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

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If you are in any doubts 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 **Beijing Urban Construction Design & Development Group Co., Limited**, you should at once hand this circular together with the accompanying proxy form and reply slip for the extraordinary general meeting to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**北京城建设计发展集团股份有限公司**  
BEIJING URBAN CONSTRUCTION DESIGN & DEVELOPMENT GROUP CO., LIMITED

**Beijing Urban Construction Design & Development Group Co., Limited**

**北京城建設計發展集團股份有限公司**

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

**(Stock Code: 1599)**

**(1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

**(2) PROPOSED APPOINTMENT OF SUPERVISORS**

**(3) PROPOSED APPOINTMENT OF NON-EXECUTIVE DIRECTOR**

**AND**

**NOTICE OF THE 2017 FIRST EXTRAORDINARY GENERAL MEETING**

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



**SOMERLEY CAPITAL LIMITED**

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A notice convening the EGM of the Company to be held at 12A, Block D, Hengtai Center, No. 18 Fengtai North Road, Fengtai District, Beijing, the PRC at 9:30 a.m. on Thursday, 9 March 2017, is set out on pages 64 to 66 of this circular.

If you intend to appoint a proxy to attend the EGM, you are required to complete and return the proxy form in accordance with the instructions printed thereon as soon as possible. For holders of H Shares, the proxy form should be returned to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in hand or by post not less than 24 hours before the time stipulated for convening the EGM or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof if you so wish.

If you intend to attend the EGM in person or by proxy, you are required to complete and return the reply slip on or before Friday, 17 February 2017.

20 January 2017

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## DEFINITIONS

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

“associate(s)”	shall have the meaning ascribed to it under the Hong Kong Listing Rules
“Board” or “Board of Directors”	the board of directors of the Company
“Board of Supervisors”	the board of supervisors of the Company
“BUCG”	Beijing Urban Construction Group Co., Ltd. (北京城建集團有限責任公司), the controlling shareholder of the Company holding 44.87% interest in the Company and a wholly state-owned enterprise under the Beijing Municipal Government
“Company”	Beijing Urban Construction Design & Development Group Co., Limited (北京城建設計發展集團股份有限公司), a joint stock company with limited liability incorporated in the PRC, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 1599)
“connected person(s)”	shall have the meaning ascribed to it under the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi and which are currently not listed or traded on any stock exchange
“EGM”	the 2017 First Extraordinary General Meeting of the Company to be convened on Thursday, 9 March 2017 to consider and, if thought fit, approve the resolutions in relation to (1) the renewal of the Integrated Services Framework Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder for the three financial years ending 31 December 2019; (2) the proposed appointment of Supervisors; and (3) the proposed appointment of non-executive Director

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## DEFINITIONS

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“EPC”	engineering, procurement, and construction
“GDP”	gross domestic product
“Group”	the Company and its subsidiaries
“H Share(s)”	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	the independent board committee comprising all the independent non-executive Directors, namely Mr. Zhang Fengchao, Mr. Wang Dexing, Mr. Yim Fung, Mr. Sun Maozhu and Mr. Liang Qinghuai, which was established to advise the Independent Shareholders in relation to the terms of the Integrated Services Framework Agreement proposed to be renewed and the proposed annual caps for the continuing connected transactions contemplated thereunder, for both revenue and expenditure, for the three financial years ending 31 December 2019
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions contemplated under the Integrated Services Framework Agreement proposed to be renewed and the proposed annual caps for the three financial years ending 31 December 2019
“Independent Shareholders”	Shareholders other than those required by the Hong Kong Listing Rules to abstain from voting on the resolution to be proposed at the EGM in relation to the renewal of the Integrated Services Framework Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder

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## DEFINITIONS

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“Integrated Services Framework Agreement”	the Integrated Services Framework Agreement entered into between the Company and BUCG on 18 June 2014, which is for a term commencing from 18 June 2014 and expiring on 31 December 2016
“Latest Practicable Date”	17 January 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
“NDRC”	the National Development and Reform Commission of the PRC
“Non-competition Agreement”	the non-competition agreement entered into by BUCG and the Company on 24 January 2014, as amended by the Supplemental Agreement I to the Non-competition Agreement signed by the parties on 16 June 2014
“PPP”	“Public-Private-Partnership” mode
“PRC” or “China”	the People’s Republic of China which, for the purpose of this circular only, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holders of the Shares of the Company
“Share(s)”	H Share(s) and Domestic Share(s) of the Company
“substantial shareholder(s)”	shall have the meaning ascribed to it under the Hong Kong Listing Rules
“subsidiary(ies)”	shall have the meaning ascribed to it under the Hong Kong Listing Rules
“Supervisor(s)”	the supervisor(s) of the Company

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## DEFINITIONS

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“Supplemental Agreement to the Integrated Services Framework Agreement”	the supplemental agreement entered into between the Company and BUCG on 9 December 2015 to expand the scope of the Integrated Services Framework Agreement, so as to include the new continuing connected transactions between the parties resulting from the amendments to the Non-competition Agreement
“Supplemental Agreement I to the Non-competition Agreement”	the supplemental agreement entered into by BUCG and the Company on 16 June 2014 to amend the non-competition agreement entered into by BUCG and the Company on 24 January 2014
“Supplemental Agreement II to the Non-competition Agreement”	the second supplemental agreement entered into between BUCG and the Company on 29 October 2015 to amend the Non-competition Agreement, which was entered into by BUCG and the Company on 24 January 2014 as amended by the first supplemental agreement on 16 June 2014

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## LETTER FROM THE BOARD

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**北京城建设计发展集团股份有限公司**

BEIJING URBAN CONSTRUCTION DESIGN & DEVELOPMENT GROUP CO., LIMITED

**Beijing Urban Construction Design & Development Group Co., Limited**

**北京城建设计发展集团股份有限公司**

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

**(Stock Code: 1599)**

**Members of the Board:**

*Executive Directors:*

Wang Hanjun

Li Guoqing

*Non-executive Directors:*

Wang Liping

Chen Daihua

Guo Yanhong

Guan Jifa

Su Bin

Kong Lingbin

Tang Shuchang

**Registered office:**

5 Fuchengmen North Street

Xicheng District

Beijing

PRC

**Principal place of business in Hong Kong:**

18/F, Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

*Independent non-executive Directors:*

Zhang Fengchao

Wang Dexing

Yim Fung

Sun Maozhu

Liang Qinghuai

20 January 2017

*To the Shareholders:*

Dear Sir or Madam,

**(1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS  
(2) PROPOSED APPOINTMENT OF SUPERVISORS  
(3) PROPOSED APPOINTMENT OF NON-EXECUTIVE DIRECTOR  
AND  
NOTICE OF THE 2017 FIRST EXTRAORDINARY GENERAL MEETING**

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## LETTER FROM THE BOARD

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### **I. INTRODUCTION**

References are made to (i) the announcement of the Company dated 8 December 2016 in relation to the renewal of certain continuing connected transactions of the Company including the continuing connected transactions under the Integrated Services Framework Agreement; (ii) the announcement of the Company dated 27 December 2016 in relation to the proposed appointment of Supervisors; and (iii) the announcement of the Company dated 17 January 2017 in relation to the resignation of non-executive Director and proposed appointment of non-executive Director.

The purpose of this circular is to provide you with, among other things: (a) detailed information regarding the Integrated Services Framework Agreement proposed to be renewed and the proposed annual caps for the continuing connected transactions contemplated thereunder for the three financial years ending 31 December 2019; (b) a letter from the Independent Board Committee, which sets out the recommendations of the Independent Board Committee to the Independent Shareholders in relation to the terms of the Integrated Services Framework Agreement proposed to be renewed and the proposed annual caps for the continuing connected transactions contemplated thereunder for the three financial years ending 31 December 2019; (c) a letter from Somerley, which sets out the opinions and recommendations of Somerley to the Independent Board Committee and Independent Shareholders in relation to the terms of the Integrated Services Framework Agreement proposed to be renewed and the proposed annual caps for the continuing connected transactions contemplated thereunder for the three financial years ending 31 December 2019; (d) detailed information of the proposed appointment of Supervisors; (e) detailed information of the proposed appointment of non-executive Director; and (f) notice of the EGM, to enable you to make an informed decision on whether to vote for or against the resolutions to be proposed at the EGM.

### **II. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS: THE INTEGRATED SERVICES FRAMEWORK AGREEMENT**

#### **1. Background**

As disclosed in the prospectus of the Company, the Group has been, in the ordinary and usual course of its businesses, entering into continuing transactions with BUCG, its subsidiaries and/or associates including mutual provision of integrated services. To comply with the requirements of the Hong Kong Listing Rules, the Company entered into the Integrated Services Framework Agreement for a term of approximately two years and six months commencing from 18 June 2014 and ending on 31 December 2016 with BUCG on 18 June 2014 and set annual caps for the continuing connected transactions thereunder for the three financial years ending 31 December 2016.



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## LETTER FROM THE BOARD

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### ***1.1 The Integrated Services Framework Agreement***

Pursuant to the Integrated Services Framework Agreement, it was agreed between BUCG and the Group that:

- (i) BUCG, its subsidiaries and/or associates provide engineering construction related services, including but not limited to provision of labour, supply of raw materials, equipment leasing as well as training services and other services to the Group; and
- (ii) the Group provides services relating to construction design, survey and consultancy, including but not limited to measurement, test, inspection of construction drawings, as well as training services and other services to BUCG, its subsidiaries and/or associates.

### ***1.2 The Supplemental Agreement to the Integrated Services Framework Agreement***

Pursuant to the Non-competition Agreement and its supplemental agreement, the Company was restricted from requesting BUCG to assist the Company in bidding engineering and construction projects, including formation of a consortium with BUCG for bidding or provision of financing. In order to enable BUCG and the Company to cooperate and bid for new projects under specific circumstances, BUCG and the Company entered into the Supplemental Agreement II to the Non-competition Agreement on 29 October 2015 to specify three specific circumstances under which BUCG may cooperate and bid new projects for the Company.

On 9 December 2015, BUCG and the Company entered into the Supplemental Agreement to the Integrated Services Framework Agreement to expand the scope of the services to be provided by the Group to BUCG, its subsidiaries and/or associates to include “project sub-contracting and/or specialized services, including but not limited to project management and equipment leasing”, pursuant to Situations (2) and (3) referred to in the Supplemental Agreement II to the Non-competition Agreement. Under Situation (2), BUCG will only bid for those projects which the Company has provided design or consultancy services with a view to sub-contracting the awarded project to the Company, in accordance with the terms of the bidding documents and in compliance with PRC laws and regulations, on a no profit basis to BUCG. Same for Situation (3), where the Company is restricted from bidding because of the higher bidding requirements in relation to the bidder’s net assets, total assets, grading level and/or qualification level, BUCG will bid with a view to, and pursuant to the Supplemental Agreement II to the Non-competition Agreement, sub-contracting

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## LETTER FROM THE BOARD

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the awarded project to the Company in accordance with the terms of the bidding documents and in compliance with PRC laws and regulations, on a no profit basis to BUCG. For details of the circumstances where BUCG and the Company may cooperate and bid for new projects under Situations (2) and (3), please refer to the circular of the Company dated 11 December 2015.

In addition, in anticipation of the increased revenue consequential upon the increased cooperation between BUCG and the Company and the number of new projects bid by BUCG for the Company under the Supplemental Agreement to the Integrated Services Framework Agreement, the Company also revised the annual cap for the revenue to be received by the Group under the Integrated Services Framework Agreement for the year ending 31 December 2016 from RMB36 million to RMB286 million.

### **1.3 *Update on the projects involving continuing provisions of integrated services***

#### **1.3.1 *Urban rail transit – Industry information and development***

According to the “Three Year Action Plan of the Construction of Material Transportation Infrastructure Project” jointly issued by the NDRC and the Ministry of Transportation in May 2016, the total length of new urban rail transit in the PRC is expected to reach 2,385 kilometers involving 103 rail transit projects with a total investment of RMB1.6 trillion in the future. Among which, the scale of construction and investment is expected to reach the peak in 2016 and 2017. The planned length of new rail transit construction in 2016 is approximately 1,274 kilometers, representing an increase of 170% as compared to 2015. The newly added length in 2016 almost equals to the aggregate of the newly added length of the past four years. According to the statistics of NDRC, 43 urban rail transit construction plans have been approved, with a total planned length of approximately 8,600 kilometers and total investment amount of more than RMB5 trillion on the basis of an investment amount of approximately RMB600 million to RMB800 million per kilometer. Due to the large scale of the investment amount in rail transit, PPP mode which introduces private capital is an effective mode to participate in rail transit construction. Among the three batches of PPP projects publicly introduced by NDRC, there are 57 urban rail transit PPP projects, with a total investment amount of approximately RMB1.01 trillion, among which, rail transit projects in Beijing amount to approximately RMB279.4 billion and those in Tianjin amount to approximately RMB132.8 billion.

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## LETTER FROM THE BOARD

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The construction of rail transit has made important contributions to investment promotions, structural adjustments and steady growth and has become an important macro control tool. Following development and increasing demands of the society, the demands for urban rail transit are constantly growing. Urban rail transit can promote the development of local GDP, stimulate sales of the real estate surrounding the urban rail transit system and industry developments, which have gained the favour of the local governments.

### *1.3.2 Bidding by BUCG for the Company – No. 1 contractual section of the Phase I of civil construction of Light Rail Transit project in Astana City, Kazakhstan*

As disclosed in the Company's 2016 Interim Report, the Company won the Astana Light Rail Design Project for the construction design of the Light Rail Transit project in Astana City, Kazakhstan. On 21 June 2016, pursuant to Situation (3) provided in the Supplemental Agreement II to the Non-competition Agreement, BUCG successfully bid for and entered into the construction contract with the project owner in relation to the No. 1 contractual section of the Phase I of civil construction of Light Rail Transit project in Astana City, Kazakhstan (the "**Kazakhstan Project**"). Pursuant to the terms of the Supplemental Agreement II to the Non-competition Agreement, the Kazakhstan Project shall be sub-contracted to the Group on a no profit basis to BUCG or BUCG and the Company shall enter into such other ways of cooperation on a no profit basis to BUCG. Accordingly, after negotiations between the Company and BUCG, it is proposed that BUCG shall enter into an entrustment management and operation contract with the Company in relation to the Kazakhstan Project, the draft principle terms of which are summarized as follows:

<b>Parties</b>	The Company BUCG
<b>Project Overview</b>	The Kazakhstan Project starts from the international airport in the southern suburbs to the new railway station in the north in Astana City, Kazakhstan. The total length of the Kazakhstan Project is 21.718 kilometers and it will include 18 stops and one depot.

