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

**If you have sold or transferred** all your securities in Honghua Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**宏华集团**  
HONGHUA GROUP

**Honghua Group Limited**

**宏華集團有限公司**

*(a company incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 196)**

**CONNECTED TRANSACTION IN RELATION TO  
DISPOSAL OF EQUITY INTERESTS  
IN OFFSHORE SEGMENT**

**AND**

**MAJOR TRANSACTION AND CONNECTED TRANSACTION  
IN RELATION TO DEBT ARRANGEMENT FOR OFFSHORE SEGMENT  
AND**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



**Gram Capital Limited**  
**嘉林資本有限公司**

Capitalised terms used in the cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 5 to 37 of this circular. A letter from the Independent Board Committee is set out on page 38 of this circular. A letter from Gram Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders containing its advice in relation to the Transactions is set out on pages 39 to 64 of this circular.

A notice convening the EGM of the Company to be held at Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Thursday, 20 December 2018 at 9:30 a.m. and a form of proxy for use at the EGM is enclosed herein. If you do not propose to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, 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 adjourned meeting if you so wish, and in such event, the form of proxy shall be deemed to be revoked.

4 December 2018

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## DEFINITIONS

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

|                                       |                                                                                                                                                                                                                                                                                                               |
|---------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “associate(s)”                        | has the meaning ascribed to it under the Listing Rules;                                                                                                                                                                                                                                                       |
| “Board”                               | the board of Directors;                                                                                                                                                                                                                                                                                       |
| “Borrowing Agreement”                 | the borrowing agreement dated 28 October 2018 entered into by Jiangsu Hongjieding and Shanghai Offshore;                                                                                                                                                                                                      |
| “business day(s)”                     | a day on which banks are generally open for business in Hong Kong (other than a Saturday, Sunday or public holiday or a day on which a tropical cyclone warning No. 8 or above or a “black” rainstorm warning signal is hoisted or remains hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.); |
| “Company”                             | Honghua Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited;                                                                                                                      |
| “connected person(s)”                 | has the meaning ascribed to it under the Listing Rules;                                                                                                                                                                                                                                                       |
| “Debt Security Agreement”             | the security agreement dated 28 October 2018 entered into by Honghua Investment, Honghua Holdings, Jiangsu Hongjieding, Jiangsu Offshore and Shanghai Offshore in respect of Domestic Debt and Overseas Debt;                                                                                                 |
| “Domestic Debt”                       | the existing debt owed by Jiangsu Offshore to Honghua Investment under the Domestic Debt Repayment Agreement;                                                                                                                                                                                                 |
| “Domestic Debt Repayment Agreement”   | the debt repayment agreement dated 28 October 2018 entered into by Honghua Investment, Jiangsu Offshore and Shanghai Offshore;                                                                                                                                                                                |
| “Director(s)”                         | director(s) of the Company;                                                                                                                                                                                                                                                                                   |
| “EGM”                                 | the extraordinary general meeting of the Company to be held for the purpose of considering and approving the Transactions;                                                                                                                                                                                    |
| “Equity Disposal on Offshore Segment” | the transactions contemplated under Jiangsu Offshore Agreement, Shanghai Offshore Agreement, FSP and Tank Tek Agreement and Prime Agreement;                                                                                                                                                                  |
| “FSP”                                 | FSP LNG B.V., a company with limited liability, incorporated under laws of the Netherlands;                                                                                                                                                                                                                   |

