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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

**If you have sold** or transferred all your shares in China City Railway Transportation Technology Holdings Company Limited, you should hand this circular together with the accompanying form of proxy at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular appears for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

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**(1) DISCLOSEABLE AND CONNECTED TRANSACTION RELATING  
TO THE ACQUISITION OF SALE ASSETS  
AND  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

*Independent Financial Adviser to the Independent Board Committee*



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Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular. A letter from the Board is set out on pages 5 to 18 of this circular.

A notice convening the EGM to be held at the Conference Room, 9/F, 3rd Building, Jingtou Plaza, No.6 Xiaoying North Road, Chaoyang District, Beijing, the People's Republic of China at 2:30 p.m. on Tuesday, 26 August 2014 is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is also enclosed. Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to Tricor Investor Services Limited, the branch share registrar and transfer office of the Company in Hong Kong, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

8 August 2014

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## DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Assets from the Vendor by the Purchaser pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional sale and purchase agreement dated 8 July 2014 entered into between the Purchaser and the Vendor in relation to the Acquisition
“Acquisition Completion”	completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
“affiliate(s)”	any person(s) or entity(ies) that directly or indirectly controls, is controlled by, or is under direct or indirect common control with, another person(s) or entity(ies)
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing BII” or “Purchaser”	北京京投卓越科技發展有限公司 (Beijing BII Technology Development Co., Ltd.*), a company established under PRC law with limited liability and an indirect wholly-owned subsidiary of the Company
“Beijing Kezheng”	北京科正資產評估有限責任公司 (Beijing Ke Zheng Assets Appraisal Company Limited*), an independent professional valuer
“BII” or “Vendor”	北京市基礎設施投資有限公司 (Beijing Infrastructure Investment Co., Ltd.*), a company established under PRC law with limited liability and wholly owned by the State-owned Assets Supervision and Administration Commission of People’s Government of Beijing Municipality. BII is currently interested in the entire issued share capital of BII HK
“BII HK”	Beijing Infrastructure Investment (Hong Kong) Limited (京投(香港)有限公司), a wholly-owned subsidiary of BII incorporated under Hong Kong law with limited liability and one of the Shareholders which held approximately 37.49% of the issued share capital of the Company as at the Latest Practicable Date
“Board”	the board of Directors

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## DEFINITIONS

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“Business Day”	any day other than a Saturday, Sunday or public holiday on which banks are generally open for business in Hong Kong throughout their normal business hours
“Company”	China City Railway Transportation Technology Holdings Company Limited, an exempted company incorporated in the Cayman Islands with limited liability, and the Shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules and the word “connected” shall be construed accordingly
“Consideration”	consideration payable by the Purchaser to the Vendor for the Acquisition
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company convened to be held at the Conference Room, 9/F, 3rd Building, Jingtou Plaza, No.6 Xiaoying North Road, Chaoyang District, Beijing, the People’s Republic of China on Tuesday, 26 August 2014 at 2:30 p.m. for the purpose of considering, and if thought fit, approving the Acquisition Agreement and the transactions contemplated thereunder
“GF Capital”	GF Capital (Hong Kong) Limited, a corporation licenced to carry on Type 6 (advising on corporate finance) regulated activities under the SFO, being the financial adviser in connection with the forecast included in the Valuation Report
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors, namely Mr. Bai Jinrong, Mr. Luo Zhenbang and Mr. Huang Lixin, established to advise the Independent Shareholders on the terms of the Acquisition Agreement and the transactions contemplated thereunder

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## DEFINITIONS

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“Independent Financial Adviser” or “Goldin”	Goldin Financial Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders and a corporation licenced to carry on Type 6 (advising on corporate finance) regulated activities for the purpose of the SFO
“Independent Shareholders”	Shareholders other than BII HK, its associate(s) and parties involved or interested in the transactions contemplated under the Acquisition Agreement
“Latest Practicable Date”	5 August 2014, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Committee”	the listing sub-committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MOU”	the memorandum of understanding dated 25 February 2014 entered into between the Company as purchaser and BII as vendor in relation to the proposed acquisition of the Sale Assets
“PRC”	the People’s Republic of China excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Sale Assets”	the civil communication transmission systems (民用通信傳輸系統) and the respective income rights of the 82 underground stations of the seven subway lines of the Beijing Subway and the civil communication income rights of the three stations of the airport line of the Beijing Subway, in particular, (i) the fixed assets of and the income rights to be derived from the civil communication transmission systems of Line No. 5, Phase 1 of Line No. 10 (including the Olympic sub-line), Phase 1 of Line No. 15, Line No. 8 (north section), Line No. 9, Yizhuang Line and Daxing Line of the Beijing Subway; (ii) the income rights to be derived from the civil communication transmission systems of the airport line of the Beijing Subway; and (iii) the rights and obligations under certain underlying contracts

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## DEFINITIONS

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“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder”	has the meaning ascribed to it under the Listing Rules
“Valuation Report”	valuation report issued by Beijing Kezheng dated 2 July 2014 in respect of the valuation of the Sale Assets as at 30 June 2014
“%”	per cent.

\* *For identification purpose only*

*For the purpose of this circular, unless otherwise specified, conversions of RMB into Hong Kong dollars are based on the approximate exchange rate of RMB1.00 to HK\$1.245.*

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LETTER FROM THE BOARD

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中國城市軌道交通科技控股   
CHINA CITY RAILWAY TRANSPORTATION TECHNOLOGY  
中國城市軌道交通科技控股有限公司  
CHINA CITY RAILWAY TRANSPORTATION  
TECHNOLOGY HOLDINGS COMPANY LIMITED  
(incorporated in the Cayman Islands with limited liability)  
(Stock Code: 1522)

**Executive Directors:**

Mr. Cao Wei (*Chief executive officer*)  
Ms. Xuan Jing

**Non-executive Directors:**

Dr. Tian Zhenqing (*Chairman*)  
Mr. Hao Weiya  
Mr. Zhang Jie  
Mr. Steven Bruce Gallagher

**Independent non-executive Directors:**

Mr. Bai Jinrong  
Mr. Luo Zhenbang  
Mr. Huang Lixin

**Registered office:**

Floor 4, Willow House  
Cricket Square, PO Box 2804  
Grand Cayman KY1-1112  
Cayman Islands

**Head Office and Principal place of  
business in Hong Kong:**

Unit 4407, 44/F  
COSCO Tower  
183 Queen's Road Central  
Sheung Wan  
Hong Kong

8 August 2014

**DISCLOSEABLE AND CONNECTED TRANSACTION RELATING  
TO THE ACQUISITION OF SALE ASSETS**

*To the Shareholders*

Dear Sir or Madam,

**I. INTRODUCTION**

Reference is made to the announcements of the Company dated 8 July 2014 and 29 July 2014. On 8 July 2014, the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor, pursuant to which the Purchaser has conditionally agreed to acquire the Sale Assets (being the civil communication transmission systems and the respective income rights of the 82 underground stations of the seven subway lines of the Beijing Subway and the civil communication income rights of the three stations of the airport line of the Beijing Subway, in particular, (i) the fixed assets of and the income rights

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## LETTER FROM THE BOARD

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to be derived from the civil communication transmission systems of Line No. 5, Phase 1 of Line No. 10 (including the Olympic sub-line), Phase 1 of Line No. 15, Line No. 8 (north section), Line No. 9, Yizhuang Line and Daxing Line of the Beijing Subway; (ii) the income rights to be derived from the civil communication transmission systems of the airport line of the Beijing Subway; and (iii) the rights and obligations under certain underlying contracts from the Vendor at a consideration of RMB96,000,000 (equivalent to approximately HK\$119,520,000). As at the Latest Practicable Date, the construction of all the Sale Assets have been completed.

After Acquisition Completion, the Vendor will transfer the rights and controlling rights of the Sale Assets to the Purchaser, while the Purchaser shall apply its own resources for maintenance, upgrading and enhancement of the Sale Assets and enjoy their income rights. As advised by the PRC legal adviser who has issued a legal opinion relating to the Acquisition, no approvals, permits, or licenses from PRC regulatory authorities are required for the transfer of the Sale Assets or the income rights.

Pursuant to the Acquisition Agreement, the Vendor undertakes to transfer at an appropriate time the fixed assets and the income rights (“**New Assets**”) to be derived from the civil communication transmission systems for all lines of the Beijing Subway in which the Vendor has invested and constructed but yet to complete and deliver as at the date of the Acquisition Agreement at reasonable consideration to the Purchaser.

Further, as set out in the Acquisition Agreement, the Vendor undertakes that it shall not and shall procure that no holding company, subsidiary or subsidiary of a holding company of the Vendor and any company in which the Vendor or its affiliates has a controlling interest or shareholding and/or companies controlled by the Vendor shall engage in any business or activity similar to or which competes directly or indirectly or may compete with the civil communication business carried out by the Group.

In respect of the civil communication transmission systems of the future lines of the Beijing Subway (“**Future Civil Communication Business**”), the Purchaser shall apply its own resources for investment and construction and negotiate and seek cooperation with the telecommunication companies on its own in relation to any agreement regarding the use of related resources or business cooperation.

As the applicable percentage ratios for the Acquisition under the Listing Rules are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules.

As at the Latest Practicable Date, BII HK held 482,581,376 Shares, representing approximately 37.49% of the issued share capital of the Company. BII HK is a substantial Shareholder and hence a connected person of the Company under Rule 14A.11(1) of the Listing Rules. The Vendor, as the sole owner of BII HK, is an associate of BII HK and hence a connected person of the Company. The Acquisition will constitute a connected transaction for the Company, and is subject to the announcement, reporting and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you, among other things, (i) further information of the Acquisition; (ii) a letter of recommendation from the Independent Board Committee in relation to the Acquisition and the transactions contemplated thereunder; (iii) a letter of advice from the Independent Financial Adviser in relation to the Acquisition and the transactions contemplated thereunder; (iv) comfort letters from KPMG and GF Capital in relation to the Valuation Report; (v) the Valuation Report; and (vi) a notice convening the EGM.

### II. THE ACQUISITION

Reference is made to the announcement of the Company dated 25 February 2014 in relation to the entering into of the MOU between the Company as purchaser and BII as vendor in relation to the proposed acquisition of the Sale Assets, subject to the execution and completion of the formal agreement to be entered into between the Company (or any other company which is its wholly-owned subsidiary) and BII. Pursuant to the MOU, the Purchaser and the Vendor entered into the Acquisition Agreement on 8 July 2014 (after trading hours).

#### 1. Principal terms of the Acquisition Agreement

##### *Date*

8 July 2014 (after trading hours)

##### *Parties*

- (a) Beijing BII, an indirect wholly-owned subsidiary of the Company and a company incorporated in the PRC, which is principally engaged in investment holding (as Purchaser); and
- (b) BII, a company incorporated in the PRC, which is principally engaged in investment holding (as Vendor).

As at the Latest Practicable Date, the Vendor was the sole beneficial owner of BII HK, one of the Shareholders which held approximately 37.49% of the issued share capital of the Company.

#### 2. Assets to be acquired

Pursuant to the Acquisition Agreement, the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Assets.

The Sale Assets are the civil communication transmission systems and the respective income rights of the 82 underground stations of the seven subway lines of the Beijing Subway and the civil communication income rights of the three stations of the airport line of the Beijing Subway, in particular, (i) the fixed assets of and the income rights to be derived from the civil communication transmission systems of Line No. 5, Phase 1 of Line No. 10 (including the

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## LETTER FROM THE BOARD

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Olympic sub-line), Phase 1 of Line No. 15, Line No. 8 (north section), Line No. 9, Yizhuang Line and Daxing Line of the Beijing Subway (collectively, the “**Seven Subway Lines**”); (ii) the income rights to be derived from the civil communication transmission systems of the airport line of the Beijing Subway; and (iii) the rights and obligations under certain underlying contracts.

The rights and obligations referred to in (iii) above are those of the Vendor under various contracts to which the Vendor is a party, which comprise (a) various revenue contracts with the telecommunication companies whereby the Vendor enjoys the income rights for renting and licensing the use of the civil communication transmission systems of the Seven Subway Lines and the related supporting resources of the airport line of the Beijing Subway (the “**Revenue Contracts**”); and (b) various expense contracts with the service providers for the provision of certain maintenance services (the “**Expense Contracts**”).

The Revenue Contracts are divided into two types, one type of which was entered into between China Mobile Limited (中國移動通信集團), China United Network Communications Group Co., Limited (中國聯合網絡通信有限公司), China Telecom Corporation Limited (中國電信集團公司) (collectively, the “**Mobile Phone Network Operators**”) and the Vendor (the “**Type One Revenue Contracts**”), and the other type was entered into between one of the Mobile Phone Network Operators and the Vendor (the “**Type Two Revenue Contracts**”).

The Revenue Contracts are, among others, in relation to the lease of civil communication resources to the Mobile Phone Network Operators at an annual rate ranging from RMB400,000 to RMB460,000 per station, or a monthly rate ranging from RMB1,250 to RMB1,800 per transmission line. The civil communication resources referred to above include transmission systems, coverage systems and other supporting facilities.

Pursuant to the Type One Revenue Contracts, if the Vendor would like to terminate the contract within the lease term without prior approval from the contracting party(ies), the Vendor would have to pay damages to the contracting party(ies) amounting to 5% of the annual rental income of the respective civil communication resources and to return to the contracting party(ies) the prepaid rental income for the remainder of the calendar year. On the other hand, if any of the Mobile Phone Network Operators terminates the contract within the lease term without prior approval from the other two Mobile Phone Network Operators and the Vendor, the other two Mobile Phone Network Operators has to split the rents for the remaining lease term which should have been payable by the terminating party. Any rents paid by the terminating party prior to its termination would not be returned. Besides, the contracting parties shall negotiate for the renewal of the contracts within three months prior to the expiry of the contracts.

Pursuant to the Type Two Revenue Contracts, if the Vendor would like to terminate the contract within the lease term without prior approval from the contracting party, the Vendor would have to pay damages to the contracting party amounting to 5% of the annual rental income of the respective civil communication resources and to return to the contracting party the prepaid rental income for the remainder of the calendar year. There is no explicit termination clause in the Type Two Revenue Contracts under which the Mobile Phone Network Operators can terminate the relevant revenue contracts unilaterally. Besides, the contracting parties shall negotiate for the renewal of the contracts within three months prior to the expiry of the contracts.

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## LETTER FROM THE BOARD

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In respect of the Expense Contracts, the service providers under those contracts include 北京地鐵信息發展有限公司 (Beijing Subway Information Development Limited\*) (“**Beijing Subway Information**”) and 北京京港地鐵有限公司 (Beijing MTR Corporation Limited\*) (“**Beijing MTR**”), whereby these service providers shall provide maintenance services of the civil communication transmission systems including hardware maintenance, engine room and ancillary facilities, emergency handling, safety management and procurement planning, at a fixed annual rate of approximately RMB140,000 per station payable by the Vendor for the contract period. For some of the Expense Contracts, the parties thereto also agreed that they shall negotiate for the renewal of such contracts prior to the expiry of the existing Expense Contract (ranging from one month to three months prior to such expiry). There is no explicit termination clause stipulated in the Expense Contracts.

Beijing Subway Information is a joint venture company established in March 2007 jointly invested by 北京市地鐵運營有限公司 (Beijing Mass Transit Railway Operation Corp. Ltd.\*) and 北京北控電信通技術服務有限公司 (Beijing Beikong Telecommunication Technology Service Limited\*), which principally engages in the provision of engineering support services in connection with the civil communication transmission services in subway, and other consultancy and technology research and development business. As at the Latest Practicable Date, Mr. Cao Wei, the chief executive officer of the Company and an executive Director, was a director and the general manager of Beijing Subway Information. Beijing Subway Information is the single largest service provider which contributed over 80% of the total contract sums of the Expense Contracts for the year ended 31 December 2013.

Beijing MTR is a foreign invested cooperation company established in January 2006 jointly invested by 北京首都創業集團有限公司 (Beijing Capital Group Co., Ltd.\*) (as to 49%), MTR Corporation Limited (as to 49%) and BII (as to 2%), which principally engages in the operation of Line No. 4, Line No. 14 and Daxing Line of the Beijing Subway.

Save as disclosed, to the best knowledge of the Directors, each of Beijing Subway Information and Beijing MTR and their respective associates does not have any relationship with any Director, senior management, Substantial Shareholder or controlling Shareholder.

