appointee to provide for the detailed terms of each transaction (which shall be in the Prescribed Manner) in accordance with the principles set out in the New Master Agreement and subject to the Annual Caps.

Detailed terms under each separate agreement shall include, without limitation: (1) the scope of the works concerned with detailed specifications as to the particulars, extent and standards of the works to be undertaken and the price thereof; (2) the manner of payment and/or settlement for such works; (3) specifications as to the materials, if any, to be supplied; and (4) other terms and conditions in relation to the provision of the works concerned, provided that: (a) such detailed terms shall be on normal commercial bases and on terms no less favourable to the Group than those available to or from, as the case may be, independent third parties; (b) the pricing thereof shall be no less favourable than the prevailing market rate; and (c) such terms shall be fair and reasonable and in the interest of the Shareholders as a whole.

For the avoidance of doubt, depending on the circumstances, each of the parties to the New Master Agreement may be an Appointor on one occasion of subcontracting and an Appointee on another occasion.

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Condition Precedent: The New Master Agreement and the terms and conditions thereof are subject to the condition precedent that the New Master Agreement and the terms and conditions thereof and the Continuing Connected Transactions receive the approval of the Independent Shareholders in accordance with the Listing Rules and the approval of the Stock Exchange (where necessary). If such approval is not obtained on or before 31 December 2017 (or such later date as may be agreed by the parties thereto), the New Master Agreement will automatically terminate and no party to the New Master Agreement shall have any claim against any other party or parties under the New Master Agreement.

Term: The New Master Agreement is for a term commencing from 6 July 2017 and ending on 31 December 2019, both days inclusive.

Historical Amounts: During each of the three years ended 31 March 2017, the actual transaction amounts and the annual caps in respect of the continuing connected transactions of the Group under the 2014 Master Agreement are set out below.

	Actual amount	Caps amount
	<i>(HK\$' million)</i>	<i>(HK\$' million)</i>
<i>For the year ended 31 March 2015</i>		
1. Foundation works	—	100
2. Building and construction works	0.69	100
3. EM works	1.80	175
4. Rental and engineering works relating to tower cranes	5.61	10
<i>For the year ended 31 March 2016</i>		
1. Foundation works	—	100
2. Building and construction works	—	100
3. EM works	0.15	175
4. Rental and engineering works relating to tower cranes	1.86	10
<i>For the year ended 31 March 2017</i>		
1. Foundation works	25.5 ^{Note}	100
2. Building and construction works	—	100
3. EM works	0.56 ^{Note}	175
4. Rental and engineering works relating to tower cranes	6.55 ^{Note}	10

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Note: As the Group's financial year end date has been changed from 31 March to 31 December, the figures comprised the aggregate of the actual transaction amount for the nine-month period ended 31 December 2016 and the three-month period ended 31 March 2017.

For the period commencing from 1 April 2017 (after the expiry of the 2014 Master Agreement) to the Latest Practicable Date, all the percentage ratios (other than profits ratio) calculated under the Listing Rules in respect of the actual transaction amounts for subcontracting works in the Prescribed Manner between the Group and the Fung Group were less than 5% and the total consideration was less than HK\$3 million.

Annual Caps : The maximum aggregate value of the contract sum in respect of each category of works to be subcontracted by any party to another party to the New Master Agreement in the Prescribed Manner for each of the financial years concerned under the New Master Agreement shall not exceed the amounts set out below.

	Financial Year Ending		
	31 Dec 2017	31 Dec 2018	31 Dec 2019
	<i>(HK\$' million)</i>	<i>(HK\$' million)</i>	<i>(HK\$' million)</i>
1. Foundation works	300	300	300
2. Building and construction works	100	1,500	2,000
3. EM works	175	500	500
4. Rental and engineering works relating to tower cranes	10	20	20

The Annual Caps assigned to each category of works to be subcontracted by any party to another party to the New Master Agreement in the Prescribed Manner for each of the financial year ending 31 December 2017, 31 December 2018 and 31 December 2019 will only be reallocated in the event of project acceleration or delay if, prior to such reallocation, the Company re-complies with the requirements of the relevant Listing Rules at that time. The Annual Caps for each category of works for the three years ending 31 December 2019 are fixed. If the Group comes across project acceleration or delay and reallocation of Annual Caps will be made which would constitute a change in the annual caps under Rule 14A.54 of the Listing Rules, in such event the Company will re-comply with the announcement and shareholders' approval requirements, as applicable, under Chapter 14A of the Listing Rules.

The Annual Caps set out above have been determined by reference to (1) the Group's turnover and the relevant divisions' turnover for the past three years; (2) an estimate of works required and the

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timing of the works; (3) the current, prospective and future projects of the Group, and in particular in the foundation, building and construction sectors in Hong Kong including but not limited to the construction and development of the 6564 Land Parcel and the 6563 Land Parcel; and (4) the estimated project costs for developing the projects mentioned in item (3).

Certain annual caps under the 2014 Master Agreement were not utilized or hardly utilized in any one year. The vagaries affecting the Group's businesses mean that the contracts the Group bids for and the value of each of the components of such contracts can vary substantially. For example, in the years ended 31 March 2015 and 31 March 2016, there was no foundation works under the 2014 Master Agreement but for the nine-month period ended 31 December 2016 and the three-month period ended 31 March 2017, there were foundation works in the amount of approximately HK\$25.5 million. Similarly, rental and engineering works relating to tower cranes were small in the year ended 31 March 2016, but the rental and engineering works relating to tower cranes amounted to approximately HK\$5.61 million for the year ended 31 March 2015 and HK\$6.55 million for the nine-month period ended 31 December 2016 and the three-month period ended 31 March 2017. The size of construction projects for which the Group members or members of the Fung Group are successfully awarded is not uniform or incremental.

As explained above, the Annual Caps are set in contemplation of the current, prospective and future projects of the Group and the estimated project costs for developing the said projects, in particular the construction and development of the 6563 Land Parcel and the 6564 Land Parcel. The property development and construction market in Hong Kong is competitive and there are a lot of construction companies in Hong Kong which offer subcontracting services. Although there are sufficient independent third party participants in the market, the quality and capability of such market players vary greatly and the quality of work delivered by subcontractors may have a material impact on the reputation and ability of the Group to meet project timetables as well as the overall project costs. To ensure the quality of the subcontractors selected by the Group, the Group has put in place a set of procedures for selecting subcontractors and has maintained an approved list of subcontractors (the "**Approved List**"), which records, amongst other things, the performance of the subcontractors as evaluated by the project manager in conjunction with other personnel such as quantity surveyor manager at the end of each project and subcontractors may be removed from the Approved List if their performance is not satisfactory. A new subcontractor can only be added in the Approved List after managers of several departments of the Group have evaluated, amongst others, the organizational structure, management system, qualification and experience of the personnel, industrial relations and available resources of the subcontractor. As at the Latest Practicable Date, there were approximately 6 building and construction work subcontractors (of which 1 company, representing 16.67% was owned or controlled by Mr. Victor Fung) and approximately 25 EM works subcontractors (of which 2 companies, representing 8% were owned or controlled by Mr. Victor Fung) in the Approved List. Tysan Building and Tysan Engineering (both of which are owned and controlled by Mr. Victor Fung and are part of the Fung Group) were also in the Approved List, therefore the work delivered by Tysan Building and Tysan Engineering has proven to be satisfactory and up to standard. If, after going through the tender process as detailed in the paragraph headed "Internal Control" below which involves different levels of approvals and will be approved by senior management of the Group, members of the Fung Group are awarded subcontract(s) in respect of the building and construction works and/or the EM works for the 6563 Land Parcel and/or the 6564 Land Parcel, the Directors consider that it would be fair and reasonable to subcontract such works to the Fung Group because the tender process should allow the Group to identify the most suitable subcontractor to take up the relevant works. As members of the Fung Group are in the Approved List, they will be considered in the same manner as others on the Approved List who submit tenders and, it is possible that the Group

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may subcontract building and construction works and/or EM works in respect of the 6563 Land Parcel and/or the 6564 Land Parcel to the Fung Group. If the Annual Caps sought are too small and insufficient to cover the contract sum, the Group may only be able to subcontract a small number of jobs, or jobs of a smaller value to a member of the Fung Group before having to re-comply with the relevant requirements under the Listing Rules, which may lead to delays in the operations of the Group. There is no obligation or commitment for the Group to grant the subcontract to the members of the Fung Group and the Group will only grant the subcontract to the Fung Group if it is successful in the tender process. Therefore, the Directors consider that the size of Annual Caps should be set at a level to provide flexibility to the Group to subcontract relevant works to the Fung Group as and when required and therefore consider the size of the Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

As disclosed in the announcements of the Company dated 25 January 2017, 7 February 2017, 15 March 2017 and 28 March 2017 and circulars of the Company dated 13 March 2017 and 28 April 2017, Milway and Top Genius acquired the land use rights over the 6563 Land Parcel and the 6564 Land Parcel respectively. It is expected that the Group will execute main construction contracts in respect of building and construction works and EM works for the 6564 Land Parcel and the 6563 Land Parcel in 2018 and 2019, respectively. Based on the current timetable, the general building plans regarding the Development will be submitted to the Buildings Department of the Hong Kong Government for approval in the third quarter of 2017, whilst the foundation and superstructure works are expected to commence by the first quarter of 2018 and first quarter of 2019, respectively. The tendering process for the foundation and the superstructure works are expected to be carried out in the third quarter of 2017 and mid-2018, respectively.

As at the Latest Practicable Date, the total estimated project costs for developing the 6563 Land Parcel and 6564 Land Parcel are HK\$2,900 million and HK\$2,300 million respectively, which was determined by reference to the multiple of the respective gross floor area of approximately 51,202 square metres and 39,517 square metres/respective construction floor area of approximately 74,029 square metres and 58,330 square metres of the 6563 Land Parcel and the 6564 Land Parcel and the construction cost estimation from the independent external quantity surveyors based on other high-end residential projects which are under construction in Hong Kong, such as the materials used in other high-end residential projects and the costs for such materials. As at the Latest Practicable Date, the Group intended to finance the project costs for the 6563 Land Parcel and the 6564 Land Parcel by way of internal resources, bank loans and other fund raising activities and the Group had no intention to finance the project costs for the 6563 Land Parcel and the 6564 Land Parcel by obtaining shareholder's loan. For each of the 6563 Land Parcel and the 6564 Land Parcel, the total project costs are allocated mainly towards: foundation works (of approximately HK\$317 million and HK\$262 million, respectively), building and construction works (of approximately HK\$1,942 million and HK\$1,511 million, respectively), EM works (of approximately HK\$431 million and HK\$327 million, respectively) and professional fees (of approximately HK\$178 million and HK\$137 million, respectively). The total estimated costs in respect of building and construction works and EM works for the 6563 Land Parcel and the 6564 Land Parcel would approximately amount to HK\$2,400 million and HK\$1,850 million, respectively. The Group may subcontract certain building and construction works and EM works of the 6563 Land Parcel and the 6564 Land Parcel to the Fung Group and the Fung Group may require the rental of tower cranes and provision of engineering works from the Group. The Annual Caps for building and construction works and EM works under the New Master Agreement were set taking into consideration the estimated costs in relation to building and construction works and EM works for the 6563 Land Parcel and the 6564 Land Parcel and the possibility of the Fung Group requiring the rental of tower cranes and provision of engineering works

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from the Group for the 6563 Land Parcel and the 6564 Land Parcel. The Annual Caps in respect of the building and construction works, EM works and rental and engineering works relating to tower cranes for the two years ended 31 December 2018 and 31 December 2019, which coincides with the timing of commencement of the construction and development of the 6563 Land Parcel and the 6564 Land Parcel as disclosed above, are therefore substantially higher than the annual caps under the 2014 Master Agreement. At present, the Group anticipates that the main construction contracts in respect of the building and construction works and EM works of the 6564 Land Parcel and the 6563 Land Parcel will be executed in 2018 and 2019 respectively, however there may be unexpected delays or acceleration in commencing various components and stages of the construction and development works.

INTERNAL CONTROL

The Company has put in place internal control procedures to ensure that individual transactions under the New Master Agreement will be conducted in accordance with the terms of the New Master Agreement. In order to ensure that the terms provided by the Fung Group (as Appointee) in respect of the works to be subcontracted under the New Master Agreement are on normal terms or on terms no less favourable than those offered by an independent third party, the Parties will follow the following proposed pricing policy.