## DEFINITIONS

|                                                   |                                                                                                                                                                                                                                                                                          |
|---------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “FSP and Tank Tek Agreement”                      | the equity transfer agreement dated 28 October 2018 entered into by Honghua Holdings and Shanghai Offshore in respect of the disposal of Honghua Holdings’ 25% equity interests in FSP and its 70% equity interests in Tank Tek;                                                         |
| “Group”                                           | the Company and its subsidiaries;                                                                                                                                                                                                                                                        |
| “HK\$”                                            | Hong Kong dollars, the lawful currency of Hong Kong;                                                                                                                                                                                                                                     |
| “Hong Kong”                                       | the Hong Kong Special Administrative Region of the People’s Republic of China;                                                                                                                                                                                                           |
| “Honghua Holdings”                                | Honghua Holdings Limited (宏華控股有限公司), a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of the Company;                                                                                                                                                 |
| “Honghua Investment”                              | Honghua (China) Investment Co., Ltd. (宏華(中國)投資有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company;                                                                                                                                   |
| “Independent Board Committee”                     | the independent committee of the Board, comprising all the independent non-executive Directors, established to make recommendations to the Independent Shareholders in respect of the Transactions;                                                                                      |
| “Independent Financial Adviser” or “Gram Capital” | Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions; |
| “Jiangsu Offshore”                                | Honghua Offshore Oil & Gas Equipment (Jiangsu) Co., Ltd. (宏華海洋油氣裝備(江蘇)有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company;                                                                                                           |
| “Jiangsu Offshore Agreement”                      | the asset transaction agreement dated 28 October 2018 entered into by Sichuan Honghua and Jiangsu Hongjieding in respect of the disposal of 51% equity interests in Jiangsu Offshore;                                                                                                    |
| “Jiangsu Hongjieding”                             | Jiangsu Hongjieding Energy Technology Co., Ltd. (江蘇宏捷鼎能源科技有限公司), a limited liability company incorporated in the PRC;                                                                                                                                                                    |

## DEFINITIONS

|                                     |                                                                                                                                                                                                |
|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Latest Practicable Date”           | 29 November 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein;                               |
| “Listing Rules”                     | the Rules Governing the Listing of Securities on the Stock Exchange;                                                                                                                           |
| “LNG”                               | Liquefied Natural Gas, a clean and efficient source of energy;                                                                                                                                 |
| “Main Board”                        | the stock market operated by the Stock Exchange other than GEM;                                                                                                                                |
| “Nanjing Hangzhi”                   | Nanjing Hangzhi Investment Management Centre (Limited Partnership) (南京航智投資管理中心(有限合夥)), a limited partnership incorporated in the PRC;                                                          |
| “Offshore Segment”                  | Jiangsu Offshore, Shanghai Offshore together with the Company’s indirect interests in Prime, FSP and Tank Tek;                                                                                 |
| “Overseas Debt”                     | the existing debt owed by Tank Tek to Honghua Holdings under the Overseas Debt Repayment Agreement;                                                                                            |
| “Overseas Debt Repayment Agreement” | the debt repayment agreement dated 28 October 2018 entered into by Honghua Holdings and Tank Tek;                                                                                              |
| “PRC”                               | the People’s Republic of China;                                                                                                                                                                |
| “Prime”                             | Prime FSP, LLC, a company with limited liability, incorporated under laws of the United States;                                                                                                |
| “Prime Agreement”                   | the equity transfer agreement dated 28 October 2018 entered into by Honghua Investment and Shanghai Offshore in respect of the disposal of Honghua Investment’s 30% equity interests in Prime; |
| “RMB”                               | Renminbi, the lawful currency of the PRC;                                                                                                                                                      |
| “SFO”                               | the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong);                                                                                                                   |
| “Shanghai Offshore”                 | Shanghai Honghua Offshore Oil & Gas Equipment Co., Ltd. (上海宏華海洋油氣裝備有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company;                    |
| “Shanghai Offshore Agreement”       | the asset transaction agreement dated 28 October 2018 entered into by Sichuan Honghua and Jiangsu Hongjieding in respect of the disposal of 51% equity interests in Shanghai Offshore;         |