### 3. Consideration

The total consideration for the Acquisition pursuant to the Acquisition Agreement is RMB96,000,000 (equivalent to approximately HK\$119,520,000) and shall be satisfied by the Purchaser in the following manner:

- (i) RMB60,000,000 shall be paid by the Purchaser within five business days of the effective date of the Acquisition Agreement; and
- (ii) the remaining RMB36,000,000 shall be paid by the Purchaser within six months of the effective date of the Acquisition Agreement. The Purchaser may make payment prior to the date stipulated above.

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## LETTER FROM THE BOARD

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The effective date of the Acquisition Agreement will take place upon fulfillment of the following conditions:

- (i) the relevant regulatory authorities in Hong Kong approving the entering into and performance of the Acquisition Agreement (if required);
- (ii) the Shareholders approving the Acquisition Agreement at the EGM; and
- (iii) filing of the relevant transfer of state-owned assets pursuant to the Acquisition Agreement has been completed at the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor after taking into account (i) the appraised value of the Sale Assets as at 30 June 2014 based on the valuation performed by Beijing Kezheng; (ii) the historical financial information including the revenue and profits generated from the Sale Assets; and (iii) the opportunity to diversify the business of the Group and potential returns from the investment in the Sale Assets which will contribute positively to the financial results of the Group.

Beijing Kezheng is appointed as the independent valuer for the appraisal of Sale Assets and has adopted the discounted cash flow methodology for the valuation which involves the calculation of the net present values of the Sale Assets by discounting the expected future cash flows to be generated by such assets.

With respect to the cash flow projections used in the valuation, the annual projected income for each subway line of the Sale Assets is calculated as to the number of stations in the subway line multiplied by the annual rental income for each station in the subway line, ranging from RMB400,000 to RMB460,000 per station per annum or a monthly rate ranging from RMB1,250 to RMB1,800 per transmission line, which is stipulated under the Revenue Contracts entered into with Mobile Phone Network Operators.

The annual projected expense for each subway line of the Sale Assets is calculated as to the number of stations in the subway line multiplied by the annual maintenance expense of approximately RMB140,000 for each station in the subway line, which is stipulated under the Expense Contracts entered into with the service providers.

The duration of the majority of the Revenue Contracts entered into with the Mobile Phone Network Operators is approximately five years, while the duration of the majority of the Expense Contracts entered into with the service providers is approximately three years or five years. Given that the Group will become the sole owner of the only civil communication transmission systems in the Beijing Subway upon Acquisition Completion, and in view of the uniqueness and satisfactory quality of the Sale Assets, the Directors and Beijing Kezheng consider that the Mobile Phone Network Operators under the Revenue Contracts rely on the Group for their business, and hence they consider it is likely that the Revenue Contracts are able to be renewed till the end of the estimated economic life of the Sale Assets.

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## LETTER FROM THE BOARD

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In determining the pricing of the Revenue Contracts and the Expense Contracts to be renewed, the Directors expect that reference will be made to the existing contract prices, taking into account of factors including the then prevailing market conditions, inflation, cost fluctuation and demand and supply. The final contract prices for the Revenue Contracts and the Expense Contracts will be determined between the parties thereto under arm's length negotiation. The Directors consider the Company has bargaining power on the pricing terms of the Revenue Contracts given the uniqueness of the Sale Assets and the reliance on the Group from the Mobile Phone Network Operators under the Revenue Contracts. In respect of the pricing of the Expense Contracts, the Directors consider that the Company would not be relying heavily on the service providers for the maintenance services of the civil communication transmission systems since the entry barrier for the provision of such services is low and the Company plans to recruit personnel with relevant expertise for future business operation and expansion. As such, the Directors consider the Company has bargaining power on the pricing terms under the Expense Contracts.

In addition, Beijing Kezheng considers that the services providers under the Expense Contracts can be replaced at affordable and competitive costs if the terms of the renewed Expense Contracts are not favourable to the Company. In light of the above, Beijing Kezheng considers that the Company's bargaining power is strong in negotiation of the terms of the renewed Revenue Contracts and Expense Contracts. In considering the pricing mechanism, Beijing Kezheng has adopted the same rates of revenue and expenses as the existing Revenue Contracts and Expense Contracts in the cash flow projection for the valuation for conservative purpose.

The length of cash flow for each subway line is based on its time of commencing service and the estimated economic life of the Sale Assets, being 13 years. In determining the estimated economic life of the Sales Assets, Beijing Kezheng has carried out on-site inspection and considered that the appraised subject to be superior than ordinary construction projects in terms of design, equipment selection, technologies and construction quality, and estimated that the economic life of the appraised subject to be 13 years. Beijing Kezheng represented that according to the Manual of Data and Parameters Frequently Used in Assets Valuation in respect of the table of useful economic life of machinery and equipments, telecommunication equipment has a useful life ranging from 6 to 15 years. Beijing Kezheng has interviewed the officers of the Vendor who are in charge of the operation of the Sale Assets and considered that the Sale Assets are in satisfactory quality in terms of design, equipment selection, technologies and construction quality. In addition, Beijing Kezheng has reviewed the background of the Vendor and considered that given the Vendor is a state-owned entity and holds significant amount of assets (including the Sale Assets) which have been stringently approved by the state when purchasing these assets, the Sale Assets should be in satisfactory quality and hence Beijing Kezheng adopted an above-average economic life of 13 years. Beijing Kezheng has also reviewed the relevant instruction manuals of telecommunication equipment of the Sale Assets and concluded that the relevant useful lives (plus the warranty period provided by the relevant manufacturers, if applicable) of the Sale Assets are not less than 13 years.

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## LETTER FROM THE BOARD

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In respect of the projection of capital expenditure, it mainly comprised the expenditure for the replacement expenses of the spare parts of the existing equipment of the Sale Assets, and is calculated as 2.7% of the expenditure for the purchase of equipment during the course of previous construction projects of the civil communication transmission systems. Beijing Kezheng represented such rate is within the range of the relevant annual replacement expenses of spare parts of similar assets, which ranged from 1% to 3%, and Beijing Kezheng has adopted an above-average rate for conservative purpose. Since the amount of the projected annual capital expenditure is projected to be less than RMB1.2 million, the Directors and Beijing Kezheng considered that such amount is immaterial and no specific business plan will be adopted for the supporting of the capital expenditure projection at present and it is expected that the projected annual revenue to be generated by the Sale Assets is able to cover the projected annual capital expenditure. In addition, the tax rate adopted in the valuation is in line with the current tax rate adopted by the Group.

In determining each of the components of the discount rate formula, Beijing Kezheng has carried out on-site inspection on the Sale Assets and discussion with the respective officers who operate the Sale Assets and determined the discount rate with reference to various valuation standards. Beijing Kezheng represented that since the Vendor is the sole owner of the only civil communication transmission systems in Beijing Subway before Acquisition Completion, and the operation of civil communication transmission systems is considered a low risk business as most of the revenue is derived from the rental income from Mobile Phone Network Operators, therefore, the market risk and operational risk are low and they have adopted a small required return rate of 1.2% and 1.2% respectively. In addition, Beijing Kezheng represented that since the Vendor is a state-owned enterprise and the Sale Assets held by it are ultimately used for the provision of public utility services (i.e. to provide voice and data services for the mobile users in the Beijing Subway), it is likely the Sale Assets are less impacted by policy changes and interest rate changes as any additional costs imposed by the policy changes and interest rate changes may be subsequently transferred to the general public (i.e. mobile users). In view of the above, they have adopted the policy risk required return rate and financial risk required return rate at 0.8% and 0.3% respectively.

The Vendor and the Purchaser agreed that the Purchaser shall own the rights and obligations of the Sale Assets from the date of Acquisition Completion or 30 September 2014 (whichever is earlier).

#### **4. Post-completion**

After Acquisition Completion, the Vendor will transfer the rights and controlling rights of the Sale Assets to the Purchaser, while the Purchaser shall apply its own resources for maintenance, upgrading and enhancement of the Sale Assets and enjoy their income rights.

Pursuant to the Acquisition Agreement, the Vendor undertakes to transfer at an appropriate time the New Assets at reasonable consideration to the Purchaser. The Company and the Vendor will enter into separate agreements for transfer of the New Assets and relevant requirements under the Listing Rules will be complied with as and when appropriate.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, apart from those forming part of the Sale Assets, the Vendor completed the construction in relation to 86 stations of 6 subway lines. To the best knowledge of the Directors after inquiry from the Vendor, it is expected the construction of the New Assets will be delivered by the end of 2015. The Directors expect that, subject to the delivery of the New Assets as scheduled and agreement between the Company and the Vendor on the terms and conditions of the transfer, the transfer of the New Assets from the Vendor to the Company will take place in early 2016 subject to the then circumstances. The consideration for the transfer of the New Assets is intended to be determined after arm's length negotiations between the Company and the Vendor with reference to, among other factors, the then appraised value of the New Assets.

Further, as set out in the Acquisition Agreement, the Vendor undertakes that it shall not and shall procure that no holding company, subsidiary or subsidiary of a holding company of the Vendor and any company in which the Vendor or its affiliates has a controlling interest or shareholding and/or companies controlled by the Vendor shall engage in any business or activity similar to or which competes directly or indirectly or may compete with the civil communication business carried out by the Group.

In respect of the Future Civil Communication Business, the Purchaser shall apply its own resources for investment and construction and negotiate and seek cooperation with the telecommunication companies on its own in relation to any agreement regarding the use of related resources or business cooperation.

### **5. Conditions precedent to the Acquisition Agreement**

Acquisition Completion is conditional upon fulfillment of the following conditions:

- (a) the Purchaser conducting a due diligence review of the Sale Assets and being satisfied with the results of the due diligence review;
- (b) the obtaining of a legal opinion (the contents of which can be reasonably requested by the Purchaser) issued by a PRC legal adviser designated by the Purchaser covering matters relating to the Acquisition;
- (c) the performance by the Vendor of the internal procedures, asset valuation and other related procedures regarding the Sale Assets in accordance with the applicable law and regulations;
- (d) the performance by the Vendor of all procedures required for the Acquisition, Acquisition Completion and the transaction contemplated thereunder in accordance with the applicable law and regulations;
- (e) the performance by the Purchaser of all procedures required for the Acquisition, Acquisition Completion and the transaction contemplated thereunder in accordance with the applicable law and regulations and its memorandum and articles of association;
- (f) the passing of the relevant resolution(s) by the Independent Shareholders approving the Acquisition Agreement and transactions contemplated thereunder;

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## LETTER FROM THE BOARD

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- (g) all transaction documents having been validly and legally signed by the relevant parties;
- (h) the Purchaser having understood details of the various aspects of the Sale Assets and agreed to acquire the Sale Assets in accordance with the terms and conditions of the Acquisition offered by the Vendor;
- (i) the Purchaser being satisfied that all of the Vendor's warranties and undertakings remain true and accurate and not misleading in any material respect, any inconsistency of the Vendor's warranties and undertakings having been properly disclosed and no event or circumstance has occurred that would result in any material adverse change at all times from the date of the Acquisition Agreement up to the date of Acquisition Completion; and
- (j) filing of the relevant transfer of state-owned assets pursuant to the Acquisition Agreement has been completed at the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

None of the conditions precedent can be waived. As at the Latest Practicable Date, conditions (a), (b), (c) and (h) have been fulfilled.

### **6. Acquisition Completion**

Acquisition Completion shall take place on the day following the date on which (i) all the conditions precedent to the Acquisition Agreement have been fulfilled or effectively waived; and (ii) the aggregate consideration paid by the Purchaser pursuant to the Acquisition Agreement amounted to RMB60,000,000, or such other date as the parties to the Acquisition Agreement may agree in writing prior to Acquisition Completion.

Pursuant to the Acquisition Agreement, the Company is not required to settle the entire consideration (i.e. RMB96,000,000) prior to Acquisition Completion in the event Acquisition Completion shall take place within six months of the effective date of the Acquisition Agreement.

### **III. INFORMATION OF THE SALE ASSETS**

Pursuant to the valuation report performed by Beijing Kezheng, the appraised value of the Sale Assets as at 30 June 2014 was approximately RMB106 million (equivalent to approximately HK\$132 million). The unaudited net profits before taxation and extraordinary items attributable to the Sale Assets for each of the two years ended 31 December 2013 were approximately RMB11.84 million (equivalent to approximately HK\$14.74 million) and RMB14.03 million (equivalent to approximately HK\$17.47 million) respectively. The unaudited net profits after taxation and extraordinary items attributable to the Sale Assets for each of the two years ended 31 December 2013 were approximately RMB10.2 million (equivalent to approximately HK\$12.7 million) and approximately RMB12.1 million (equivalent to approximately HK\$15.1 million) respectively.

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## LETTER FROM THE BOARD

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For the year ended 31 December 2012, the unaudited net profits before and after taxation and extraordinary items of the Sale Assets only reflect the amount generated from the 2G civil communication business for five out of the Seven Subway Lines (except Line No. 8 (north section) and Line No. 9 which were then not yet delivered) and the airport line of the Beijing Subway. For the year ended 31 December 2013, the unaudited net profits before and after taxation and extraordinary items of the Sale Assets reflect the amount generated from the 2G civil communication business of the Seven Subway Lines and the airport line of the Beijing Subway.

#### **IV. INFORMATION OF THE GROUP**

The Group is principally engaged in (i) the design, implementation and maintenance of application solutions for centralising various functions of public transport systems in Beijing and Hong Kong; and (ii) the provision of software in application solutions and products for the subsystems of public transport systems at line-level.

#### **V. REASONS FOR AND BENEFITS OF THE ACQUISITION**

As one of the conditions precedent to the Acquisition, the Purchaser has obtained a PRC legal opinion issued by a PRC legal adviser who had performed due diligence review on the Sale Assets and was satisfied with the results on the due diligence review. Further, comprehensive internal review procedures on the Sale Assets (including asset valuation by Beijing Kezheng) in accordance with applicable law and regulations had been conducted. During the due diligence process, it is confirmed that the Purchaser is allowed to engage in the civil communication business pursuant to the business scope as set out in its business licence. The Directors consider that the civil communication business, which allows the Mobile Phone Network Operators to provide voice and data services to their customers in the Beijing Subway, could diversify the Group's business operation and complement as a value-added service along the supply chain of the public railway transport system.

The Directors consider that no particular expertise is required for the business model of leasing of civil communication resources to Mobile Phone Network Operators under the Revenue Contracts. In respect of the Expense Contracts, certain expertise is required to maintain the civil communication transmission systems. Currently, the Company does not have specific personnel to maintain the civil communication transmission systems. However, pursuant to the Expense Contracts, the service providers agreed to provide maintenance services of the civil communication transmission systems at a fixed annual rate of approximately RMB140,000 per station for the contract period. Going forward, the Purchaser also plans to recruit personnel with relevant expertise for future business operation and expansion. The Board believes that such recruitment can enable the Group to cope with its future business development plans in relation to the civil communication business.

The Board believes that the Acquisition represents a valuable opportunity for the Group to diversify its business operation into another aspect of the railway transport system by including the provision of civil communication services in the Beijing Subway, as part of its development focus over the value chain of the Beijing railway transportation system. The

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## LETTER FROM THE BOARD

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Acquisition is expected to enable the Group to expand its business scope with an objective to broaden its income source and enhance its financial performance. Going forward, the Company plans to continue the business model of renting and licensing the use of the existing civil communication transmission systems of the subway lines to the Mobile Phone Network Operators. The Company will also capture the future prospects of the rental of the New Assets and/or the civil communication transmission system of the future subway lines of the Beijing Subway. The Company will also keep abreast of any updates (e.g. 4G business) in the civil communication transmission network and explore further cooperation opportunities with the Mobile Phone Network Operators.

From the issuance of new shares in June 2014, the Company raised net proceeds of approximately HK\$414 million. (the details of which are set out in the announcement of the Company dated 4 April 2014). Among the net proceeds, approximately RMB96 million (equivalent to approximately HK\$119,520,000) would be used for the acquisition of the Sale Assets, the remaining proceeds would be used for (i) settlement of the proposed transfer of the New Assets from the Vendor to the Company; (ii) investment and construction of civil communication transmission systems and cooperation with telecommunication companies for Future Civil Communication Business such as 3G and 4G businesses; and (iii) general work capital (including the maintenance fees for the civil communication transmission systems). The Board believes the Acquisition will be beneficial to the future growth and business development of the Group and enhance the competitive edge of the Group in the industry as a whole.