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## LETTER FROM THE BOARD

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**Work Scope**

Civil construction (architectural engineering, structural engineering, station square), installation (production of communication manholes outside the station, integrated grounding and lightning protection, reservation of holes for equipment, embedding and concrete pouring of equipment), water supply and drainage and fire fighting system and other works.

**Construction Period**

The Company shall ensure that it will start to work as required on receipt of the supervisor's notice of commencement and complete the construction in 627 calendar days.

For each project, the Company will prepare a project plan with specific completion by stages and will organise and coordinate the construction work in accordance with the stage plan. Regular work progress reports will be reported to the on-site manager as well as the project manager in the head office of the Company in Beijing. Regular coordination meetings, on-site or through phone calls, will be organised to ensure planned progress and emergency on-site meetings and calls will be made to resolve specific technical issues. For overseas project, the same coordination and supervisory arrangements will be made and in addition, an emergency plan will be devised to deal with any possible major emergency issues.

**Contract Price**

RMB3,058 million, which includes all the costs of operation and performance management the Company shall bear, under the authorization of BUCG, in the whole project process of Kazakhstan Project.

In accordance with relevant provisions specified in the construction contract between BUCG and the project owner in relation to the Kazakhstan Project, change and delay during the execution of the project and other agreed situations, the contract price of the agreement shall be adjusted provided that the project owner confirms such adjustment.

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## LETTER FROM THE BOARD

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**Rights and Obligations** BUCG shall be responsible for coordinating the relationship with the project owner and delivering project owner's orders, letters and opinions in relation to performance of the project contract. BUCG shall authorize the Company, as the entrusted operation and management party, to fully undertake the rights and obligations of performance, construction and management during the whole project process of the Kazakhstan Project.

The Company shall, strictly in compliance with the construction contract between BUCG and the project owner in relation to the Kazakhstan Project, fulfill all management responsibilities and the overall organization of the project construction, set the general target of quality, progress and investment of the project construction and formulate specific work plan, and implement accordingly.

The Company shall be fully responsible for the suitability, stability and security of the construction organization design and construction management plan on site, and organize and manage the construction strictly in accordance with such plan.

The Company shall fulfill the responsibilities as the general entrusted operator and manager on the construction site in this contractual section, and carry out management work accordingly.

**Termination** This agreement will be terminated when both parties fulfill their contractual obligations and complete the work as agreed.

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## LETTER FROM THE BOARD

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### *1.3.3 Major contracts obtained in 2015 and 2016 involving provisions of integrated services by BUCG, its subsidiaries and/or associates to the Group*

As disclosed in the 2015 Annual Report and 2016 Interim Report of the Company, the Company has successfully won a number of urban transit construction projects in China, which require provisions of integrated services by BUCG, its subsidiaries and/or associates to the Company under the Integrated Services Agreement. Among these projects, the major projects include:

(a) Anqing Outer Ring North Road PPP Project (“**Anqing PPP Project**”)

On 4 May 2015, the Company was awarded the PPP project of Outer Ring North Road located in north and east of Anqing with a total construction investment amount of RMB1,976 million. The total length of the road is approximately 14.93 kilometers with a designed speed of 60 km/h. The Company holds 88% interest in the project company established for the purpose of the project with the remaining 12% being invested by the entity established by the local government. The cooperation period for the project is 13 years, including a construction period of no more than two years. The Company was awarded the general construction contract for the project by the project company.

(b) The Civil Construction Project of No. 3 Contractual Section of Eastward Extension of Beijing Subway Line No. 7 (“**Section 3 of Subway Line No. 7**”)

On 11 December 2015, the Company was awarded the Civil Construction Project of No. 3 Contractual Section of Eastward Extension of Beijing Subway Line No. 7. The contract sum of the project amounts to approximately RMB800.2 million with a contractual period from January 2016 to September 2019.

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## LETTER FROM THE BOARD

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- (c) PPP Project of Airport Avenue Mid-Section (Wenlin Road-North Airport Highway) in the New District of Central Yunnan (“**Yunnan North Airport Highway PPP Project**”)

On 13 July 2016, the Company was awarded the PPP project of Airport Avenue mid-section (Wenlin Road-North Airport Highway) in the New District of Central Yunnan with an estimated construction investment amount of RMB2,860 million. The total length of the project is 9.36 kilometers with a designed speed of 60 km/h for the main road and 30 km/h for the side road. The Company is to contribute 90% to 97% of the capital in the project company, with the local government representative entity contributing 3% to 10%. The cooperation period is 12.5 years to 16.5 years, including a construction period of no more than 1.5 years. The Company was awarded the general construction contract for the project by the project company.

- (d) Zunyi Fengxin Expressway PPP Project (“**Zunyi Expressway PPP Project**”)

On 31 October 2016, the Company was awarded the PPP project of Fengxin Express in Zunyi with a total construction investment amount of RMB1,805 million. The total length of the project is 2.1 kilometers. The local government representative entity and the Company are to form a project company, with a registered capital of not lower than RMB360 million, among which, 75% is to be contributed by the Company and 25% is to be contributed by the local government representative entity. The cooperation period is for 12 years, including a construction period of no more than two years. The Company was awarded the general construction contract for the project by the project company.

- (e) The Kazakhstan Project

The Kazakhstan Project referred to in paragraph 1.3.2 above would also involve the provisions of integrated services by BUCG, its subsidiaries and associates to the Group.

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## LETTER FROM THE BOARD

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### *1.3.4 Other potential new (expenditure) projects*

The PPP Project of the Beijing New Airport Express (the “**Beijing New Airport Express Project**”)

Recently, the consortium in which BUCG was one of the members was awarded the PPP Project of the Beijing New Airport Express. The total investment of the project amounts to approximately RMB14,994 million with a planned construction period of around 35 months. Pursuant to the Supplemental Agreement II to the Non-competition Agreement, BUCG will assist the Company to directly obtain construction work from the project company, which if obtained, would require the provision of integrated services by BUCG, its subsidiaries and associates to the Group.

## **2. The Proposed Renewal to the Integrated Services Framework Agreement**

As the term of the Integrated Services Framework Agreement as well as the annual caps, including the revised annual cap, for the continuing connected transactions thereunder will expire on 31 December 2016, and subject to the approval by the Independent Shareholders at the extraordinary general meeting to be convened, the Company proposes to renew the Integrated Services Framework agreement with BUCG for a further term of three years commencing from 1 January 2017 and ending on 31 December 2019 on the same terms and conditions, the principle terms of which are summarized as follows:

<b>Parties</b>	The Company BUCG
<b>Term of the Agreement</b>	Subject to the approval by the Independent Shareholders at the extraordinary general meeting to be convened, the Integrated Services Framework Agreement is proposed to be renewed for a term of three years from 1 January 2017 to 31 December 2019.
<b>Principle Terms and Conditions</b>	Pursuant to the Integrated Services Framework Agreement proposed to be renewed:



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## LETTER FROM THE BOARD

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- (a) The integrated services to be provided by BUCG, its subsidiaries and/or associates to the Group include but not limited to engineering construction related services, including but not limited to provision of labour, supply of raw materials, equipment leasing; and training services and other services required by the Group to carry out its business.
- (b) The integrated services to be provided by the Group to BUCG, its subsidiaries and/or associates include but not limited to: (i) services relating to construction survey, design and consultancy, including but not limited to measurement, test, inspection of construction drawings, as well as training services and other services required by BUCG, its subsidiaries and/or associates to carry out their business; and (ii) project sub-contracting and/or specialized services, including but not limited to project management and equipment leasing services, etc., pursuant to Situations (2) and (3) of the Supplemental Agreement II to the Non-competition Agreement.
- (c) The parties agree that the transaction shall be consummated in line with the applicable general market practice (if any) and on normal commercial terms.
- (d) The parties are entitled to choose the counterparty of the transaction, i.e. to provide services to, or obtain services from, any third parties (other than in the circumstances specified in below paragraph (e)). Meanwhile, BUCG, its subsidiaries and/or associates shall provide services to the Group on terms and conditions no less favourable than those offered to independent third parties under similar circumstances and shall not request the Group to provide services on terms and conditions more favourable than those offered to the independent third parties by the Group.

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## LETTER FROM THE BOARD

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- (e) Notwithstanding any other provisions of the agreement, in respect of the awarded projects cooperated with and/or bid by BUCG under the Situations (2) and (3) as set out in the Supplemental Agreement II to the Non-competition Agreement, BUCG shall, in accordance with the terms of the bidding documents and in compliance with the relevant laws and regulations, sub-contract part or parts of the awarded contract bid by BUCG for the Company to the Group and/or enter into such other ways of cooperation, including but not limited to project management services and/or equipment leasing services, etc., as permitted by the project owner on a no profit basis to BUCG.

### **Pricing Policy**

Pursuant to the Integrated Services Framework Agreement proposed to be renewed, either party shall provide services to the other party at a price determined under the following pricing principles:

- (a) Price prescribed by the government if available (The government-prescribed price refers to the price in respect of certain category of services determined by the central, provincial or local governments, relevant price control authorities or the industry regulators in the PRC as prescribed in the laws, regulations, decisions, orders or charging standards. If any government-prescribed price is available to the relevant transactions, the parties of the agreement will execute such government-prescribed price first. The Company will pay close attention to the updates of government-prescribed prices and determine the price accordingly); or

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## LETTER FROM THE BOARD

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- (b) Where there is no government-prescribed price, then the government-guided price (if available) taking into account market factors (The government-guided price refers to the pricing range or level provided by the central government, provincial government, local government, industry associations or other competent authorities for certain specific types of services, which price will be determined by the parties through negotiations with reference to the pricing range or level. Currently, there is no government-guided price available in both engineering construction and construction design, survey and consultancy sectors. The Company will keep track of related updates of government-guided prices. If any governmental documents issued to regulate the services the Company being involved and provide certain pricing range or level, the price will fall within the range of the government-guided price as stated in such documents. Along with the government-guided price, the Company will take into account the price charged by at least two independent third parties (if applicable) in areas or nearby areas providing such same type of services on normal commercial terms with comparable scale at that time. The Company will also determine the price by taking into account the project scale, technical difficulties, construction period, quality of services provided by the suppliers, and labour costs etc.); or

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## LETTER FROM THE BOARD

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- (c) Where there is neither government-prescribed price nor government-guided price, then the price determined through tender process or other available market price. (If the Company intends to bid for a project, the Sales & Marketing Department will first evaluate the cost and price of the project and then formed a plan which will be submitted to responsible department heads for approval. If approved, the Company will prepare bidding documents as required by the project owner. According to relevant PRC rules and regulations in relation to the tender process of certain services, the project owner shall organise experts to evaluate the bidder and respective bidding documents. At last, the project owner will determine the bid winner by taking into account certain factors, including but not limited to the qualification of the bidders, the terms provided by the bidders and the total prices quoted, and with reference to the experts' opinions.) The "market price" shall be determined in the following order: (1) the price charged by independent third parties who offer the same type of services under normal commercial terms in the ordinary and usual course of business at or near the area where such services are provided with reference to at least two independent third parties who provide the same or similar type of services under same conditions; or (2) where (1) is inapplicable, the price charged by independent third party(ies) who offer the same type of services under normal commercial terms in the ordinary and usual course of business in the PRC with reference to at least two independent third parties who provide the same or similar type of services under same conditions; or

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## LETTER FROM THE BOARD

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- (d) Where none of the above is available or where none of the above transaction rules is applicable in the actual transaction, then the contractual price. The “contractual price” shall be determined on the basis of “reasonable cost + reasonable profit”. Among which, the “reasonable cost” means the cost confirmed by both parties after negotiations and as permitted by the relevant accounting principles of the PRC (inclusive of sales tax and surcharges); and “reasonable profit” means the profit calculated based on reasonable costs under market practice (The Company will estimate the cost and price of the project with reference to calculation methods stated in relevant charging guidelines promulgated by the government or industry associations. The prices, methods and calculations provided by the industry associations and competent authorities are for reference only and it is not mandatory for the parties to apply such prices, methods and calculations in determining of the contractual price. For example, in terms of engineering construction related services, reference would be made to the Project Cost Information (《工程造價信息》) published by local commissions of housing and urban-rural development regularly, which provides suggested prices of certain types of building materials. While in terms of construction consultancy services, the Charging Guidelines of Preliminary Consultancy Services of Urban Rail Transit (《城市軌道交通前期諮詢工作收費指導意見》) issued by China Association of Metros (中國城市軌道交通協會) would be taken as a reference. To ensure the price is fair and reasonable, the Company will take into account certain factors, including the project scale, technical difficulties, labour costs and the pricing of similar type of projects. Normally, the quoted price shall not be below the estimated cost plus reasonable profit).

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## LETTER FROM THE BOARD

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- (e) The price of the relevant project sub-contracting arrangements and/or specialised services, if required, to be provided by the Group to BUCG, pursuant to Situations (2) and (3) set out in the Supplemental Agreement II to the Non-competition Agreement, shall be determined as follows:
  - (i) the price of the sub-contracting arrangements shall be the contractual price attributable to part or parts of the awarded contract sub-contracted to the Group on a no profit basis to BUCG under the contract awarded to BUCG in Situations (2) and (3) as set out in the Supplemental Agreement II to the Non-competition Agreement; and/or
  - (ii) The price of the specialised services shall be the contractual price of the contract awarded to BUCG or, if applicable, the contractual price attributable to the remaining part of the awarded contract, after deducting the price of the part sub-contracted to third parties and the above-mentioned price of the sub-contracting arrangements (on a no profit basis to BUCG).

### **Payment Arrangements**

The parties shall pay the service fees to each other upon completion of the relevant services in accordance with the provisions of the individual service agreement to be entered into by the parties under the Integrated Services Framework Agreement proposed to be renewed.

### **Implementation Agreements**

During the term of the Integrated Services Framework Agreement proposed to be renewed, members of the Group and BUCG, its subsidiaries or associates will enter into, from time to time and as necessary, individual service contract for each of the specific transactions contemplated under such framework agreement (including such individual service contract entered into during the term of the existing Integrated Services Framework Agreement which has an expiring date within the term of the agreement proposed to be renewed), provided that any such individual service contract shall be within the ambit of, and shall not contravene the principles or any provisions as agreed by the parties in, the Integrated Services Framework Agreement proposed to be renewed.