Subcontracting building and construction works and EM works by the Group

In respect of building and construction works and EM works, a quantity surveyor will seek quotations from at least three subcontractors from the approved list of subcontractors maintained by the Group and the quantity surveyor manager will oversee the tender process. The quantity surveyor and the quantity surveyor manager will prepare a tender analysis report by collating all documentation including tender enquiry, quotations submitted and outcome of any discussion and negotiation. If less than three subcontractors submit quotations to the Group, the quantity surveyor manager will also explain the reasons in the tender analysis report. The quantity surveyor manager and the quantity surveyor will select a preferred subcontractor based on factors such as quotation, ability to complete the works according to the construction programme, ability to meet the required specifications, quality, environmental, health and safety requirements and the capability and performance demonstrated by the tenderer. Mr. Chiu Chin Hung (“**Mr. Chiu**”), the President of the Foundation Division of the Group, Mr. Lai Kok Wai (“**Mr. Lai**”, a director of various subsidiaries of Tysan Foundation) and/or a director of Tysan Foundation, shall select the subcontractor by approving the tender analysis report. In the event of a conflict of interest between Mr. Chiu, Mr. Lai and/or the director of Tysan Foundation at the relevant time and any of the potential subcontractors, suitable alternates who are not interested and do not have any conflict in the matter being considered, such as Chairman or executive Directors of the Group, will be appointed by the Group for selecting the subcontractor.

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As at the Latest Practicable Date, the directors of Tysan Foundation were Mr. Victor Fung, Mr. Chiu and Mr. Fan Ning. In view of Mr. Victor Fung's interest in the New Master Agreement, to avoid conflict of interest, if any member of the Fung Group is involved in the tender process, Mr. Chiu, Mr. Lai, Mr. Fan and/or a director of Tysan Foundation at the relevant time shall select the subcontractor and approve the tender analysis report. The background and experience of Mr. Chiu, Mr. Lai and Mr. Fan Ning are set out below:

Person	Experience
Mr. Chiu	Mr. Chiu joined the Group in July 1994, was an executive Director from July 2003 to July 2017. He is a director of various subsidiaries of the Company and is also the President of the Foundation Division of the Group. Mr. Chiu is primarily responsible for the business development and management of the Group's foundation division and has over 39 years' experience in foundation design and construction works. Mr. Chiu is a Fellow Member of The Institute of Civil Engineers and The Hong Kong Institution of Engineers as well as a Chartered Engineer. Mr. Chiu has been a Council Member of The Hong Kong Construction Association representing Tysan Foundation Limited since 2001.
Mr. Lai	Mr. Lai holds a bachelor's degree in engineering. He joined the Group in July 1994 and has over 34 years' experience in the construction industry.
Mr. Fan Ning	Mr. Fan was an executive Director from July 2016 to July 2017. He is the Vice President of Operations of the Group and responsible for developing and participating in the real estate development and foundation business of the Group.

In the event that it is not reasonably practicable to go through the bidding process in circumstances where (i) only limited subcontractors, such as for EM works, are available for the relevant works; (ii) the profit margin is low, for example, for matters which only require the provision of a limited scope of work under a contract (e.g. provision of pumps and fans to construction sites) which the Directors consider would limit the interest of market players to submit tenders; (iii) the relevant works are required to be done urgently; (iv) the contract sum of the relevant works is HK\$3 million or less, which is considered as a small contract sum and may be of limited interest to market players; (v) the relevant services are supervisory and of general management in nature; or (vi) where no quotation is submitted by other third party despite an invitation for bidding having been sent, the Appointor may invite quotations from the Appointee alone. In such circumstance, a quantity surveyor will have a preliminary review of the quotation and a quantity surveyor manager with extensive relevant experience will review the quotation and analyse the tender analysis report. Prices and contract terms would be negotiated on an arm's length basis between the Appointor and the Appointee based on a combination of industry experience, similar works carried out in the past, and industry/market knowledge, to ensure that the prices and terms of such works and/or services are no less favorable than that offered by an independent subcontractor for other similar projects, particularly, the costs and expenses to be incurred, market prices in relation to labour and material costs from third parties, machinery rates for contract work obtained from Hong Kong Construction Association, Limited and certain average daily labour wages obtained from the Development Bureau of the Hong Kong Government. To ensure the price and terms are no less favourable than that which

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may be offered by an independent subcontractor for other similar projects, quantity surveyors will compare the estimation of price determined based on the factors considered above with the price offered by the Fung Group and negotiate with the Fung Group to agree to a price closer to the price determined by the Group.

Subcontracting of foundation works and building and construction works by the Fung Group

A quantity surveyor from the estimating department of the Group will consider factors such as the Group's capability and capacity to perform the required construction, including human, infrastructure and equipment resources to prepare quotations. In terms of capability, the quantity surveyor will take into account the type of works which is subject to the contract and the Group's experience in carrying out such type of works. In terms of capacity, the number of projects undertaken by the Group at the relevant time and the use of resources (including equipment and manpower) will be considered. The quotations will be reviewed by the estimating manager or the director of the estimating department. Depending on the contract sum of the quotations, the estimating manager or the director of the estimating department will submit the quotations calculated based on the costs plus a mark-up, which will be determined with reference to the set of procedures of the Company, to Mr. Chiu, Mr. Lai and/or a director of Tysan Foundation for approval.

The estimating manager holds a bachelor's degree of science in quantity surveying and has over 23 years of experience in quantity surveyor field. The director of the estimating department, holds a higher diploma in Civil Engineering and a bachelor's degree in laws, joined the Group in June 1994 and has over 25 years of experience in building and foundation works.

Subcontracting of rental of tower cranes and provision of engineering services by the Fung Group

A senior officer of Proficiency Equipment will prepare a draft quotation based on the type and model of tower crane, range of engineering services required, circumstances of the construction site, scope of the project, the rental period of the tower crane and other related services required. The senior officer will then present the draft quotation calculated based on the costs plus a mark-up, determined with reference to the set of procedures of the Company, for review by the assistant general manager, who will also consider whether extra resources and subcontracting are required. The assistant general manager will determine the final quotation to be offered by the Group and submit it to the directors of Proficiency Equipment for approval. The directors of Proficiency Equipment are Mr. Victor Fung, Mr. Chiu, Mr. Lau and Mr. Lai. The details of Mr. Chiu, Mr. Lai and Mr. Lau are set out above. The assistant general manager holds a bachelor's degree in mechanical engineering, joined the Group in October 2007 and has over 26 years of experience in construction plant management.

The tender process will go through different levels of approvals and will ultimately be approved by senior management of the Group who has extensive experience in the relevant fields. In the event that it is not reasonably practicable to go through the bidding process, pricing will be determined based on the factors specified above. In view of the policy described above, the Directors believe that the transactions contemplated under the New Master Agreement will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

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Further, the operations department of the Group will keep track of the actual contract sum of subcontracting works under the New Master Agreement from time to time to ensure that the aggregate value of such contract sums will not exceed the Annual Caps. Prior to entering into individual transaction with member(s) of the Fung Group under the New Master Agreement, the parties will provide promptly details of such proposed transaction including the relevant agreement to the finance and accounts department and the company secretarial department of the Company for their review. The agreement in respect of such proposed transaction will not be executed unless and until the above departments of the Company have confirmed that the aggregate value of the contract sums (including the contract sum of the proposed transaction) under the New Master Agreement will not exceed the Annual Caps. If it is contemplated that the Annual Caps will be exceeded as a result of entering into the proposed transaction, such transaction will not be entered into until after the Company has re-complied with the relevant requirements under the Listing Rules.

Based on the above, the Directors are of the view that the Group has adequate internal control procedures in place to ensure that individual transactions under the New Master Agreement are conducted in accordance with the terms of the New Master Agreement.

REASONS FOR AND BENEFITS OF THE NEW MASTER AGREEMENT AND THE CONTINUING CONNECTED TRANSACTIONS

The Group's principal business includes property development, foundation piling and site investigation in Hong Kong and property investment and management.

Mr. Victor Fung is an executive Director, a Vice Chairman of the Board and the President of Operations of the Group and as at the Latest Practicable Date, Tysan Building and Tysan Engineering (both of which are owned and controlled by Mr. Victor Fung and are part of the Fung Group) were principally engaged in building and construction works and EM works, respectively. The Group does not engage in and does not have expertise in relation to construction works and EM works, and only has capability for limited categories of building and construction works such as the building and construction of basement and single-storey or two-storey buildings and the Directors confirm that the Group will not subcontract any building and construction work out if such works are within the Group's capability. Therefore, if the Group were to secure contracts which include components for EM works and for building and construction works which exceed the capability of the Group, it may need to be subcontracted out. In the past, members of the Fung Group had invited tenders for building and construction works related to basement or pile cap works. As the Group has the capability to handle such works, it had submitted tenders to the Fung Group to obtain such subcontracts. Conversely, certain members of the Group such as Tysan Foundation and its subsidiaries have expertise in foundation, piling and site investigation works, and Proficiency Equipment and its subsidiary own tower cranes and provide engineering services, which the Fung Group does not have its own internal expertise or resources. Where the Fung Group wins a tender where components of the works include foundation works and/or the use of tower cranes and relating to engineering services, it would have to subcontract such works to outside parties anyway. The New Master Agreement allows the Group and the Fung Group to utilize the expertise of one another by way of subcontracting. This would maximize business activities and operations of the Group and provide the Group with better competitive edge and control of the projects concerned. The joint efforts of the parties would also provide the clients concerned with a more comprehensive, coordinated and efficient service in the common interests of the Group and the Fung Group.

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Since such subcontracting transactions between members of the Group and the Fung Group would continue on an ongoing basis, the New Master Agreement was entered into among the parties to regulate the business relationship and continuing transactions among them from time to time.

Furthermore, in view of the major infrastructure projects and land development projects being undertaken or planned and the market conditions in Hong Kong, the Directors take the view that it would be in the interests of the Company and the Shareholders for the New Master Agreement to be entered into to capture the business activities and operations of the Group and the Fung Group. The New Master Agreement establishes a framework within which the Fung Group may be one of the potential subcontractors in projects sourced by the Group, or the Group may be one of the potential subcontractors in projects sourced by the Fung Group. Subject to the terms of the New Master Agreement, the parties can enter into individual subcontracts without having to comply with the connected transactions rules under Chapter 14A of the Listing Rules each time. There is no obligation or commitment under the New Master Agreement for the Group or the Fung Group to grant the subcontract to the other party. If a project is sourced by one of the parties, as mentioned in the section headed “Internal Control” above, there is a bidding process whereby quotations will be obtained from at least two other independent third party subcontractors to serve as comparison. Even in respect of the smaller jobs where quotations will be sought from the parties to the New Master Agreement alone, the pricing will be determined on arm’s length bases. There is no commitment (contractual or otherwise) for the Group to grant contract(s) to either party, and both parties are free to source subcontractors from other service providers in the industry. Therefore the Directors consider that there will be no reliance on the Fung Group for the provision of services under the New Master Agreement.

The Directors (including the independent non-executive Directors but excluding Mr. Victor Fung who abstained from voting on the Board approval on the New Master Agreement) consider that the terms of the New Master Agreement, the Continuing Connected Transactions and the Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. As Mr. Victor Fung is a party to the New Master Agreement, he has abstained from voting on the relevant resolutions approving the New Master Agreement and the transactions contemplated thereunder at the relevant Board meeting.

The Directors (including the independent non-executive Directors but excluding Mr. Victor Fung who had abstained from voting on the Board approval of the New Master Agreement) consider that the New Master Agreement, the Continuing Connected Transactions and the Annual Caps are and will be of the types that are entered into in the ordinary and usual course of business of the companies concerned within the Group and on a frequent and regular basis. Therefore, the Directors (excluding Mr. Victor Fung who had abstained from voting on the Board approval of the New Master Agreement and the independent non-executive Directors whose opinions will be set out in the letter from the Independent Board Committee included in this circular) consider that it would be more appropriate and in the interest of business efficacy to set out in the New Master Agreement the principles governing such transactions and to obtain prior approval from the Independent Shareholders for such Continuing Connected Transactions, as required by the Listing Rules.