After taken into account, among others, (i) the opportunity to diversify the business of the Group and broaden its income source; and (ii) the basis of the Consideration as mentioned above, the Directors consider that the terms of the Acquisition are on normal commercial terms, fair and reasonable and in the interest of the Group and the Shareholders as a whole.

### **VI. IMPLICATION UNDER THE LISTING RULES**

As the applicable percentage ratios for the Acquisition under the Listing Rules are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules.

As at the Latest Practicable Date, BII HK held 482,581,376 Shares, representing approximately 37.49% of the issued share capital of the Company. BII HK is a substantial Shareholder and hence a connected person of the Company under Rule 14A.11(1) of the Listing Rules. The Vendor, as the sole owner of BII HK, is an associate of BII HK and hence a connected person of the Company. The Acquisition will constitute a connected transaction for the Company, and is subject to the announcement, reporting and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Bai Jinrong and Mr. Luo Zhenbang and Mr. Huang Lixin, has been established to advise the Independent Shareholders as to the fairness and reasonableness of the Acquisition and the transactions contemplated thereunder. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition

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## LETTER FROM THE BOARD

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and the transactions contemplated thereunder. Your attention is drawn to the advice of the Independent Board Committee set out on page 19 of this circular. Your attention is also drawn to the letter of advice from Goldin to the Independent Board Committee and the Independent Shareholders in set out on pages 20 to page 39 in this circular. The Company will seek the Independent Shareholders' approval for the Acquisition Agreement at the EGM.

Dr. Tian Zhenqing, a non-executive Director, was the chairman of BII and a director of BII HK. Mr. Hao Weiya and Mr. Zhang Jie, both being non-executive Directors, were vice general managers of BII. Mr. Cao Wei and Ms. Xuan Jing, being the executive Directors, were directors of Beijing BII. Accordingly, each of Dr. Tian Zhenqing, Mr. Cao Wei, Ms. Xuan Jing, Mr. Hao Weiya and Mr. Zhang Jie was considered to have a material interest in the transactions contemplated under the Acquisition Agreement by virtue of their senior management position held in BII or Beijing BII and had abstained voting on the board resolution(s) approving the transactions contemplated under the Acquisition Agreement.

### VII. EGM

A notice convening the EGM to be held at the Conference Room, 9/F, 3rd Building, Jingtou Plaza, No. 6 Xiaoying North Road, Chaoyang District, Beijing, the People's Republic of China on Tuesday, 26 August 2014 at 2:30 p.m. is set out on page EGM-1 to EGM-2 of this circular. Ordinary resolutions will be proposed at the EGM to consider and, if thought fit, to approve the Acquisition Agreement and the transactions contemplated thereunder by way of poll, the results of which will be announced after the EGM.

As at the Latest Practicable Date, the Vendor held the entire issued share capital of BII HK, one of the Shareholders which held approximately 37.49% of the issued share capital of the Company. BII HK will be required to abstain from voting on the resolution(s) to approve the Agreement and the transactions contemplated thereunder at the EGM. Save as disclosed, to the best of the knowledge, information and belief of the Directors, no other Shareholder has a material interest in the transactions contemplated under the Agreement and will be required to abstain from voting on the resolution(s) to approve the Acquisition Agreement and the transactions contemplated thereunder at the EGM.

### VIII. RECOMMENDATION

The Directors (including the Independent Board Committee after considering the advice of the Independent Financial Adviser) consider that the Acquisition Agreement and the transactions contemplated thereunder are fair and reasonable and on normal commercial terms, and are in the interests of the Group and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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Your attention is drawn to:

- (a) this letter from the Board;
- (b) a letter of recommendation from the Independent Board Committee is set out on pages 19 of this circular; and
- (c) a letter from Goldin, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 39 of this circular.

### **IX. FURTHER INFORMATION**

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

Yours faithfully,  
By order of the Board  
**China City Railway Transportation  
Technology Holdings Company Limited**  
**Cao Wei**  
*Chief Executive Officer*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Acquisition Agreement and the transactions contemplated thereunder:*

  
**中國城市軌道交通科技控股**  
CHINA CITY RAILWAY TRANSPORTATION TECHNOLOGY  
**中國城市軌道交通科技控股有限公司**  
**CHINA CITY RAILWAY TRANSPORTATION  
TECHNOLOGY HOLDINGS COMPANY LIMITED**  
*(incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 1522)**

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION RELATING  
TO THE ACQUISITION OF SALE ASSETS**

We refer to the circular dated 8 August 2014 (the “**Circular**”) to the Shareholders of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed to form the Independent Board Committee to advise the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” contained in the Circular. Goldin has been appointed to advise the Independent Shareholders and us in this regard.

Details of the advice and the principal factors and reasons Goldin has taken into consideration in giving such advice, are set out in the “Letter from Goldin” in the Circular. Your attention is also drawn to the “Letter from the Board” in the Circular and the additional information set out in the appendices thereto.

Having taken into account the terms of the Acquisition Agreement and the transactions contemplated thereunder, we are of the opinion that (i) the terms of the Acquisition Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Shareholders (including the Independent Shareholders) are concerned, on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Group and the Shareholders as a whole. We, therefore, recommend that you vote in favour of the resolutions to be proposed at the EGM to approve Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Independent Board Committee**

**Bai Jinrong**  
*Independent  
non-executive Director*

**Luo Zhenbang**  
*Independent  
non-executive Director*

**Huang Lixin**  
*Independent  
non-executive Director*

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## LETTER FROM GOLDIN

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*The following is the full text of the letter from Goldin setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement, which has been prepared for the purpose of inclusion in this circular.*



**Goldin Financial Limited**  
23rd Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

8 August 2014

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

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION RELATING TO THE ACQUISITION OF SALE ASSETS**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition Agreement, details of which are set out in the letter from the Board (the “Letter from the Board”) contained in this circular dated 8 August 2014 issued by the Company (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 8 July 2014, the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor, pursuant to which the Purchaser has conditionally agreed to acquire the Sale Assets (being the civil communication transmission systems and the respective income rights of the 82 underground stations of the seven subway lines of the Beijing Subway and the civil communication income rights of the three stations of the airport line of the Beijing Subway, in particular, (i) the fixed assets of and the income rights to be derived from the civil communication transmission systems of Line No. 5, Phase 1 of Line No. 10 (including the Olympic sub-line), Phase 1 of Line No. 15, Line No. 8 (north section), Line No. 9, Yizhuang Line and Daxing Line of the Beijing Subway; (ii) the income rights to be derived from the civil communication transmission systems of the airport line of the Beijing Subway; and (iii) the rights and obligations under certain underlying contracts from the Vendor at a consideration of RMB96,000,000 (equivalent to approximately HK\$119,520,000). As at the Latest Practicable Date, the construction of all the Sale Assets have been completed.

After Acquisition Completion, the Vendor will transfer the rights and controlling rights of the Sale Assets to the Purchaser, while the Purchaser shall apply its own resources for maintenance, upgrading and enhancement of the Sale Assets and enjoy their income rights. As

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## LETTER FROM GOLDIN

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advised by the PRC legal adviser who has issued a legal opinion relating to the Acquisition, no approvals, permits, or licenses from PRC regulatory authorities are required for the transfer of the Sale Assets or the income rights.

Pursuant to the Acquisition Agreement, the Vendor undertakes to transfer at an appropriate time the fixed assets and the income rights (“New Assets”) to be derived from the civil communication transmission systems for all lines of the Beijing Subway in which the Vendor has invested and constructed but yet to complete and deliver as at the date of the Acquisition Agreement at reasonable consideration to the Purchaser.

Further, as set out in the Acquisition Agreement, the Vendor undertakes that it shall not and shall procure that no holding company, subsidiary or subsidiary of a holding company of the Vendor and any company in which the Vendor or its affiliates has a controlling interest or shareholding and/or companies controlled by the Vendor shall engage in any business or activity similar to or which competes directly or indirectly or may compete with the civil communication business carried out by the Group.

In respect of the civil communication transmission systems of the future lines of the Beijing Subway (“Future Civil Communication Business”), the Purchaser shall apply its own resources for investment and construction and negotiate and seek cooperation with the telecommunication companies on its own in relation to any agreement regarding the use of related resources or business cooperation.

As the applicable percentage ratios for the Acquisition under the Listing Rules are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules.

As at the Latest Practicable Date, BII HK held 482,581,376 Shares, representing approximately 37.49% of the issued share capital of the Company. BII HK is a substantial Shareholder and hence a connected person of the Company under Rule 14A.11(1) of the Listing Rules. The Vendor, as the sole owner of BII HK, is an associate of BII HK and hence a connected person of the Company. The Acquisition will constitute a connected transaction for the Company, and is subject to the announcement, reporting and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

### **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Huang Lixin, Mr. Bai Jinrong and Mr. Luo Zhenbang, has been established to make recommendations to the Independent Shareholders as to whether the terms and conditions of the Acquisition Agreement are normal commercial terms and fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole and to advise the Independent Shareholders on how to vote taking into account the recommendations of the Independent Financial Adviser.

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## LETTER FROM GOLDIN

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We, Goldin, have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition Agreement, and to make a recommendation as to, among others, whether the terms and conditions of the Acquisition Agreement are fair and reasonable and as to voting in respect of the relevant resolution at the EGM.

As at the Latest Practicable Date, Goldin did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of Goldin. In the last two years, Goldin has acted as an independent financial adviser to the independent board committee and independent shareholders of the Company in relation to the continuing connected transactions (details of which were set out in the circulars of the Company dated 26 October 2012, 17 July 2013 and 30 August 2013 respectively) and connected transaction involving subscription of new shares under specific mandate, whitewash waiver and special deal (details of which were set out in the circular of the Company dated 9 May 2014). Apart from normal professional fees paid to us in connection with such appointments, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transactions, therefore we consider such relationship would not affect our independence.

### **BASIS OF OUR ADVICE**

In formulating our opinion and recommendations, we have reviewed, inter alia, the announcement of the Company dated 8 July 2014 (the “Announcement”), the Acquisition Agreement and the annual reports of the Company for the three years ended 30 June 2011, 2012 and 2013 and the interim reports of the Company for the six months ended 31 December 2013 (the “Interim Report 2013/2014”). We have also reviewed certain information provided by the management of the Company relating to the operation, financial condition and prospect of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding the financials, businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, which we have relied upon in formulating our opinion, are true, accurate and complete in all material respects as of the date hereof and the Shareholders will be notified of any material changes as soon as possible.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement herein or in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of, and the reasons for, the Acquisition Agreement and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion was necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, at the Latest Practicable Date.

# LETTER FROM GOLDIN

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

### 1. Business and financial information of the Group

The Group is principally engaged in (i) the design, implementation and maintenance of application solutions for centralising various functions of public transport systems in Beijing and Hong Kong; and (ii) the provision of software in application solutions and products for the subsystems of public transport systems at line-level. Set out below is the audited financial information of the Group for the three financial years ended 30 June 2011, 2012 and 2013 as extracted from the Group's annual reports for the relevant financial years and the unaudited financial information for the six months ended 31 December 2012 and 2013 as extracted from the Group's interim reports for the relevant financial period:

**Table 1: Financial highlights of the Group**

	For the year ended 30 June			For the six months ended 31 December	
	2011	2012	2013	2012	2013
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	72,047	190,240	254,135	135,187	147,989
Profit attributable to the equity shareholders of the Company	<u>40,470</u>	<u>80,715</u>	<u>59,042</u>	<u>23,415</u>	<u>24,149</u>
				<b>As at</b>	
		<b>As at 30 June</b>		<b>31 December</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>	
	(audited)	(audited)	(audited)	(unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Non-current assets	19,736	66,373	133,303	138,764	
Current assets	66,385	398,208	559,275	596,263	
Current liabilities	45,165	124,767	198,115	209,835	
Net current assets	21,220	273,441	361,160	386,428	
Net assets	40,956	339,814	489,352	520,337	

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## LETTER FROM GOLDIN

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### *Year ended 30 June 2012*

For the year ended 30 June 2012, revenue of the Group increased by approximately 164.2% from approximately HK\$72.0 million for the year ended 30 June 2011 to approximately HK\$190.2 million. The increase was mainly attributable to the increase in the sales of application solution software as well as related hardware and spare parts. The Group's revenue arising from the provision of design and implementation of application solution services increased by approximately 32.7% from approximately HK\$37.6 million for the year ended 30 June 2011 to approximately HK\$49.9 million for the year ended 30 June 2012. The increase was mainly attributable to the integration of the four new Beijing subway lines to the automated fare collection clearing centre system (ACC) and to the traffic control centre (TCC) as well as the provision of the Network Emergency Communications Command System Design and Development Project for Beijing subway. The Group's revenue arising from the provision of maintenance of application solution services decreased by approximately 7.9% from approximately HK\$31.6 million for the year ended 30 June 2011 to approximately HK\$29.1 million for the year ended 30 June 2012. The decrease was mainly because during the year ended 30 June 2011, one of the Group's customers requested the Group to provide additional one off repair and maintenance services in addition to the Group's normal maintenance services while this additional service was not recurred during the year ended 30 June 2012. Other than that, the Group's revenue arising from maintenance application solution services was generally maintained at similar level. The Group's revenue arising from the sales of application solution related hardware and spare parts increased by approximately 1,346.4% from approximately HK\$2.8 million for the year ended 30 June 2011 to approximately HK\$40.5 million for the year ended 30 June 2012. The increase was mainly attributable to the sale of card readers for use in eight Beijing subway lines, which accounted for approximately 89.5% of the Group's revenue arising from sales of application solution related hardware and spare parts for the year. The Group's revenue arising from the sales of application solution software was approximately HK\$70.7 million for the year ended 30 June 2012 while there was none for the year ended 30 June 2011. In view of the market demand for ready-to-use standardised application solution for traffic control, system monitoring as well as fare collection and clearing fields, the Group started to develop software products cater for those markets during the financial year 2012. As a result, the Group had completed the development of the Group's Integrated System Monitoring Software, Traffic Control System Software and Data Processing and Clearing Software, to name but a few, ready for sale in the market by the end of financial year 2012. The revenue arising from the sale of application solution software for the year ended 30 June 2012 was mainly derived from the sales of those software products.

The profit attributable to equity shareholders of the Company increased by approximately 99.3% from approximately HK\$40.5 million for the year ended 30 June 2011 to approximately HK\$80.7 million for the year ended 30 June 2012. The increase was primarily due to the growth in revenue and improvement in gross profit.

As at 30 June 2012, the audited net current assets and net assets of the Group amounted to approximately HK\$273.4 million and approximately HK\$339.8 million, respectively, increasing by approximately 1,189.6% and approximately 728.8% from

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## LETTER FROM GOLDIN

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approximately HK\$21.2 million and from approximately HK\$41.0 million as at 30 June 2011 respectively. On 16 May 2012, the Company was listed on the growth enterprise market of the Stock Exchange through global offering and the net proceeds from the global offering were approximately HK\$175.1 million.