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## LETTER FROM THE BOARD

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### 3. Proposed Annual Caps for the Financial Years Ending 31 December 2019

#### 3.1 *Historical transaction amounts and historical annual caps*

Set out below is the historical transaction amounts in respect of the mutual provision of integrated services between the Group and BUCG, its subsidiaries and/or associates under the Integrated Services Framework Agreement for the preceding two financial years ended 31 December 2015 and the nine months ended 30 September 2016:

<b>Approximate historical transaction amounts for the financial years/nine-month period ended</b>			
	<b>31 December 2014</b>	<b>31 December 2015</b>	<b>30 September 2016</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Revenue generated by the Group from providing integrated services to BUCG, its subsidiaries and/or associates	17.94	28.25	33.13
Expenditure incurred by the Group for provision of integrated services by BUCG, its subsidiaries and/or associates	31.19	103.61	97.35

Set out below is the historical annual caps in respect of the mutual provision of integrated services between the Group and BUCG, its subsidiaries and/or associates under the Integrated Services Framework Agreement for the three financial years ending 31 December 2016:

<b>Historical annual caps for the financial year ended</b>			
	<b>31 December 2014</b>	<b>31 December 2015</b>	<b>31 December 2016</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Revenue generated by the Group from providing integrated services to BUCG, its subsidiaries and/or associates	25.00	30.00	286.00
Expenditure incurred by the Group for provision of integrated services by BUCG, its subsidiaries and/or associates	140.00	164.00	193.00

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## LETTER FROM THE BOARD

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The Directors have been monitoring the transaction amounts contemplated under the Integrated Services Framework Agreement, and for the two years ended 31 December 2015, the annual caps for each year were not exceeded. As of the Latest Practicable Date, the annual caps for the continuing connected transactions under the Integrated Services Framework Agreement for the year ended 31 December 2016 have not been and are not expected to be exceeded.

Taking into account the imminent Chinese New Year public holidays and the less favourable weather conditions for construction in winter, it is expected that only minimum transaction amounts will be generated during the period from 1 January 2017 to the date the EGM approving the new annual caps. The Company has internal project control measures to control and oversee the development of each project. The internal reports have not indicated anything abnormal or existence of any unforeseeable events which would incur unexpected expense and revenue transactions. Further, the Company has made specific enquiries with relevant site managers of on-going projects, according to which, the Company does not expect any existing or unexpected event which may cause the transactions contemplated under the Integrated Services Framework Agreement subject to Shareholders' approval under the Hong Kong Listing Rules before the EGM approving the new annual caps.

### **3.2 Proposed annual caps for the three financial years ending 31 December 2019**

The Company estimates the proposed annual caps for the continuing connected transactions contemplated between the Group and BUCG, its subsidiaries and/or associates under the Integrated Services Framework Agreement proposed to be renewed for the next three financial years ending 31 December 2019 as follows:

	<b>Proposed annual caps for the financial year ending</b>		
	<b>31 December 2017</b>	<b>31 December 2018</b>	<b>31 December 2019</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Revenue to be generated by the Group from providing integrated services to BUCG, its subsidiaries and/or associates	1,456	1,820	2,002
Expenditure to be incurred by the Group for provision of integrated services by BUCG, its subsidiaries and/or associates	940	1,128	1,354



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## LETTER FROM THE BOARD

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### 3.3 *Basis of determination of the annual caps*

#### 3.3.1 *Revenue*

When estimating the annual caps for the revenue to be generated by the Group from providing integrated services to BUCG, its subsidiaries and/or associates under the Integrated Services Framework Agreement proposed to be renewed for the next three years, the Company has made reference to the historical transaction figures as listed above and considered, among other things, the following key factors:

- (a) **The revenue from the Kazakhstan Project:** BUCG successfully bid for the Company and entered into the construction contract with the project owner in June 2016 pursuant to Situation (3) of the Supplemental Agreement II to the Non-competition Agreement. BUCG has to enter into the proposed entrustment management and operation contract with the Company for the performance by the Company of the construction contract with no profit to BUCG. Please refer to paragraph 1.3.2 for more information relating to the Kazakhstan Project and the proposed major terms of the entrustment management and operation contract to be entered into by BUCG and the Company. The construction contract of the Kazakhstan Project is for a contract sum of approximately RMB3,058 million with a construction period of 627 calendar days. It is estimated that approximately 70% to 90% of the construction work would be carried out in 2017 and 2018, with completion work to be carried out in 2019. It is expected that revenue from the Kazakhstan Project would be approximately RMB1,281.0 million and RMB1,311.5 million for the first two years ending 31 December 2018, respectively, and approximately RMB457.5 million by the end of 2019.
- (b) **Other potential new urban rail transit projects in Beijing and other cities of China:** The Company expects that in the next three years, and pursuant to Situations (2) and (3) of the Supplemental Agreement II to the Non-competition Agreement, the Company would require the assistance by BUCG to cooperate or bid for new urban transit projects in Beijing and other cities of China and which, if awarded to BUCG, should be sub-contracted to the Group by BUCG or enter into such other means of cooperation with the Company on a no profit basis to BUCG. When estimating the amount of such potential projects, the Company has taken into account a potential PPP project in Anhui Province with a sub-contract value (of the part obtained by BUCG on the Company's

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## LETTER FROM THE BOARD

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behalf) of approximately RMB511.0 million or, if successfully obtained, an estimated revenue of approximately RMB171.0 million and RMB340.0 million for the two financial years ending 31 December 2018 and 31 December 2019, respectively. The Company has also included a total contract sum of approximately RMB550.0 million or approximately RMB150.0 million, RMB200.0 million and RMB200.0 million for the three financial years ending 31 December 2019, respectively, for other projects which BUCG, pursuant to the Supplemental Agreement II to the Non-competition Agreement, may assist the Company in obtaining the contract or cooperate with the Company.

- (c) **Design, survey and consultancy services to be provided by the Company to BUCG, its subsidiaries and associates:** The Company expects that the revenue from such services would increase with the continued growth in business of the Company as well as expansion of the business of BUCG. For the past several years since 2013, revenue from the provision of design, survey and consultancy service to BUCG, its subsidiaries and associates was between RMB8.0 million to RMB22.0 million, but revenue for the provision of such services is expected to increase to approximately RMB25.0 million, RMB30.0 million and RMB35.0 million for the three financial years ending 31 December 2019, respectively.
- (d) **Other potential projects:** As referred to in paragraphs 1.3.1 and 3.3.2(e), investments by the PRC government, both the central and local governments, in urban infrastructure are expected to continue in the near future. Given the size of most PPP projects and specific requirements in relation to the bidders, the Company expects that assistance from BUCG would continue in the circumstances specified in the Supplemental Agreement II to the Non-competition Agreement. To provide for further potential projects to be obtained by BUCG on the Company's behalf in such circumstances, the Company has included a buffer of 25% increase for the financial year ending 31 December 2018 based on the estimated annual cap for the year ending 31 December 2017 and a 10% increase for the financial year ending 31 December 2019 based on the estimated annual cap for the year ending 31 December 2018 in its estimate of the annual caps of revenue from BUCG, its subsidiaries and associates.

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## LETTER FROM THE BOARD

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### 3.3.2 Expenditure

When estimating the annual caps for the expenditure to be incurred for the provision of integrated services by BUCG, its subsidiaries and/or associates to the Group under the Integrated Services Framework Agreement proposed to be renewed for the next three years, the Company has made reference to the historical transaction figures as listed above and the new contracts obtained by the Group in 2016. The key factors considered are:

- (a) **The expenditures incurred and to be incurred for the construction projects and PPP projects obtained by the Company:** Among these projects, the major projects include the Anqing PPP Project, the Section 3 of Beijing Subway Line No. 7, the Zunyi Expressway PPP Project and the Yunnan North Airport Highway PPP Project. For details of these major projects, please refer to paragraph 1.3.3(a) to (d) above. The Company estimates that the expenditures incurred by all the projects, including the major projects referred to above, which have already been obtained by the Group, for the six months ending 31 December 2016 are RMB125.0 million, and the expenditures to be incurred for the three financial years ending 31 December 2019 are RMB483.0 million, RMB271.1 million and RMB180.0 million, respectively.
- (b) **The expenditures expected to be incurred in the next three years for the Kazakhstan Project:** BUCG, its subsidiaries and/or associates would provide integrated services to the Group in connection with the construction work of the Kazakhstan Project. The Company expects that the expenditures to be incurred for such integrated services would be approximately RMB256.2 million, RMB262.3 million and RMB91.5 million for the three financial years ending 31 December 2019, respectively. For further information relating to the Kazakhstan Project, please refer to paragraph 1.3.2 above.
- (c) **The expenditures expected to be incurred in the next three years for the Beijing New Airport Express Project:** As referred to in paragraph 1.3.4 above, if the Company is able to directly obtain construction work from the project company of the Beijing New Airport Express Project, the project would require the provision of integrated services by BUCG, its subsidiaries and associates to the Group. The Company expects that the expenditures to be incurred for the provisions of integrated services by BUCG, its subsidiaries and associates to the Group would be approximately RMB200.0 million per year for the three financial years ending 31 December 2019.

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## LETTER FROM THE BOARD

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- (d) **The expenditures to be incurred for potential EPC and PPP projects which the Company may obtain in the next three years:** The Company has taken into account upcoming potential EPC and PPP projects which are already public known and which the Company would bid for and may obtain in the near future. For these projects, BUCG, its subsidiaries and associates will continue to provide integrated services to the Group and annual expenditures would be incurred for the provisions of such services. Among these projects, the Company estimates that it would be successful in obtaining five to six projects in the next three financial years. These potential upcoming projects include the potential PPP project in Anhui province (as referred to in paragraph 3.3.1(b) above), two to three modern tram line PPP projects in Beijing, a modern tram line EPC project in Guangdong Province, and a civil construction project of rail transit in Henan Province, with an estimated aggregate construction amount over RMB20,000 million, or an aggregate expenditures of approximately RMB172.4 million and RMB588.9 million for the two financial years ending 31 December 2019 for the integrated services to be provided by BUCG, its subsidiaries and associates to the Group.
- (e) **Other potential urban transit projects in the next three financial years:** As stated in the Company's 2015 annual report and in paragraph 1.3.1 above, with the start of the new normal of the Chinese economy, the Chinese economic development is in a stage of profound adjustments through transformation and upgrading. Strengthened investments in urban infrastructure by the Chinese government and the promulgation of policies that encourage participation by private funds have provided new stimuli in the development of the urban transit industry. The Company expects that investments by the government in urban transit projects will continue in the next three financial years which will provide more business opportunities for the Group resulting in increased expenditures for the integrated services to be provided by BUCG, its subsidiaries and/or associates to the Group. The Company has therefore included an annual increase of 20% on the estimated expenditures for each of the year of 2018 and 2019 based on the estimated annual cap for the previous year so as to accommodate further projects which the Group may successfully obtain during the two years ending 31 December 2019 and which would require the integrated services of BUCG, its subsidiaries and associates.

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## LETTER FROM THE BOARD

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### 3.4 *Internal control measures*

To ensure the Company's conformity with the above pricing policy in relation to the continuing connected transactions contemplated under the Integrated Services Framework Agreement and the agreement proposed to be renewed, the Company has adopted and will continue to strengthen a series of internal control policies for its daily operation.

The Company has formulated relevant Administrative Measures on Connected Transactions, in accordance with supervisory requirements of Hong Kong Stock Exchange in respect of connected transactions and continuing connected transactions and with reference to actual situation of the Company, which implements strict regulation from aspects of identification of connected transactions, procedure of review and approval, report, supervision and management and related information disclosure.

To ensure the relevant continuing connected transactions contemplated under the Integrated Services Framework Agreement between the Group and BUCG, its subsidiaries or associates being in compliance with the pricing policy thereunder, especially when the relevant service price is determined on the basis of market price, the Group has adopted and will continue to strengthen the following specific measures:

- (a) The Department of Board Secretary is responsible for collecting detailed data in respect of above-mentioned continuing connected transactions on a regular basis, including but not limited to pricing terms, payment arrangement and actual transaction amounts specified in individual service contracts under the Integrated Services Framework Agreement; the Legal and Audit Department and the Financial Department of the Company shall assist in reviewing and controlling the specific terms, conditions and actual transaction amounts of such continuing connected transactions.
- (b) Senior management of the Company and its subsidiaries is responsible for supervising whether the transaction terms, pricing and other terms specified in individual service contracts are in compliance with the principles set out in the Integrated Services Framework Agreement, whether the price conformed with relevant pricing requirements if the service applies price prescribed by the government, government-guided price or price determined through tender process and whether the price conformed with the range of the then market price applicable to same type of services if the service price is based on the market price, as well as evaluating the fairness of the transaction terms and pricing terms, and reporting relevant information to the Board in time.

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## LETTER FROM THE BOARD

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- (c) The Board is responsible for inspecting and supervising the control on connected transactions of the Company, as well as the execution of control system of connected transactions by the Directors, senior management and connected persons of the Company.
- (d) In addition, the independent non-executive Directors have reviewed and would continue to review the continuing connected transactions contemplated under the Integrated Services Framework Agreement to ensure that such agreement is entered into on normal commercial terms, is fair and reasonable, and are carried out pursuant to the terms of such agreement. The auditors of the Company would also conduct an annual review on the pricing terms and annual caps of such continuing connected transactions.

To ensure that the pricing terms are on normal commercial terms, the Group has implemented internal approval procedures, including the following:

- (a) For integrated services provided by the Group to BUCG, its subsidiaries and/or associates, the Sales & Marketing Department will first estimate the cost and price of the project based on basic information of the project and with reference to the calculation methods stated in related guidelines and rules from the government and industry associations. The Sales & Marketing Department will then assess whether the price is fair and reasonable after taking into consideration individual factors, such as prices from independent third parties who offer same type of services under similar conditions, and submit its plan to a special session organised by the General Manager for consideration at which an approval will be granted, if appropriate.
- (b) For services provided by BUCG, its subsidiaries and/or associates to the Group, the Group will select suppliers and determine the terms (including the pricing terms) through internal approval procedures. Prior to entering into an integrated services transaction, the relevant business department will assess the prices provided by the suppliers by estimating the cost and price and with reference to market prices of similar services provided under similar conditions. If the price is fair and reasonable, the relevant business department will submit its application to its department head for preliminary review and approval. The application will be subject to different levels of supervisions and approvals. With approval by the department head, the relevant business department will submit the application to the Business Management Department and then the application will be passed to the Legal and Audit Department for legal review. If approved, the head of the Operation Department will conduct a further examination and provide his opinion to the General Manager. The General Manager will grant the final approval if appropriate.