IV. LISTING RULES IMPLICATIONS

Project Development Agreements

HIC and Denco are both non-wholly-owned subsidiaries of HNA Group, which in turn is the holding company of HNA Finance I, the controlling shareholder of the Company. HIC and Denco

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being associates of HNA Finance I are therefore connected persons of the Company under Chapter 14A of the Listing Rules. One or more of the applicable percentage ratios (other than the profits ratio) calculated in accordance with Chapter 14A of the Listing Rules in relation to the Connected Transactions (on an aggregate basis) are more than 5% but less than 25%. However, as the Connected Transactions are transactions of a revenue nature in the ordinary and usual course of business of the Group, the Connected Transactions will not constitute notifiable transactions under Chapter 14 of the Listing Rules, but will constitute connected transactions for the Company under Chapter 14A of the Listing Rules. As the aggregated estimated Remuneration payable by the Owners to Gainful is more than HK\$10 million, the Connected Transactions contemplated under each of the Project Development Agreements will therefore be subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

New Master Agreement

Mr. Victor Fung is an executive Director, a Vice Chairman of the Board and the President of Operations of the Group. As such, Mr. Victor Fung and companies owned or controlled by Mr. Victor Fung as to 30% or more are connected persons of the Company pursuant to Chapter 14A of the Listing Rules. The transactions between members of the Group and members of the Fung Group under the New Master Agreement will therefore constitute continuing connected transactions for the Company. One or more of the applicable percentage ratios (other than the profits ratio) calculated in accordance with Chapter 14A of the Listing Rules in relation to the Annual Caps are more than 25% but less than 100%. The Continuing Connected Transactions will therefore constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules and will be subject to the reporting, announcement, circular, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

V. OTHER INFORMATION

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Fan Chor Ho, Mr. Tse Man Bun, Mr. Lung Chee Ming, George, Mr. Li Kit Chee and Mr. Leung Kai Cheung, has been established to advise the Independent Shareholders as to whether the Project Development Agreements (including the Connected Transactions) and the New Master Agreement (including the Continuing Connected Transactions and the Annual Caps) are in the interests of the Company and the Shareholders as a whole, and whether they are on normal commercial terms and are fair and reasonable so far as the Shareholders are concerned.

Somerley has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Project Development Agreements (including the Connected Transactions) and the New Master Agreement (including the Continuing Connected Transactions and the Annual Caps).

In view of the interests of HNA Finance I in the Project Development Agreements, HNA Finance I and its associates shall abstain from voting in respect of the resolutions relating to the Project Development Agreements and the Connected Transactions at the SGM.

To the best of the knowledge, information and belief of the Directors, no Shareholder or their associates has any material interest in the New Master Agreement and therefore no Shareholder is

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required under the Listing Rules to abstain from voting if the Company were to convene a general meeting for the approval of the New Master Agreement, the Continuing Connected Transactions, and the Annual Caps. Pursuant to Rule 14A.37 of the Listing Rules, the Company has obtained a written approval from HNA Finance I, which was as at the Latest Practicable Date interested in 2,540,222,144 Shares, representing approximately 74.66% of the issued Shares, to approve the New Master Agreement, the Continuing Connected Transactions and the Annual Caps in lieu of holding a general meeting. Since the Stock Exchange has granted the Company a waiver pursuant to Rule 14A.37 of the Listing Rules, the Company is not required to convene a general meeting of the Shareholders to approve the New Master Agreement (including the Continuing Connected Transactions and the Annual Caps). However, the SGM will be convened and held for the purpose of considering and, if thought fit, approving the Project Development Agreements and the Connected Transactions.

VI. SGM

A notice convening the SGM to be held at 10 a.m. on Monday, 4 September 2017, at 20th Floor, One Island South, No. 2 Heung Yip Road, Wong Chuk Hang, Hong Kong is set out on pages SGM-1 to SGM-2 of this circular for the purpose of considering and, if thought fit, approving the Project Development Agreements and the Connected Transactions.

A proxy form for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the proxy form shall not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

VII. RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the Connected Transactions and the Continuing Connected Transactions are and will be of the types that are entered into in the ordinary and usual course of business of the companies concerned within the Group and on a frequent and regular basis. Having noted and considered the reasons stated under the section headed "Reasons for and benefits of the Project Development Agreements and the Connected Transactions" and "Reasons for and benefits of the New Master Agreement and the Continuing Connected Transactions", the Directors (including the independent non-executive Directors whose views have been set out in this circular after taking into consideration the advice of the Independent Financial Adviser) consider that the terms of the Project Development Agreements (including the Connected Transactions) and the New Master Agreement (including the Continuing Connected Transactions and the Annual Caps) are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole.

Accordingly, the Directors (including the independent non-executive Directors who have considered the advice of the Independent Financial Adviser) recommend the Independent Shareholders

LETTER FROM THE BOARD

to vote in favour of the resolutions to be proposed at the SGM to approve Project Development Agreements and the Connected Transactions. You are advised to read the letter from the Independent Board Committee and the letter from Somerley mentioned above before deciding how to vote on the resolutions to be proposed at the SGM.

VIII. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the board of
**HONG KONG INTERNATIONAL
CONSTRUCTION INVESTMENT
MANAGEMENT GROUP CO., LIMITED**
Huang Qijun
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Project Development Agreements (including the Connected Transactions) and the New Master Agreement (including the Continuing Connected Transactions and the Annual Caps).



HONG KONG INTERNATIONAL CONSTRUCTION INVESTMENT MANAGEMENT GROUP CO., LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 687)

15 August 2017

To the Independent Shareholders

Dear Sir or Madam,

(1) CONNECTED TRANSACTIONS (2) CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 15 August 2017 (the “**Circular**”) of which this letter forms a part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to consider the terms of the Project Development Agreements (including the Connected Transactions) and the New Master Agreement (including the Continuing Connected Transactions and the Annual Caps) and to advise the Independent Shareholders as to whether they are fair and reasonable, whether they are on normal commercial terms or better and in the ordinary and usual course of business of the Group and whether they are in the interests of the Company and the Shareholders as a whole.

We wish to draw your attention to the letter from the Board set out on pages 6 to 26 of the Circular and the letter of advice from the Independent Financial Adviser set out on pages 29 to 54 of the Circular.

Having considered, among other matters, the principal factors and reasons considered by, and the opinions of the Independent Financial Adviser as set out in its letter of advice, we consider that the Connected Transactions and the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We further consider

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

that the entering into of the Project Development Agreements (including the Connected Transactions) and the New Master Agreement (including the Continuing Connected Transactions and the Annual Caps) are in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to approve the Project Development Agreements (including the Connected Transactions), particulars of which are set out in the Notice of SGM set out on pages SGM-1 to SGM-2 of the Circular.

Since the Stock Exchange has granted the Company a waiver pursuant to Rule 14A.37 of the Listing Rules, the Company is not required to convene a general meeting of the Shareholders to approve the New Master Agreement (including the Continuing Connected Transactions and the Annual Caps).

Yours faithfully,

Independent Board Committee

**Mr. Fan Chor Ho Mr. Tse Man Bun Mr. Lung Chee Ming, George
Mr. Li Kit Chee Mr. Leung Kai Cheung**

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders, 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

15 August 2017

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

Dear Sirs,

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the terms and conditions of (i) the Project Development Agreements (including the Connected Transactions) and (ii) the New Master Agreement (including the Continuing Connected Transactions and the Annual Caps), details of which are contained in the circular of the Company to the Shareholders dated 15 August 2017 (the “**Circular**”), of which this letter forms a part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Circular.

HIC and Denco are both non-wholly-owned subsidiaries of HNA Group, which in turn is the holding company of HNA Finance I, the controlling shareholder of the Company. HIC and Denco, being associates of HNA Finance I, are therefore connected persons of the Company under Chapter 14A of the Listing Rules. One or more of the applicable percentage ratios (other than the profits ratio) calculated in accordance with Chapter 14A of the Listing Rules in relation to the Connected Transactions (on an aggregate basis) are more than 5% but less than 25%. However, as the Connected Transactions are transactions of a revenue nature in the ordinary and usual course of business of the Group, the Connected Transactions will not constitute notifiable transactions under Chapter 14 of the Listing Rules, but will constitute connected transactions for the Company under Chapter 14A of the Listing Rules. The Connected Transactions contemplated under each of the Project Development Agreements will therefore be subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of Mr. Zhao Quan, Mr. Liu Junchun, Mr. Fan Ning, Mr. Meng Yongtao and Mr. Wong Tai Lun Kenneth, being Directors nominated to the Board by HNA Finance I, abstained from voting on the relevant resolutions approving the Project Development Agreements and the Connected Transactions at the relevant Board meeting.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Mr. Victor Fung is an executive Director, a Vice Chairman of the Board and the President of Operations of the Group. As such, Mr. Victor Fung and companies owned or controlled by Mr. Victor Fung as to 30% or more (including, among others, Tysan Building and Tysan Engineering) are connected persons of the Company pursuant to Chapter 14A of the Listing Rules. The transactions between members of the Group and members of the Fung Group under the New Master Agreement will therefore constitute continuing connected transactions for the Company. One or more of the applicable percentage ratios (other than the profits ratio) calculated in accordance with Chapter 14A of the Listing Rules in relation to the Annual Caps are more than 25% but less than 100%. The Continuing Connected Transactions will therefore constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules and will be subject to the reporting, announcement, circular, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Victor Fung is a party to the New Master Agreement, he abstained from voting on the relevant resolutions approving the New Master Agreement and the transactions contemplated thereunder at the relevant Board meeting.

As stated in the letter from the Board in the Circular, no Shareholders would have to abstain from voting if the Company were to convene a general meeting for the approval of the New Master Agreement (including the Continuing Connected Transactions and the Annual Caps), and in this regard, a written approval has been obtained from HNA Finance I, the immediate controlling Shareholder holding approximately 74.66% interest in the Company as at the Latest Practicable Date. The Company has therefore made an application for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.37 of the Listing Rules. Accordingly, the New Master Agreement (including the Continuing Connected Transactions and the Annual Caps) has been approved by way of a written shareholder's approval in lieu of holding a general meeting of Shareholders. However, the SGM will be convened and held for the purpose of considering the Project Development Agreements (including the Connected Transactions).

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Fan Chor Ho, Mr. Tse Man Bun, Mr. Lung Chee Ming, George, Mr. Li Kit Chee and Mr. Leung Kai Cheung, has been established to advise the Independent Shareholders as to whether the Project Development Agreements (including the Connected Transactions) and the New Master Agreement (including the Continuing Connected Transactions and the Annual Caps) are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. We, Somerley, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In the past two years, we have not acted as an independent financial adviser to the independent board committee and/or the independent shareholders of the Company. As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley and (b) the Group, HIC, Denco, the Fung Group and their respective subsidiaries and associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser.

In formulating our opinion and recommendation, 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 such information, facts and opinions were true, accurate and complete in all material aspects and will remain so up to the time of despatch of the Circular and the SGM (as the case may be). The Company has appointed Knight Frank Petty Limited (“**Knight Frank**”), which is independent from the Company and its connected persons, as defined in the Listing Rules, to evaluate each of the Project Development Agreements, and we have discussed with Knight Frank their view and the basis for arriving at their view on the Project Development Agreements. We have also performed a site visit to each of the Land Parcels. We have sought and received confirmation from the Directors that all material relevant information has been supplied to us and 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 omitted or withheld from us, or to doubt the truth, accuracy or completeness 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, however, not conducted any independent investigation into the business, affairs and financial position of the Group, HIC, Denco, the Fung Group and their respective subsidiaries and associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion on the Project Development Agreements and the New Master Agreement, we have taken the following principal factors and reasons into consideration:

Background of the Group and recent development

Background of the Group

The Group is principally engaged in property development, foundation piling and site investigation, and property investment and management. Tysan Foundation, a directly wholly-owned subsidiary of the Company, is a long-established player in the foundation industry in Hong Kong. In the PRC, the Group has successfully completed various property development projects, with a particular focus on residential properties. Shares of the Company have been listed on the Stock Exchange since 1991.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the Group's 2016 annual report, the Group recorded revenue of approximately HK\$3,030.6 million for the nine months ended 31 December 2016, out of which approximately 70% was attributable to the foundation piling segment, and approximately 30% was attributable to the property development segment. Set out below are the segment revenues and segment results of the Group from the last two financial periods:

	Foundation piling	Property development	Others	Total
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
<i>For the nine months ended</i>				
<i>31 December 2016</i>				
Segment revenue	2,116	886	29	3,031
Segment result	275	322	(78)	519
<i>For the year ended 31 March 2016</i>				
Segment revenue	3,018	960	79	4,057
Segment result	395	515	38	948

HNA Group, through its subsidiary, acquired a controlling interest of the Company on 30 June 2016. According to the Fortune Global 500 ranking released by the U.S. "Fortune" magazine in 2017, HNA Group ranked number 170, with an annual revenue of approximately US\$53.0 billion. The Company also increased its equity interest in Tysan Foundation from 60% to 95% on 4 July 2016, followed by a further increase from 95% to 100% on 27 April 2017.