## DEFINITIONS

|                          |                                                                                                                                                                       |
|--------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “SIIC”                   | SIIC Shanghai International Trade (Group) Co., Ltd. (上海上實國際貿易（集團）有限公司), a limited liability company incorporated in the PRC;                                          |
| “SIIC Guarantee”         | the guarantee provided by Honghua Investment on 5 August 2015 for the debt owed by Jiangsu Offshore to SIIC;                                                          |
| “Share(s)”               | the ordinary share(s) of HK\$0.1 each in the share capital of the Company;                                                                                            |
| “Shareholder(s)”         | holder(s) of ordinary share(s) of nominal value of HK\$0.10 each in the share capital of the Company;                                                                 |
| “Shareholders Agreement” | the shareholders agreement dated 28 October 2018 entered into by Sichuan Honghua and Jiangsu Hongjieding in respect of Jiangsu Offshore and Shanghai Offshore;        |
| “Sichuan Honghua”        | Sichuan Honghua Petroleum Equipment Co., Ltd. (四川宏華石油設備有限公司), a company incorporated in the PRC with limited liability, and a wholly-owned subsidiary of the Company; |
| “Stock Exchange”         | The Stock Exchange of Hong Kong Limited;                                                                                                                              |
| “SUAEEEx”                | Shanghai United Assets and Equity Exchange;                                                                                                                           |
| “Tank Tek”               | Hong Kong Tank Tek Limited, a company with limited liability, incorporated under laws of Hong Kong;                                                                   |
| “Target Companies”       | Jiangsu Offshore, Shanghai Offshore, FSP, Tank Tek and Prime;                                                                                                         |
| “Transactions”           | Equity Disposal on Offshore Segment, the debt arrangement for Offshore Segment and SIIC Guarantee; and                                                                |
| “%”                      | per cent.                                                                                                                                                             |

LETTER FROM THE BOARD



宏华集团  
HONGHUA GROUP

**Honghua Group Limited**

**宏華集團有限公司**

*(a company incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 196)**

*Executive Directors:*

Mr. Jin Liliang (*Chairman*)  
Mr. Zhang Mi  
Mr. Ren Jie

*Non-executive Directors:*

Mr. Han Guangrong  
Mr. Chen Wenle

*Independent non-executive Directors:*

Mr. Liu Xiaofeng  
Mr. Chen Guoming  
Ms. Su Mei  
Mr. Poon Chiu Kwok  
Mr. Chang Qing  
Mr. Wu Yuwu

*Registered office:*

Clifton House, 75 Fort Street  
PO Box 1350,  
Grand Cayman KY1-1108,  
Cayman Islands

*Head Office:*

99 East Road, Information Park  
Jinniu District, Chengdu, Sichuan  
People's Republic of China  
Post code: 610036

*Principal place of business  
in Hong Kong:*

Room 2508, Harcourt House  
39 Gloucester Road  
Wan Chai, Hong Kong

4 December 2018

*To the Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION IN RELATION TO  
DISPOSAL OF EQUITY INTERESTS  
IN OFFSHORE SEGMENT  
AND  
MAJOR TRANSACTION AND CONNECTED TRANSACTION  
IN RELATION TO DEBT ARRANGEMENT FOR OFFSHORE SEGMENT  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 28 October 2018 in relation to the discloseable transaction and connected transaction in relation to disposal of equity interests in Offshore Segment and major transaction and connected transaction in relation to debt arrangement for Offshore Segment.

## LETTER FROM THE BOARD

The Company has been approached by Jiangsu Hongjieding which is a potential transferee that meets the tender conditions. The Company and Jiangsu Hongjieding have conducted further discussions and negotiations in respect of relevant transaction terms and entered into the following arrangements:

In relation to the Equity Disposal on Offshore Segment:

- (1) On 28 October 2018, Sichuan Honghua entered into the Jiangsu Offshore Agreement with Jiangsu Hongjieding, pursuant to which Sichuan Honghua has agreed to sell and Jiangsu Hongjieding has agreed to acquire Sichuan Honghua's 51% equity interests in Jiangsu Offshore for a cash consideration of RMB1.
- (2) On 28 October 2018, Sichuan Honghua entered into the Shanghai Offshore Agreement with Jiangsu Hongjieding, pursuant to which Sichuan Honghua has agreed to sell and Jiangsu Hongjieding has agreed to acquire Sichuan Honghua's 51% equity interests in Shanghai Offshore for a cash consideration of RMB1.
- (3) On 28 October 2018, Honghua Holdings entered into the FSP and Tank Tek Agreement with Shanghai Offshore, pursuant to which Honghua Holdings has agreed to sell and Shanghai Offshore has agreed to acquire Honghua Holdings' 25% equity interests in FSP and 70% equity interests in Tank Tek, each for a cash consideration of USD1.
- (4) On 28 October 2018, Honghua Investment entered into the Prime Agreement with Shanghai Offshore, pursuant to which Honghua Investment has agreed to sell and Shanghai Offshore has agreed to acquire Honghua Investment's 30% equity interests in Prime for a cash consideration of USD1.

In relation to the debt arrangement in relation to the Offshore Segment:

- (1) On 28 October 2018, Honghua Investment entered into the Domestic Debt Repayment Agreement with Jiangsu Offshore and Shanghai Offshore, pursuant to which Jiangsu Offshore shall repay an existing debt of an aggregated amount of RMB1,989.5049 million, together with relevant interest to Honghua Investment after the completion of its equity transfer.
- (2) On 28 October 2018, Honghua Holdings entered into the Overseas Debt Repayment Agreement with Tank Tek, pursuant to which Tank Tek shall repay an existing debt of an aggregated amount of USD16.9291 million, together with relevant interest to Honghua Holdings after the completion of its equity transfer.
- (3) On 28 October 2018, Honghua Investment, Honghua Holdings, Jiangsu Hongjieding, Jiangsu Offshore and Shanghai Offshore entered into the Debt Security Agreement in relation to the Domestic Debt and the Overseas Debt.
- (4) On 28 October 2018, Jiangsu Hongjieding and Shanghai Offshore entered into the Borrowing Agreement.

## LETTER FROM THE BOARD

- (5) On 28 October 2018, Sichuan Honghua and Jiangsu Hongjieding entered into the Shareholders Agreement in respect of Jiangsu Offshore and Shanghai Offshore.
- (6) On 5 August 2015, Honghua Investment issued an irrevocable guarantee in favor of SIIC for the debt owed by Jiangsu Offshore to SIIC.

The debt arrangement in relation to the Offshore Segment is conditional on the completion of the Equity Disposal on Offshore Segment, while the Equity Disposal on Offshore Segment is conditional on the Shareholders' approval for the debt arrangement in relation to the Offshore Segment.

The purposes of this circular are to provide the Shareholders with, among others, (i) details of the Transactions; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders regarding the Transactions; (iii) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders regarding the Transactions; and (iv) the notice of EGM at which the relevant ordinary resolutions will be proposed to consider and approve the Transactions.

### DISPOSAL OF EQUITY INTERESTS IN OFFSHORE SEGMENT

#### I. Jiangsu Offshore Agreement

The principal terms of the Jiangsu Offshore Agreement are as follows:

|                      |                                                                        |
|----------------------|------------------------------------------------------------------------|
| Date:                | 28 October 2018                                                        |
| Parties:             | Jiangsu Hongjieding (as transferee)<br>Sichuan Honghua (as transferor) |
| Subject of contract: | Sichuan Honghua's 51% equity interests in Jiangsu Offshore             |
| Consideration:       | The consideration for the Jiangsu Offshore Agreement is RMB1.          |

The consideration was the base bidding price in the public tender of the 51% equity interests in Jiangsu Offshore conducted on the SUAEEx. It was determined after parties' arm's length negotiation with reference to, among others, the valuation on Jiangsu Offshore as at 30 September 2017 prepared under asset-based approach by China Alliance Appraisal Co., Ltd., an independent valuer. According to such valuation, the value of 51% equity interests in Jiangsu Offshore is RMB-242.8550 million.