#### **4. Reasons for and Benefits of the Renewal of the Integrated Services Framework Agreement**

In the ordinary and usual course of business, BUCG, its subsidiaries and/or associates require the integrated services including services relating to construction design, survey and consultancy, training services, project sub-contracting and/or specialised services from the Group from time to time. On the other hand, the Group also requires the integrated services including engineering construction related services from BUCG, its subsidiaries and/or associates from time to time. Due to the historical and future long-term cooperation relationship between the Group and BUCG, its subsidiaries and/or associates, the renewal of the Integrated Services Framework Agreement with BUCG will standardize the mutual provision of above services between the Group and BUCG, its subsidiaries and/or associates, clarify the content and operating methods of business cooperation between both parties, set out the transaction principles and pricing principles in relation to the connected transactions, standardize the operating process and specify rights and obligations of both parties.

The integration of design, survey and consultancy business and construction contracting business enables the Group to provide comprehensive business solutions covering all major stages in the value chain of the urban rail transit engineering. In view of BUCG's rich resources and experience and relevant arrangement in the Non-competition Agreement, the renewal of the Integrated Services Framework Agreement may provide the Group with earlier access to market information regarding potential business opportunities, thereby enhancing its chances of winning bids, expand the sources of revenue and consolidate and enhance the market position of the Group in the urban rail transit industry. It is anticipated that such transactions will create synergy from combining the resources and expertise of BUCG, its subsidiaries and/or associates in the provision of relevant services, and enable the Group to enhance its competitiveness.

The Directors (excluding the independent non-executive Directors, whose view on the Integrated Services Framework Agreement proposed to be renewed and the proposed annual caps for the continuing connected transactions thereunder will be set out in the circular after considering the advice from the independent financial adviser) are of the view that the Integrated Services Framework Agreement proposed to be renewed and the continuing connected transactions contemplated thereunder are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions therein as well as the proposed annual caps for the continuing connected transactions, both revenue and expenditure, contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

### 5. Hong Kong Listing Rules Implications

BUCG is the controlling Shareholder of the Company directly and indirectly holding an aggregate of 44.87% interest in the Company as at the Latest Practicable Date. Accordingly, BUCG, its subsidiaries and associates are connected persons of the Company under Chapter 14A of the Hong Kong Listing Rules and the transactions contemplated between the Group and BUCG, its subsidiaries and/or associates under the Integrated Services Framework Agreement proposed to be renewed and the Property and Land Leasing Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest of the applicable percentage ratios in respect of the proposed annual caps for the continuing connected transactions, both revenue and expenditure, contemplated under the Integrated Services Framework Agreement proposed to be renewed exceeds 5%, such continuing connected transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The following Directors, being Ms. Wang Liping, Mr. Chen Daihua, Ms. Guo Yanhong and Mr. Tang Shuchang, are the deputy general manager, the chairman, the director and the general manager and the assistant to the general manager, respectively, of BUCG. Therefore, they are deemed to have material interest in all the above-mentioned continuing connected transactions contemplated between the Group and BUCG, its subsidiaries and/or associates and thus have abstained from voting on the relevant resolution at the Board meeting. Save as mentioned above, none of the other Directors has a material interest in such transactions and is required to abstain from voting on the relevant resolution at the Board meeting.

### 6. General Information

#### *Information on the Company*

The Company is principally engaged in the design, survey and consultancy business for urban rail transit engineering, industrial and civil construction and municipal engineering, as well as the construction contracting business for urban rail transit engineering.

#### *Information on BUCG*

BUCG is a wholly state-owned enterprise established as a limited liability company, which is principally engaged in the construction contracting, real estate development and design and consultation businesses.



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## LETTER FROM THE BOARD

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### III. PROPOSED APPOINTMENT OF SUPERVISORS

References are made to the announcements of the Company dated 1 November 2016 and 15 December 2016 in relation to the resignation of Director and Supervisors. Due to re-designation of work, Mr. Yao Guanghong has resigned from his positions as a shareholder representative Supervisor and the chairman of the Board of Supervisors, with effect from 1 November 2016; and Mr. Fu Yanbing has resigned from his position as a shareholder representative Supervisor, with effect from 15 December 2016.

Reference is also made to the announcement of the Company dated 27 December 2016 in relation to the proposed appointment of Supervisors. The Board of Supervisors resolved on 26 December 2016 to propose the appointment of each of Mr. Yuan Guoyue (“**Mr. Yuan**”) and Ms. Zhao Hong (“**Ms. Zhao**”) as a shareholder representative Supervisor of the first session of the Board of Supervisors.

In accordance with the articles of association of the Company, the proposed appointment of Mr. Yuan and Ms. Zhao is subject to the approval by the Shareholders at the general meeting of the Company. Relevant proposals will be put forward at the EGM for Shareholders’ consideration and approval by way of ordinary resolutions.

#### **Biographical details of Mr. Yuan are set out below:**

Mr. Yuan, aged 58, is currently the head of sales and marketing department of BUCG. Mr. Yuan served as the chief engineer of Beijing Urban Construction No. 5 Construction Engineering Co., Ltd. (北京城建五建设工程有限公司) from January 1990 to December 1993; the project manager of Beijing Urban Construction No. 5 Construction Engineering Co., Ltd. from December 1993 to December 2003; the deputy manager of Beijing Urban Construction No. 5 Construction Engineering Co., Ltd. from December 2003 to August 2006 and concurrently the project manager of each of the project of Terminal T3 and National Stadium; the deputy manager of Beijing Urban Construction No. 5 Construction Engineering Co., Ltd. from August 2006 to August 2007; the deputy manager of construction general contracting department of BUCG from August 2007 to December 2010; a director of Beijing Urban Construction No. 5 Asset Management Co., Ltd. (北京城建五資產管理有限公司) from January 2010 to April 2016 and the head of sales and marketing department of BUCG from December 2010 to present. In January 1983, Mr. Yuan graduated from Chongqing Architecture College (重慶建築高等專科學校) with a college degree in industrial and civil construction. In August 2001, he graduated from the master programme in business administration of College of Economics and Business Administration of Beijing Normal University (北京師範大學經濟管理學院). In 2004, Mr. Yuan was qualified as a senior engineer evaluated by the Beijing Senior Specialised Technique Titles Evaluation Committee (北京市高級專業技術職務評審委員會), a First-Class Constructor of the Ministry of Construction of the People’s Republic of China (now the Ministry of Housing and Urban-Rural Development of the People’s Republic of China) (中華人民共和國建設部，現稱中華人民共和國住房和城鄉建設部) in June 2008 and a Chartered Architect of the Royal Institute of British Architects (英國皇家建造師協會) in December 2008.

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## LETTER FROM THE BOARD

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**Biographical details of Ms. Zhao are set out below:**

Ms. Zhao, aged 27, is currently the senior manager of the fund investment department of Beijing State-owned Capital Operation and Management Center (北京國有資本經營管理中心). Ms. Zhao has successively served as the business assistant, business executive and senior manager of the fund investment department of Beijing State-owned Capital Operation and Management Center from July 2013 to present. Ms. Zhao graduated from the Central University of Finance and Economics (中央財經大學) with a bachelor degree in management in June 2011 and graduated from Central University of Finance and Economics with a master degree in management in June 2013.

Save as disclosed above, Mr. Yuan and Ms. Zhao do not have any relationship with any Directors, senior management or substantial or controlling Shareholders of the Company, nor do they have any interest in the Shares of the Company within the meaning of Part XV of the SFO.

Save as disclosed above, Mr. Yuan and Ms. Zhao did not hold any other positions in the Company or any of its subsidiaries or any directorships in other listed companies in the last three years.

Upon the proposed appointment of each of Mr. Yuan and Ms. Zhao as a shareholder representative Supervisor being approved by the Shareholders at the EGM, the Company will enter into a service contract with each of them. The term of office of each of Mr. Yuan and Ms. Zhao is for a term starting from the date of the approval by the Shareholders at the EGM to the expiry date of the terms of office of the members of the current Board of Supervisors. Mr. Yuan and Ms. Zhao will not receive any remuneration for acting as Supervisors.

Save as disclosed above, the Company was not aware of any other matters that need to be brought to the attention of the Shareholders or any information in relation to the proposed appointment of Mr. Yuan and Ms. Zhao that need to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to (v) of the Hong Kong Listing Rules.

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## LETTER FROM THE BOARD

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### IV. PROPOSED APPOINTMENT OF NON-EXECUTIVE DIRECTOR

Reference is made to the announcement of the Company dated 17 January 2017 in relation to the resignation of non-executive Director and proposed appointment of non-executive Director. The Board announced that Mr. Kong Lingbin (“**Mr. Kong**”) tendered his resignation as a non-executive Director on 17 January 2017 due to change of job assignment. The resignation of Mr. Kong will take effect upon the approval of the appointment of a new non-executive Director at the EGM to fill the vacancy following the resignation. The Board resolved on 17 January 2017 to propose the appointment of Mr. Yan Lianyuan (“**Mr. Yan**”) as a non-executive Director of the first session of the Board.

In accordance with the articles of association of the Company, the proposed appointment of Mr. Yan is subject to the approval by the Shareholders at the general meeting of the Company. Relevant proposal will be put forward at the EGM for Shareholders’ consideration and approval by way of ordinary resolution.

#### **Biographical details of Mr. Yan are set out below:**

Mr. Yan, aged 54, is currently the deputy general manager of Beijing Gonglian Highway Connect Line Co., Ltd. (北京市公聯公路聯絡線有限責任公司). Mr. Yan has successively served as the technician, section chief, engineering commander, deputy commissioner, deputy executive commissioner, commissioner of the Beijing Pinggu Highway Administration Institute (北京市平谷公路管理所) (Pinggu Branch of Beijing Highway Bureau (北京市公路局平谷分局)) from July 1984 to September 2002; the assistant to the general manager of Beijing Gonglian Highway Connect Line Co., Ltd., which primarily engaged in the construction management of urban roads and facilities, from September 2002 to present, and successively and concurrently served as the head of plan and contract department, the general manager of Beijing Gonglian Investment Management Co., Ltd. (北京公聯投資管理有限責任公司), the chairman of Beijing Gonglian Jingsheng Petrochemical Co., Ltd. (北京公聯京勝石化有限公司), the chairman of Beijing Gonglian Shouqi Petroleum and Chemical Co., Ltd. (北京公聯首汽石化有限公司), and the general manager of Kunming New Airport Highway Construction and Development Co., Ltd. (昆明新機場高速公路建設發展有限公司). Mr. Yan graduated from Beijing Construction Engineering College (北京建築工程學院), majoring in road and bridge, with a bachelor degree of engineering in July 1984.

Save as disclosed above, Mr. Yan does not have any relationship with any Directors, senior management or substantial or controlling Shareholders of the Company, nor does he have any interest in the Shares of the Company within the meaning of Part XV of the SFO.

Save as disclosed above, Mr. Yan did not hold any other positions in the Company or any of its subsidiaries or any directorships in other listed companies in the last three years.

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## LETTER FROM THE BOARD

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Upon the proposed appointment of Mr. Yan as a non-executive Director being approved by the Shareholders at the EGM, the Company will enter into a service contract with him. The term of office of Mr. Yan is for a term starting from the date of the approval by the Shareholders at the EGM to the expiry date of the terms of office of the members of the current Board. Mr. Yan will not receive any director's fees for acting as a non-executive Director.

Save as disclosed above, the Company was not aware of any other matters that need to be brought to the attention of the Shareholders or any information in relation to the proposed appointment of Mr. Yan that need to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to (v) of the Hong Kong Listing Rules.

### **V. EGM**

The EGM will be held at 12A, Block D, Hengtai Center, No. 18 Fengtai North Road, Fengtai District, Beijing, the PRC at 9:30 a.m. on Thursday, 9 March 2017, to consider and if thought fit, to approve the resolutions in relation to (1) the renewal of the Integrated Services Framework Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder for the three financial years ending 31 December 2019; (2) the proposed appointment of Supervisors; and (3) the proposed appointment of non-executive Director. A notice convening the EGM is set out on pages 64 to 66 of this circular. A proxy form and a reply slip for the EGM are also enclosed herewith.

If you intend to appoint a proxy to attend the EGM, you are required to complete and return the proxy form in accordance with the instructions printed thereon as soon as possible. For holders of H Shares, the proxy form should be returned to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in hand or by post not less than 24 hours before the time stipulated for convening the EGM or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof if you so wish.

If you intend to attend the EGM in person or by proxy, you are required to complete and return the reply slip on or before Friday, 17 February 2017.

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## LETTER FROM THE BOARD

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### VI. VOTES BY WAY OF POLL

According to the Hong Kong Listing Rules and the articles of association of the Company, the resolutions set out in the notice of the EGM will be voted on by way of poll. Results of the poll voting will be posted on the website of the Company at [www.bjucd.com](http://www.bjucd.com) and the website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) after the conclusion of the EGM.

In accordance with the Hong Kong Listing Rules, BUCG, its subsidiaries and/or associates shall abstain from voting on the resolution in relation to the renewal of the Integrated Services Framework Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder at the EGM.

To the best knowledge of the Directors and having made all reasonable enquiries, other than BUCG, its subsidiaries and/or associates, no other Shareholder has a material interest in the continuing connected transactions contemplated under the Integrated Services Framework Agreement proposed to be renewed and is required to abstain from voting on the relevant resolution to be proposed at the EGM.

### VII. RECOMMENDATIONS

Your attention is also drawn to: (a) the letter from the Independent Board Committee, on page 33 to page 34 of this circular, which sets out the recommendations of the Independent Board Committee to the Independent Shareholders, in relation to the terms of the Integrated Services Framework Agreement proposed to be renewed and the proposed annual caps for the continuing connected transactions contemplated thereunder for the three financial years ending 31 December 2019; (b) the letter from Somerley, on page 35 to page 56 of this circular, which sets out the opinions and recommendations of Somerley to the Independent Board Committee and Independent Shareholders, in relation to the terms of the Integrated Services Framework Agreement proposed to be renewed and the proposed annual caps for the continuing connected transactions contemplated thereunder for the three financial years ending 31 December 2019, as well as the principal factors and reasons taken into account by Somerley in arriving at its advice; and (c) further information set out in the Appendix to the Circular.

The Directors (excluding the independent non-executive Directors) are of the view that the Integrated Services Framework Agreement proposed to be renewed was entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions therein as well as the proposed annual caps for the continuing connected transactions contemplated thereunder for the three financial years ending 31 December 2019 are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

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## LETTER FROM THE BOARD

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Accordingly, the Directors (excluding the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve to the renewal of the Integrated Services Framework Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder for the three financial years ending 31 December 2019.