### *Year ended 30 June 2013*

For the year ended 30 June 2013, the Group's revenue increased by approximately 33.6% from approximately HK\$190.2 million for the year ended 30 June 2012 to approximately HK\$254.1 million for the year ended 30 June 2013. The increase was mainly attributable to the increase in revenue arising from the provision of design and implementation of application solution services, provision of maintenance of application solution services and sales of application solution related hardware and spare parts. For the year ended 30 June 2013, revenue arising from the provision of design and implementation of application solution services increased by approximately 91.0% from approximately HK\$49.9 million for the year ended 30 June 2012 to approximately HK\$95.3 million. Such increase was mainly attributable to the winning of the projects in relation to i) the construction of the phase II project regarding the railway transport command centre for Beijing Subway (the "TCC Phase II Project") including (a) setting up of the information control centre system for Beijing Subway; (b) expanding the capacity of the existing automated fare collection clearing centre system (the "ACC System") and traffic control centre system (the "TCC System") of Beijing Subway; and (c) providing system software and related technical services to the testing and inspection centre of the automated fare collection system of Beijing Subway; ii) the replacement of gate electronics for MTR Corporation Limited East Railway Line (the "East Railway Gate Electronics Replacement Project"); and iii) the upgrade of the passenger information system ("PIS") for Line 5 of the Beijing Subway and the integration of the video signal for Line 6, Line 8, Line 9 and Line 10 of the Beijing Subway (the "PIS Upgrade Project"). For the year ended 30 June 2013, revenue arising from the provision of maintenance of application solution services increased by approximately 120.3% from approximately HK\$29.1 million for the year ended 30 June 2012 to approximately HK\$64.1 million. Such increase was mainly attributable to the significant increase in revenue from maintenance services undertaken by ERG BJ following completion of more new design and implementation of application solutions, including the TCC Phase II Project. For the year ended 30 June 2013, revenue arising from the sales of application solution software decreased by approximately 84.0% from approximately HK\$70.7 million for the year ended 30 June 2012 to approximately HK\$11.3 million. Such decrease was primarily due to the software products the Group sold in financial year 2012 were not yet due for replacement or upgrade and were still in use by the Group's customers. In addition, in order to fine-tune the pace of subway development in Beijing, throughout the financial year 2013, the general demand for railway transportation software products in Beijing decreased as a result of the slowdown in construction projects of Beijing Subway as compared with previous years. However, the Group envisaged that the subway construction in Beijing will regain momentum gradually. For the year ended 30 June 2013, revenue arising from the sales of application solution related hardware and spare

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## LETTER FROM GOLDIN

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parts increased by approximately 106.2% from approximately HK\$40.5 million for the year ended 30 June 2012 to approximately HK\$83.5 million. Such increase was primarily attributable to the sales of hardware and spare parts in relation to the TCC Phase II Project.

The Group's profit attributable to equity shareholders of the Company decreased by approximately 26.9% from approximately HK\$80.7 million for the year ended 30 June 2012 to approximately HK\$59.0 million for the year ended 30 June 2013. The decrease was mainly attributable to the decrease of gross profit. For the year ended 30 June 2013, the Group's major source of revenue, including the TCC Phase II Project and the East Railway Gate Electronics Replacement Project, were more hardware related. The related major cost drivers for these kinds of work were mainly hardware procurement costs that were fundamentally costly, thus increased the cost of sales for the year ended 30 June 2013 and resulted in the reduction of gross profit. Besides, gross profit was also reduced resulting from the increased subcontracting fees arising from the ACC/TCC Integration Project. While for the year ended 30 June 2012, the Group's major source of income were derived from the sales of application solution products and application solution software design that were relatively more labour oriented. The related major cost drivers for these kinds of work were mainly labour costs that were relatively less costly, therefore the cost of sales for the year ended 30 June 2012 were much lower which resulted in higher gross profit.

As at 30 June 2013, the audited net current assets and net assets of the Group amounted to approximately HK\$361.2 million and approximately HK\$489.4 million, respectively, increasing by approximately 32.1% and approximately 44.0% from approximately HK\$273.4 million and approximately HK\$339.8 million as at 30 June 2012 respectively.

### *Six months ended 31 December 2013*

For the six months ended 31 December 2013, the Group's revenue increased by approximately 9.5% growth from approximately HK\$135.2 million for the six months ended 31 December 2012 to approximately HK\$148.0 million. The Group's revenue arising from the provision of design and implementation of application solution services decreased by approximately 9.6% from approximately HK\$72.6 million for the six months ended 31 December 2012 to approximately HK\$65.6 million. Such drop was primarily a result of the slight slowdown in the construction of new subway lines in Beijing which led to lower demand for system integration services. However, the increasing demand for system upgrades, including automated fare collection system (AFC) and passenger information system (PIS) etc. for existing subway lines in Beijing, which the Group had been actively participated in, had made up most part of the revenue in this segment during the six months ended 31 December 2013. The Group's revenue arising from the provision of maintenance of application solution services increased by approximately 207.7% from approximately HK\$14.2 million for the six months ended 31 December 2012 to approximately HK\$43.7 million. Such increase was mainly attributable

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to the winning of a number of new maintenance services contracts in relation to the systems previously constructed by the Group upon the expiration of the warranty period. The Group's revenue arising from the sales of application solution software increased by approximately 750.0% from approximately HK\$1.0 million for the six months ended 31 December 2012 to approximately HK\$8.5 million. Such increase was primarily due to the sales of software products in relation to the Beijing Subway railway transport command centre phase II project. The Group's revenue arising from the sales of application solution related hardware and spare parts decreased by approximately 36.4% from approximately HK\$47.5 million for the six months ended 31 December 2012 to approximately HK\$30.2 million. Similar to provision of design and implementation of application solution services, the slight slowdown in the construction of new subway lines in Beijing had led to less demand for related hardware and spare parts, resulting in a drop in revenue in this segment. However, the rise in demand for hardware and spare parts in relation to system upgrades for existing subway lines in Beijing had counter-balanced part of the effect of revenue reduction in this segment during the six months ended 31 December 2013.

As at 31 December 2013, the unaudited net current assets and net assets of the Group amounted to approximately HK\$386.4 million and approximately HK\$520.3 million, respectively, increasing by approximately 7.0% and approximately 6.3% from approximately HK\$361.2 million and approximately HK\$489.4 million as at 30 June 2013 respectively.

### **2. Information of the Sale Assets**

Pursuant to the valuation report performed by Beijing Kezheng, the appraised value of the Sale Assets as at 30 June 2014 was approximately RMB106 million (equivalent to approximately HK\$132 million). The number of stations covered by the Revenue Contracts (as defined below) were 66 and 84 for the two years ended 31 December 2012 and 2013 respectively. The unaudited revenue of the Sale Assets for each of the two years ended 31 December 2013 were approximately RMB27.0 million (equivalent to approximately HK\$33.62 million) and RMB34.2 million (equivalent to approximately HK\$42.58 million) respectively. The unaudited net profits before taxation and extraordinary items attributable to the Sale Assets for each of the two years ended 31 December 2013 were approximately RMB11.84 million (equivalent to approximately HK\$14.74 million) and RMB14.03 million (equivalent to approximately HK\$17.47 million) respectively. The unaudited net profits after taxation and extraordinary items attributable to the Sale Assets for each of the two years ended 31 December 2013 were approximately RMB10.2 million (equivalent to approximately HK\$12.7 million) and approximately RMB12.1 million (equivalent to approximately HK\$15.1 million) respectively. The major cost components of provision of services by the Sale Assets mainly consist of maintenance fee under the Expense Contracts (as defined below).

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For the year ended 31 December 2012, the unaudited net profits before and after taxation and extraordinary items of the Sale Assets only reflect the amount generated from the 2G civil communication business for five out of the Seven Subway Lines (except Line No. 8 (north section) and Line No. 9 which were then not yet delivered) and the airport line of the Beijing Subway. For the year ended 31 December 2013, the unaudited net profits before and after taxation and extraordinary items of the Sale Assets reflect the amount generated from the 2G civil communication business of the Seven Subway Lines and the airport line of the Beijing Subway. As a result, revenue and profit of the Sale Assets for the year ended 31 December 2013 recorded an increase as compared with that of the prior year.

Taking into account the historical profitable track record of the Sale Assets, we are of the view that the Acquisition will bring in a stable revenue stream to the Company and is in the interest of the Company and the Shareholders as a whole.

### **3. Reasons for and benefits of entering into the Acquisition Agreement**

The Sale Assets are the civil communication transmission systems and the respective income rights of the 82 underground stations of the seven subway lines of the Beijing Subway and the civil communication income rights of the three stations of the airport line of the Beijing Subway, in particular, (i) the fixed assets of and the income rights to be derived from the civil communication transmission systems of Line No. 5, Phase 1 of Line No. 10 (including the Olympic sub-line), Phase 1 of Line No. 15, Line No. 8 (north section), Line No. 9, Yizhuang Line and Daxing Line of the Beijing Subway (collectively, the “Seven Subway Lines”); (ii) the income rights to be derived from the civil communication transmission systems of the airport line of the Beijing Subway; and (iii) the rights and obligations under certain underlying contracts.

The rights and obligations referred to in (iii) above are those of the Vendor under various contracts to which the Vendor is a party, which comprise (a) various revenue contracts with the telecommunication companies whereby the Vendor enjoys the income rights for renting and licensing the use of the civil communication transmission systems of the Seven Subway Lines and the related supporting resources of the airport line of the Beijing Subway (the “Revenue Contracts”); and (b) various expense contracts with the service providers for the provision of certain maintenance services (the “Expense Contracts”).

The Revenue Contracts are divided into two types, one type of which was entered into between China Mobile Limited (中國移動通信集團), China United Network Communications Group Co., Limited (中國聯合網絡通信有限公司), China Telecom Corporation Limited (中國電信集團公司), (collectively, the “Mobile Phone Network Operators”) and the Vendor (the “Type One Revenue Contracts”) and the other type was entered into between one of the Mobile Phone Network Operators and the Vendor (the “Type Two Revenue Contracts”).

The Revenue Contracts are, among others, in relation to the lease of civil communication resources to the Mobile Phone Network Operators at an annual rate ranging from RMB400,000 to RMB460,000 per station, or a monthly rate ranging from RMB1,250 to RMB1,800 per transmission line. The civil communication resources referred to above include transmission systems, coverage systems and other supporting facilities.

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Pursuant to the Type One Revenue Contracts, if the Vendor would like to terminate the contract within the lease term without prior approval from the contracting party(ies), the Vendor would have to pay damages to the contracting party(ies) amounting to 5% of the annual rental income of the respective civil communication resources and to return to the contracting party(ies) the prepaid rental income for the remainder of the calendar year. On the other hand, if any of the Mobile Phone Network Operators terminates the contract within the lease term without prior approval from the other two Mobile Phone Network Operators and the Vendor, the other two Mobile Phone Network Operators has to split the rents for the remaining lease term which should have been payable by the terminating party. Any rents paid by the terminating party prior to its termination would not be returned. Besides, the contracting parties shall negotiate for the renewal of the contracts within three months prior to the expiry of the contracts.

Pursuant to the Type Two Revenue Contracts, if the Vendor would like to terminate the contract within the lease term without prior approval from the contracting party, the Vendor would have to pay damages to the contracting party amounting to 5% of the annual rental income of the respective civil communication resources and to return to the contracting party the prepaid rental income for the remainder of the calendar year. There is no explicit termination clause in the Type Two Revenue Contracts under which the Mobile Phone Network Operators can terminate the relevant revenue contracts unilaterally. Besides, the contracting parties shall negotiate for the renewal of the contracts within three months prior to the expiry of the contracts.

In respect of the Expense Contracts, the service providers under those contracts include 北京地鐵信息發展有限公司 (Beijing Subway Information Development Limited\*) (“Beijing Subway Information”) and 北京京港地鐵有限公司 (Beijing MTR Corporation Limited\*) (“Beijing MTR”), whereby these service providers shall provide maintenance services of the civil communication transmission systems including hardware maintenance, engine room and ancillary facilities, emergency handling, safety management and procurement planning, at a fixed annual rate of approximately RMB140,000 per station payable by the Vendor for the contract period. For some of the Expense Contracts, the parties thereto also agreed that they shall negotiate for the renewal of such contracts prior to the expiry of the existing Expense Contracts (ranging from one month to three months prior to such expiry). There is no explicit termination clause stipulated in the Expense Contracts.

Beijing Subway Information is a joint venture company established in March 2007 jointly invested by 北京市地鐵運營有限公司 (Beijing Mass Transit Railway Operation Corp. Ltd.\*) and 北京北控電信通技術服務有限公司 (Beijing Beikong Telecommunication Technology Service Limited\*), which principally engages in the provision of engineering support services in connection with the civil communication transmission services in subway, and other consultancy and technology research and development business. As at the Latest Practicable Date, Mr. Cao Wei, the chief executive officer of the Company and an executive Director, was a director and the general manager of Beijing Subway Information. Beijing Subway Information is the single largest service provider which contributed over 80% of the total contract sums of the Expense Contracts for the year ended 31 December 2013.

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Beijing MTR is a foreign invested cooperation company established in January 2006 jointly invested by 北京首都創業集團有限公司 (Beijing Capital Group Co., Ltd.\*) (as to 49%), MTR Corporation Limited (as to 49%) and BII (as to 2%), which principally engages in the operation of Line No. 4, Line No. 14 and Daxing Line of the Beijing Subway.

Save as disclosed above, to the best knowledge of the Directors, each of Beijing Subway Information and Beijing MTR and their respective associates does not have any relationship with any Director, senior management, substantial Shareholder or controlling Shareholder of the Company.

After Acquisition Completion, the Vendor will transfer the rights and controlling rights of the Sale Assets, while the Purchaser shall apply its own resources for maintenance, upgrading and enhancement of the Sale Assets and enjoy their income rights. As advised by the PRC legal adviser who has issued a legal opinion relating to the Acquisition, no approvals, permits, or licenses from PRC regulatory authorities are required for the transfer of the Sale Assets or the income rights.

Pursuant to the Acquisition Agreement, the Vendor undertakes to transfer at an appropriate time the New Assets at reasonable consideration to the Purchaser. The Company and the Vendor will enter into separate agreements for transfer of the New Assets and relevant requirements under the Listing Rules will be complied with as and when appropriate. Such term in our view could allow the Group to capture the future prospects of the rental of civil communication transmission systems of the subway lines that are under construction and yet to construct in Beijing to the Mobile Phone Network Operators and is in the interest of the Company and the Shareholders.

As at the Latest Practicable Date, apart from those forming part of the Sale Assets, the Vendor completed the construction in relation to 86 stations of 6 subway lines. To the best knowledge of the Directors after inquiry from the Vendor, it is expected that the construction of the New Assets will be delivered by the end of 2015. The Directors expect that, subject to the delivery of the New Assets as scheduled and agreement between the Company and the Vendor on the terms and conditions of the transfer, the transfer of the New Assets from the Vendor to the Company will take place in early 2016 subject to the then circumstances. The consideration for the transfer of the New Assets is intended to be determined after arm's length negotiations between the Company and the Vendor with reference to, among other factors, the then appraised value of the New Assets.

Further, as set out in the Acquisition Agreement, the Vendor undertakes that it shall not and shall procure that no holding company, subsidiary or subsidiary of a holding company of the Vendor and any company in which the Vendor or its affiliates has a controlling interest or shareholding and/or companies controlled by the Vendor shall engage in any business or activity similar to or which competes directly or indirectly or may compete with the civil communication business carried out by the Group.

In respect of the Future Civil Communication Business, the Purchaser shall apply its own resources for investment and construction and negotiate and seek cooperation with the telecommunication companies on its own in relation to any agreement regarding the use of related resources or business cooperation.

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As one of the conditions precedent to the Acquisition, the Purchaser has obtained a PRC legal opinion issued by a PRC legal adviser who had performed due diligence review on the Sale Assets and was satisfied with the results on the due diligence review. Further, comprehensive internal review procedures on the Sale Assets (including asset valuation by Beijing Kezheng) in accordance with applicable laws and regulations had been conducted. During the due diligence process, it is confirmed that the Purchaser is allowed to engage in the civil communication business pursuant to the business scope as set out in its business licence. The Directors consider that the civil communication business, which allows the Mobile Phone Network Operators to provide voice and data services to their customers in the Beijing Subway, could diversify the Group's business operation and complement as a value-added service along the supply chain of the public railway transport system.

The Directors consider that no particular expertise is required for the business model of leasing of civil communication resources to Mobile Phone Network Operators under the Revenue Contracts. In respect of the Expense Contracts, certain expertise is required to maintain the civil communication transmission systems. Currently, the Company does not have specific personnel to maintain the civil communication transmission systems. However, pursuant to the Expense Contracts, the service providers agreed to provide maintenance services of the civil communication transmission systems at a fixed annual rate of approximately RMB140,000 per station for the contract period. Going forward, the Purchaser also plans to recruit personnel with relevant expertise for future business operation and expansion. The Board believes that such recruitment can enable the Group to cope with its future business development plans in relation to the civil communication business.

The Board believes that the Acquisition represents a valuable opportunity for the Group to diversify its business operation into another aspect of the railway transport system by including the provision of civil communication services in the Beijing Subway, as part of its development focus over the value chain of the Beijing railway transportation system. The Acquisition is expected to enable the Group to expand its business scope with an objective to broaden its income source and enhance its financial performance. Going forward, the Company plans to continue the business model of renting and licensing the use of the existing civil communication transmission systems of the subway lines to the Mobile Phone Network Operators. The Company will also capture the future prospects of the rental of the New Assets and/or the civil communication transmission systems of the future subway lines of the Beijing Subway. The Company will also keep abreast of any updates (e.g. 4G business) in the civil communication transmission network and explore further cooperation opportunities with the Mobile Phone Network Operators.