Recent development

As explained above, the Group has traditionally been engaged in foundation piling and property development. Since HNA Finance I became the controlling shareholder of the Company in 2016, the Group, together with HNA Group, has pursued a strategy to expand its business in the Hong Kong property development sector. In particular, the Group has successfully bid for two land parcels in Kai Tak, Kowloon, Hong Kong, for an aggregate consideration of approximately HK\$13.0 billion, being the 6563 Land Parcel and the 6564 Land Parcel.

Separately, HNA Group has successfully bid for two other land parcels in Kai Tak, being the 6562 Land Parcel and the 6565 Land Parcel, for an aggregate consideration of approximately HK\$14.2 billion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The map below sets out the locations of the land parcels at Kai Tak, Kowloon, Hong Kong, referenced in the paragraph above:



Source: Company

Since the relocation of the Hong Kong airport in 1998, the Kai Tak area has represented an opportunity for a major development close to Hong Kong's city centre, and an important part of the "Energizing Kowloon East" project by the Hong Kong Government to transform the area into a major economic centre. The Kai Tak area is one of the few large-scale land plots that have been made available for development in Hong Kong in recent years. The Group and HNA Group, having secured a total of four land parcels in the area, will be able to benefit from the future development potential of the four sites.

The Connected Transactions

1. Reasons for and benefits of the Project Development Agreements

As set out in the Group's 2016 annual report, the Group has resolved to explore more property development and related project management opportunities in Hong Kong and consider the viability of each project on its own merits with reference to the prevailing market conditions. As set out in the letter from the Board in the Circular, the entering into of the Project Development Agreements presents a business opportunity for the Group to enhance its long-term growth potential by seeking to extend its business through project management and construction related businesses in Hong Kong.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Particulars of the 6562 Land Parcel and the 6565 Land Parcel

The 6562 Land Parcel and the 6565 Land Parcel are situated at Kai Tak Area IL Site 3 and Kai Tak Area 1K Site 3, respectively, in Kowloon, Hong Kong. Tender bids by HNA Group were accepted by the Hong Kong Government for the 6562 Land Parcel and the 6565 Land Parcel on 19 December 2016 and 2 November 2016 respectively, at a premium of approximately HK\$5.4 billion and HK\$8.8 billion respectively. Set out below are the site area and maximum developable gross floor area (“GFA”) of the two land parcels:

The 6562 Land Parcel	Site area	94,755 square feet (“sq. ft.”)
	Maximum developable GFA	397,967 sq.ft.
The 6565 Land Parcel	Site area	121,224 sq. ft.
	Maximum developable GFA	654,602 sq. ft.

The two land parcels are situated adjacent to each other in Kai Tak, Kowloon, which is the former site of the Hong Kong airport and is currently undergoing extensive redevelopment. It is expected to be supported by a comprehensive transportation network and other infrastructure in the next few years. The Group understands from the Owners that, based on current development plans, the intention is to develop each of the 6562 Land Parcel and the 6565 Land Parcel into a private residential complex consisting of high-rise and/or low-rise residential blocks, including a podium featuring a club house and basement car parking spaces, and to offer approximately 174 units and 523 units for sale respectively. The 6565 Land Parcel will also have a commercial area of about 2,253 square meters.

Timetable for developing the 6562 Land Parcel and the 6565 Land Parcel

Based on the current timetable, the project duration of the Development is estimated by the Owners to be approximately 5 years. The general building plans are expected to be submitted to the Buildings Department of the Hong Kong Government for approval in Q3 2017, and foundation and superstructure works are expected to commence by Q1 2018 and Q1 2019 respectively. The tendering processes for the foundation works and the superstructure works are expected to be carried out in Q3 2017 and mid-2018, respectively.

Reasons and benefits

The Directors have stated in the letter from the Board in the Circular that having considered the scale and size of the Development, they believe that by entering into the Project Development Agreements and providing the services in relation to the Development, the Group will be able to build on its project management experience in the PRC and apply its expertise in relation to the development of residential and non-industrial projects in Hong Kong, with a view to strengthening its expertise in project management works and participating in other similar projects in Hong Kong in the future. As stated in the 2016 annual report of the Group, the Group will continue with its existing businesses, being property development, foundation piling and site investigation, and property investment and management, and will also continue to explore suitable business opportunities for future development, including leveraging on synergies with the Shareholder(s). The Owners of the Development are the subsidiaries of HNA Group, which is also the holding company of the controlling shareholder of the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company, and by engaging Gainful as the project manager we consider that the Group has an opportunity to grow its project management business in the Hong Kong market to include the management of large-scale property development projects, alongside its existing property development business and established business lines in Hong Kong, foundation piling and site investigations. We understand from discussions with the management of the Group and Knight Frank that it is common for land owners who have little or no experience in the Hong Kong property construction industry, for example, real estate investment funds or new property players like the Owners, to engage a project manager for the management of property development work in Hong Kong, separate from the role of the main contractor of the property development.

Relationship with land parcels owned by the Group in the vicinity

As set out in the section above headed “Background of the Group and recent development”, earlier this year the Group’s tender bids for each of the 6563 Land Parcel and the 6564 Land Parcel had been accepted by the Hong Kong Government. The Directors confirm that each of the 6563 Land Parcel and the 6564 Land Parcel will be developed individually and are not included in the Project Development Agreements. However, the Group’s project management experience will be shared between all project management and construction related businesses the Group undertakes in Hong Kong. Please also make reference to the paragraph “Expertise of the Group” in the section below headed “Other considerations associated with the Project Development Agreements”.

2. Principal terms of the Project Development Agreements

On 6 July 2017, Gainful entered into the 6562 Project Development Agreement and the 6565 Project Development Agreement with Denco and HIC respectively, pursuant to which Denco and HIC (each as an Owner) agreed to exclusively appoint Gainful as their respective sole agent to develop the 6562 Land Parcel and the 6565 Land Parcel respectively in accordance with the conditions of the Project Development Agreements and the Conditions of Sale. Apart from the parties to the agreements, the Land Parcels and the estimated Project Costs, other terms of the 6562 Project Development Agreement and the 6565 Project Development Agreement are substantially the same.

Set out below are summaries of the principal terms of the Project Development Agreements to which we would like to draw the attention of the Independent Shareholders:

Subject matter

Gainful has agreed that, for the purpose of carrying out the Development, it will (by itself or by engaging the appropriate professional team, as determined by Gainful at its discretion):

- a) procure the design, construction and completion of the Development by complying in all respects with, amongst other things, the Project Development Agreements, the Conditions of Sale and any other subsequent supplemental agreements in relation to the Development;
- b) procure the issuance of the occupation permit in respect of the Development;

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- c) procure the issuance of all requisite consents and approvals under the Conditions of Sale (including without limitation the certificate of compliance and where applicable, consent to assign); and
- d) procure the grant of consent for the sale or leasing of the units (including residential units and any commercial areas) of the Development such as pre-sale consent and promotional consent, and approval of the deed of mutual covenant and management agreement of the Development by the Government of Hong Kong.

Gainful (as an agent of the Owners) will have the right and authority to select, appoint and terminate the professional teams in connection with the execution of the Development Works, as the agent of the Owners.

Funding of the Development

The Owners shall be solely responsible for the fees, costs, expenses and sums incurred or paid in connection with carrying out the works (or any part thereof) of or in connection with the commencement, carrying out and completion of the construction of the Development. The Project Costs will be paid by the Owners through Gainful. To reflect that payment obligation of the Project Costs essentially rests with the Owners, when inviting tenders for construction and development works for the Development, the Group will incorporate a condition in the relevant construction and development contracts that Gainful shall only pay the relevant construction and development fees to the contractors and professional teams upon receiving the relevant payment from the Owners, and that all payment obligations rest with the Owners instead of Gainful. In case Gainful (as an agent of the Owners) chooses to join as a party to the relevant construction contracts, Gainful will require the respective Owners to join as a party to the relevant construction contracts and guarantee the performance of the obligations on the part of Gainful under the relevant construction contracts.

Remuneration

Each of the Owners shall pay to Gainful an amount equal to 5% of the Project Costs incurred up to the end of the 12 months after practical completion of the Development. The Advance Payment of HK\$15.0 million shall be paid by each of the Owners to Gainful on the date on which the condition precedent to the Project Development Agreements is satisfied as advance payment of part of the Remuneration. The Owners shall pay the amount of monthly Remuneration due to Gainful on the basis of a monthly written statement (which shall be certified by the Authorized Person) setting out, among others, the amount of the Remuneration due to Gainful by reference to the Project Costs incurred in the previous month. We understand from the management of the Group that the Authorized Person is responsible for determining all Project Costs due to professional parties, service providers and contractors.

Appointment as agent

The Owners authorise Gainful as their agent to enter into construction contracts in the name and on behalf of the Owners, and the Owners appoint and authorise Gainful as their agent for the purpose of administering, managing and supervising construction contracts and contracts of appointment of all

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

members of the professional teams. As such, under the Project Development Agreements, the Group itself does not participate as a contractor, unless it chooses to do so (see below). In addition, Gainful has the right to join, in its own name, as a party to any of the construction contracts. In such case, the capacity and obligations of Gainful shall be confined to, and in any event not more than, its capacity and obligations as the agent and representative of the Owners.

Construction contracts

As confirmed by the Group, Gainful will essentially act as the project manager in respect of the development of the 6562 Land Parcel and the 6565 Land Parcel. However, members of the Group shall have the right to make a bid for any of the construction contracts. Any such participation by the Group would be governed by separate agreements. We consider such option favourable to the Group, as it may benefit from undertaking, for example, the foundation works contract, which is likely to be of a significant size.

The main construction contract shall be awarded by competitive tenders. Gainful shall consult, and take into account the views of, the Owners on the award of the main construction contracts provided that if a subsidiary of Gainful or the Company is ready and willing to match the lowest tender for the main construction contract which would otherwise be accepted, the main construction contract shall, subject to obtaining the requisite approvals under the Listing Rules and of the Stock Exchange (if applicable), be awarded to such subsidiary, provided that such subsidiary is originally one of the tenderers for the main construction contract. Based on our discussion with the Company, the tendering of the main construction contract is expected to be open to qualified contractors in Hong Kong. As long as one or more members of the Group possess relevant qualifications to undertake the development as a main contractor, the Group considers it reasonable to allow members of the Group to participate in the tender process, which we consider favourable to the Group as discussed above.

As at the Latest Practicable Date, the Group had not entered into any construction contract in relation to the construction of the Land Parcels. Any such contracts entered into between members of the Group and the Owners (either in the name of the Owners or through Gainful) will constitute connected transactions of the Company and the Company will comply with the Listing Rules at the relevant time.

Professional indemnity cover and insurance

As a condition of appointment, Gainful shall require each of the contractors, consultants and advisers to maintain insurance coverage in relation to its obligations and duties with respect to the Development Works sufficient to satisfy proper claims whether in contract, tort or otherwise. In addition, Gainful shall take out or cause the works contractors to take out contractor's all risks and third-party liability insurances within Hong Kong in respect of the construction of the Development and the Development Works. We understand from management of the Group that in addition to the Group's project managers, Gainful itself will maintain the relevant insurance coverage for its project management team in respect of its project managerial role in the Development.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Indemnification

The Owners shall indemnify Gainful against all actions, proceedings, claims, demands, costs and expenses which may be suffered or incurred by Gainful directly or indirectly in connection with it acting as the Owners' agent. Gainful shall indemnify the Owners against all actions, proceedings, claims, demands, costs and expenses which may be suffered or incurred by the Owners arising out of or in connection with any breach by Gainful of its obligations as a result of the gross negligence, wilful default or fraud on the part of Gainful.