The Directors are also of the view that the resolutions in relation to the proposed appointment of Supervisors and the proposed appointment of non-executive Director are in the interests of the Company and the Shareholders as a whole. Therefore, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to approve the appointment of each of Mr. Yuan and Ms. Zhao as a shareholder representative Supervisor and the appointment of Mr. Yan as a non-executive Director.

Yours faithfully,

By order of the Board

**Beijing Urban Construction Design & Development Group Co., Limited**

**Wang Liping**

*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**北京城建设计发展集团股份有限公司**

BEIJING URBAN CONSTRUCTION DESIGN & DEVELOPMENT GROUP CO., LIMITED

**Beijing Urban Construction Design & Development Group Co., Limited**

**北京城建设计发展集团股份有限公司**

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

**(Stock Code: 1599)**

*Independent non-executive Directors:*

Zhang Fengchao

Wang Dexing

Yim Fung

Sun Maozhu

Liang Qinghuai

20 January 2017

*To the Independent Shareholders:*

Dear Sir or Madam,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the circular of the Company dated 20 January 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.

We have been appointed as the members of the Independent Board Committee to consider and advise the Independent Shareholders on whether the terms of the Integrated Services Framework Agreement proposed to be renewed and the proposed annual caps for the continuing connected transactions contemplated thereunder for the three financial years ending 31 December 2019 are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Somerley has been appointed by the Board as the Independent Financial Adviser to give advice to the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the Integrated Services Framework Agreement proposed to be renewed and the proposed annual caps for the continuing connected transactions contemplated thereunder for the three financial years ending 31 December 2019. Details of the advice from Somerley, together with the principal factors taken into consideration in arriving at such advice, are set out in its letter on pages 35 to 56 of the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Your attention is also drawn to the letter from the Board set out on pages 1 to 32 of the Circular and the additional information set out in the Appendix.

Having considered (i) the terms of the Integrated Services Framework Agreement proposed to be renewed and the proposed annual caps for the continuing connected transactions contemplated thereunder for the three financial years ending 31 December 2019; and (ii) the advice and recommendations of Somerley as well as the principal factors and reasons considered by Somerley, we are of the opinion that the Integrated Services Framework Agreement proposed to be renewed was entered into in the ordinary and usual course of business of the Group, and the terms and conditions therein as well as the proposed annual caps for the continuing connected transactions contemplated thereunder are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned, and are in the interests of the Company and its Shareholders as a whole.

Therefore, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Integrated Services Framework Agreement proposed to be renewed and the proposed annual caps for the continuing connected transactions contemplated thereunder for the three financial years ending 31 December 2019.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Mr. Zhang Fengchao**

**Mr. Wang Dexing**

**Mr. Yim Fung**

**Mr. Sun Maozhu**

**Mr. Liang Qinghuai**

*Independent non-executive Directors*



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## LETTER FROM SOMERLEY

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*The following is the text of a letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation in this circular.*



**Somerley Capital Limited**  
20th Floor  
China Building  
29 Queen's Road Central  
Hong Kong

20 January 2017

*To: the Independent Board Committee and the Independent Shareholders of  
Beijing Urban Construction Design & Development Group Co., Limited*

Dear Sirs,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the renewal of the continuing connected transactions (the “**Continuing Connected Transactions**”) contemplated under the Integrated Services Framework Agreement proposed to be renewed (the “**Proposed Integrated Services Framework Agreement**”) and the proposed annual caps for the three years ending 31 December 2019 (the “**Annual Caps**”). Details of the Continuing Connected Transactions (including the Annual Caps) are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 20 January 2017 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

As the term of the Integrated Services Framework Agreement as well as the Annual Caps, including the revised annual cap, for the continuing connected transactions thereunder expired on 31 December 2016, subject to the approval by the Independent Shareholders at the EGM to be convened, the Company proposes to renew the Integrated Services Framework Agreement for a further term of three years commencing from 1 January 2017 and ending on 31 December 2019, on the same terms and conditions. Details of the Proposed Integrated Services Framework Agreement are set out in the paragraph headed “2. The proposed renewal to the Integrated Services Framework Agreement” under the section headed “II. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS: THE INTEGRATED SERVICES FRAMEWORK AGREEMENT” in the letter from the Board of Circular.

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## LETTER FROM SOMERLEY

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As at the Latest Practicable Date, BUCG directly and indirectly held an aggregate of approximately 44.87% interest in the Company and is therefore the controlling Shareholder and connected person of the Company under the Hong Kong Listing Rules and BUCG, its subsidiaries and/or associates (the “**BUCG Group**”) are connected persons of the Company under Chapter 14A of the Hong Kong Listing Rules. The transactions contemplated under the Proposed Integrated Services Framework Agreement between the Group and the BUCG Group therefore constitute continuing connected transactions of the Company under the Hong Kong Listing Rules. As the highest of the applicable percentage ratios in respect of the Annual Caps exceeds 5%, the Continuing Connected Transactions (including the Annual Caps) are subject to the reporting, announcement, annual review and Independent Shareholders’ approval requirements under the Hong Kong Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Zhang Fengchao, Mr. Wang Dexing, Mr. Yim Fung, Mr. Sun Maozhu and Mr. Liang Qinghuai, has been established for the purpose of advising the Independent Shareholders in respect of the Continuing Connected Transactions (including the Annual Caps). We have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

In formulating our opinion, we have reviewed, amongst others, the Integrated Services Framework Agreement, the Supplemental Agreement to the Integrated Services Framework Agreement, the Proposed Integrated Services Framework Agreement, the Non-competition Agreement, the Supplemental Agreement II to the Non-competition Agreement, the annual reports of the Company for the two years ended 31 December 2015 (the “**2015 Annual Report**”) and 2014 (the “**2014 Annual Report**”), the interim report of the Company for the six months ended 30 June 2016 (the “**2016 Interim Report**”), the circular of the Company dated 11 December 2015 in relation to, among others, the entering into the Supplemental Agreement to the Integrated Services Framework Agreement and revision of relevant annual cap for the continuing connected transaction thereunder for 2016 (the “**2015 Circular**”) and the information contained in the Circular. We have also discussed with, and reviewed information provided by, the management of the Group regarding the businesses and prospect of the Group.

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

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## LETTER FROM SOMERLEY

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice and recommendation with regard to the Continuing Connected Transactions (including the Annual Caps), we have taken into account the principal factors and reasons set out below.

#### **I. Information on the Group**

The H Shares of the Company were listed on the Hong Kong Stock Exchange on 8 July 2014. The Group is principally engaged in the design, survey and consultancy business for urban rail transit engineering, industrial and civil construction and municipal engineering, as well as construction contracting business for urban rail transit engineering.

The Company has extensive experience in the business related to rail transit. It has been leading and promoting the development of the urban rail transit industry in China. The Company, traces its origin as 北京城建設計研究總院 (Beijing Urban Construction Design & Research Institute), which was established in 1958. It was a design organisation established for the design and survey services of 北京地鐵1號線 (Beijing Subway Line Number 1), China's first subway line. The Company has the highest level design and survey qualification in China, namely the Comprehensive A-class Qualification. According to the management of the Group, in 2015, in terms of general contractor of urban rail transit design projects, it had the largest market share and ranked first in China in terms of total length of operating projects. The Group has also participated in the large number of engineering contracting projects of urban rail transit lines in China, including stations and sections. The projects cover main cities in China, including Beijing, Guangzhou, Shenzhen, Tianjin, Hangzhou and Dalian.

#### **II. Information on BUCG**

BUCG is the controlling Shareholder of the Company, held approximately 44.87% of issued Shares as at the Latest Practicable Date. It is a wholly state-owned limited liability company under the Beijing Municipal Government. It is principally engaged in the construction contracting, real estate development and design and consultation businesses.

### III. The Renewal of the Integrated Services Framework Agreement

#### *1. Background*

As stated in the letter from the Board of the Circular, the Company and BUCG entered into the Integrated Services Framework Agreement on 18 June 2014 for a term of approximately two years and six months commencing from 18 June 2014 and ended on 31 December 2016, as part of the Group's ordinary and usual course of business, pursuant to which (i) the Group provides services relating to construction design, survey and consultancy, including but not limited to measurement, test, inspection of construction drawings, as well as training services and other services (the “**CDSC Integrated Services**”) to the BUCG Group; and (ii) the BUCG Group provides engineering and construction related services, including but not limited to provision of labour, supply of raw materials, equipment leasing as well as training services and other services (the “**E&C Integrated Services**”) to the Group.

On 29 October 2015 and 9 December 2015, the Company and BUCG entered into the Supplemental Agreement II to the Non-competition Agreement and the Supplemental Agreement to the Integrated Services Framework Agreement respectively in order to (i) enable BUCG and the Company to cooperate and bid for new projects under specific circumstances; and (ii) expand the scope of the CDSC Integrated Services to be provided by the Group to the BUCG Group to include “project sub-contracting and/or specialised services, including but not limited to project management and equipment leasing”, pursuant to Situation (2) and (3) referred to in the Supplemental Agreement II to the Non-competition Agreement. Details of the Supplemental Agreement II to the Non-competition Agreement and the Supplemental Agreement to the Integrated Services Framework Agreement are set out in the paragraph headed “1. Background” under the section headed “II. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS: THE INTEGRATED SERVICES FRAMEWORK AGREEMENT” in the letter from the Board of the Circular.

#### *2. Reasons for and benefits of the renewal of the Integrated Services Framework Agreement*

As stated in the letter from the Board of the Circular, in the ordinary and usual course of business, the BUCG Group requires the CDSC Integrated Services from the Group from time to time. On the other hand, the Group also requires the E&C Integrated Services from the BUCG Group from time to time. Due to the historical and future long-term cooperation relationship between the Group and the BUCG Group, the renewal of the Integrated Services Framework Agreement with BUCG will standardise the mutual provision of abovementioned services between the Group and the BUCG Group, clarify the content and operating methods of business cooperation between the Group and the BUCG Group, set out the transaction principles and pricing principles in relation to the connected transactions, standardise the operating process and specify rights and obligations of the Group and the BUCG Group.

The integration of design, survey and consultancy business and construction contracting business enables the Group to provide comprehensive business solutions covering all major stages in the value chain of the urban rail transit engineering industry. In view of BUCG's rich resources and experience and relevant arrangement in the Non-competition Agreement, the renewal of the Integrated Services Framework Agreement may provide the Group with earlier access to market information regarding potential business opportunities, thereby enhancing its chances of winning bids, expand the sources of revenue and consolidate and enhance the market position of the Group in the urban rail transit industry. It is anticipated that such transactions will create synergy from combining the resources and expertise of the BUCG Group in the provision of relevant services, and enable the Group to enhance its competitiveness.

Having regard to (i) the principal business and operations of the Group; and (ii) the reasons for and benefits of renewal of the Integrated Services Framework Agreement as mentioned above, we are of the view that the renewal of the Integrated Services Framework Agreement and the provision of the CDSC Integrated Services by the Group to the BUCG Group and the acquisition of the E&C Integrated Services by the Group from the BUCG Group are in the ordinary and usual course of business of the Group.

### 3. *Industry overview*

According to the Statistic and Analytics published by the China Association of Metros (中國城市軌道交通協會) in 2015, with the implementation of "12th Five-Year Plan", the total completed investment of approximately RMB368 billion were recorded in urban rail transit in China in 2015, representing an approximately 27% year-on-year increase from 2014. Compared with the total investment value of approximately RMB163 billion in 2011, the total completed investment in 2015 represented a compound annual growth rate ("CAGR") of approximately 22.6%. As at the end of 2015, there were 41 cities in China which were in the progress of construction of urban rail transit projects with total length of approximately 4,448 kilometers.

As set out in the equity research from China International Capital Corporation published in 2016, with reference to the historical development in developed countries including Japan, Germany, France and the United States, the development in urban rail transit will embrace a high acceleration rate when the urbanisation rate of a city reaches approximately 60% to 70%. The development will start becoming stagnated when the urbanisation rate of a city reaches approximately 80%. The urbanisation rate in China in 2015 was approximately 56.1%. Meanwhile, the total public transport coverage in Beijing, Shanghai and Guangzhou were in the range of approximately 40% to 50%, compared to approximately 80% coverage in major cities such as Tokyo, Paris and London. In this regard, there is still a significant room for development of urban rail transit projects across cities in China.

Indeed, imminent support in urban rail transit sector was noted in China. As stated in the 2016 Interim Report, in the commencing year of the “13th Five-Year Plan”, the development in urban infrastructure remained an important means to achieve steady economic growth under the New Normal and the investments by the public sector in transportation infrastructure will continue to increase. According to the joint publication of the Three Year Action Plan of the Construction of Material Transportation Infrastructure (交通基礎設施重大工程建設三年行動計劃) (the “**Action Plan**”) published by the National Development and Reform Commission and the Ministry of Transport in May 2016, the importance of rail transit was specifically highlighted. The Action Plan further mentioned a total of 103 of new urban rail transit projects, totaling 2,385 kilometers, would be commenced in 2016. Given the growth momentum in the investment in this sector, it was estimated that the total investment value during 2016 to 2020 would amount to approximately RMB1.7 trillion to RMB2.0 trillion.

Given the large size of planned investment in the coming few years, to accomplish urban rail transit projects for major cities in China, it is practical for the government authorities to take leverage from the funds from private investment. In this regard, Private-Public-Partnership (PPP) for urban infrastructure construction was widely adopted. Major construction projects including urban rail transit projects are expected to award to private sectors. The Group, with extensive experience and previous partnership in urban rail transit sector, are expected to benefit from abovementioned trend by way of winning bids from the sizable planned investment in the coming years.

With the abovementioned industry outlook and the expected favourable government policies, the Group expects it will obtain more urban rail transit construction projects in China.

#### **4. *Principal terms of the Proposed Integrated Services Framework Agreement***

Principal terms and conditions of the Proposed Integrated Services Framework Agreement are set out below.

##### *Parties*

- (i) The Company; and
- (ii) BUCG

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## LETTER FROM SOMERLEY

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### *Term*

Subject to the approval by the Independent Shareholders at the EGM to be convened, the Proposed Integrated Services Framework Agreement is for a term of three years from 1 January 2017 to 31 December 2019.