From the issuance of new shares in June 2014, the Company raised net proceeds of HK\$414 million (the details of which are set out in the announcement of the Company dated 4 April 2014). Among the net proceeds, approximately RMB96 million (equivalent to approximately HK119,520,000) would be used for the acquisition of the Sale Assets, the remaining proceeds would be used for (i) settlement of the proposed transfer of the New Assets from the Vendor to the Company; (ii) investment and construction of civil communication transmission systems and cooperation with telecommunication companies for Future Civil

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Communication Business such as 3G and 4G businesses; and (iii) general working capital (including the maintenance fees for the civil communication transmission systems). The Board believes the Acquisition will be beneficial to the future growth and business development of the Group and enhance the competitive edge of the Group in the industry as a whole.

As advised by the management of the Company, after Acquisition Completion, the Group will become the sole owner of the civil communication transmission systems of the Beijing Subway (the “Civil Communication Transmission System”). The Civil Communication Transmission System is currently rented to the Mobile Phone Network Operators for their provision of voice and data services to their mobile phone customers in the Beijing Subway. Since the Group will become the sole owner of the Civil Communication Transmission System after Acquisition Completion, it is expected that the Mobile Phone Network Operators will continue to rent the Civil Communication Transmission System from the Group in order to provide voice and data services to their customers in the Beijing Subway. Further, the Vendor undertakes to transfer at an appropriate time the fixed assets and the income rights to be derived from the civil communication transmission systems for all lines of the Beijing Subway in which the Vendor has invested and constructed but yet to complete and deliver as at the date of the Acquisition Agreement at reasonable consideration to the Purchaser. In respect of the civil communication transmission systems of the future lines of the Beijing Subway, the Group shall apply its own resources for investment and construction and negotiate and seek cooperation with the telecommunication companies on its own in relation to any agreement regarding the use of related resources or business cooperation. Taking into the above and the profitable track record of the Sale Assets, the Directors are of the view that the acquisition of the Sale Assets will bring in a stable source of income to the Group and the entering into the Acquisition Agreement allows the Group to capture the future prospects of the rental of civil communication transmission systems of the subway lines that are under construction and yet to construct in Beijing to the Mobile Phone Network Operators.

Having taken into consideration that (i) the profitable track record of the Sale Assets; (ii) the acquisition of the Sale Assets will bring in a stable source of income to the Group; and (iii) the entering into the Acquisition Agreement allows the Group to capture the future prospects of the rental of civil communication transmission systems of the subway lines that are under construction and yet to construct in Beijing to the Mobile Phone Network Operators, we are of the view that the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole.

#### **4. Principal terms of the Acquisition Agreement**

The total consideration for the Acquisition pursuant to the Acquisition Agreement is RMB96,000,000 (equivalent to approximately HK\$119,520,000) and shall be satisfied by the Purchaser in the following manner:

- (i) RMB60,000,000 shall be paid by the Purchaser within five business days of the effective date of the Acquisition Agreement; and
- (ii) the remaining RMB36,000,000 shall be paid by the Purchaser within six months of the effective date of the Acquisition Agreement. The Purchase may make payment prior to the date stipulated above.

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The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor after taking into account (i) the appraised value of the Sale Assets as at 30 June 2014 based on the valuation (the "Valuation") performed by Beijing Kezheng; (ii) the historical financial information including the revenue and profits generated from the Sale Assets; and (iii) the opportunity to diversify the business of the Group and potential returns from the investment in the Sale Assets which will contribute positively to the financial results of the Group.

According to the valuation report (the "Valuation Report") prepared by the Beijing Kezheng, the summary of which is contained in Appendix II to the Circular, the appraised value of the Sale Assets was approximately RMB106 million (equivalent to approximately HK\$132 million) as at 30 June 2014. The Consideration therefore represents a discount of approximately 9.43% to the Valuation.

For our due diligence purpose, we reviewed Beijing Kezheng's qualification and experience in relation to the performance of the Valuation based on the information available. We noted that Beijing Kezheng possesses the qualification for valuation of both state-owned and non state-owned assets, awarded by the Bureau of Finance of the Beijing Municipality. We noted that Beijing Kezheng has a handful of experience in performing valuation services for numerous sizeable enterprises covering a wide range of industries in the PRC. Beijing Kezheng confirmed that it is an independent third party to the Company. Beijing Kezheng also confirmed that all relevant material information provided by the Company had been incorporated in the Valuation Report and there were no other material relevant information or representations relating to Sale Assets provided or made by the Company to it not having been included in the Valuation Report. In addition, we also reviewed the terms of Beijing Kezheng's engagement and noted that the scope of work is appropriate to the opinion required to be given and we are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Valuation Report.

We also enquired Beijing Kezheng regarding the methodology of, and basis and assumptions adopted for the Valuation. We were advised by Beijing Kezheng that in valuing the Sale Assets, Beijing Kezheng adopted the basis of valuation and made the valuation assumptions in accordance with, among others, 資產評估準則-基本準則 (the China Valuation Principles\*) published by the Ministry of Finance of the PRC and 資產評估準則 (the China Valuation Standards\*) published by the China Appraisal Society, an independent body which is regulated by the Ministry of Finance of the PRC and Ministry of Civil Affairs of the PRC and sets standards for valuation in the PRC.

We were given to understand that during the course in performing the Valuation, Beijing Kezheng has implemented the following steps to formulate the basis and assumptions adopted for the Valuation, including but not limited to: (i) discussed with the management of the Company as to the purpose and the required scope of Valuation; (ii) conducted site visit for some of the fixed assets for civil communication transmission systems (the "Fixed Assets") in the Seven Subway Lines under the Sale Assets as well as the airport lines of Beijing Subway according to the asset checklist provided; (iii) obtained all relevant financial and operational

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information of the subject assets and analysed the operation as well as revenue generating capability of the Sale Assets; and (iv) formulated and examined the valuation methodologies and all relevant basis and assumptions related to the Sale Assets based on all relevant information and analyses.

To determine the appraised value of the Sale Assets, we were given to understand that, of the three commonly adopted valuation approaches considered, namely the income approach, market approach and cost approach, Beijing Kezheng has adopted the income approach which is based on discounted cash flow (“DCF”) methodology, after considering the following factors:

*(i) The market approach*

Beijing Kezheng considered that the market approach to be inappropriate for the Valuation. Beijing Kezheng noted that with BII, a company wholly owned by the State-owned Assets Supervision and Administration Commission of People’s Government of Beijing Municipality which is currently the sole owner of the Civil Communication Transmission System of the Beijing Subway, no comparable transactions relating to assets of nature similar to that of the Sale Assets in Beijing can be identified and therefore, the market approach is not applicable.

*(ii) The cost approach*

Beijing Kezheng considered that the cost approach to be inappropriate for the Valuation. The cost approach considers the depreciated replacement cost of the subject assets, taking into account the current cost of replacement (reproduction) as well as relevant taxation. Given the limited information available as to the replacement cost, which includes the equipment cost and installation cost, the value of the Fixed Assets under the cost approach could not be properly appraised and therefore, the cost approach is not applicable.

*(iii) The income approach*

Beijing Kezheng considered that the income approach to be the most appropriate for the Valuation. Income approach allows for the prospective valuation of future profits and justifications for the present value of expected future cash flows to be generated by the subject assets, an approach suitable for the valuation of assets with individual revenue generating capability such as the Sale Assets, having considered the revenue nature of the Sale Assets through contract-based rental payment under the Revenue Contracts.

Having considered the respective downsides of the market approach and the cost approach, we are of the view that the income approach is the preferred approach for the Valuation.

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The DCF methodology involves the calculation of the net present values of the Sale Assets by discounting the expected future cash flows to be generated by such assets. We were given to understand that the expected future cash flows are determined by Beijing Kezheng based on, among others, (i) the estimated useful life of the Fixed Assets; and (ii) the expected annual revenue to be generated by the Sale Assets based on the terms of the Revenue Contracts.

Beijing Kezheng represented that according to the Manual of Data and Parameters Frequently Used in Assets Valuation in respect of the table of useful economic life of machinery and equipments, telecommunication equipment has a useful life ranging from 6 to 15 years. Beijing Kezheng has interviewed the officers of the Vendor who are in charge of the operation of the Sale Assets and considered that the Sale Assets are in satisfactory quality in terms of design, equipment selection, technologies and construction quality. In addition, Beijing Kezheng has reviewed the background of the Vendor and considered that given the Vendor is a state-owned entity and holds significant amount of assets (including the Sale Assets) which have been stringently approved by the state when purchasing these assets, the Sale Assets should be in satisfactory quality and hence Beijing Kezheng adopted an above-average economic life of 13 years. Beijing Kezheng has also reviewed the relevant instruction manual of telecommunication equipment of the Sale Assets and concluded that the relevant useful lives (plus the warranty period provided by the relevant manufacturers, if applicable) of the Sale Assets are not less than 13 years. The expected annual revenue to be generated by the Sale Assets is based on the terms, including rental payments payable annually, of the Revenue Contracts. It is noted that all the Revenue Contracts are subsisting contracts and will expire on 31 December 2015 or 30 December 2017 (as the case may be). Considering the uniqueness of the Civil Communication Transmission System as the only civil communication transmission system in the Seven subway Lines as well as the airport lines of Beijing Subway, alongside the undertaking from the Vendor, details of which are set out in the section headed “3. Reasons for and benefits of entering into the Acquisition Agreement”, we are of the view that it is fair and reasonable for Beijing Kezheng to derive the expected future cash flow of the Sale Assets based on the aforesaid determinants.

With respect to the cash flow projections used in the model, we noted that the annual cash flow projection for each subway line of the Beijing Subway is calculated as to the number of stations in the subway line, multiplied by the projected net income for each station in the subway line, being annual rental income net of annual maintenance expenses, estimated replacement expenses and relevant taxations. Both the annual rental income and the annual maintenance expenses are amounts stipulated under the revenue contracts entered into with mobile phone network operators and expense contracts entered into with service provider for each specific subway line. The annual rental income under the existing revenue contracts range from RMB400,000 to RMB460,000 per station (or RMB1,250 to RMB1,800 per transmission line deployed under the transmission system). The annual maintenance expense under the existing expense contracts amounts to RMB140,000 per station. The estimated replacement expenses provide for the expenditure for the replacement of the existing equipments under the Sale Assets, calculated at a rate based on the amount of expenditure previously incurred for the purchase of equipments during the course of the construction of the existing civil communication transmission system. The length of cash flow for each subway line is based on its time of beginning service and the estimated useful life of the Fixed Assets, being 13 years. It is noted that the duration of the majority of the revenue contracts is around five years, while the duration of the majority of the expense contracts is around three years or five years.

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## LETTER FROM GOLDIN

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According to the Valuation Report, the conclusion of the Valuation Report has been made on the assumption that, under the circumstance of clearly-defined property rights, the appraised assets have not been subject to the restriction and impact of other creditors' rights and can be used continuously (without variation in the state of usage) and that the market is open, with the Valuation based on the analysis of the actual status of the assets and the prevailing situation of national laws, regulations and relevant markets on the valuation date. We were given to understand that a major underlying assumption is that the revenue contracts and expense contracts would be renewed throughout the useful life of the Fixed Assets. Given that the Group will become the sole owner of the only civil communication transmission systems in the Beijing Subway upon Acquisition Completion, the uniqueness and satisfactory quality of the Sale Assets and the Mobile Phone Network Operators under the Revenue Contracts rely on the Group for their business, we consider the assumption that the Revenue Contracts would be renewed till the end of the estimated economic life of the Sale Assets is justifiable.

In determining the pricing of the Revenue Contracts and the Expense Contracts to be renewed, the Directors expect that reference will be made to the existing contract prices, taking into account of factors including the then prevailing market conditions, inflation, cost fluctuation and demand and supply. The final contract prices for the Revenue Contracts and the Expense Contracts will be determined between the parties thereto under arm's length negotiation. Given the uniqueness of the Sale Assets and the reliance on the Group from the Mobile Phone Network Operators under the Revenue Contracts, we are of the view that the Company has bargaining power on the pricing terms of the Revenue Contracts. In respect of the pricing of the Expense Contracts, the Directors consider that the Company would not be relying heavily on the service providers for the maintenance services of the civil communication transmission systems since the entry barrier for the provision of such services is low and the Company plans to recruit personnel with relevant expertise for future business operation and expansion. As such, we concur with the Directors' view that the Company has bargaining power on the pricing terms under the Expense Contracts.

In addition, Beijing Kezheng considers that the services providers under the Expense Contracts can be replaced at affordable and competitive costs if the terms of the renewed Expense Contracts are not favourable to the Company. In light of the above, Beijing Kezheng considers that the Company's bargaining power is strong in negotiation of the terms of the renewed Revenue Contracts and Expense Contracts. In considering the pricing mechanism, Beijing Kezheng has adopted the same rates of revenue and expenses as the existing Revenue Contracts and Expense Contracts in the cash flow projection for the valuation for conservative purpose.

In respect of the projection of capital expenditure, it mainly comprised the expenditure for the replacement expenses of the spare parts of the existing equipment of the Sale Assets, and is calculated as 2.7% of the expenditure for the purchase of equipment during the course of previous construction projects of the civil communication transmission systems. Beijing Kezheng represented such rate is within the range of the relevant annual replacement expenses of spare parts of similar assets, which ranged from 1% to 3%, and Beijing Kezheng has adopted an above-average rate for conservative purpose. Since the amount of the projected annual

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capital expenditure is projected to be less than RMB1.2 million, the Directors and Beijing Kezheng considered that such amount is immaterial and no specific business plan will be adopted for the supporting of the capital expenditure projection at present. In addition, the tax rate adopted in the valuation is in line with the current tax rate adopted by the Group.

With respect to the discount rate in the model, we were given to understand that the risk premium build-up model has been used in determining the discount rate, comprising (i) the risk free rate; (ii) market risk return rate (return rate also known as “premium”); (iii) operational risk premium; (iv) political risk premium; and (v) financial risk premium, which together reflect the time value of money and the risks associated with the cash flows. Based on our discussion with Beijing Kezheng, it is noted that the risk free rate is made with reference to the PBOC one-year time deposit rate, which was 3.5% as at the date of the Valuation. Of the various risk premiums, the market risk premium, the operational risk premium, the political risk premium and the financial risk premium have been determined by Beijing Kezheng after having conducted extensive market researches and carried out discussion with the relevant management personnel relating to the Sale Assets which covers the market, operational, technical and financial aspects. We were given to understand that the discussion covers various areas ranging from project investment, market demand, operation and management as well as technical supports. Beijing Kezheng represented that since the Vendor is the sole owner of the only civil communication transmission systems in Beijing Subway before Acquisition Completion and the operation of civil communication transmission systems is considered a low risk business as most of the revenue are derived from the rental income from Mobile Phone Network Operators, therefore, the market risk and operational risk are low and they have adopted a small required return rate of 1.2% and 1.2% respectively. In addition, Beijing Kezheng represented that since the Vendor is a state-owned enterprise and the Sale Assets held by it are ultimately used for the provision of public utility services (i.e. to provide voice and data services for the mobile users in the Beijing Subway), it is likely the Sale Assets are less impacted by policy changes and interest rate changes as any additional costs imposed by the policy changes and interest rate changes may be subsequently transferred to the general public (i.e. mobile users). In view of the above, they have adopted the policy risk required return rate and financial risk required return rate at 0.8% and 0.3% respectively. As such, we are of the view that the discount rate, as determined by Beijing Kezheng after taking into account the aforesaid determinants, is fair and reasonable.

During the course of our discussions with Beijing Kezheng and after reviewing the data and the calculation work provided by Beijing Kezheng, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the methodology, principal bases and assumptions used in arriving the Valuation. Having considered the above, we are of the view that the principal basis, valuation methods and assumptions adopted for the Valuation are fair, reasonable and complete and hence the reliability of the Valuation Report.

We have attempted to assess the Valuation using comparable analyses based on price-to-earnings (P/E) multiple and price-to-book (P/B) multiple, being the most commonly adopted multiple analyses for valuation in the market. However, due to the uniqueness of the Civil Communication Transmission System as the only civil communication transmission

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## LETTER FROM GOLDIN

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systems in the Beijing Subway with BII currently being the sole owner of the Civil Communication Transmission System, no comparable company listed in the Hong Kong Stock Exchange with business characteristics that closely resembles the Sale Assets in terms of, among other things, operation, geographical location and business exclusivity could be identified and therefore, we are unable to assess the Valuation based on other valuation methodology.