3. Evaluation of the Project Development Agreements

Gainful's role and protection afforded to it

We have discussed with management of the Group the principal terms of the Project Development Agreements, which the Directors consider to be on usual market terms. As set out in the section above headed "Principal terms of the Project Development Agreements", Gainful will act as the sole agent of the Owners to develop the 6562 Land Parcel and the 6565 Land Parcel, which includes procuring the design, construction and completion of the Development, and the issuance and grant of the relevant consents and permits. We note that all Project Costs are to be borne by the Owners. In addition, the Owners shall be responsible for all the risks for the Development pursuant to the Project Development Agreements. As set out in the section headed "Indemnification", the Owners shall indemnify Gainful in connection with it acting as the Owners' agent. The indemnification provided by Gainful in favour of the Owners is limited to any breach by Gainful of its obligations as a result of gross negligence, wilful default or fraud on the part of Gainful.

Based on our discussion with the management of the Group, Gainful's role as the project manager essentially involves liaising with different professional parties participating in the Development, and managing the entire development process until completion. Project risks, such as cost overrun and delay in timetable, are to be borne by the Owners. In this respect, Gainful would only be responsible for breach of its obligations under the Project Development Agreements as a result of gross negligence, wilful default or fraud on its part, as stated above.

Remuneration

As set out in the letter from the Board in the Circular, each of the Owners shall pay to Gainful an amount equal to 5% of the Project Costs incurred up to the end of the 12 months after practical completion of the Development. As at the Latest Practicable Date, the estimated Project Costs in respect of the 6562 Project Development Agreement and the 6565 Project Development Agreement are HK\$1.9 billion and HK\$3.1 billion respectively. For each of the 6562 Project Development Agreement and the 6565 Project Development Agreement, the Project Costs are allocated mainly towards: foundation works (of approximately HK\$300 million and HK\$330 million, respectively), building and construction works (of approximately HK\$1,100 million and HK\$2,000 million, respectively), EM works (of approximately HK\$360 million and HK\$550 million, respectively) and professional fees (of approximately HK\$130 million and HK\$210 million, respectively). We have reviewed the Group's budget plan for the development of the 6562 Land Parcel and the 6565 Land Parcel, prepared with reference to the cost estimate by the external quantity surveyor, and have discussed such plan with the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

management of the Group. Based on our review of the cost estimate, we note that the external quantity surveyor estimated individual elements of the Development based on estimated unit costs and the relevant area or quantity, and that separate schedules are prepared for each of the elements of the Development, for example, basement construction, foundation and substructure, superstructure, fitting out works, facade, EM works and ancillary works. Based on our discussion with the management of the Group, the estimated unit costs for the elements of the development are prepared based on similar high-end residential projects under construction in Hong Kong, which reflects the current intention to develop the Land Parcels to a high-end standard. We also note that the external quantity surveyors have experience in providing consultancy services in Hong Kong for various property and other construction projects. We consider it reasonable for the budget plan to be prepared on the above basis, with reference to the cost estimate from an experienced external quantity surveyor.

Based on the above, the estimated aggregate Remuneration payable by the Owners to Gainful pursuant to the Project Development Agreements will be HK\$250 million, and such remuneration is expected to be recognised as revenue of the Group in the coming years according to the percentage of completion of the relevant construction works. In case of higher Project Costs, Gainful will still be entitled to a fee equal to 5% of the actual Project Costs, although the Company will be required to re-comply with the announcement and shareholders' approval requirements, as applicable, of the relevant Listing Rules. We consider that the payment of the Remuneration due on a monthly basis allows the Group to be remunerated relatively promptly after Project Costs have been incurred.

The Remuneration was determined after arm's length negotiations between Gainful and the Owners, taking into account (i) the scale and size of the Development; (ii) resources to be engaged by Gainful in the Development; and (iii) the percentage of remuneration payable by other developers for developing the land parcel of similar nature and size compared with the Land Parcels.

We have reviewed the estimated costs the Group is likely to incur as a result of undertaking the Project Development Agreements. Such costs mainly comprise remuneration due to the Group's own project managers, technical and supporting staff. On the basis of the estimates provided by management of the Group, undertaking the Project Development Agreements is expected to contribute positively to the future profitability of the Group.

Independent view from Knight Frank

We have undertaken a search for comparable, publicly available project management agreements with similar characteristics as the Project Development Agreements, with a view to analysing the terms of the Project Development Agreements with reference to comparable contracts. However, as detailed terms of such agreements are usually not made available to the public, the Company has appointed Knight Frank to form an independent professional view on whether each of the Project Development Agreements (including the respective remuneration due to the project manager) are on normal commercial and fair and reasonable terms. Knight Frank is a major real estate consultancy firm in Hong Kong, and has experience in providing building project management services in the Hong Kong market. It has in the past acted as an authorised person, a registered structural engineer and project manager on various property development projects in Hong Kong. We have reviewed and discussed with Knight Frank its view.

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Knight Frank considers that, on the basis of having reviewed each of the Project Development Agreements and having compared them against similar project development services in connection with residential or commercial property development projects in Hong Kong, each of the Project Development Agreements (including the respective remuneration due to the project manager) are on normal commercial and fair and reasonable terms. As advised by Knight Frank, 14 comparables from the past approximately seven years (of which 9 were sourced from the period since 2014) have been selected, based on similar project management services provided on projects relating to residential or commercial properties in Hong Kong, on the basis of a review of similar project development services which Knight Frank has had access to or knowledge of or undertaken in the past, and its own proprietary database of property development and services transactions. Knight Frank has also made reference to the latest version of the publication titled “Professional charges for building surveying services” dated January 2015 by The Hong Kong Institute of Surveyors which sets out recommended rates for project management services in the range of between 1.5% and 3.0% of total project costs. Knight Frank notes that the remuneration under the Project Development Agreements of 5% of the Project Costs is similar to the pricing of comparable project development services.

Separately, Knight Frank considers that the Project Development Agreements do not explicitly cater for the case of the projects being suspended or abandoned. However, Knight Frank notes that pursuant to the Project Development Agreements, the relevant Owners shall be responsible for the risks for the Development (including the carrying out of the Development Works and for any cost overrun and the costs and expenses incurred as a result of the delay in carrying out the Development Works). This may offer a certain amount of protection to the Group.

We have discussed with Knight Frank the appropriateness and relevance of their research for their work on the Project Development Agreements, which we consider reasonable, given that Knight Frank has based its view on past, similar project management services agreements, including ones where Knight Frank itself was a project manager. We have also discussed with Knight Frank the work it has performed and the bases for arriving at its conclusion as to the Project Development Agreements, and the performed work as required under note (1)(d) to Listing Rule 13.80 in relation to Knight Frank and its work as regards the Project Development Agreements.

Other considerations associated with the Project Development Agreements

Expertise of the Group

In the past decade, the Group has not undertaken property development in Hong Kong as a project manager but has instead focused on property development in major cities in the PRC, including Shanghai, Tianjin and Shenyang. The Directors believe that by entering into the Project Development Agreements and providing the services in relation to the Development, the Group will be able to build on its project management experience in the PRC and apply its expertise in relation to the development of residential and non-industrial projects in Hong Kong, with a view to strengthening its expertise in project management works and participating in other similar projects in Hong Kong in the future. Management of the Group has confirmed to us that the Group has recruited, and has now in place, a team of 20 professionals, with the majority of the members possessing qualifications in various areas of property development works, who will be assigned specifically to the project management of the Development and the development of the 6563 Land Parcel and the 6564 Land Parcel. The Group

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considers that the core professionals have the relevant project management experience needed to undertake the work pursuant to the Project Development Agreements. In terms of overseeing the project at senior management level, we note that the Project Development Agreements set out that Mr. Lau Kin Fai, the President of the Real Estate Development Division of the Group, has been appointed as one of the two project directors. He has over 33 years' experience in the field of quantity surveying, housing development, and property development, including 14 years in the Hong Kong Housing Society. It is also stated in the letter from the Board in the Circular that other project directors of the team have 15 to 27 years of post professional qualification experience, and all its project managers and contract manager have 9 to 21 years of post professional qualification experience. We further understand from the Group that the above project directors, project managers and contract manager in general have adequate experience in the Hong Kong property development market. We concur with the Directors' view that the project management team is capable of handling project management for the relevant land parcels in Kai Tak.

Cost overruns and project delays

Under the Project Development Agreements, the Owners shall solely be responsible for the fees, costs, expenses and sums incurred or paid in connection with the carrying out of the works of or in connection with the commencement, carrying out and completion of the construction of the Development (the "**Project Costs**"). The Project Costs include costs and expenses incurred as a result of the delay in carrying out the Development Works. Given that the Owners shall pay to Gainful 5% of the Project Costs incurred up to the end of 12 months after practical completion of the Development, applicable Remuneration will be paid to the Group in case of cost overruns and/or project delays, subject to the terms of the Project Development Agreements.

In addition, the Project Development Agreements include a clause which states that the Owners shall be responsible for all the risks for the Development (including the carrying out of the Development Works and for any cost overrun and the costs and expenses incurred as a result of any delay in carrying out the development works), which we consider affords additional protection to the Group.

Liabilities to be borne by the Group

Pursuant to the Project Development Agreements, the Group shall develop the 6562 Land Parcel and the 6565 Land Parcel, which will include the procurement of the design, construction and completion of the Development. This may entail the potential for the Group to incur legal and other liabilities as a result of its obligations under the agreements.

Under the Project Development Agreements, the Owners authorise Gainful as their agent to enter into relevant construction contracts in the name and on behalf of the Owners, and appoint and authorise Gainful as their agent for the purpose of administering, managing and supervising the contracts of appointment of all members of the professional teams. The Owners shall indemnify Gainful against all actions, proceedings, claims, demands, costs and expenses which may be suffered or incurred by Gainful in connection with acting as the agent of the Owners. We further note that Gainful's duties shall be fully discharged provided that it has used its reasonable endeavours to procure the relevant works contractors and/or members of the professional teams to perform or achieve the relevant subject matters.

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Conclusion

On the basis of the above, we consider that the Project Development Agreements afford the Group an opportunity to participate, as an agent of the Owners, in two large-scale residential development projects in Hong Kong. The two plots of land are situated in an area of Hong Kong which is expected to continue to see significant redevelopment in the coming years, and recent government land sales in that area have been well received by the market. We consider that the Remuneration is adequate, in light of Knight Frank's opinion on the agreements (including the Remuneration) and the Project Development Agreements offer certain protections to Gainful, as set out in the section headed "Evaluation of the Project Development Agreements". While having limited experience in project managing residential development in Hong Kong, the Group has in place a dedicated team of project managers, with senior management oversight. The Project Development Agreements afford the Group an opportunity to engage in large-scale project management in Hong Kong, alongside its existing business lines, and to expand and enhance the Group's competency with a view to taking on similar projects in the future.

The Continuing Connected Transactions

1. Background to and reasons for the New Master Agreement

The Group's businesses are undertaken by different subsidiaries, including Tysan Foundation and Proficiency Equipment. As mentioned in the section above headed "Background to and recent development of the Group", Tysan Foundation is a long-established player in the foundation industry in Hong Kong, and the foundation piling business contributed a significant portion of the Group's revenue in recent years. Proficiency Equipment owns tower cranes that are available for rental for the construction of super-structures.

The Fung Group, representing companies owned or controlled by Mr. Victor Fung, is engaged in, among others, building and construction works and EM works. Mr. Victor Fung acquired (i) the Group's 49% interest in Tysan Building, which is engaged principally in building and construction works, in 2014, with the remaining 51% already controlled by Mr. Victor Fung, and (ii) the Group's 70% interest in Tysan Engineering, which is engaged principally in EM works, in 2014. Following completion of the above two disposals, the Group no longer engages in building and construction works (save for works relating to basement and buildings up to two storeys) or EM works.

The main capabilities of the Group and the Fung Group are set out below:

	Members of the Group/ the Fung Group	Relevant capabilities
The Group	Tysan Foundation Proficiency Equipment	Foundation works Rental and engineering works relating to tower cranes
The Fung Group	Tysan Building Construction Tysan Engineering Tysan Project Management Limited	Building and construction works EM works EM works

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Aside from the Group's limited capability to undertake small-scale building and construction works as set out above, the Group and the Fung Group have a separate set of capabilities. As such, it is normal practice for the Group to subcontract building and construction works and EM works to subcontractors, with the required expertise to carry out such works. During the term of the 2014 Master Agreement, all of the Group's building and construction works and EM works were subcontracted out, as the Group has no relevant expertise and capability to undertake such works. The management of the Group has confirmed that the Group will not subcontract any building and construction works if such works are within the Group's capability. On the basis of the above, we consider that there is no material competition between the two groups.