### *Principal terms*

Pursuant to the Proposed Integrated Services Framework Agreement:

- (a) The integrated services to be provided by the BUCG Group to the Group include but not limited to engineering construction related services, including but not limited to provision of labour, supply of raw materials, equipment leasing; and training services and other services required by the Group to carry out its business;
- (b) The integrated services to be provided by the Group to the BUCG Group include but not limited to: (i) services relating to construction survey, design and consultancy, including but not limited to measurement, test, inspection of construction drawings, as well as training services and other services required by BUCG, its subsidiaries and/or associates to carry out their business; and (ii) project sub-contracting and/or specialised services, including but not limited to project management and equipment leasing services, pursuant to Situations (2) and (3) of the Supplemental Agreement II to the Non-competition Agreement;
- (c) Each of the Company and BUCG agrees that the transaction shall be consummated in line with the applicable general market practice (if any) and on normal commercial terms;
- (d) Each of the Company and BUCG is entitled to choose the counterparty of the transaction, i.e. to provide services to, or obtain services from, any third parties (other than in the circumstances specified in (e) below paragraph). Meanwhile, the BUCG Group shall provide services to the Group on terms and conditions no less favourable than those offered to independent third parties under similar circumstances and shall not request the Group to provide services on terms and conditions more favourable than those offered to the independent third parties by the Group; and

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## LETTER FROM SOMERLEY

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- (e) Notwithstanding any other provisions of the agreement, in respect of the awarded projects cooperated with and/or bid by BUCG under the Situations (2) and (3) as set out in the Supplemental Agreement II to the Non-competition Agreement, BUCG shall, in accordance with the terms of the bidding documents and in compliance with the relevant laws and regulations, sub-contract part or parts of the awarded contract bid by BUCG for the Company to the Group and/or enter into such other ways of cooperation, including but not limited to project management services and/or equipment leasing services, as permitted by the project owner on a no profit basis to BUCG.

### *Pricing policy*

Pursuant to the Proposed Integrated Services Framework Agreement, each of the Company and BUCG shall provide services to the other party at a price determined under the following pricing principles:

- (a) price prescribed by the government if available (the government prescribed price refers to the price in respect of certain category of services determined by the central, provincial or local governments, relevant price control authorities or the industry regulators in the PRC as prescribed in the laws, regulations, decisions, orders or charging standards. If any government prescribed price is available to the relevant transactions, the parties of the agreement will execute such government prescribed price first. The Company will pay close attention to the updates of government-prescribed prices and determine the price accordingly); or
- (b) where there is no government-prescribed price, then the government-guided price (if available) taking into account market factors (the government guided price refers to the pricing range or level provided by the central government, provincial government, local government, industry associations or other competent authorities for certain specific types of services, which will be determined by the parties through negotiations with reference to the pricing range or level. Currently, there is no government-guided price available in both engineering construction and construction design, survey and consultancy sectors. The Company will keep track of related updates of government-guided prices. If any governmental documents issued to regulate the services the Company being involved and provide certain pricing range or level, the price will fall within the range of the government-guided price as stated in such documents. Along with the government-guided price, the Company will take into account the price charged by at least two independent third parties (if applicable) in areas or nearby areas providing such same type of services on normal commercial terms with comparable scale at that time. The Company will also determine the price by taking into account the project scale, technical difficulties, construction period, quality of services provided by the suppliers, and labour costs etc.); or



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## LETTER FROM SOMERLEY

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- (c) where there is neither government-prescribed price nor government-guided price, then the price determined through tender process or other available market price (If the Company intends to bid for a project, the sales and marketing department of the Company will first evaluate the cost and price of the project and then formed a plan which will be submitted to responsible department heads for approval. If approved, the Company will prepare bidding documents as required by the project owner. According to relevant PRC rules and regulations in relation to the tender process of certain services, the project owner shall organise experts to evaluate the bidder and respective bidding documents. At last, the project owner will determine the bid winner by taking into account certain factors, including but not limited to the qualification of the bidders, the terms provided by the bidders and the total prices quoted, and with reference to the experts' opinions). The "market price" shall be determined in the following order: (1) the price charged by independent third parties who offer the same type of services under normal commercial terms in the ordinary and usual course of business at or near the area where such services are provided with reference to at least two independent third parties who provide the same or similar type of services under same conditions; or (2) where (1) is inapplicable, the price charged by independent third party(ies) who offer the same type of services under normal commercial terms in the ordinary and usual course of business in the PRC with reference to at least two independent third parties who provide the same or similar type of services under same conditions; or
- (d) where none of the above is available or where none of the above transaction rules is applicable in the actual transaction, then the contractual price. The "contractual price" shall be determined on the basis of "reasonable cost plus reasonable profit". Among which, the "reasonable cost" means the cost confirmed by both parties after negotiations and as permitted by the relevant accounting principles of the PRC (inclusive of sales tax and surcharges); and "reasonable profit" means the profit calculated based on reasonable costs under market practice (the Company will estimate the cost and price of the project with reference to calculation methods stated in relevant charging guidelines promulgated by the government or industry associations. The prices, methods and calculations provided by the industry associations and competent authorities are for reference only and it is not mandatory for the parties to apply such prices, methods and calculations in determining of the contractual price. For example, in terms of engineering construction related services, reference would be made to the Project Cost Information (《工程造價信息》) published by local commissions of housing and urban-rural development regularly, which provides suggested prices of certain types of building materials. While in terms of construction consultancy services, the Charging Guidelines of Preliminary Consultancy Services of Urban Rail Transit (《城市軌道交通前期諮詢工作收費指導意見》) issued by China Association of Metros (中國城市軌道交通協會) would be taken as a reference. To ensure the price is fair and reasonable, the Company will take into account certain

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## LETTER FROM SOMERLEY

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factors, including the project scale, technical difficulties, labour costs and the pricing of similar type of projects. Normally, the quoted price shall not be below the estimated cost plus reasonable profit); or

- (e) the price of the relevant project sub-contracting arrangements and specialised services, if required, to be provided by the Group to BUCG pursuant to Situations (2) and (3) set out in the Supplemental Agreement II to the Non-competition Agreement, shall be determined as follows:
  - (i) the price of the sub-contracting arrangements shall be the contractual price attributable to part or parts of the awarded contract sub-contracted to the Group on a no profit basis to BUCG under the contract awarded to BUCG in Situations (2) and (3) as set out in the Supplemental Agreement II to the Non-competition Agreement; and/or
  - (ii) the price of the specialised services shall be the contractual price of the contract awarded to BUCG or, if applicable, the contractual price attributable to the remaining part of the awarded contract, after deducting the price of the part sub-contracted to third parties and the abovementioned price of the sub-contracting arrangements (on a no profit basis to BUCG).

### *Payment arrangement*

Each of the Company and BUCG shall pay the service fees to each other upon completion of the relevant services in accordance with the provisions of the individual service contracts to be entered into by the parties under the Proposed Integrated Services Framework Agreement.

### *Implementation agreements*

During the term of the Proposed Integrated Services Framework Agreement, members of the Group and the BUCG Group will enter into, from time to time and as necessary, individual service contract for each of the specific transactions contemplated under such framework agreement (including such individual service contract entered into during the term of the Integrated Services Framework Agreement which has an expiring date within the term of the agreement proposed to be renewed), provided that any such individual service contract shall be within the ambit of, and shall not contravene the principles or any provisions as agreed by the parties in, the Proposed Integrated Services Framework Agreement. We have also reviewed by sample two existing individual contracts entered into by the Group and the BUCG Group and noted that the pricing and other principal terms of the contracts align with those pricing and other principal terms set out in the Proposed Integrated Services Framework Agreement.

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## LETTER FROM SOMERLEY

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### *Internal control measures*

To ensure the Company's conformity with the above pricing policy in relation to the Continuing Connected Transactions, the Company has adopted and will continue to strengthen a series of internal control procedures for its daily operation.

The Company has formulated relevant administrative measures on connected transactions, in accordance with supervisory requirements of the Hong Kong Stock Exchange in respect of connected transactions and continuing connected transactions and with reference to actual situation of the Company, which implements strict regulation from aspects of identification of connected transactions, procedure of review and approval, report, supervision and management and related information disclosure.

To ensure the Continuing Connected Transactions being in compliance with the pricing policy thereunder, especially when the relevant service price is determined on the basis of market price, the Group has adopted the procedure as follow:

- (a) The department of board secretary is responsible for collecting detailed data in respect of above-mentioned continuing connected transactions on a regular basis, including but not limited to pricing terms, payment arrangement and actual transaction amounts specified in individual service contracts under the Proposed Integrated Services Framework Agreement; the legal and audit department and the financial department of the Company shall assist in reviewing and controlling the specific terms, conditions and actual transaction amounts of such continuing connected transactions;
- (b) Senior management of the Company and its subsidiaries is responsible for supervising whether the transaction terms, pricing and other terms specified in individual service contracts are in compliance with the principles set out in the Proposed Integrated Services Framework Agreement, whether the price conformed with relevant pricing requirements if the service applies price prescribed by the government, government-guided price or price determined through tender process and whether the price conformed with the range of the then market price applicable to same type of services if the service price is based on the market price, as well as evaluating the fairness of the transaction terms and pricing terms, and reporting relevant information to the Board in time;

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## LETTER FROM SOMERLEY

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- (c) The Board is responsible for inspecting and supervising the control on connected transactions of the Company, as well as the execution of control system of connected transactions by the Directors, senior management and connected persons of the Company;
- (d) In addition, the independent non-executive Directors have reviewed and would continue to review the continuing connected transactions contemplated under the Proposed Integrated Services Framework Agreement to ensure that such agreement is entered into on normal commercial terms, is fair and reasonable, and are carried out pursuant to the terms of such agreement. The auditors of the Company would also conduct an annual review on the pricing terms and Annual Caps of such continuing connected transactions.

To ensure that the pricing terms are on normal commercial terms, the Group has implemented internal approval procedures, including the following:

- (i) For integrated services provided by the Group to BUCG, its subsidiaries and/or associates, the sales and marketing department of the Company will first estimate the cost and price of the project based on basic information of the project and with reference to the calculation methods stated in related guidelines and rules from the government and industry associations. The sales and marketing department will then assess whether the price is fair and reasonable after taking into consideration individual factors, such as prices from independent third parties who offer same type of services under similar conditions, and submit its plan to a special session organised by the general manager for consideration at which an approval will be granted, if appropriate.
- (ii) For services provided by BUCG, its subsidiaries and/or associates to the Group, the Group will select suppliers and determine the terms (including the pricing terms) through internal approval procedures. Prior to entering into an integrated services transaction, the relevant business department will assess the prices provided by the suppliers by estimating the cost and price and with reference to market prices of similar services provided under similar conditions. If the price is fair and reasonable, the relevant business department will submit its application to its department head for preliminary review and approval. The application will be subject to different levels of supervisions and approvals. With approval by the department head, the relevant business department will submit the application to the business management department and then the application will be passed to the legal and audit department for legal review. If approved, the head of the operation department will conduct a further examination and provide his opinion to the general manager. The general manager will grant the final approval if appropriate.

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## LETTER FROM SOMERLEY

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Having regard the abovementioned procedure, we note that different levels of management of the Group, including the Board, will participate in the review of the Proposed Integrated Services Framework Agreement and the relevant individual contracts to ensure they are in compliance with the relevant pricing policy and the relevant continuing connected transactions will be carried out according to the Proposed Integrated Services Framework Agreement and in an orderly manner. Based on our discussion with management of the Group, such review will be conducted first by operational level management with the likes of the legal and audit department and the financial department of the Company taking a first level review of the relevant legal documents, and then senior management. The process would also call for the Board's inspections and supervisions of the control on connected transactions of the Company, as well as the execution of such control system. Independent non-executive Directors and the auditor of the Company would take part in the annual review process of the relevant transaction. We are of the view that the effectiveness of the Company's internal control measure is evidenced through our satisfactory sample review of four individual service contracts conducted with independent third parties and two individual service contracts conducted with the BUCG Group whereby the pricing and other principal terms of the contracts are in compliance with those pricing and other principal terms set out in the Proposed Integrated Services Framework Agreement. Based on the above, we concur with the view of the Directors that the internal control measures can result in the Continuing Connected Transactions to be conducted on normal commercial terms, fair and reasonable as far as the interests of the Independent Shareholders are concerned.

We have reviewed the Proposed Integrated Services Framework Agreement and note that the pricing and other principal terms of the integrated services are set out as above. Having considered (i) the transaction shall be consummated in line with the applicable market practice (if any) and on normal commercial terms; (ii) each of the Company and BUCG is entitled to choose the counterparty of the transaction while the BUCG Group shall provide services to the Group on terms and conditions no less favourable than those offered to independent third parties under similar circumstances and shall not request the Group to provide services on terms and conditions more favourable than those offered to independent third parties by the Group; (iii) in respect of the awarded projects cooperated with and/or bid by BUCG under the Situations (2) and (3) as set out in the Supplemental Agreement II to the Non-competition Agreement, the transaction terms shall be in accordance with the terms of the bidding documents and in compliance with the relevant laws and regulations, sub-contract part or parts of the awarded contract bid by BUCG for the Company to the Group and/or enter into such other ways of cooperation, including but not limited to project management services and/or equipment leasing services, etc., as permitted by the project owner on a no profit basis to BUCG; (iv) the pricing policy of the Proposed Integrated Services Framework Agreement; (v) the Company's internal control measures; and (vi) our sample review of the historical individual service contracts suggested that transaction pricing and other principal terms specified in individual service contracts have been in line with those set out in the Proposed Integrated Services Framework Agreement, we consider the pricing and

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## LETTER FROM SOMERLEY

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other principal terms of the Proposed Integrated Services Framework Agreement to be on normal commercial terms and fair and reasonable as far as the Independent Shareholders are concerned.

### 5. *The Annual Caps*

Set out below are the Annual Caps for the three years ending 31 December 2019 under the Proposed Integrated Services Framework Agreement:

	Annual Caps for the three years ending		
	31 December 2017	31 December 2018	31 December 2019
	(RMB million)	(RMB million)	(RMB million)
Revenue to be generated by the Group from providing the CDSC Integrated Services to the BUCG Group (the “ <b>Revenue Annual Caps</b> ”)	1,456	1,820	2,002
Expenditure to be incurred by the Group for receiving the E&C Integrated Services from the BUCG Group (the “ <b>Expense Annual Caps</b> ”)	940	1,128	1,354

#### (a) *The Revenue Annual Caps*

As stated in the letter from the Board of the Circular, the Revenue Annual Caps for the three years ending 31 December 2019 were determined based on, among other things, the following consideration:

- (i) The expected revenue generated from the Kazakhstan Project;
- (ii) The other potential new urban rail transit projects in Beijing and other cities in China;
- (iii) Design, survey and consultancy services to be provided by the Group to the BUCG Group; and
- (iv) The inclusion of a buffer for the estimated increase in revenue generated by other potential projects.

Details of the determining bases of the Revenue Annual Caps are set out in the subparagraph headed “3.3.1 Revenue” under the section headed “II. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS: THE INTEGRATED SERVICES FRAMEWORK AGREEMENT” in the letter from the Board of the Circular.