Having considered that the Consideration represents a discount of approximately 9.43% to the Valuation, we are of the view that the terms of the consideration for the Acquisition are normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole.

### **5. Financial effects of the Acquisition Agreement**

#### ***(a) Liquidity***

Since the consideration of RMB96 million for the Acquisition will be settled by cash, it is expected that the working capital of the Group will decrease by the same amount upon Acquisition Completion.

#### ***(b) Gearing ratio***

Based on the Interim Report 2013/2014, the Group had no borrowings. Therefore, there would be no impact on the gearing ratio upon Acquisition Completion.

#### ***(c) Net asset value***

Since the consideration of RMB96 million for the Acquisition will be settled by cash, the cash of the Group will decrease by RMB96 million while the non-current assets of the Group will increase by the same amount, the net asset value of the Group will remain unchanged upon Acquisition Completion.

#### ***(d) Earnings***

Taking into the profitable track record of the Sale Assets, it is expected that the Acquisition will have a positive impact on the earnings of the Group.

Shareholders should note that the aforesaid analyses are for illustrative purpose only and do not purport to represent the financial position of the Group upon Acquisition Completion.

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## LETTER FROM GOLDIN

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### RECOMMENDATIONS

Based on the abovementioned principal factors and reasons, we are of the view that the Acquisition Agreement is entered into in the ordinary and usual course of business of the Company, and the terms and conditions of the Acquisition Agreement are normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition Agreement.

Yours faithfully,  
For and on behalf of  
**Goldin Financial Limited**  
**Billy Tang**  
*Director*

*Note:* Mr. Billy Tang is a licensed person registered with the SFC and a responsible officer of Goldin Financial Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 10 years of experience in the corporate finance industry.

**Section (1)**

*The following is the text of a report received from the Company's auditors, KPMG, Certified Public Accountants, Hong Kong, for inclusion in the announcement dated 29 July 2014.*



8th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

29 July 2014

**REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH  
THE VALUATION OF THE SALE ASSETS****TO THE BOARD OF DIRECTORS OF CHINA CITY RAILWAY TRANSPORTATION  
TECHNOLOGY HOLDINGS COMPANY LIMITED**

We refer to the discounted future cash flows on which the asset valuation (the "Valuation") dated 2 July 2014 prepared by Beijing Ke Zheng Assets Appraisal Company Limited (北京科正資產評估有限責任公司) in respect of the appraisal of the fair value of the civil communication transmission systems and the respective income rights of 82 underground stations of seven subway lines of the Beijing Subway and the civil communication income rights of three stations of the airport line of the Beijing Subway, in particular, (i) the fixed assets of and the income rights to be derived from the civil communication transmission system of Line No. 5, Phase 1 of Line No. 10 (including the Olympic sub-line), Phase 1 of Line No. 15, Line No. 8 (north section), Line No. 9, Yizhuang Line and Daxing Line of the Beijing Subway; (ii) the income rights to be derived from the civil communication transmission system of the airport line of the Beijing Subway; and (iii) the rights and obligations under certain underlying contracts (the "Sale Assets") as at 30 June 2014 is based. The Valuation is prepared based on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

**Responsibilities**

The directors of China City Railway Transportation Technology Holdings Company Limited (the "Directors") are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

It is our responsibility to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

**Basis of opinion**

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

**Opinion**

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

**Other matters**

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Sale Assets or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

**KPMG**

*Certified Public Accountants*

Section (2)

8 August 2014

The Board of Directors  
China City Railway Transportation Technology Holdings Company Limited  
Unit 4407, 44/F, COSCO Tower,  
183 Queen's Road Central,  
Hong Kong

Dear Sirs,

We refer to the discount future cash flows on which the valuation (the “**Valuation**”) prepared by Beijing Kezheng in relation to the appraisal of the Valuation of the Sale Assets as at 30 June 2014 is based as set out in Appendix II to the circular of the Company dated 8 August 2014 (the “**Circular**”), of which this report forms part. The Valuation is prepared based on the discounted future cash flows and is regarded as a profit forecast (the “**Forecast**”) under Rule 14.61 of the Listing Rules. Capitalized terms used in this report shall have the same meaning as those defined in the Circular unless otherwise specified.

We have reviewed the Forecast upon which the Valuation has been made for which you as the Directors are responsible and discussed with you and Beijing Kezheng the information and documents provided by you which formed part of the bases and assumptions upon which the Forecast has been prepared. We have also considered the letter from KPMG dated 29 July 2014 addressed to yourselves as set out in Section (1) of Appendix I to the Circular regarding the calculations upon which the Forecast has been made, and the Forecast do not involve the adoption of accounting policies. The Forecast is based on a number of bases and assumptions pertaining to the businesses of the Sale Assets. As the relevant bases and assumptions are about future events which may or may not occur, the actual financial performance of the businesses of the Sale Assets may or may not achieve as expected and the variation may be material.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions adopted by Beijing Kezheng on the Valuation, for which Beijing Kezheng and the Company are responsible, we are of the opinion that the Forecast upon which the Valuation has been made, for which you as the Directors are solely responsible, have been made after due and careful enquiry by you.

Yours faithfully,  
For and on behalf of  
**GF Capital (Hong Kong) Limited**  
**Danny Wan** **Harry Yu**  
*Managing Director* *Director*

**Asset Valuation Report****Contents**

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**Statement of the Appraisal Agency and the Certified Public Valuer****We hereby solemnly declare that:**

1. The certified public valuer abides by the principles of independence, objectivity and fairness, observes the provisions of relevant laws, regulations and asset valuation standards and assumes corresponding responsibilities.
2. The assets to be appraised and the scope of our valuation are consistent with the scope of valuation as determined by the entrusting party without any overlapping and omission.
3. The selection of asset valuation approach is appropriate and the selected parameters and data are reliable.
4. The asset valuations are fair and accurate.
5. The facts that we stated in the report are true and accurate.
6. The appraisal agency and appraisers have neither any stake in the appraised assets nor any relationship with the interests of the parties concerned.
7. The valuation work had not been subject to any human intervention and was conducted in an independent manner.
8. Users of the report are reminded to pay attention to the notes on special items and the restrictions on the use of the report.

Signature of the Chinese certified public valuer:

Beijing Ke Zheng Assets Appraisal Company Limited

2 July 2014

**Abstract from the Asset Valuation Report**

At the request of China City Railway Transportation Technology Holdings Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”), Beijing Ke Zheng Assets Appraisal Company Limited\* (北京科正資產評估有限責任公司) has conducted evaluation on the investment project held by Beijing Infrastructure Investment Co., Ltd.\* (北京市基礎設施投資有限公司) in relation to the construction of a civil communication transmission system in 85 subway stations across eight subway lines of Beijing Subway (“**Appraised Assets**”), so as to provide a price reference for the Company’s proposed acquisition of the appraised assets of Beijing Infrastructure Investment Co., Ltd..

Pursuant to the relevant laws of the state on asset valuation and the regulations and rules of other relevant state authorities, we have, based on principles that are independent, fair, scientific and objective and via necessary valuation procedures, conducted evaluation on the appraised assets of Beijing Infrastructure Investment Co., Ltd, and arrived at the following conclusion:

At the valuation date of 30 June 2014 and under the preconditions of going concern, the investment projects held by Beijing Infrastructure Investment Co., Ltd.\* in relation to the construction of a civil communication transmission system in 85 subway stations across eight subway lines of Beijing Subway is valued at RMB106,308,000.

As per the requirements set out in the letter of engagement for asset valuation issued by the Company, this report and its conclusion provide price reference solely for the Company’s wholly owned subsidiary, Beijing BII Technology Development Co., Ltd. proposed acquisition of the appraised assets and must not be used for other purposes.

The valid period of this report commences from the valuation date of 30 June 2014 to 29 June 2015. If the valuation purpose is realized within half a year after the valuation date, the report conclusion may be used as transaction price basis; after the passage of over one year, the valuation conclusion shall be reviewed. The Company is entitled to the right to use this report properly and appropriately pursuant to the requirements of the relevant laws, regulations and valuation terms. The user of the report is solely liable for the improper and inappropriate use of the report.

The above information is an excerpt from the asset valuation report. To have a comprehensive understanding of the project, please read the report carefully in its entirety and pay attention to the information disclosed in the notes on special items in the report.

### Asset Valuation Report

Keping Baozi (2014) No. 020

Pursuant to relevant national provisions on asset valuation and upholding the principles of objectivity, independence, fairness and science, Beijing Ke Zheng Assets Appraisal Company Limited is entrusted by the Company to conduct a valuation of its investment project on the civilian communications and transmission system of 85 subway stations along eight subway lines of the Beijing Subway owned by Beijing Infrastructure Investment Co., Ltd. according to accepted asset valuation methods. The aim is to provide a reference value of the appraised assets that the Company plans to acquire.

Our evaluators conducted a field survey of assets to be appraised according to necessary valuation procedures and made a fair reflection of the market value of the assets on 30 June 2014. Please find below the report on the details and results of the asset valuation:

#### **I. Entrusting party and other users of the report apart from the property right holder and the entrusting party**

(I) Entrusting party: China City Railway Transportation Technology Holdings Company Limited

1. Name: China City Railway Transportation Technology Holdings Company Limited
2. Address: Room 4407, 44th Floor, COSCO Tower, No. 183 Queen's Road Central, Sheung Wan, Hong Kong

(II) Property right holder: Beijing Infrastructure Investment Co., Ltd.

1. Name: Beijing Infrastructure Investment Co., Ltd.
2. Address: Room 908, 9th Floor, Block 2 Jingtou Plaza, No. 6 Xiaoying North Road, Chaoyang District, Beijing
3. Legal representative: Tian Zhenqing
4. Registered capital: RMB65,808,673,000
5. Paid-in capital: RMB65,808,673,000

6. Type of company: Limited liability company (wholly state-owned)

7. Scope of business:

Authorized business items: manufacture of subway cars and equipment

General business items: authorized business management, investment and investment management of state-owned assets as well as planning and construction of new subway lines, operational management of built subway lines, self-operation of and acting in agency for the import and export of various commodities and technologies (except those that are restricted or prohibited for import and export by the State), design and repair of subway cars, design and installation of subway equipment, project supervision, property management, real estate development, as well as design and production of subway advertisements.

8. Date of establishment: 10 February 1981

9. Term of operation: From 25 December 2001 to 24 December 2051

10. Registration number: 110000000031223

(III) Users of the report

Users of the report are the entrusting party, the appraised company and other users that are required to use the report to take economic action relating to the purpose of the valuation as provided in national laws and regulations. Unless otherwise provided in national laws and regulations, any organizations or individuals that have not been confirmed by the appraisal agency and the entrusting party are not allowed to use the report.

## **II. Valuation Purpose**

Pursuant to the asset acquisition agreement entered into by the Company and Beijing Infrastructure Investment Co., Ltd., the Company intends to acquire the appraised assets of Beijing Infrastructure Investment Co., Ltd., and a valuation firm is thus engaged to conduct a valuation on the appraised assets to provide price reference for the assets acquisition.

### III. Subject and Scope of Valuation

As at the valuation date of 30 June 2014, the investment project held by Beijing Infrastructure Investment Co., Ltd. in relation to the construction of a civil communication transmission system in 85 subway stations across eight subway lines of Beijing Subway has a book value of RMB90,940,200 and a net book value of RMB56,411,300. As at the date of this report, the construction of the Appraised Assets has been completed.

The above assets have been affirmed with the relevant ownership certificate documents provided by Beijing Infrastructure Investment Co., Ltd.. No approvals, permits, or licenses from PRC regulatory authorities are required for the transfer of the Appraised Assets.

Assets included in this valuation are in line with the scope of assets recognized at the time of engagement.

### IV. Types of Values and its Definitions

In accordance with the asset valuation standards of the PRC and the particulars of this project, the results of this valuation represent the fair market value of the valuation subject at the valuation date of 30 June 2014 under the preconditions of going concern.

Market value is defined as the estimated amount for which an asset should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

### V. Valuation date

In accordance with the engagement letter of the Company, the base date of this asset valuation project is 30 June 2014.

The valuation date is the time base to verify assets and valuations. The valuation date chosen in this project is the close of a certain accounting period, capable of fully reflecting the overall situation of various assets of the target of valuation. All valuation standards are price standards that are effective on the base date and all assets are assets that actually exist on the base date. The carrying values stated in this report are consistent with the carrying values of the enterprises on the base date.

### VI. Basis of valuation

Laws and regulations of national and local governments and relevant departments we followed in the asset valuation as well as reference documents and materials we referred to in the valuation are mainly:

(I) Legal basis of our valuation

1. Order No. 91 of the State Council in 1991 "Measures on the Administration of State-owned Assets"

2. Notice No. 36 of the Assets Management Office of State-owned Assets Supervision and Administration Commission of the State Council in 1992 “Detailed Rules for the Implementation of Administrative Measures For State-owned Assets Assessment”

(II) Basis of our valuation standards

1. Notice No. 20 of the Ministry of Finance in 2004 “Asset Valuation Standards – Basic Standards” and “Professional Code of Ethics for Asset Valuation – Basic Standards”
2. Notice No. 189 of the China Appraisal Society in 2007 “Asset Valuation Standards – Valuation Report”
3. Notice No. 189 of the China Appraisal Society in 2007 “Asset Valuation Standards – Machinery and Equipment”
4. Notice No. 189 of the China Appraisal Society in 2007 “Asset Valuation Standards – Intangible Assets”

(III) Basis of our valuation work on economic behavior

1. Engagement letter of the asset valuation project
2. Asset purchase agreement between Beijing BII Technology Development Co., Ltd. and Beijing Infrastructure Investment Co., Ltd.

(IV) Basis of our valuation work on property right

1. Copies of the business license of Beijing Infrastructure Investment Co., Ltd.
2. Relevant accounting statements, previous annual audit reports and other materials provided by companies for appraisal
3. Special audit report on the subway civilian communications and transmission system and other materials

(V) Price standards adopted

1. Statistical data and technical criteria and information promulgated by relevant state departments as well as other relevant data collected by the appraisal company
2. Financial systems and taxation policies
3. Results of site survey analysis conducted by appraisers on appraised assets

## VII. Valuation methods

According to relevant national laws and regulations and the requirements of the asset valuation standards, the cost approach, the market comparison approach and the income approach are used to assess the value of machinery and equipment. The **cost approach** is mainly used to determine the replacement cost of machinery and equipment in a reasonable way, using replacement cost after deduction of various depreciations as a way of asset valuation. It is the most common method used in the valuation of machinery and equipment. Replacement cost includes necessary and reasonable costs, profits and related taxes and so forth as incurred in the acquisition or construction of equipment.

The **market comparison approach** refers to a concept of valuation by comparing the appraisal target with reference assets as well as comparable assets already traded in the market to determine the value of the appraisal target. The **income approach** refers to a concept of valuation by discounting the expected income of the appraised assets to determine the value of the appraisal target. It is generally suitable for machinery and equipment with independent profitability or profitability that can be quantified.

Beijing Infrastructure Investment Co., Ltd. is the only construction company to invest in and contract to build the construction project of the Beijing Subway. There is no comparable reference and therefore the market comparison approach cannot be adopted.

When conducting site survey of assets to be appraised, collecting basic information needed in valuation and requiring the appraised company to provide details and data of assets to be appraised and the scope of valuation, our appraisers came to the realization that the assets for appraisal relate to 85 subway stations along eight subway lines of the Beijing Subway which are vastly distributed and, due to objective conditions, they were not able to conduct a comprehensive survey. In addition, the appraisal target is a civilian communications and transmission system project and thus the construction cost of the project includes equipment and equipment installation works. Given the limited information provided by the appraised company, it is not suitable to use the cost approach.

The construction of communication transmission system in 85 subway stations across eight subway lines of Beijing Subway undertaken by Beijing Infrastructure Investment Co., Ltd. mainly involves the provision of civil communication coverage for telecommunication operators within the subway system, allowing passengers to gain access to communication services in the subway, while telecommunication operators conduct operation by means of paying resource charge such as lease fee. As the valuation subject is capable of generating profit independently, in order to represent the value of the appraised assets in a more objective manner and taking into account the valuation purpose and information available, the present-value income approach was adopted for this valuation.