As outlined above, the Group and the Fung Group have expertise and competencies in different areas. Contracts and tenders may be awarded to one group that may involve the undertaking of works that is the expertise of the other group. The Directors believe that the subcontracting of foundation works, building and construction works, EM works, and the rental and engineering works relating to tower cranes, as the case may be, between one group and another group that is specialised in such works, would maximise the business activities and operations of the Group and would provide the Company with a better competitive edge and control of the projects concerned. In addition, the joint efforts of the parties to a Continuing Connected Transaction would provide the clients concerned with a more comprehensive and coordinated service in the interests of the Group.

In addition, it is stated in the section above headed "Background to and recent development of the Group" that the Group has successfully bid for two land parcels. Given that relevant construction works can be expected to commence in the near future, expertise relating to building and construction works and EM works will likely be required in the course of construction.

In light of potential future subcontracting arrangements between the parties that may materialise and prove beneficial to the Group, the New Master Agreement was entered into to continue such subcontracting relationships between the parties, following the lapse of the 2014 Master Agreement on 31 March 2017.

2. The New Master Agreement

Principal terms

Pursuant to the New Master Agreement, when any member of the Group or the Fung Group (a "**Party Company**") has been awarded a contract for works, for which it may deem appropriate to subcontract such works to another Party Company in the ordinary and usual course of its business, the Appointor may subcontract to the Appointee the following:

- (i) foundation works by the members of the Fung Group to the members of the Group;
- (ii) building and construction works by the members of the Group to the members of the Fung Group or vice versa;
- (iii) EM works by the members of the Group to the members of the Fung Group; and

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- (iv) rental of tower cranes and provision of engineering services by the members of the Fung Group to the members of the Group.

The New Master Agreement is for a term from 6 July 2017 to 31 December 2019. Subcontracting works to be carried out pursuant to the New Master Agreement are subject to the Annual Caps, further details of which are discussed in the section headed “The Annual Caps”. For further details of the New Master Agreement, please refer to the letter from the Board in the Circular. The works to be undertaken and the price shall be set on normal commercial bases and on terms no less favourable to the Group than those available to or from independent third parties, and the terms shall be fair and reasonable and in the interest of the Shareholders as a whole.

The tendering process

Under the New Master Agreement, the Group has the right, but not an obligation, to subcontract works to the Fung Group. When a main contract and tender is awarded to the Group, which includes capabilities or expertise that the Group does not possess, the subcontracting of such part of the works will normally be considered. In general, selection of the subcontractor will be done by way of a tendering process. The Group, as an Appointor, has in place written tender policies for such purpose.

If the Group has been awarded a contract for works which it deems appropriate to subcontract, the Group (the Appointor) will seek quotations from various subcontractors. The Group has maintained an approved list of subcontractors. Subcontractors may be removed from the Approved List if their performance is not satisfactory. A new subcontractor can only be added in the Approved List after managers of several departments of the Group have evaluated, amongst others, the organisational structure, management system, qualification and experience of the personnel, industrial relations and available resources of the subcontractor.

In case the Fung Group is one of the potential subcontractors, the Group will source a quotation from at least three subcontractors (including at least two independent third parties). The Group will then consider each of the tenderers’ pricing proposals, their ability to complete the works according to the construction schedule, and their ability to meet the required specification. All tender information will be collated and quotations will be discussed with the tenderers, which will be summarised in a tender analysis report. The Group will evaluate the quotations received and terms offered by the tenderers and make a decision as to whom the subcontract shall be awarded.

In the event that the Group acts as an Appointee for the relevant subcontract works, it will evaluate the requirements of the tender, and its capability and capacity to perform the required works (including human, infrastructure and equipment resources). When the Group decides to submit a bid, a quotation will be prepared with reference to (i) the Group’s database for terms of the comparable types of services or similar projects conducted with independent third parties at present or in the past; (ii) the capacity of the Group; and (iii) the complexity of the works. In respect of subcontracting of foundation works and building and construction works by the Fung Group, a quantity surveyor from the estimating department of the Group will consider factors such as the Group’s capability and capacity to perform the required construction, for the purpose of preparing quotations. The quotations will be reviewed by the estimating manager or the director of the estimating department. Depending on the contract sum of the quotations, the estimating manager or the director of the estimating

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department will submit the quotations (calculated based on the costs plus a mark-up) to Mr. Chiu Chin Hung (“**Mr. Chiu**”), the President of the Foundation Division of the Group, and/or Mr. Lai Kok Wai (“**Mr. Lai**”), a director of various subsidiaries of Tysan Foundation, and/or a director of Tysan Foundation for approval. In respect of subcontracting of tower crane rentals and provision of engineering services by the Fung Group, a senior officer of Proficiency Equipment will prepare a draft quotation based on the type and model of tower crane, range of engineering services required, circumstances of the construction site, scope of the project, the rental period of the tower crane and other related services required. The senior officer will then present the draft quotation (calculated based on the costs plus a mark-up) for review by the assistant general manager, who will also consider whether extra resources and subcontracting are required. The assistant general manager will determine the final quotation to be offered by the Group and submit it to the directors of Proficiency Equipment for approval.

In the event that the Group acts as an Appointor, a quantity surveyor will seek quotations from at least three subcontractors from the approved list of subcontractors maintained by the Group and a quantity surveyor manager, who has over 30 years of relevant experience in quantity surveying field, will oversee the tender process. The quantity surveyor and the quantity surveyor manager will prepare a tender analysis report by collating all documentation including tender enquiry, quotations submitted and outcome of any discussion and negotiation. If less than three subcontractors submit quotations to the Group, the quantity surveyor manager will also explain the reasons for this in the tender analysis report. The quantity surveyor manager and the quantity surveyor will select a preferred subcontractor based on factors such as price quotation, ability to complete the works according to the construction programme, ability to meet the required specifications, quality, environmental, health and safety requirements and the capability and performance demonstrated by the tenderer. Mr. Chiu and/or Mr. Lai and/or a director of Tysan Foundation shall select the subcontractor by approving the tender analysis report. In the event of conflict of interest between Mr. Chiu and/or Mr. Lai and/or the director of Tysan Foundation at the relevant time and any of the potential subcontractors, suitable alternates will be appointed by the Group for selecting the subcontractor.

The above tendering process may not be used in cases where: (i) only limited number of subcontractors, such as for EM works, are available for the relevant works; (ii) the profit margin is low, for example, for matters which only require the provision of a limited scope of work under a contract (e.g. provision of pumps and fans to construction sites) which the Directors consider would limit the interest of market players to submit tenders; (iii) the relevant works are required to be done urgently; (iv) the contract sum of the relevant works is HK\$3.0 million or less, which is considered as a small contract sum and may be of limited interest to market players; (v) the relevant services are supervisory and general management in nature; or (vi) no quotation is submitted by other third party despite an invitation for tendering having been sent. In such cases, the Group may obtain a quotation from only one tenderer (potentially being the Fung Group). A quantity surveyor will undertake a preliminary review of the quotation and a quantity surveyor manager with an extensive amount of relevant experience in the sector will review the quotation and analyse in the tender analysis report. Prices and contract terms will be negotiated on an arm’s length basis with reference to a combination of industry experience and similar works carried out in the past, to ensure that the prices and terms of such works and/or services are no less favourable than those offered by an independent third party for similar projects, and in particular a price closer to the price determined by the Group. The

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Appointor and the Appointee (as applicable) have market experience and have acquired information on the terms of subcontracting works in the market through their daily operations. Such terms would be negotiated with reference to market data available to them from time to time to ensure terms are in line with market rates.

We concur with the Company the purposes of the above policies in place as explained above, and consider them to be a suitable means to address the tendering process in the context of the Continuing Connected Transactions, in particular in light of the Appointor sourcing a quotation from at least three subcontractors (including at least two independent third parties), unless it would not be feasible to conduct a tendering process in certain limited cases as defined above. We have discussed with the Company the situation in which a tendering process is not conducted. We note that market prices in relation to labour and material costs from third parties as well as past transactions are referenced by the Company. Sources that may be referred to include the Hong Kong Construction Association, Limited in relation to machinery rates for contract works, the Development Bureau of the Hong Kong Government regarding certain average daily labour wages, and discussion with subcontractors in the same industry. We have reviewed and discussed with the Company the information referenced for the purpose of establishing an estimated cost of works to be subcontracted. We consider that in limited instances where a tendering process is not carried out, as set out above, it is reasonable to reference such type of market data, in addition to historical transaction data, to determine the pricing.

Pricing policy

The Group has in place written pricing policies for its subsidiaries acting as an Appointor. The prices for subcontracted services between an Appointor and an Appointee shall be determined through a tendering process or through arm's length negotiations between the Appointor and Appointee in case a tendering process is not conducted, as set out above. During the course of negotiations of the subcontract sum the Appointor and the Appointee will take into account their respective incurred costs and expenses when agreeing the terms of the subcontract. Once the subcontract sum is agreed and the subcontract has been entered into, generally no adjustments will be made to the agreed subcontract sum unless there are changes to the terms of the subcontract, for example as a result of a variation of works.

We reviewed the relevant internal control policies relating to the tendering and pricing policy, and have received confirmation from management of the Group that they have been, and will continue to be followed. We have also reviewed, on a sample basis, the actual pricings for (i) a project with approximately HK\$24.4 million worth of foundation works for the year ended 31 March 2017 where the Group as Appointee was subcontracted such works by the Fung Group, (ii) a project with approximately HK\$0.7 million worth of building and construction works for the year ended 31 March 2015 where the Group as Appointor subcontracted such works to the Fung Group, (iii) a project with approximately HK\$1.8 million worth of EM works for the year ended 31 March 2015 where the Group as Appointor subcontracted such works to the Fung Group, and (iv) projects with approximately HK\$4.0 million worth of tower cranes rentals for the year ended 31 March 2017 where the Group as Appointee was subcontracted such work by the Fung Group, under the 2014 Master Agreement (the "**Previous CCT(s)**"), including the tender analysis documents which recorded comparisons between pricing and other details across different tenderers, or the fact that certain potential tenderers invited had declined to submit tenders. We also note that the pricing of the Previous CCTs we have reviewed were determined without material adjustments from the original budgeted cost of the Appointor. We

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were also advised that no other fees such as commission payments were charged by the Appointor to the Appointee. In addition, for items (i) and (iv) above where the Group was the Appointee, we have reviewed the relevant internal preparation and approval documents regarding the submission of bids, while for items (ii) and (iii) above where the Group was the Appointor, we have reviewed the relevant internal tender analysis documents for the selection of subcontractor. Based on the above samples reviewed, we did not note any deviation from the relevant compliance requirements under the internal control policies, nor do we note any other irregularities in the abovementioned samples. We also note that the auditors of the Company, Ernst & Young, has given its confirmations on past continuing connected transactions for the financial years ended 31 March 2015, 31 March 2016 and 31 December 2016, in accordance with Rule 14A.56 of the Listing Rules, the requirements of which is further detailed in the section headed “Reporting requirements and conditions of the Continuing Connected Transactions and internal control measures”.

3. The Annual Caps

The transactions contemplated under the New Master Agreement are subject to the proposed Annual Caps, as discussed below.