## LETTER FROM THE BOARD

- Conditions precedent:
- (1) obtaining the approval at general meeting of the Company and, if necessary, the approval from creditors in relation to transactions contemplated under the Jiangsu Offshore Agreement, Shanghai Offshore Agreement and Domestic Debt Repayment Agreement;
  - (2) entering into of Shanghai Offshore Agreement by Jiangsu Hongjieding and Sichuan Honghua;
  - (3) entering into of Domestic Debt Repayment Agreement by Honghua Investment and Jiangsu Offshore;
  - (4) entering into of Debt Security Agreement;
  - (5) entering into of Borrowing Agreement by Jiangsu Hongjieding and Shanghai Offshore; and
  - (6) payment of RMB40 million by Jiangsu Hongjieding to Sichuan Honghua as security deposit for repayment of debt.

Completion: Pursuant to the Jiangsu Offshore Agreement, the parties shall cooperate to accomplish the matters in relation to the completion of the transfer of 51% equity interests in Jiangsu Offshore within 20 business days from obtaining the transaction certificate to be issued by the SUAEEEx.

Upon completion of the Jiangsu Offshore Agreement, Jiangsu Offshore will cease to be a subsidiary of the Company, with 49% of its equity interests held by the Company, and thus its financial statements will no longer be consolidated into the Group. As at the date of this circular, the Company has no plan to sell such equity interests.

## II. Shanghai Offshore Agreement

The principal terms of the Shanghai Offshore Agreement are as follows:

- Date: 28 October 2018
- Parties: Jiangsu Hongjieding (as transferee)  
Sichuan Honghua (as transferor)
- Subject of contract: Sichuan Honghua's 51% equity interests in Shanghai Offshore

## LETTER FROM THE BOARD

**Consideration:** The consideration for the Shanghai Offshore Agreement is RMB1.

The consideration was the base bidding price in the public tender of the 51% equity interests in Shanghai Offshore conducted on the SUAEEEx. It was determined after parties' arm's length negotiation with reference to, among others, the valuation on Jiangsu Offshore as at 30 September 2017 prepared under asset-based approach by China Alliance Appraisal Co., Ltd., an independent valuer. According to such valuation, the value of 51% equity interests in Shanghai Offshore is RMB55.0749 million.

**Conditions precedent:**

- (1) obtaining the approval at general meeting of the Company and, if necessary, the approval from creditors in relation to transactions contemplated under the Jiangsu Offshore Agreement, Shanghai Offshore Agreement and Domestic Debt Repayment Agreement;
- (2) entering into of Jiangsu Offshore Agreement by Jiangsu Hongjieding and Sichuan Honghua;
- (3) entering into of Domestic Debt Repayment Agreement by Honghua Investment and Jiangsu Offshore;
- (4) entering into of Debt Security Agreement;
- (5) entering into of Borrowing Agreement by Jiangsu Hongjieding and Shanghai Offshore; and
- (6) payment of RMB40 million by Jiangsu Hongjieding to Sichuan Honghua as security deposit for repayment of debt.

**Completion:** Pursuant to the Shanghai Offshore Agreement, the parties shall cooperate to accomplish the matters in relation to the completion of the transfer of 51% equity interests in Shanghai Offshore within 20 business days from obtaining the transaction certificate to be issued by the SUAEEEx.

Upon completion of the Shanghai Offshore Agreement, Shanghai Offshore will cease to be a subsidiary of the Company, with 49% of its equity interests held by the Company, and thus its financial statements will no longer be consolidated into the Group. As at the date of this circular, the Company has no plan to sell such equity interests.