Present-value income approach, also known as income method, is a method of determining the value of assets under valuation by discounting the expected annual profits during the useful life of the assets under valuation in the future into the present value with an appropriate discount rate. The basic calculation formula is:

$$P = \sum_{t=1}^n F_t \cdot \frac{1}{(1+i)^t}$$

where: P represents the appraised value

$F_t$  represents the expected profits of year t

t represents the year for profits calculation

i represents the discount rate

n represents the expected profitable years

### 1. The Determination of n (the Expected Profitable Years)

According to Manual of Data and Parameters Frequently Used in Assets Valuation in respect of the table of useful economic life of machinery and equipments, telecommunication equipment has a useful life of 6 to 15 years. The subject of valuation is the construction project of civil communication transmission system in the subway stations of the Beijing Subway system. After on-site inspection, the valuers consider that the valuation subject to be superior than ordinary construction projects in terms of design, equipment selection, technologies and construction quality, and confirm that the economic life of the valuation subject to be 13 years. As at the valuation date, the profitable year N is determined at 13 years based on the useful life of each line.

### 2. The Projection of Total Profits $F_t$

- (1) According to the utilization fee stipulated in the utilization agreements in relation to the civil communication coverage system and related supporting resources in 85 subway stations across eight subway lines of Beijing Subway entered into between Beijing Infrastructure Investment Co., Ltd. and three major telecommunication operators, namely China Mobile Communications Co., Ltd, China United Network Communications Group Co., Ltd, and the Beijing Network Assets Branch\* (北京網絡資產分公司) of China Telecommunication Corporation Limited (collectively, the “**Mobile Phone Network Operators**”), the annual fee payable for the three parties is RMB0.4 million/subway station/year. In particular, there are 16 subway stations at Line No. 5, 26 at Line No. 10, 5 at Line No. 15, 6 at Yizhuang Line, 10 at Daxing Line, 6 at Line No. 8, 13 at Line No. 9 (the National Library station shared with Line No. 10 and thus counted as 12), and 3 at the airport lines.

- (2) A. According to the fee as determined in the agreement on the use of additional 2M transmission resources for civilian communications at the Beijing Subway signed with China Mobile Communications Corporation Beijing Co., Ltd. as provided by Beijing Infrastructure Investment Co., Ltd., the price is RMB1,400/line/month for every unit of 2M transmission resource. Among which, for 2G business, additional six lines for Line No. 10, additional seven lines for Line No. 8 and additional 16 lines for Line No. 9; for 3G business, additional six lines for the Yizhuang Line, additional ten lines for the Daxing Line, additional 12 lines for Line No. 8 and additional 24 lines for Line No. 9.
- B. According to the fee as determined in the agreement on the use of additional 2M transmission resources for civilian communications at the Beijing Subway signed with the Beijing Network Asset Branch of China Telecom Corporation Limited as provided by Beijing Infrastructure Investment Co., Ltd., the price is RMB1,800/line/month for every unit of 2M transmission resource. Among which, additional five lines for Line No. 15, additional six lines for Line No. 8, additional 12 lines for Line No. 9, additional six lines for the Yizhuang Line and additional ten lines for the Daxing Line.
- C. According to the fee as determined in the agreement on the use of additional 2M transmission resources for civilian communications at the Beijing Subway signed with the Beijing Branch of China United Network Communications Corporation Limited as provided by Beijing Infrastructure Investment Co., Ltd., the price is RMB1,250/line/month for every unit of 2M transmission resource. Among which, additional 32 lines for Line No. 8, additional 12 lines for the northern section of Line No. 9 and additional 40 lines for the southern section of Line No. 9. According to the agreement on the use of 3G resources for civilian communications at the Daxing Line of the Beijing Subway signed with the Beijing Branch of China United Network Communications Corporation Limited as provided by Beijing Infrastructure Investment Co., Ltd., the price is RMB60,000/subway station/year.
- D. In respect of the technical service contracts, we consider that the Company would not be relying heavily on the service providers for the maintenance services of the civil communication transmission systems since the entry barrier for the provision of such services is low.

**See Table 1 for details of income forecasting**

- (3) A. As determined in the technical service contract entered into between Beijing Infrastructure Investment Co., Ltd. on one hand and 北京地鐵信息發展有限公司 (Beijing Subway Information Development Limited\*) (“**Beijing Subway Information**”) or 北京京港地鐵有限公司 (**Beijing MTR Corporation Limited**\*) (“**Beijing MTR**”) on the other hand in relation to the maintenance service for the civil communication transmission system in 85 subway stations across eight subway lines of Beijing Subway, annual service fee is charged at approximately RMB140,000/subway station/year to the company with the same details as above. Taking into account the replacement of electronic equipment due to depreciation, the cost of spare parts procurement is calculated at 1-3% of total equipment investment per year.
- B. Beijing Subway Information is a joint venture company established in March 2007 jointly invested by 北京市地鐵運營有限公司 (Beijing Mass Transit Railway Operation Corp. Ltd.\*) and 北京北控電信通技術服務有限公司 (Beijing Beikong Telecommunication Technology Service Limited\*), which principally engages in the provision of engineering support services in connection with the civil communication transmission services in subway, and other consultancy and technology research and development business. As at the date of this report, Mr. Cao Wei, the chief executive officer of the Company and an executive Director, was a director and the general manager of Beijing Subway Information. Beijing Subway Information is the single largest service provider which contributed over 80% of the total contract sums of the technical service contract for the year ended 31 December 2013.
- C. Beijing MTR is a foreign invested cooperation company established in January 2006 jointly invested by 北京首都創業集團有限公司 (Beijing Capital Group Co., Ltd.\*) (as to 49%), MTR Corporation Limited (as to 49%) and BII (as to 2%), which principally engages in the operation of Line No. 4, Line No. 14 and Daxing Line of the Beijing Subway.
- D. Given that the Group will become the sole owner of the only civil communication transmission systems in the Beijing Subway upon completion of the acquisition of the Appraised Assets, and in view of the uniqueness and satisfactory quality of the Appraised Assets, we consider that the Mobile Phone Network Operators under the utilisation agreements rely on the Group for their business, and hence we consider it is likely that the utilisation agreements are able to be renewed till the end of the estimated economic life of the Appraised Assets.

**See Table 2 for details of cost forecasting**

Income and cost/fee estimates obtained are used to determine total income in accordance with the accounting and financial systems as well as the national taxation policies.

### 3. The Selection of i (Discount Rate)

Generally, discount rate  $i$  is determined by the addition of risk-free rate and risk return rate, which includes market risk return rate, operation risk return rate, technology risk return rate and financial risk return rate. The commonly used formula is:

$$i = R_f + R_1 + R_2 + R_3 + R_4$$

where:  $R_f$  represents the risk-free rate

$R_1$  represents the market risk return rate

$R_2$  represents the operation risk return rate

$R_3$  represents the policy risk return rate

$R_4$  represents the financial risk return rate

Generally,  $R_f$  is based on the rate per annum of one-year fixed deposits published by the PBOC, which is 3.5% as at the valuation date; having conducted extensive market research and attended a seminar with the relevant management personnel of the enterprise under valuation, the valuers determine the market risk return rate  $R_1$  at 1.2%, operation risk return rate  $R_2$  at 1.2%, policy risk return rate  $R_3$  at 0.8% and financial risk return rate at 0.3%.

$$\text{Such that } i = 3.5\% + 1.2\% + 1.2\% + 0.8\% + 0.3\% = 7\%$$

In determining each of the components of the discount rate formula, we have carried out on-site inspection on the Sale Assets and discussion with the respective officers who operate the Sale Assets and determined the discount rate with reference to various valuation standards. We are in the opinion that since the Vendor is the sole owner of the only civil communication transmission systems in Beijing Subway before completion of the acquisition of the Appraised Assets, and the operation of civil communication transmission systems is considered a low risk business as most of the revenue is derived from the rental income from Mobile Phone Network Operators, therefore, the market risk and operational risk are low and we have adopted a small required return rate of 1.2% and 1.2% respectively. In addition, we are in the opinion that since the Vendor is a state-owned enterprise and the Sale Assets held by it are ultimately used for the provision of public utility services (i.e. to provide voice and data services for the mobile users in the Beijing Subway), it is likely the Sale Assets are less impacted by policy changes and interest rate changes as any additional costs imposed by the policy changes and interest rate changes may be subsequently transferred to the general public (i.e. mobile users). In view of the above, we have adopted the policy risk required return rate and financial risk required return rate at 0.8% and 0.3% respectively.

### 4. Valuation and Estimates

Based on the above estimation formulae and the determined valuation parameters, the net profits from future useful years are calculated and discounted to the present value whereby the valuation of the appraised assets is arrived at.

**See Table 3 for details of the appraisal results**

## VIII. Implementation process and details of valuation procedures

### *(I) Implementation process of valuation procedures*

Based on the general principles of related state departments on asset valuation standards and accounting and pursuant to the requirements of relevant laws and criteria of related state departments, our appraisers required the company to be appraised to provide legal documents, accounting records and relevant materials with company chop for confirmation and adopted methods such as inquiry, checking and site survey to understand the status of assets to be appraised.

The asset valuation process was divided into four stages:

#### *1. Engagement*

Upon engagement, first the following work has to be done:

- (1) to learn the general situation from the entrusting party and define the objectives of valuation;
- (2) to determine the scope of valuation and assets to be appraised with the company to be appraised.

#### *2. Assets assessment*

After entering the site, first of all, our appraisers gave instructions on the assessment of corporate assets, then conducted a verification of various lines of asset inventories provided by the enterprise and required it to make changes and additions to items omitted or mistakenly written in the lists.

Our appraisers conducted a site survey of assets to be appraised, carried out a careful investigation to understand the operating situation of the appraised assets and developed an analysis of various income and expenditure items as well as profitability in the operating periods going forward.

#### *3. Assessment and estimation*

Our appraisers made an analysis and summary of data collected in the investigation and, on the basis of a careful and detailed investigation and research and the implementation of data analysis, developed a forecast of the enterprise's profitable years and revenues ahead to determine the discount rate and performed calculations and assessments to prepare the report.

#### *4. Audit and issuance of report*

A formal valuation report was issued after going through a three-tiered audit by the company's project person-in-charge, departmental head and audit committee.

**IX. Assumptions**

1. The conclusion of the report has been made on the assumption that, under the circumstances of clearly-defined property rights, the appraised assets have not been subject to the restriction and impact of other creditors' rights and can be used continuously (without variation in the state of usage), and that the market for the appraised assets is open.
2. Open market prices are adopted in the valuation. We have not taken into consideration of the fact that the prices would be affected to a certain extent by factors such as the risk of market changes and short-term mandatory punishment.
3. Our asset valuation is based on the analysis of the actual status of the assets and the current national laws, regulations and relevant markets on the valuation date. Any material changes to market conditions as a result of any significant modifications of relevant national laws and regulations after the valuation date have not been taken into consideration and that the various assumptions that the valuation is based upon cannot be established.

**X. Valuation Conclusion**

Pursuant to the relevant laws of the state on asset valuation and the regulations and rules of other relevant state authorities, we have, based on principles that are independent, fair, scientific and objective, and via necessary valuation procedures, conducted a valuation on the appraised assets of Beijing Infrastructure Investment Co., Ltd., and arrived at the following conclusion:

At the valuation date of 30 June 2014 and under the preconditions of going concern, the investment projects held by Beijing Infrastructure Investment Co., Ltd.\* in relation to the construction of a civil communication transmission system in 85 subway stations across eight subway lines of Beijing Subway is valued at RMB106,308,000.

**XI. Notes on special items**

The following items are those that have been found in the course of valuation which may affect our conclusion but cannot be assessed and estimated by the standard of practice and the capacity of our appraisers, including but not limited to:

- (I) The result has reflected the valuation of the appraised target which is determined under the objectives of valuation within the scope as allowed by predictable legal, economic and technical conditions in accordance with the open market principle. No consideration is given to the likelihood of mortgage and guarantee commitments going forward as well as the impact of additional charges that may only be paid for in special transactions on the valuations. We have also not taken into account changes in national macroeconomic policies and the impact of natural forces or other force majeure events on asset prices. The result of the valuation is the appraised value as of 30 June 2014 which is only established under the preconditions set in the report. Where there is any change to the above conditions and the going concern principle being observed in the valuation, the valuation result will generally become invalid.

- (II) The report is prepared based on basic documents, data and materials relating to the valuation provided by the property right holder and the appraised company. We have made necessary examination on the basis of available information as provided by the appraised company and taking into account the site survey to issue the asset valuation report. The appraised company is responsible for the authenticity and reliability of legal certificates and documents as well as relevant materials needed for valuation that it provides. It shall not conceal or provide false information and data and shall bear corresponding legal responsibility. Our company is not liable for any inaccurate results due to false information or other concealed circumstances. The valuation has not taken into account debts related to the appraised assets that have not been listed or pointed out by the entrusting party.
- (III) Our asset valuation is conducted based on the analysis of the actual status of the assets and the prevailing situation of national laws, regulations and relevant markets on the valuation date. Any material changes to market conditions as a result of any significant modifications of relevant national laws and regulations after the base date have not been taken into consideration.
- (IV) Income and cost estimates in this valuation are calculated based on the contents of relevant contracts and agreements provided by the appraised company. We note that resource usage agreements signed with telecommunication operators with respect to seven subway lines (excluding the airport line) were still effective by the valuation date. The appraised company had not provided the agreement on the use of subsequent civilian communications and transmission resources but had requested to include such item in the valuation. Our conclusion is that each of the appraised assets could be used and operated continuously under the current mode after the valuation date and the result of our valuation is established.
- (V) As required by the engagement agreement of the Company, our valuation and conclusion are for the use of the entrusting party in accordance with the established valuation objectives. Where there is any change to the valuation objectives and usage conditions, necessary correction or even revaluation has to be made upon consultation with our company.
- (VI) The valuations of this report are an objective and fair reflection of the value of the appraised assets as of the valuation date on 30 June 2014. Subsequent events affecting the asset value occurred after the valuation date, including removal, damage and loss, cannot be directly used to assess our conclusion.
- (VII) Our valuation is only intended to provide users of the report with the fair market value of appraised assets as of 30 June 2014. Our valuers have paid necessary attention to the legal ownership of appraised assets, though no guarantee in any form would be made on the legal ownership of appraised assets. The aim of our valuers to perform asset valuation is to assess the value of appraised assets and publish professional opinion. Giving confirmation and publishing professional opinion on the legal ownership of appraised assets are beyond the scope of practice of our asset valuers. The appraisal agency and the certified public valuer for this valuation have no concern of other legal matters between the appraised company and other parties (including its ownership or mortgage and guarantee issues).

(VIII) It is the responsibility of the certified public valuer to observe relevant laws, regulations and asset valuation standards in estimating the value of assets for appraisal and in publishing professional opinion. The entrusting party and the appraised company as well as relevant parties are responsible to provide materials needed in valuation and to ensure the authenticity, legality, comprehensiveness and integrity of the information provided. It is the responsibility of the entrusting party and users of the report to use the report in an appropriate manner.

**Users of the report shall pay attention to the impact of the above special items on the conclusion of our valuation.**

## **XII. Notes on the restrictions on the use of the report**

- (I) The report is only intended for valuation objectives and purposes stated in the report.
- (II) The report is only intended for users stated in the report. No liability to any third party can be accepted.
- (III) Information contained in the report shall not be excerpted, quoted or disclosed to public media without the consent of the appraisal agency issuing the report, unless otherwise provided in laws and regulations and as agreed by the parties concerned.
- (IV) The conclusion of the report is valid from the valuation date on 30 June 2014 to 29 June 2015. When the objectives of the valuation are realized within one year after the valuation date, the conclusion has served as the basis of transaction prices for more than one year and thus re-assessment is required.