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## LETTER FROM SOMERLEY

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Based on the aforesaid determining factors, we have reviewed the Revenue Annual Caps for the three years ending 31 December 2019, by way of the following, in order to assess their fairness and reasonableness:

- (i) The expected revenue generated from the Kazakhstan Project

As disclosed in the letter from the Board of the Circular, BUCG successfully bid for the Company and entered into the construction contract with the project owner of the Kazakhstan Project in June 2016 pursuant to Situation (3) of the Supplemental Agreement II to the Non-competition Agreement. Details of the Kazakhstan Project are set out in the sub-paragraph headed “1.3.2. Bidding by BUCG for the Company – No. 1 contractual section of the Phase I of civil construction of Light Rail Transit project in Astana City, Kazakhstan” under the section headed “II. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS: THE INTEGRATED SERVICES FRAMEWORK AGREEMENT” in the letter from the Board of the Circular.

Pursuant to Situation (3) of the Supplemental Agreement II to the Non-competition Agreement, the Kazakhstan Project shall be sub-contracted to the Group on a no profit basis to BUCG or BUCG and the Company shall enter into such other ways of cooperation on a no profit basis to BUCG. Therefore, BUCG and the Company will enter into the entrustment management and operation contract for the performance by the Company of the Kazakhstan Project with no profit to BUCG. Details of the principal terms of the entrustment management and operation contract with the Company in relation to the Kazakhstan Project are set out in the sub-paragraph headed “1.3.2. Bidding by BUCG for the Company – No. 1 contractual section of the Phase I of civil construction of Light Rail Transit project in Astana City, Kazakhstan” under the section headed “II. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS: THE INTEGRATED SERVICES FRAMEWORK AGREEMENT” in the letter from the Board of the Circular.

As disclosed in the letter from the Board of the Circular, the total construction sum of the Kazakhstan Project is approximately RMB3,058 million and the construction period is 627 calendar days. It is estimated that approximately 70% to 90% of the construction work will be carried out in 2017 and 2018, with completion work to be carried out in 2019. It is expected that revenue from the Kazakhstan Project will be approximately RMB1,281.0 million and RMB1,311.5 million for the first two years ending 31 December 2018, respectively, and approximately RMB457.5 million for the year ending 31 December 2019.

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## LETTER FROM SOMERLEY

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We have obtained and reviewed the construction contract between BUCG and Kazakhstan government authorities and the proposed terms of the entrustment management and operation contract between BUCG and the Company. As advised by the project management team of the Group, approximately 42% and 43% of the project will be completed in 2017 and 2018 respectively as majority of the construction work will be carried out in 2017 and 2018 to ensure the timely completion as stipulated in the entrustment management and operation contract. In view of (i) the construction period of 627 calendar days specified in the entrustment management and operation contract and the project shall be completed by end of 2019; and (ii) for an urban rail transit construction project, the revenue is measured by the percentage of completion basis, where completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the project, we consider that the aforesaid portion allocated to the Revenue Annual Caps in respect of the Kazakhstan Project to be reasonable.

- (ii) Other potential new urban rail transit projects in Beijing and other cities in China

Pursuant to Situations (2) and (3) of the Supplemental Agreement II to the Non-competition Agreement, the Company would require the assistance by BUCG to cooperate or bid for new urban transit projects in Beijing and other cities of China and which, if awarded to BUCG, should be sub-contracted to the Group by BUCG or enter into such other means of cooperation with the Company on a no profit basis to BUCG. As advised by the management of the Group, BUCG is in the course of bidding a potential PPP project located in Anhui Province with a contract value of approximately RMB511.0 million. Based on the management's assessment of the project, the project is expected to be completed in three years. The management of the Group expects the estimated revenue to be recognised for each of the two years ending 31 December 2018 and 2019, if successfully obtained, will be approximately RMB171.0 million and RMB340.0 million respectively.

The Company has also included a total contract sum of approximately RMB550 million or approximately RMB150 million, RMB200 million and RMB200 million for each of the three years ending 31 December 2017, 2018 and 2019 respectively, for other projects which BUCG, pursuant to the Supplement Agreement II to the Non-competition Agreement, may assist the Company in obtaining the contract or cooperate with the Company.



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## LETTER FROM SOMERLEY

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As mentioned in the 2015 Circular and advised by the management of the Group, we are given to understand that, based on past experience, the average contract sum of the projects to be sub-contracted by BUCG is estimated to be between RMB400 million to RMB500 million. The 2015 Circular further assumed that the Group might be able to win the bids for two projects on average per year. As advised by the management of the Group, such assumption remain valid in arriving the estimation of the Annual Caps. Taking into account that it is typical for an urban rail transit construction project to take around 4 years to complete and the percentage of completion basis used in revenue recognition for urban rail transit construction projects as mentioned above, we consider the aforesaid portion of the Revenue Annual Caps in respect of the potential new urban rail transit projects to be reasonable.

- (iii) The design, survey and consultancy services to be provided by the Group to the BUCG Group

As advised by the management of the Group, for the past several years since 2013, the revenue from the provision of design, survey and consultancy service to the BUCG Group amounted between approximately RMB8.0 million to approximately RMB22.0 million per year. We note that the Group recorded revenue of approximately RMB20.7 million and RMB21.5 million from the provision of design, survey and consultancy service to the BUCG Group during 2014 and 2015 respectively. To cope with the business development of the Group, it is determined that the cap in relation to the design, survey and consultancy services to be provided by the Group to the BUCG Group for each of the three years ending 31 December 2017, 2018 and 2019 will be RMB25.0 million, RMB30.0 million and RMB35.0 million respectively, representing year-on-year increases of approximately 20% and 16.7% respectively.

We have obtained the summary of the annual contract sums of the provision of design, survey and consultancy service to the BUCG Group from the Group and noted that the annual contract sums of the relevant services provided to the BUCG Group were in line with our understanding that they vary between approximately RMB8.0 million to approximately RMB22.0 million per year since 2013. According to the 2015 Annual Report and the 2014 Annual Report, the revenue contributed by design, survey and consultancy service segment increased from approximately RMB1,522.1 million in 2013 to approximately RMB1,964.3 million in 2015, representing a CAGR of approximately 13.6%. According to the 2016 Interim Report, the revenue contributed by the same segment for the six months ended 30 June 2016 was approximately RMB1,023.5 million, representing approximately 19.7% increase compared with the

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## LETTER FROM SOMERLEY

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corresponding period in 2015. Given the track record in revenue growth from the provision of design, survey and consultancy service as discussed above, we consider the aforesaid portion of the Revenue Annual Caps in respect of the design, survey and consultancy service to be reasonable.

(iv) Other potential projects

As disclosed in the letter from the Board of the Circular, the Company expects that assistance from BUCG would continue in the circumstances specified in the Supplemental Agreement II to the Non-competition Agreement. To provide for further potential projects to be obtained by BUCG on the Company's behalf in such circumstances, the Company has included a buffer of 25% increase for the year ending 31 December 2018 based on the estimated revenue annual cap for the year ending 31 December 2017 and a buffer of 10% increase for the year ending 31 December 2019 based on the estimated revenue annual cap for the year ending 31 December 2018 in its estimate of the Revenue Annual Caps.

According to the 2015 Annual Report and the 2014 Annual Report, the revenue derived from construction contracting by the Group raised from approximately RMB1,401 million in 2013 to approximately RMB2,044 million in 2015, representing a CAGR of approximately 20.8%. As shown in the 2016 Interim Report, the contribution to revenue by construction contracting segment for the six months ended 30 June 2016 was approximately RMB950 million, representing an approximately 30.9% increase compared with the same period ended 30 June 2015. As advised by the management of the Group, having considered the favourable governmental policies towards the urban rail transit construction in the PRC, it is of the view from the management of the Group that the revenue from construction contracting service will continue to maintain the growth momentum.

Furthermore, as mentioned in the 2015 Circular, according to the management of the Group, it is common for urban rail transit construction project to be affected by unexpected geological conditions, or changes to the work plans as requested by the project owner, all of which are unexpected factors that can raise the costs of the projects which will correspondingly increase the total sum of the project. Having considered such unexpected factors and the growth in urban rail transit construction in the PRC in recent years, we consider buffers of 25% and 10% increase for the each of the two years ending 31 December 2018 and 2019 respectively to be reasonable.

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## LETTER FROM SOMERLEY

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(b) *The Expense Annual Caps*

As stated in the letter from the Board of the Circular, the Expense Annual Caps for the three years ending 31 December 2019 were determined based on, among other things, the following consideration:

- (i) the expenditures incurred and to be incurred for the construction projects and PPP projects obtained by the Company;
- (ii) the expenditure expected to be incurred in the next three years for the integrated services provided by the BUCG Group to the Group in connection with the construction work of the Kazakhstan Project;
- (iii) the expenditure expected to be incurred in the next three years for the Beijing Airport Express Project;
- (iv) the expenditures to be incurred for potential EPC and PPP projects which the Company may obtain in the next three years; and
- (v) other potential urban transit projects in the next three years.

Details of the determining bases of the Expense Annual Caps are set out in the sub-paragraph headed “3.3.2 Expenditure” under the section headed “II. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS: THE INTEGRATED SERVICES FRAMEWORK AGREEMENT” in the letter from the Board of the Circular.

Based on the aforesaid determining factors, we have reviewed the Expense Annual Caps for the three years ending 31 December 2019, by way of the following, in order to assess their fairness and reasonableness:

- (i) The expenditures incurred and to be incurred for the construction projects and PPP projects obtained by the Company

As disclosed in the letter from the Board of the Circular, the Group has already obtained the Anqing PPP Project, the Section 3 of Beijing Subway Line No. 7, the Zunyi Expressway PPP Project and the Yunnan North Airport Highway PPP Project, details of which are set out in the sub-paragraph headed “1.3.3 Major contracts obtained in 2015 and 2016 involving provisions of integrated services by BUCG, its subsidiaries and/or associates to the Group” under the section headed “II. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS: THE INTEGRATED SERVICES FRAMEWORK AGREEMENT” in the letter

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from the Board of the Circular. The Company estimates the expenditures to be incurred for the three years ending 31 December 2019 are RMB483.0 million, RMB271.1 million and RMB180.0 million, respectively. We have obtained the summary of the forecasted expenditure, showing the detailed breakdown of the expenditures of the projects-on-hand for the three years ending 31 December 2019 from the management of the Group. We have also obtained the bidding documents and the notice of successful bid from the relevant government authorities of the Anqing PPP Project, the Section 3 of Beijing Subway Line No. 7, the Zunyi Expressway PPP Project and the Yunnan North Airport Highway PPP Project and note that the total contract sum of the abovementioned projects was approximately RMB5,176 million with the completion date of each of no later than the end of 2019. As advised by the management of the Group, according to the historical cooperation with the BUCG Group, the amount of works to be sub-contracted to the BUCG Group would not exceed 20% of the total contract sum awarded. The cumulative expenditure cap assigned to the abovementioned projects for the three years ending 31 December 2019 is approximately RMB934.1 million, which is approximately 18.0% of the total contract sum. We have obtained several individual service contracts with the BUCG Group and noted the contract amounts with the BUCG Group were not more than 20% of the total contract sum of the respective projects. Based on the above, we consider the estimate of approximately 18.0% to be reasonable. The management of the Group assigned more expenditure to be incurred in the earlier stage of the projects as majority of the construction work will be carried out to ensure the timely completion of the abovementioned projects.

- (ii) The expenditure expected to be incurred in the next three years for the integrated services provided by the BUCG Group to the Group in connection with the construction work of the Kazakhstan Project

As mentioned in the letter from the Board of the Circular, the BUCG Group would provide integrated services to the Group in connection with the construction work of the Kazakhstan Project. The management of the Group expects that the expenditures to be incurred for such integrated services would be approximately RMB256.2 million, RMB262.3 million and RMB91.5 million for the three years ending 31 December 2019, respectively. According to the management of the Group, although the Kazakhstan Project is the first overseas projects conducted by the Group, the nature of service required from the BUCG Group would be similar to the previous cooperated projects, whereby the amount to be sub-contracted to the BUCG Group would not exceed 20% of the total contract sum awarded. Based on the above, we consider assigning 20% of the total contract sum awarded for estimation of the expenditure cap to be reasonable.

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## LETTER FROM SOMERLEY

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- (iii) The expenditure expected to be incurred in the next three years for the Beijing Airport Express Project

As disclosed in the letter from the Board of the Circular, if the Company is able to directly obtain construction work from the project company of the Beijing Airport Express Project with total investment amount of approximately RMB15.0 billion, the project would require the provision of integrated services by the BUCG Group to the Group. The Company expects that the expenditures to be incurred for the provisions of integrated services by the BUCG Group to the Group would be approximately RMB200.0 million per year for the three years ending 31 December 2019.

We have obtained the bidding document of the Beijing Airport Express Project and noted that the amount of construction to be borne by the Company will be according to the BUCG's shareholding in the project company awarded the Beijing Airport Express Project, which is approximately 28%. On the basis that the expense of the relevant provision of integrated services to the Group by the BUCG Group is approximately 20% of the total contract sum, we consider that an average of RMB200.0 million per year for the integrated services to be provided by BUCG to be reasonable.

- (iv) Potential EPC and PPP projects and other potential urban transit projects in the next three years

As stated in the 2015 Annual Report, with the start of the new normal of the Chinese economy, the Chinese economic development is in a stage of profound adjustments through transformation and upgrading. Strengthened investments in urban infrastructure by the Chinese government and the promulgation of policies that encourage participation by private funds have provided new stimuli in the development of the urban transit industry. The Company expects that investments by the government in urban transit projects will continue in the next three years which will provide more business opportunities for the Group resulting in increased expenditures for the integrated services to be provided by the BUCG Group to the Group. As stated in the letter from the Board, the Company has already identified several potential EPC and PPP projects which could be obtained by the Company, namely, the potential PPP project in Anhui Province as mentioned above, two to three modern tram line PPP Projects in Beijing, a modern tram line EPC project in Guangdong Province and a civil construction project of rail transit in Henan Province. The Company has included the buffer of 20% on the estimated expenditures for each of the years ending 31 December 2018 and 2019 based on the estimated annual cap for the previous year so as to accommodate further projects which the Group

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## LETTER FROM SOMERLEY

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may successfully obtain during the two years ending 31 December 2019 and which would require the integrated services of the BUCG Group. In addition to having obtained the tendering documents and investment summaries of the abovementioned potential EPC and PPP projects, in view of the anticipated growth in revenue of the Group due to favourable governmental policies as mentioned above and the corresponding increase in expenditure to be incurred for the potential construction and PPP projects obtained by the Company, we are of the view that the buffer of 20% on the expenditures for each of the years of 2018 and 2019 based on the estimated annual cap for the year of 2017 to be acceptable.