(a) Review of historical figures

For each of the three years ended 31 March 2017, the subcontracting works performed under the 2014 Master Agreement were as follows:

	Actual amount <i>(HK\$ million)</i>	Cap amount <i>(HK\$ million)</i>
<i>For the financial year ended 31 March 2015</i>		
Foundation works	—	100
Building and construction works	0.69	100
EM works	1.80	175
Rental and engineering works relating to tower cranes	5.61	10
<i>For the financial year ended 31 March 2016</i>		
Foundation works	—	100
Building and construction works	—	100
EM works	0.15	175
Rental and engineering works relating to tower cranes	1.86	10
<i>For the year ended 31 March 2017</i>		
	<i>(Note)</i>	
Foundation works	25.5	100
Building and construction works	—	100
EM works	0.56	175
Rental and engineering works relating to tower cranes	6.55	10

Note: As the financial year end date of the Group has been changed from 31 March to 31 December, the figures represent the sum of the actual transaction amounts for the nine months ended 31 December 2016 and the three months ended 31 March 2017

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For all four subcontracting categories the general levels of utilisation were low for all the above periods, except for (i) foundation contracts for the year ended 31 March 2017 of approximately HK\$25.5 million subcontracted by Tysan Building to Tysan Foundation Geotechnical Limited (a directly wholly-owned subsidiary of Tysan Foundation), and (ii) rental and engineering work relating to tower cranes for the financial year ended 31 March 2015 of approximately HK\$5.6 million and for the year ended 31 March 2017 of approximately HK\$6.6 million, both being subcontracted by Tysan Building to a wholly-owned subsidiary of Proficiency Equipment. We were advised by the Company that the low utilisation rates were due to members of the Group or members of the Fung Group not winning relevant tenders that offered the opportunity to subcontract works between the parties. However, the utilisation rates were relatively higher in some periods due to major subcontracts awarded. This highlights the non-steady nature of the works to be subcontracted and the requirement to accommodate such fluctuations when setting the Annual Caps.

The 2014 Master Agreement expired on 31 March 2017. As set out in the letter from the Board, since the expiry of the 2014 Master Agreement and up to the Latest Practicable Date, all the percentage ratios (other than profits ratio) calculated under the Listing Rules in respect of the actual transaction amounts for subcontracting works in the Prescribed Manner between the Group and the Fung Group were less than 5% and the total consideration was less than HK\$3 million.

(b) Assessment of the Annual Caps

The management of the Group based its estimations for the Annual Caps on past transactions and the potential for Party Companies to subcontract relevant works in the future, in view of the considerable uncertainty as to whether an independent third party or a Party Company is awarded a tender and the potentially large size of subcontracts. As set out in the letter from the Board, there is no obligation or commitment for the Group to grant a contract to members of the Fung Group. Nevertheless, the Directors consider that the size of Annual Caps should be set at a level to provide flexibility to the Group to subcontract relevant works to the Fung Group as and when required and therefore consider the size of the Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The proposed Annual Caps under the New Master Agreement are as follows:

	Cap amount for the financial year ending		
	31 December 2017	31 December 2018	31 December 2019
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Foundation works	300.0	300.0	300.0
Building and construction works	100.0	1,500.0	2,000.0
EM works	175.0	500.0	500.0
Rental and engineering works relating to tower cranes	10.0	20.0	20.0

As set out in the letter from the Board, the Annual Caps above have been determined by the Group with reference to (i) the Group's turnover and the relevant divisions' turnover for the past three

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years; (ii) an estimate of works required and the timing of the works; (iii) the current, prospective and future projects of the Group, in particular the construction and development works in respect of the 6563 Land Parcel and the 6564 Land Parcel; and (iv) the estimated project costs for developing the projects mentioned in above item (iii). We note that the Group's businesses are closely correlated with construction activities in Hong Kong. According to the Report On The Quarterly Survey Of Construction Output (First Quarter 2017) published by the Census and Statistics Department of the Hong Kong Government, the gross value of construction works performed by main contractors in Q1 2017 amounted to approximately HK\$60.2 billion, representing an increase of approximately 7.7% as compared to corresponding period last year. According to the 2017 Policy Address, the estimated public housing supply in Hong Kong in the upcoming five-year period would be approximately 94,500 units, which is over 50% higher than the number of units completed in the past five years. Although any future businesses to the Group will be highly dependent on the outcome of relevant tendering processes, the above expectation on housing supply in coming years, in general, supports an increase in activities in the construction industry, and in turn better business prospects for the Group and the Fung Group, and greater opportunities for cooperation between the two groups.

As set out in the section headed "Background of the Group and recent development", the Group has obtained the 6563 Land Parcel and the 6564 Land Parcel, with the intention of developing each of them into a private residential complex. As at the Latest Practicable Date, the total estimated costs for subcontracting the potential building and construction works and EM works, which could not be undertaken by the Group, would amount to approximately HK\$2.4 billion and HK\$1.8 billion for the 6563 Land Parcel and the 6564 Land Parcel respectively, which was determined by reference to the multiple of the gross floor area/the construction floor area of the 6563 Land Parcel and the 6564 Land Parcel and the construction cost estimation from the independent external quantity surveyor based on other high-end residential projects which are under construction in Hong Kong. The Group's expects that certain subcontracting works may result from the development of the two land parcels, which the proposed Annual Caps take into account. Management of the Group has confirmed that, based on the current timetable, the superstructure works for the two land parcels are expected to commence in Q1 2019. The related tendering process for the superstructure works is expected to be carried out in mid-2018.

(i) Subcontracting of foundation works

The proposed annual cap is HK\$300.0 million for each of the coming three years represents an increase of two times compared with the previous annual cap. When formulating the proposed annual caps, the Group has taken into account three prospective tenders already submitted by the Group to the Fung Group. We have been provided with and reviewed a list of foundation work tenders by the Fung Group in the past year, which includes the three tenders above. They relate to a residential development, a commercial project and a hotel property. All of the tenders include foundation works which the Fung Group would have to subcontract out. Such tender list indicates subcontracting opportunities for the Group and the potential size of foundation works to be subcontracted in the future. The Group has won a part of the submitted bids put out for tender by the Fung Group in the past, and we consider it reasonable to assume that the Group will win tenders in the future, which can be of a substantial size given the scope of past tenders.

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We have discussed with the management of the Group the nature of foundation works and note the inherent challenge of being able to forecast when relevant foundation contracts become available, and their size. We consider that the subcontracting of foundation works by the Fung Group to the Group is in general beneficial to the Group, given that foundation works is one of its core capabilities. The annual cap should be set to grant the Group flexibility so as not to limit potential future revenue and profitability opportunities arising from undertaking foundation works tendered by the Fung Group. Based on the foregoing, we consider the estimation of the annual caps, with reference to historical transactions, prospective tenders and the reasonable assumption that the level of transactions will sustain during the terms of the New Master Agreement, to be reasonable and not excessive. Separately, we consider the proposed annual cap of HK\$300.0 million in each of the coming three years will not result in an undue reliance on the Fung Group for the Group's foundation business, given that the Group has, for the nine months ended 31 December 2016 and for the year ended 31 March 2016, recorded revenue from foundation piling of approximately HK\$2,115.5 million and HK\$3,018.4 million respectively.

(ii) Subcontracting of building and construction works

The proposed annual cap is HK\$100.0 million, HK\$1,500.0 million and HK\$2,000.0 million respectively for the years ending 31 December 2017, 2018 and 2019. Similar to the subcontracting of foundation works, we concur with the management of the Group that there is uncertainty about future business contracts to be granted to the Group, and in turn the chance of the Fung Group participating and winning relevant subcontracting tenders for building and construction works, due to the nature of the construction industry. For the years of 2018 and 2019, the proposed annual caps solely reference the estimated costs for building and construction works for the 6563 Land Parcel and the 6564 Land Parcel, as obtained from independent external quantity surveyors as set out above, in the amount of approximately HK\$3.5 billion in aggregate, for which the relevant tendering processes are expected to be conducted during the same period. In assessing the amount of the relevant annual caps and the allocation of annual caps in future financial years based on the expected progress, we have (i) discussed with the Group the expected timeline of the subcontracting of building and construction works, in conjunction with the development timetable for each of the land parcels as provided to us, and (ii) reviewed the budget plan for the development of the 6563 Land Parcel and the 6564 Land Parcel, as prepared by external quantity surveyors, who we note have experience in providing consultancy services for various property projects in Hong Kong. The budget plan set out, among others, breakdowns of cost estimates for the development, and made reference to similar high-end residential projects under construction in Hong Kong. As advised by the management of the Group, the Fung Group has indicated interest to participate in the above tenders. The substantial increase in the relevant annual caps in 2018 and 2019 reflects the eventuality of the Fung Group undertaking the building and construction works for the two land parcels, which represents a substantial part of the total project costs. Given the binary nature of the Fung Group either being awarded the tender or not, the annual caps reasonably reflect the potential of the Fung Group for taking up the building and construction works for the two land parcels.

(iii) Subcontracting of EM works

The proposed annual cap is HK\$175.0 million for the year ending 31 December 2017, the same as under the 2014 Master Agreement. In arriving at such annual cap, the Group has taken into account the bids submitted by the Fung Group to the Group in 2016 and potential additional EM works tenders in 2017 as advised by the Group, which have been set with reference to potentially upcoming

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tenders for EM works relevant to the Group in 2017. For each of the two years ending 31 December 2019, the Company proposed that the annual cap to be increased to HK\$500.0 million, with reference to the estimated costs for EM works for the 6563 Land Parcel and the 6564 Land Parcel, in the amount of approximately HK\$0.8 billion in aggregate, and prospective subcontracts to be awarded to the Fung Group, including an allowance for variations of contract sums and other future transactions. In assessing the amount of the relevant annual caps under EM works, we have (i) discussed with the Group the expected timeline for the subcontracting of the EM works, in conjunction with the development timetable for each of the land parcels as provided to us, and (ii) reviewed the budget plan for the development of the 6563 Land Parcel and the 6564 Land Parcel, as prepared by external quantity surveyors, in particular the estimated costs relating to the EM works. We consider it reasonable to provide for the eventuality of the Group subcontracting the EM works relating to the two land parcels to the Fung Group.

(iv) Subcontracting of rental of tower cranes and provision of engineering services

The proposed annual cap for the year ending 31 December 2017 is HK\$10.0 million and HK\$20.0 million for the years ending 31 December 2018 and 2019. The Group's management quantified the size of bids that have already been submitted to the Fung Group for 2017. The proposed annual caps for both 2018 and 2019 have been set with reference to members of the Fung Group winning the tender for the building and construction and EM works in respect of the 6563 Land Parcel and the 6564 Land Parcel, where tower crane rentals will be required by the Fung Group to undertake such works, as well as making provisions for potential additional contracts that may be awarded. We have been provided with and reviewed a list of tower crane tenders put out by the Fung Group in the past year, which included a tower crane rental for which the Group has already submitted a bid and the results of which are pending, and have considered the potential for the Group to be awarded by the Fung Group the tenders in relation to the 6563 Land Parcel and the 6564 Land Parcel, in 2018 and 2019.

Our view

Management of the Group estimates that, as at the Latest Practicable Date, the 6563 Land Parcel and the 6564 Land Parcel have a total project cost of approximately HK\$5 billion, and we have discussed with them details of the above estimated budget and the expected timetable for developing the two land parcels. The Group has the expertise and an established track record in engaging in foundation works, and, subject to the project development plan for the above two land parcels, may choose to undertake certain relevant works itself, while other development components may be offered to contractors, for example by way of a public tendering process. In such case, the Fung Group may potentially be the Appointee. The Annual Caps cater for such possibility. We understand from the Group's management that the Fung Group has been participating in relevant tendering processes conducted by the Group, and it is likely to continue to in the future. Now that the Group has put in place a team of professionals experienced in the Hong Kong property development industry, the Group would have the competence to take on similar projects in future and, consequently, increase the chance to subcontract relevant parts of work to other subcontractors, including the Fung Group. Subject to the tendering process as described in the section headed "The New Master Agreement — The tendering process", in the event that any member of the Fung Group is confirmed as an Appointee under the New Master Agreement, the subject matter to be subcontracted would be limited to areas relating to

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building and construction works and EM works. As set out in the section headed “The New Master Agreement”, building and construction works may also be subcontracted by the Fung Group to the Group. While currently the Group does not undertake such works, we consider the flexibility offered under the New Master Agreement to be beneficial to the Group.

As regards foundation works, rental of tower cranes and provision of engineering services, given the prospective tenders in progress, and the inherent uncertainty for future tenders due to the nature of the construction industry, we are of the view that it is reasonable for the Group to be granted flexibility to obtain additional revenue-generating businesses from the Fung Group going forward.