## **XIII. Date of submission of the report**

Date of submission of the report to the entrusting party: 2 July 2014

## **XIV. Epilogue**

Name of appraisal agency: Beijing Ke Zheng Assets Appraisal Company Limited

Legal representative: Hu Lan

Chinese certified public valuer: Sun Yuruo

Chinese certified public valuer: Wang Wei

Beijing Ke Zheng Assets Appraisal Company Limited

2 July 2014

Table 1: Income Forecasting

No.	Name of Beijing Subway Line	No. of Station	Start Time of operation	Income/subway station/year (RMB)	2014.6.30-2015.6.30		2015.6.30-2016.6.30		2016.6.30-2017.6.30		2017.6.30-2018.6.30		2018.6.30-2019.6.30		2019.6.30-2020.6.30		2020.6.30-2021.6.30		2021.6.30-2022.6.30		2022.6.30-2023.6.30		2023.6.30-2024.6.30		2024.6.30-2025.6.30				
					(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)
1	Line No. 5	16	2008.1.1	400,000	6,400,000	6,400,000	6,400,000	6,400,000	6,400,000	6,400,000	6,400,000	6,400,000	6,400,000	6,400,000	6,400,000	3,200,000	-	-	-	-	-	-	-	-	-	-	-	-	
2	Phase 1 of Line No. 10	26	2008.9.1	400,000	10,500,800*	10,500,800*	10,500,800*	10,500,800*	10,500,800*	10,500,800*	10,500,800*	10,500,800*	10,500,800*	10,500,800*	10,500,800*	10,500,800*	1,750,133*	-	-	-	-	-	-	-	-	-	-	-	
3	Phase 1 of Line No. 15	5	2011.1.1	400,000	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	2,108,000*	
4	Yizhuang Line	6	2011.1.1	400,000	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	2,630,400*	
5	Daxing Line	10	2011.1.1	460,000	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	4,984,000*	
6	Line No. 8 (north section)	6	2012.3.1	400,000	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	3,328,800*	
7	Line No. 9	12 <sup>#</sup>	2012.3.1	400,000	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	6,511,200*	
8	Airport Line	3	2008.8.9	400,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
	Total	84			37,663,200	37,663,200	37,663,200	37,663,200	37,663,200	37,663,200	37,663,200	37,663,200	37,663,200	37,663,200	37,663,200	34,463,200	21,412,533	19,562,400	14,701,200	6,560,000	6,560,000	6,560,000	6,560,000	6,560,000	6,560,000	6,560,000	6,560,000	6,560,000	6,560,000

\* The income for the relevant year includes certain revenue derived from the lease of civil communication resources at a monthly rate ranging from RMB1,250 to RMB1,800 per transmission line, apart from the income derived from the lease of civil communication resources at an annual rate ranging from RMB400,000 to RMB460,000 per station.

# The number of stations for Line No. 9 under the Acquisition Agreement is 13. However, since Line No. 9 shared the same National Library station with Line No. 10 and such station is included in Line No. 10, the National Library station is excluded from Line No. 9 in the above calculation and hence the number of stations for Line No. 9 is therefore counted as 12 in the above table.

Table 2: Cost Forecasting

No.	Name of Beijing Subway Line	No. of Station	Start Time of operation	Cost/subway station/year (RMB)	2014.6.30-2015.6.30		2015.6.30-2016.6.30		2016.6.30-2017.6.30		2017.6.30-2018.6.30		2018.6.30-2019.6.30		2019.6.30-2020.6.30		2020.6.30-2021.6.30		2021.6.30-2022.6.30		2022.6.30-2023.6.30		2023.6.30-2024.6.30		2024.6.30-2025.6.30			
					(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)
1	Line No. 5	16	2008.1.1	140,000	2,240,000	2,240,000	2,240,000	2,240,000	2,240,000	2,240,000	2,240,000	2,240,000	2,240,000	2,240,000	2,240,000	2,240,000	1,120,000	-	-	-	-	-	-	-	-	-	-	-
2	Phase I of Line No. 10	26	2008.9.1	140,000	3,640,000	3,640,000	3,640,000	3,640,000	3,640,000	3,640,000	3,640,000	3,640,000	3,640,000	3,640,000	3,640,000	3,640,000	3,640,000	3,640,000	606,667	-	-	-	-	-	-	-	-	-
3	Phase I of Line No. 15	5	2011.1.1	140,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000
4	Yizhuang Line	6	2011.1.1	140,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000
5	Daxing Line	10	2011.1.1	140,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000
6	Line No. 8 (north section)	6	2012.3.1	140,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000
7	Line No. 9	12 <sup>#</sup>	2012.3.1	140,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000
8	Airport Line	3	2008.8.9	140,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000
	Total	84			11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000

# The number of stations for Line No. 9 under the Acquisition Agreement is 13. However, since Line No. 9 shared the same National Library station with Line No. 10 and such station is included in Line No. 10, the National Library station is excluded from Line No. 9 in the above calculation and hence the number of stations for Line No. 9 is therefore counted as 12 in the above table.

Table 3: Valuation Conclusion Forecasting

	2014.6.30- 2015.6.30	2015.6.30- 2016.6.30	2016.6.30- 2017.6.30	2017.6.30- 2018.6.30	2018.6.30- 2019.6.30	2019.6.30- 2020.6.30	2020.6.30- 2021.6.30	2021.6.30- 2022.6.30	2022.6.30- 2023.6.30	2023.6.30- 2024.6.30	2024.6.30- 2025.6.30
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)
Income	37,663,200	37,663,200	37,663,200	37,663,200	37,663,200	37,663,200	34,463,200	21,412,533	19,562,400	14,701,200	6,560,000
Business tax rate (5.54%)	2,086,541	2,086,541	2,086,541	2,086,541	2,086,541	2,086,541	1,909,261	1,186,254	1,083,757	814,446	363,424
Operating fee	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	11,760,000	10,640,000	6,101,667	5,460,000	3,990,000	1,680,000
Spare parts cost	1,157,616	1,157,616	1,157,616	1,157,616	1,157,616	1,157,616	1,157,616	995,268	892,483	892,483	304,403
Profit	22,659,043	22,659,043	22,659,043	22,659,043	22,659,043	22,659,043	20,756,323	13,129,344	12,126,160	9,004,270	4,212,173
Income tax rate (25%)	5,664,761	5,664,761	5,664,761	5,664,761	5,664,761	5,664,761	5,189,081	3,282,336	3,031,540	2,251,068	1,053,043
Net profit	16,994,282	16,994,282	16,994,282	16,994,282	16,994,282	16,994,282	15,567,242	9,847,008	9,094,620	6,753,203	3,159,130
Discount rate (7%)	0.9346	0.8734	0.8163	0.7629	0.7130	0.6663	0.6227	0.5820	0.5439	0.5083	0.4751
Present value	15,882,856	14,842,806	13,872,432	12,964,938	12,116,923	11,323,290	9,693,722	5,730,959	4,946,564	3,432,653	1,500,903
Sum of present value	<b>106,308,044</b>										

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### (a) Interests of Directors and chief executives

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	The Company/ name of associated corporation	Capacity	Interest in Shares	Interest in underlying shares of share options	Approximate percentage of issued share capital of the Company/ associated corporation
Mr. Cao Wei (“Mr. Cao”)	The Company	Interest in a controlled corporation/ Interest of concert parties (Notes 1 and 2)	462,391,527 Shares	–	35.92%
	The Company	Beneficial owner	–	800,000 Shares (Note 3)	0.06%
Mr. Steven Bruce Gallagher (“Mr. Gallagher”)	The Company	Beneficial owner	–	800,000 Shares (Note 3)	0.06%

*Notes:*

1. Pursuant to the confirmation of concert party arrangement dated 29 November 2012 entered into by More Legend Limited (“**More Legend**”), Vix Technology (East Asia) Limited (“**Vix East Asia**”) and Landcity Limited (“**Landcity**”), they have confirmed that they are parties acting in concert in the operation and management of the Company since the date of listing of the Company. Accordingly, each person under the concert party arrangement is taken to be interested in the Shares that the other party is interested under the SFO.
2. More Legend is owned as to 75% by Mr. Cao and as to 25% by Ms. Wang Jiangping, the spouse of Mr. Cao. By virtue of the SFO, Mr. Cao is deemed to be interested in the 462,391,527 Shares which More Legend is interested in. Mr. Cao is the sole director of More Legend.
3. On 26 July 2012, each of Mr. Cao and Mr. Gallagher was granted 800,000 options under the share option scheme of the Company to subscribe for 800,000 Shares, exercisable at a price of HK\$0.656 per Share during a period from 26 July 2012 to 25 July 2017. These options are vested and become exercisable in three tranches in the proportion of 20%, 70% and 100% on 26 July 2013, 26 July 2014 and 26 July 2015 respectively.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code.

**(b) Interests of Substantial Shareholders**

As at the Latest Practicable Date, Substantial Shareholders and other persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

*Long Positions in Shares and Underlying Shares of the Company*

Name of Person	Capacity	Number of Shares	Approximate percentage of interest
More Legend	Beneficial owner/Interest of concert parties ( <i>Notes 1 &amp; 2</i> )	462,391,527 Shares	35.92%
Vix East Asia	Beneficial owner/Interest of concert parties ( <i>Notes 2 &amp; 3</i> )	462,391,527 Shares	35.92%
Landcity	Beneficial owner/Interest of concert parties ( <i>Notes 2 &amp; 4</i> )	462,391,527 Shares	35.92%

Name of Person	Capacity	Number of Shares	Approximate percentage of interest
Sino Choice Trust	Interest in a controlled corporation/Interest of concert parties ( <i>Note 5</i> )	462,391,527 Shares	35.92%
Vix Holdings Limited (“ <b>Vix Holdings</b> ”)	Interest in a controlled corporation/Interest of concert parties ( <i>Note 6</i> )	462,391,527 Shares	35.92%
Mr. Chen Rui (“ <b>Mr. Chen</b> ”)	Interest in a controlled corporation/Interest of concert parties ( <i>Note 5</i> )	462,391,527 Shares	35.92%
Ms. Wang Jiangping (“ <b>Ms. Wang</b> ”)	Interest of spouse/Interest of concert parties ( <i>Note 7</i> )	463,191,527 Shares	35.98%
Ms. Jiang Wenjun (“ <b>Ms. Jiang</b> ”)	Interest in a controlled corporation/Interest of concert parties ( <i>Note 5</i> )	462,391,527 Shares	35.92%
BII HK	Beneficial owner ( <i>Note 8</i> )	482,581,376 Shares	37.49%
BII	Interest of controlled corporation ( <i>Note 9</i> )	482,581,376 Shares	37.49%

*Notes:*

1. More Legend is the legal and beneficial owner of approximately 20.94% of the entire issued share capital of the Company. Mr. Cao and Ms. Wang are the legal and beneficial owners as to 75% and 25%, respectively, of the entire issued share capital of More Legend. Mr. Cao is the sole director of More Legend.
2. Pursuant to the confirmation of concert party arrangement dated 29 November 2012 entered into by More Legend, Vix East Asia and Landcity, they have confirmed that they are parties acting in concert in the operation and management of the Company since the date of listing of the Company. Accordingly, each person under the concert party arrangement is taken to be interested in the shares of the Company that the other party is interested under the SFO.
3. Vix East Asia is the legal and beneficial owner of approximately 11.22% of the entire issued share capital of the Company. Mr. Gallagher is a director of Vix East Asia.
4. Landcity is the legal and beneficial owner of approximately 3.77% of the entire issued share capital of the Company.
5. Sino Choice Trust holds 100% of Landcity as trustee in favour of Mr. Chen and Ms. Jiang.
6. Vix East Asia is a wholly-owned subsidiary of Vix Holdings.

7. Ms. Wang is the spouse of Mr. Cao and is deemed to be interested in 463,191,527 shares and underlying shares of the Company Mr. Cao is interested in.
8. BII HK is a wholly-owned subsidiary of BII. Dr. Tian Zhenqing is a director of BII HK.
9. BII is the legal and beneficial owner of the entire issued share capital of BII HK, a company established under PRC law with limited liability and wholly owned by the State owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. Dr. Tian Zhenging is the chairman of BII.

Save as disclosed above, as at the Latest Practicable Date, the Company was not notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 or Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### **3. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors nor their respective associates had any interests in other business, which competes or may compete, either directly or indirectly, with the business of the Group.

### **4. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the Company, or any of its subsidiaries or associated companies which was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

### **5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 30 June 2013, being the date to which the latest published audited financial statements of the Group were made up.

### **6. INTEREST IN CONTRACTS AND ASSETS**

As at the Latest Practicable Date:

- (a) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement, which was significant in relation to the business of the Group; and

- (b) none of the Directors nor their respective associates had any direct or indirect interests in any assets which had been 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 30 June 2013, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## 7. QUALIFICATION AND CONSENTS OF EXPERTS

- (a) The following sets out the qualifications of the experts who have given their opinions or advice or statements as contained in this circular:

<b>Name</b>	<b>Qualification</b>
Goldin	A corporation licenced to carry on Type 6 (advising on corporate finance) regulated activities as defined under the SFO
Beijing Kezheng	Professional valuer
KPMG	Certified Public Accountants
GF Capital	A corporation licenced to carry on Type 6 (advising on corporate finance) regulated activities as defined under the SFO

- (b) As at the Latest Practicable Date, each of the above experts had no shareholding in the Company or any other member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.
- (c) As at the Latest Practicable Date, each of the above experts had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 30 June 2013 (the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased.
- (d) As at the Latest Practicable Date, each of the above experts had given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letters, reports and/or summary of its opinions (as the case may be) and references to its name and logo in the form and context in which they respectively appear.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copy of the Acquisition Agreement will be available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. on any Business Days from the date of this circular up to and including the date of the EGM (except public holidays) at the Company's place of business in Hong Kong situated at Unit 4407, 44/F, COSCO Tower, 183 Queen's Road Central, Sheung Wan, Hong Kong.

**9. MISCELLANEOUS**

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

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## NOTICE OF EGM

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中國城市軌道交通科技控股   
CHINA CITY RAILWAY TRANSPORTATION TECHNOLOGY  
中國城市軌道交通科技控股有限公司  
**CHINA CITY RAILWAY TRANSPORTATION  
TECHNOLOGY HOLDINGS COMPANY LIMITED**  
*(incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 1522)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a extraordinary general meeting (“EGM”) of China City Railway Transportation Technology Holdings Company Limited (the “**Company**”) will be held at the Conference Room, 9/F, 3rd Building, Jingtou Plaza, No. 6 Xiaoying North Road, Chaoyang District, Beijing, the People’s Republic of China at 2:30 p.m. on Tuesday, 26 August 2014 for the purposes of considering and, if thought fit, passing with or without modifications, the following resolutions which will be proposed as ordinary resolutions of the Company:

#### ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the form and substance of the conditional sale and purchase agreement (“**Acquisition Agreement**”) dated 8 July 2014 entered into between 北京京投卓越科技發展有限公司 (Beijing BII Technology Development Co., Ltd., being its unofficial English name) as purchaser, being a wholly-owned subsidiary of the Company, and 北京市基礎設施投資有限公司 (Beijing Infrastructure Investment Co., Ltd., being its unofficial English name) (a copy of which has been produced to the meeting and marked “A” and initialed by the chairman of the meeting for the purpose of identification), in relation to the acquisition of the civil communication transmission systems and the respective income rights of the 82 underground stations of the seven subway lines of the Beijing Subway and the civil communication income rights of the three stations of the airport line of the Beijing Subway and all the transactions contemplated thereby, be and are hereby approved, ratified and confirmed; and

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## NOTICE OF EGM

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- (b) any one of the Directors be and is hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Director in his/her discretion may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Acquisition Agreement, or any of the transactions contemplated under the Acquisition Agreement and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents, which are not fundamentally different from those as provided under the Acquisition Agreement) as are, in the opinion of the Director, in the interests of the Company and its shareholders as a whole.”

Yours faithfully,  
By order of the Board  
**China City Railway Transportation  
Technology Holdings Company Limited**  
**Cao Wei**  
*Chief Executive Officer*

Hong Kong, 8 August 2014

*Notes:*

1. A member of the Company entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or if he/she is the holder of two or more shares, more than one proxy to attend and, subject to the provisions of the memorandum of association and articles of association of the Company, to vote on his/her behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the EGM or any adjournment thereof, should he/she so wish.
3. Completion and return of an instrument appointing a proxy will not preclude a member of the Company from attending and voting in person at the meeting and/or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. As required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the above resolutions will be decided by way of poll.
5. The form of proxy for use at the EGM is enclosed herewith.

*As at the date of this notice, the executive Directors are Mr. Cao Wei and Ms. Xuan Jing; the non-executive Directors are Dr. Tian Zhenqing, Mr. Hao Weiya, Mr. Zhang Jie and Mr. Steven Bruce Gallagher; and the independent non-executive Directors are Mr. Bai Jinrong, Mr. Luo Zhenbang and Mr. Huang Lixin.*