### OPINION AND RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the entering into of the Continuing Connected Transactions (including the Annual Caps) are in the ordinary and usual course of business of the Group and on normal commercial terms, the Continuing Connected Transactions (including the Annual Caps) are fair and reasonable as far as the Independent Shareholders are concerned and are in the interests of the Company and Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Continuing Connected Transactions (including the Annual Caps).

Yours faithfully,

for and on behalf of

**SOMERLEY CAPITAL LIMITED**

**Danny Cheng**

*Director*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### Substantial Shareholders' Interests in Securities

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (other than the Directors, Supervisors and the chief executive of the Company) had interests and short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

#### *Domestic Shares*

Name of shareholder	Capacity	Number of Domestic Shares	Nature of interests	Approximate percentage of total issued Domestic Share capital	Approximate percentage of total issued share capital
BUCG <sup>1</sup>	Beneficial owner	571,031,118	Long position	64.54%	44.87%
Beijing Infrastructure Investment Co., Ltd. <sup>2</sup>	Beneficial owner	87,850,942	Long position	9.93%	6.90%
Beijing Jingguofa Equity Investment Fund (Limited Partnership) <sup>3</sup>	Beneficial owner	46,000,000	Long position	5.20%	3.61%
Tianjin Jun Rui Qi Equity Investment Partnership (LLP) <sup>4</sup>	Beneficial owner	46,000,000	Long position	5.20%	3.61%

*Notes:*

1. BUCG, incorporated by the Beijing Municipal Government, is the sole substantial Shareholder of the Company (within the meaning of the Hong Kong Listing Rules).
2. Beijing Infrastructure Investment Co., Ltd. is a wholly state-owned enterprise established and funded by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality.
3. The general partner of Beijing Jingguofa Equity Investment Fund (Limited Partnership) is Beijing Jingguofa Investment Management Co., Ltd. The 100% equity interest in Beijing Jingguofa Investment Management Co., Ltd. is held by Baoding Taihangheyi Cement Co., Ltd. In addition, Beijing State-owned Capital Operation and Management Center is a limited partner holding 64.99% interest in Beijing Jingguofa Equity Investment Fund (Limited Partnership). Each of the above entities was deemed to have interests in the same number of shares as Beijing Jingguofa Equity Investment Fund (Limited Partnership).
4. The general partner of Tianjin Jun Rui Qi Equity Investment Partnership (LLP) is Beijing Bodao Investment Advisory Center (Limited Partnership), while the general partner of Beijing Bodao Investment Advisory Center (Limited Partnership) is Beijing Legend Capital Co., Ltd. Beijing Junqijiarui Enterprise Management Co., Ltd. holds 45.00% equity interest in Beijing Legend Capital Co., Ltd. Each of the above entities was deemed to have interests in the same number of shares as Tianjin Jun Rui Qi Equity Investment Partnership (LLP).

***H Shares***

Name of shareholder	Capacity	Number of H Shares	Nature of interests	Approximate percentage of total issued	Approximate percentage of
				H Share capital	total issued share capital
Beijing Capital Group Ltd.	Interest of controlled corporations <sup>1</sup>	77,532,000	Long position	19.99%	6.09%
FMR LLC	Interest of controlled corporations <sup>2</sup>	30,156,000	Long position	7.77%	2.37%
Pioneer Investment Management Limited	Investment Manager	27,231,000	Long position	7.02%	2.14%
CSR Group	Interest of controlled corporations <sup>3</sup>	26,222,000	Long position	6.76%	2.06%
UBS Group AG	Interest of controlled corporations <sup>4</sup>	23,316,102	Long position	6.01%	1.83%
		47,000	Short position	0.01%	0.004%
Beijing Capital Co., Ltd.	Interest of controlled corporations <sup>5</sup>	22,840,000	Long position	5.89%	1.79%
Pioneer Asset Management S.A.	Investment Manager	19,595,000	Long position	5.05%	1.54%



*Notes:*

1. Beijing Capital Group Ltd. held interests in 77,532,000 H Shares through a number of its controlled corporations.
2. FMR LLC held interests in 22,972,000 H Shares, 440,000 H Shares, 2,874,000 H Shares and 3,870,000 H Shares through a number of its controlled corporations, including FIDELITY MANAGEMENT & RESEARCH (HONG KONG) LIMITED, FMR CO., INC, FIDELITY INSTITUTIONAL ASSET MANAGEMENT TRUST COMPANY (formerly known as PYRAMIS GLOBAL ADVISORS TRUST COMPANY) and FIAM LLC (formerly known as PYRAMIS GLOBAL ADVISORS, LLC), respectively.
3. CSR Group Limited held interests in 26,222,000 H Shares through its controlled corporations, CSR Corporation Limited and CSR (Hong Kong) Co. Ltd.
4. UBS Group AG held interests in 23,316,102 H Shares (long position) and 47,000 H Shares (short position) directly and through a number of its controlled corporations, including UBS AG and UBS Fund Management (Switzerland) AG respectively.
5. Beijing Capital Co., Ltd. held interests in 22,840,000 H Shares through its controlled corporation, Beijing Capital (Hong Kong) Limited.
6. According to the information relating to disclosure of interests available on the website of the Hong Kong Stock Exchange, Beijing Enterprises Group Company Limited was still shown as a substantial Shareholder of the Company as at 30 June 2016. To the best of knowledge of the Directors, Beijing Enterprises Group Company Limited is no longer a substantial Shareholder of the Company and accordingly it is not shown as a substantial Shareholder in the table above.

**Directors', Supervisors', and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures**

As at the Latest Practicable Date, the following Directors had interests and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Hong Kong Stock Exchange, pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of

SFO), or required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange as follows:

Name	Position	Nature of Interest	Class of Shares	Number of Shares (Shares)	Approximate percentage of total issued H Share capital	Approximate percentage of total issued share capital
Wang Liping	Chairman and Non-executive Director	Personal interest	H Shares	52,000	0.01	0.004
Wang Hanjun	Executive Director	Personal interest	H Shares	48,000	0.01	0.004
Li Guoqing	Executive Director	Personal interest	H Shares	48,000	0.01	0.004
Mi Jianzhou	Employee Representative Supervisor	Personal interest	H Shares	51,000	0.01	0.004
Zhang Wei	Employee Representative Supervisor	Personal interest	H Shares	45,000	0.01	0.004
Wang Wenjiang	Employee Representative Supervisor	Personal interest	H Shares	51,000	0.01	0.004
Wang Jingang	Employee Representative Supervisor	Personal interest	H Shares	40,000	0.01	0.003

Save as disclosed above, as at the Latest Practicable Date, none of the other Directors, Supervisors or the chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO): (i) which were required to be notified to the Company and the Hong Kong Stock Exchange, pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

### 3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

**4. DIRECTORS' AND SUPERVISORS' INTEREST IN ASSETS AND/OR CONTRACTS**

As at the Latest Practicable Date, none of the Directors or the Supervisors had any direct or indirect interest in any asset which had been, since 31 December 2015, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors, Supervisors or their respective associates was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

**5. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS**

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

**6. DIRECTORS' AND SUPERVISORS' POSITIONS IN SUBSTANTIAL SHAREHOLDERS**

As at the Latest Practicable Date, the following Directors and the Supervisors were in the employment of those companies which had interests or short positions in the Shares or underlying Shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO:

<b>Name of the Director/Supervisor</b>	<b>Position in the specific company</b>
Ms. Wang Liping	Deputy General Manager of BUCG
Mr. Chen Daihua	Chairman of BUCG
Ms. Guo Yanhong	A director and the General Manager of BUCG
Mr. Tang Shuchang	Assistant to the General Manager of BUCG
Ms. Nie Kun	A supervisor of BUCG
Mr. Chen Rui	An executive director of Beijing Legend Capital Co., Ltd.

**7. MATERIAL ADVERSE CHANGES**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, being the date to which the latest published audited accounts of the Group were made up.

**8. LITIGATIONS**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries had received any notice of any litigations or arbitration processes pending or threatened against the Company or any of its subsidiaries.

**9. EXPERT'S QUALIFICATION AND CONSENT**

The following is the qualification of the expert who has given advice and recommendations which are contained in this circular:

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

As at the Latest Practicable Date, 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 it appears.

**10. EXPERT'S INTERESTS**

As at the Latest Practicable Date, Somerley:

- (a) did not have any direct or indirect interest in any assets acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2015, being the date to which the latest published audited accounts of the Group were made up; and
- (b) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

**11. MISCELLANEOUS**

- (a) The Joint Company Secretaries of the Company are Mr. Xuan Wenchang and Ms. Kwong Yin Ping Yvonne. Ms. Kwong Yin Ping Yvonne is a member of the Hong Kong Institute of Chartered Secretaries.
- (b) The registered address of the Company is 5 Fuchengmen North Street, Xicheng District, Beijing, the PRC. The principal place of business of the Company in Hong Kong is at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (c) The H Share Registrar of the Company is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Linklaters at 10th Floor, Alexandra House, 18 Chater Road, Hong Kong during normal business hours on any business days from the date of this circular up to and including 3 February 2017:

- (a) the Integrated Services Framework Agreement proposed to be renewed by the parties upon approval by the Independent Shareholders at the EGM;
- (b) the letter from the Independent Board Committee as set out on pages 33 to 34 of this circular;
- (c) the letter from Somerley as set out on pages 35 to 56 of this circular; and
- (d) the written consent of Somerley referred to in the paragraph headed "Expert's Qualification and Consent" above.

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## NOTICE OF THE 2017 FIRST EXTRAORDINARY GENERAL MEETING

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**北京城建设计发展集团股份有限公司**

BEIJING URBAN CONSTRUCTION DESIGN & DEVELOPMENT GROUP CO., LIMITED

**Beijing Urban Construction Design & Development Group Co., Limited**

**北京城建设计发展集团股份有限公司**

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

**(Stock Code: 1599)**

### **NOTICE OF THE 2017 FIRST EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that the 2017 First Extraordinary General Meeting (the “**EGM**”) of Beijing Urban Construction Design & Development Group Co., Limited (the “**Company**”) will be held at 12A, Block D, Hengtai Center, No. 18 Fengtai North Road, Fengtai District, Beijing, the PRC at 9:30 a.m. on Thursday, 9 March 2017, to consider and, if thought fit, approve the following resolutions (unless otherwise stated, the terms used herein shall have the same meanings as defined in the circular of the Company dated 20 January 2017 (the “**Circular**”)):

#### **ORDINARY RESOLUTIONS**

1. To consider and approve the resolution in relation to the renewal of the non-exempt continuing connected transactions of the Company:

“**THAT**, the Integrated Services Framework Agreement proposed to be renewed by the Company and BUCG and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2019 are hereby approved and confirmed; and any one director of the Company is hereby authorized to renew such agreement with BUCG, or to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he may consider necessary or desirable for the purpose of giving effect to the renewed Integrated Services Framework Agreement with such changes as he may consider necessary, desirable or expedient.”;

2. To consider and approve the resolution in relation to the appointment of Mr. Yuan Guoyue as a shareholder representative supervisor of the Company;
3. To consider and approve the resolution in relation to the appointment of Ms. Zhao Hong as a shareholder representative supervisor of the Company; and

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## NOTICE OF THE 2017 FIRST EXTRAORDINARY GENERAL MEETING

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4. To consider and approve the resolution in relation to the appointment of Mr. Yan Lianyuan as a non-executive director of the Company.

By order of the Board

**Beijing Urban Construction Design & Development Group Co., Limited**

**Wang Liping**

*Chairman*

Beijing, 20 January 2017

*As at the date of this notice, the executive directors of the Company are Wang Hanjun and Li Guoqing; the non-executive directors of the Company are Wang Liping, Chen Daihua, Guo Yanhong, Guan Jifa, Su Bin, Kong Lingbin and Tang Shuchang; and the independent non-executive directors of the Company are Zhang Fengchao, Wang Dexing, Yim Fung, Sun Maozhu and Liang Qinghuai.*

*Notes:*

1. Details of the above resolution are set out in the Circular.
2. The register of members of the Company will be closed from Tuesday, 7 February 2017 to Thursday, 9 March 2017, both days inclusive, during which period no transfer of Shares will be registered. Holders of H Shares and Domestic Shares whose names appeared on the register of members of the Company as at Thursday, 9 March 2017 shall be entitled to attend and vote at the EGM. Holders of H Shares of the Company who intend to attend and vote at the EGM must lodge all transfer documents accompanied by the relevant H Share certificates with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 6 February 2017 for registration.
3. A Shareholder entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote in his stead. A proxy need not be a Shareholder of the Company but must attend the EGM in person to represent the relevant Shareholder.
4. The instrument appointing a proxy must be in writing under the hand of a Shareholder or his attorney duly authorised in writing. If the Shareholder is a corporation, the instrument must be executed either under its common seal or under the hand of its director(s) or duly authorised attorney. If the instrument is signed by an attorney of the Shareholder, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarised.
5. In order to be valid, the proxy form together with the notarised power of attorney or other documents of authorisation (if any) must be deposited at the Secretariat of the Board of Directors of the Company at 12A, Block D, Hengtai Center, No. 18 Fengtai North Road, Fengtai District, Beijing, the PRC for holders of Domestic Shares and at the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for holders of H Shares not less than 24 hours before the time stipulated for convening the EGM (or any adjournment thereof) (as the case may be). Completion and return of a proxy form will not preclude a Shareholder from attending and voting in person at the EGM (or any adjournment thereof). If no direction is given, the proxy will be entitled to vote or abstain as he or she thinks fit.

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## NOTICE OF THE 2017 FIRST EXTRAORDINARY GENERAL MEETING

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6. Holders of Domestic Shares who intend to attend the EGM in person or by proxy should complete and deposit the reply slip for attending the meeting at the Secretariat of the Board of Directors of the Company on or before Friday, 17 February 2017 in hand, by post or by fax. Holders of H Shares who intend to attend the EGM in person or by proxy should complete and deposit the reply slip for attending the meeting at Computershare Hong Kong Investor Services Limited on or before Friday, 17 February 2017 in hand, by post or by fax.
7. The EGM is estimated to last for about half a day. Shareholders or their proxies who attend the EGM (or any adjournment thereof) shall bear their own travelling and accommodation expenses. Shareholders or their proxies shall produce their identity documents when attending the EGM (or any adjournment thereof).