Generally speaking, in our opinion, it is in the interests of the Group and the Shareholders to determine the Annual Caps in a way that can accommodate the potential growth of the Group’s business. In the case of the Continuing Connected Transactions, although the previous utilisation of the relevant annual caps had been low, the recent development of the Group, namely the obtaining of the land parcels in the Kai Tak area, means that there will be subcontracting opportunities in substantial amounts considering the project scale, signifying the requirement of higher Annual Caps to cater for the eventual possibilities that certain subcontracting arrangements will be made with the Fung Group, subject to usual tendering processes. In addition to the works relating to the two land parcels obtained by the Group, the expected increase in housing construction activities in Hong Kong in the coming few years means better business prospects for the Group and the Fung Group, and in turn opportunities for cooperation between the two groups. Provided that the Continuing Connected Transactions are subject to annual review by the independent non-executive Directors and auditors of the Company (as summarised below) as required under the Listing Rules, the Group would have desirable flexibility in conducting its business if the Annual Caps are tailored to future business activities. In assessing the reasonableness of the Annual Caps, we have discussed with the management of the Company the factors taken into account as stated earlier in this section. We consider it reasonable for the Company to use the above factors in determining the Annual Caps.

4. Reporting requirements and conditions of the Continuing Connected Transactions and internal control measures

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) the independent non-executive Directors must review the Continuing Connected Transactions every year and confirm in the annual report whether the Continuing Connected Transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and
 - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

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- (b) the Company must engage its auditors to report on the Continuing Connected Transactions every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Group's annual report) confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:
 - (i) have not been approved by the Board;
 - (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the Continuing Connected Transactions involve the provision of goods or services by the Group;
 - (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the Continuing Connected Transactions; and
 - (iv) have exceeded the Annual Caps;
- (c) the Company must allow, and ensure that the counterparties to the Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b) above;
- (d) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In addition to the above reporting requirements under the Listing Rules, the Group has a number of safeguards in place to ensure that the Continuing Connected Transactions are conducted in accordance with the terms of the New Master Agreement and the Annual Caps:

- (a) Written tender and pricing policies for members of the Group, as summarised in the sections headed "The tendering process" and "Pricing policy"; and
- (b) a written internal control policy which sets out, among others, procedures to ensure the terms offered by the relevant Parties for a Continuing Connected Transaction are in accordance with the Annual Caps, including an assessment by the finance and accounts department of the Company and the company secretarial department of the Company.

In light of the reporting requirements and conditions attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Continuing Connected Transactions and the Annual Caps not being exceeded, and given the Company's internal safeguards in place, we are of the view that appropriate measures will be in place to monitor the conduct of the Continuing Connected Transactions and assist in safeguarding the interests of the Shareholders.

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OPINION

Having taken into account the above principal factors and reasons, we consider that the Connected Transactions and the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We further consider that the entering into of the Project Development Agreements (including the Connected Transactions) and the New Master Agreement (including the Continuing Connected Transactions and the Annual Caps) are in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

We therefore advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Project Development Agreements (including the Connected Transactions).

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
John Wong
Director

Mr. John Wong is a licensed person registered with the SFC and as a responsible officer of Somerley, which is licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has over nine years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable 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. INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

(a) Interests and short positions of the Directors and chief executive in the Company and its associated corporations

As at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(b) Disclosure of interests of substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of the SFO, so far as is known to the Directors, the persons (other than a Director and chief executive of the Company) or entities who had or were deemed or taken to have an interest or a short position in the Shares or the 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 or which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

Interests in Shares and underlying Shares

Name	Capacity	Number of Shares interested	Percentage of issued share capital of the Company (%)
Hainan Province Cihang Foundation ⁽¹⁾	Interest of controlled corporation	2,540,222,144	74.66
Tang Dynasty Development (Yangpu) Company Limited ⁽¹⁾	Interest of controlled corporation	2,540,222,144	74.66

Name	Capacity	Number of Shares interested	Percentage of issued share capital of the Company (%)
Hainan Traffic Administration Holding Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,540,222,144	74.66
HNA Group ⁽¹⁾	Interest of controlled corporation	2,540,222,144	74.66
HNA Holding Group Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,540,222,144	74.66
HNA Investment Holding Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,540,222,144	74.66
Beijing HNA Financial Holdings Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,540,222,144	74.66
HNA Financial Holdings International Co., Ltd. ⁽¹⁾	Interest of controlled corporation	2,540,222,144	74.66
Hong Kong HNA Holding Group Co. Limited ⁽¹⁾	Interest of controlled corporation	2,540,222,144	74.66
HNA Finance I	Beneficial owner	2,540,222,144	74.66
Central Huijin Investment Ltd. ⁽²⁾	Security interest in Shares	185,000,000	5.44
China Construction Bank Corporation ⁽²⁾	Security interest in Shares	185,000,000	5.44

Notes:

- (1) These parties were deemed to have interests in 2,540,222,144 Shares by virtue of their equity interests in HNA Finance I. Based on the disclosure of interests notices filed by Hainan Province Cihang Foundation on 21 June 2017, HNA Finance I was wholly-owned by Hong Kong HNA Holding Group Co. Limited; Hong Kong HNA Holding Group Co. Limited was wholly-owned by HNA Financial Holdings International Co., Ltd.; HNA Financial Holdings International Co., Ltd. was wholly-owned by Beijing HNA Financial Holdings Co., Ltd.; Beijing HNA Financial Holdings Co., Ltd. was wholly-owned by HNA Investment Holding Co., Ltd.; HNA Investment Holding Co., Ltd. was wholly-owned by HNA Holding Group Co., Ltd.; HNA Holding Group Co., Ltd. was wholly-owned by HNA Group; HNA Group was owned as to 70% by Hainan Traffic Administration Holding Co., Ltd.; Hainan Traffic Administration Holding Co., Ltd. was owned as to 50% by Tang Dynasty Development (Yangpu) Company Limited; and Tang Dynasty Development (Yangpu) Company Limited was owned as to 65% by Hainan Province Cihang Foundation. Therefore, each of the aforesaid entities is deemed under the SFO to be interested in the

2,540,222,144 Shares (which include (i) the 185,000,000 Shares pledged by HNA Finance I in favour of an associate of CCB International Capital Limited, and (ii) the 16,318,013 Shares pledged by HNA Finance I in favour of a lender, who is an independent third party, according to a master loan agreement, a master pledge agreement and a control agreement pursuant to which such lender may sell, transfer, pledge or otherwise deal in such securities subject to the terms of such agreement).

- (2) Central Huijin Investment Ltd., through its interests in China Construction Bank Corporation, and China Construction Bank Corporation, through its interest in CCB International Overseas Limited, was deemed to be interested in the 185,000,000 Shares over which CCB International Overseas Limited had a security interest.

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, no person had or was deemed or taken to have an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or any options in respect of such share capital.

As at the Latest Practicable Date, the following Directors were a director or employee of a company which had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Director	Company	Position
Mr. Huang Qijun	HNA Group	Director
	HNA Holding Group Co., Ltd.	Director, chairman of the board and chief executive officer
Mr. Zhao Quan	Beijing HNA Financial Holdings Co., Ltd.	Director
	HNA Group	Non-executive director
	HNA Holding Group Co., Ltd.	Director
Mr. Mu Xianyi	HNA Holding Group Co., Ltd.	Chief investment officer

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

3. DIRECTORS' SERVICE CONTRACTS

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

4. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS AND COMPETING INTERESTS

Save for Mr. Victor Fung's interest in the sale and purchase agreement dated 19 April 2016 entered into among the Company as purchaser, Fortunate Pool Limited (a company wholly-owned by Mr. Victor Fung) as vendor and Mr. Victor Fung as guarantor in relation to sale and purchase of 40 issued shares of Tysan Foundation and the New Master Agreement, since 31 December 2016, being the date to which the latest published audited accounts of the Company were made up, no Director was materially interested in any subsisting contract or arrangement which was significant in relation to the business of the Group, and no Director was interested in any assets which had been acquired or disposed of by or leased to (or are proposed to be acquired or disposed of by or leased to) any member of the Group since the date of the latest published audited accounts of the Company.

As at the Latest Practicable Date, none of the Directors and their respective close associates had any interests in a business, which competes or is likely to compete either directly or indirectly with the business of the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or outlook of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. QUALIFICATION AND CONSENT OF EXPERT

The following are the qualifications of the expert who has given advice, letter or opinion for incorporation and as contained in this circular:

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

As at the Latest Practicable Date, Somerley had no shareholding, direct or indirect, 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.

As at the Latest Practicable Date, Somerley had no direct or indirect interests in any assets which have been, since 31 December 2016 (the date to which the latest published audited accounts of the Group 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.

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

7. GENERAL

The English text of this circular shall prevail over its Chinese text in the case of inconsistency.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during the normal business hours from 9:00 a.m. to 5:30 p.m. (save for Saturdays and public holidays) at the head office and principal place of business of the Company in Hong Kong at 20th Floor, One Island South, No. 2 Heung Yip Road, Wong Chuk Hang, Hong Kong from the date of this circular up to and including the date which is 14 days from the date of this circular:

- (a) the 6562 Project Development Agreement;
- (b) the 6565 Project Development Agreement; and
- (c) the New Master Agreement.

NOTICE OF SGM



HONG KONG INTERNATIONAL CONSTRUCTION INVESTMENT MANAGEMENT GROUP CO., LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 687)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of Hong Kong International Construction Investment Management Group Co., Limited (the “**Company**”) will be held at 10 a.m. on Monday, 4 September 2017 at 20th Floor, One Island South, No. 2 Heung Yip Road, Wong Chuk Hang, Hong Kong for the purpose of considering and, if thought fit, passing with or without modification, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “THAT

- (a) the project development agreement (the “**6562 Project Development Agreement**”, a copy of which marked “A” has been tabled before the meeting and initialed by the chairman of the meeting for the purpose of identification) entered into between Denco Properties Limited as owner and Gainful Engineering Limited (“**Gainful**”) as representative on 6 July 2017 in relation to the development of the piece or parcel of ground registered in the Land Registry as New Kowloon Inland Lot No. 6562 together with the messages erections and buildings thereon and all other transactions contemplated thereunder and in connection therewith and any other ancillary documents be and are hereby approved, confirmed and ratified;
- (b) the project development agreement (the “**6565 Project Development Agreement**”, a copy of which marked “B” has been tabled before the meeting and initialed by the chairman of the meeting for the purpose of identification) entered into between Hongkong Island Construction Properties Co., Limited as owner and Gainful as representative on 6 July 2017 in relation to the development of the piece or parcel of ground registered in the Land Registry as New Kowloon Inland Lot No. 6565 together with the messages erections and buildings thereon and all other transactions contemplated thereunder and in connection therewith and any other ancillary documents be and are hereby approved, confirmed and ratified; and

NOTICE OF SGM

- (c) any director of the Company be and is hereby authorised to do all acts, deeds and things and to sign and execute all documents as he may, at his absolute discretion, deem incidental to, ancillary to or in connection with the matters contemplated in and for completion of the 6562 Project Development Agreement and the 6565 Project Development Agreement.”

By order of the board of
**HONG KONG INTERNATIONAL
CONSTRUCTION INVESTMENT
MANAGEMENT GROUP CO., LIMITED**
HUANG Qijun
Chairman

Hong Kong, 15 August 2017

Registered Office:
Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda

*Head Office and Principal Place of
Business in Hong Kong:*
20th Floor, One Island South,
No.2 Heung Yip Road,
Wong Chuk Hang,
Hong Kong

Notes:

1. Any Shareholder entitled to attend and vote at the above SGM shall be entitled to appoint another person as his/her/its proxy to attend and vote instead of him/her/it. A proxy need not be a Shareholder. A Shareholder may appoint a proxy in respect of only part of his/her/its holding of Shares.
2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be deposited with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting thereof.
3. For the purpose of the SGM, in order to qualify for attending and voting at the SGM, duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on Tuesday, 29 August 2017. The Register of Members of the Company will be closed from Wednesday, 30 August 2017 to Monday, 4 September 2017 (both dates inclusive), during which period no transfer of Shares will be registered.
4. Each of the ordinary resolutions set out above will be determined by way of a poll.

As at the date of this notice, the executive Directors are Mr. Huang Qijun, Mr. Zhao Quan, Mr. Fung Chiu Chak, Victor, Mr. Liu Junchun, Mr. Mu Xianyi and Mr. Wong Tai Lun Kenneth; the non-executive Directors are Mr. Tang King Shing and Mr. Tang Kit and the independent non-executive Directors are Mr. Fan Chor Ho, Mr. Tse Man Bun, Mr. Lung Chee Ming, George, Mr. Li Kit Chee and Mr. Leung Kai Cheung.