## LETTER FROM THE BOARD

### III. FSP and Tank Tek Agreement

The principal terms of the FSP and Tank Tek Agreement are as follows:

|                      |                                                                                                                 |
|----------------------|-----------------------------------------------------------------------------------------------------------------|
| Date:                | 28 October 2018                                                                                                 |
| Parties:             | Shanghai Offshore (as transferee)<br>Honghua Holdings (as transferor)                                           |
| Subject of contract: | Honghua Holdings' 25% equity interests in FSP and its 70% equity interests in Tank Tek                          |
| Consideration:       | The cash consideration for each of the 25% equity interests in FSP and 70% equity interests in Tank Tek is USD1 |

The consideration was determined after parties' arm's length negotiation with reference to, among others, the valuation report on 25% equity interests in FSP and 70% equity interests in Tank Tek as at 30 September 2017 prepared under asset-based approach by an independent valuer. According to such valuation, the value of 25% and 70% equity interests in FSP and Tank Tek, respectively, are €-29,300 and USD-3.1718 million, respectively.

|                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Conditions precedent: | <ol style="list-style-type: none"><li>(1) the board of directors or similar highest authority of FSP and Tank Tek having passed the equity transfer contemplated under the FSP and Tank Tek Agreement;</li><li>(2) Honghua Holdings having obtained the approval from other shareholders of FSP and Tank Tek in relation to equity transfer contemplated under the FSP and Tank Tek Agreement, and, if applicable, the other shareholders of FSP and Tank Tek having expressly waived their rights of first refusal and other rights to the equity transfer;</li><li>(3) transactions contemplated under both the Equity Disposal on Offshore Segment and the Overseas Debt Repayment Agreement having been approved at general meeting of the Company and, if necessary, approved by creditors;</li><li>(4) Sichuan Honghua having obtained the transaction certificate in respect of equity transfer of Jiangsu Offshore and Shanghai Offshore produced by the SUAEEEx;</li><li>(5) entering into of Prime Agreement by Honghua Investment and Shanghai Offshore;</li></ol> |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## LETTER FROM THE BOARD

(6) entering into of Overseas Debt Repayment Agreement by Honghua Holdings and Tank Tek; and

(7) entering into of Debt Security Agreement.

Completion:

Pursuant to the FSP and Tank Tek Agreement, the parties shall accomplish the completion matters in relation to the transfer of 25% equity interests in FSP and 70% equity interests in Tank Tek within 30 working days from the date of fulfillment of the conditions precedent under the FSP and Tank Tek Agreement.

Upon completion of the FSP and Tank Tek Agreement, Tank Tek will cease to be a subsidiary of the Company, and thus its financial statements will no longer be consolidated into the Group.

### IV. Prime Agreement

The principal terms of the Prime Agreement are as follows:

Date: 28 October 2018

Parties: Shanghai Offshore (as transferee)

Honghua Investment (as transferor)

Subject of contract: Honghua Investment's 30% equity interests in Prime

Consideration: The consideration for the Prime Agreement is USD1.

The consideration was determined after parties' negotiation with reference to, among others, the valuation report on 30% equity interests in Prime as at 30 September 2017 prepared under asset-based approach by an independent valuer. According to such valuation, value of 30% equity interests in Prime is USD-370,400.

Conditions precedent:

- (1) the board of directors or similar highest authority of Prime having passed the equity transfer contemplated under the Prime Agreement;
- (2) Honghua Investment having obtained the approval from other shareholders of Prime in relation to equity transfer contemplated under the Prime Agreement, and, if applicable, the other shareholders of Prime having expressly waived their rights of first refusal and other rights to the equity transfer;

## LETTER FROM THE BOARD

- (3) transactions contemplated under both the Equity Disposal on Offshore Segment and Overseas Debt Repayment Agreement having been approved at general meeting of the Company and, if necessary, approved by creditors;
- (4) Sichuan Honghua having obtained the transaction certificate in respect of equity transfer of Jiangsu Offshore and Shanghai Offshore produced by the SUAEEEx;
- (5) entering into of FSP and Tank Tek Agreement by Honghua Holdings and Shanghai Offshore;
- (6) entering into of Overseas Debt Repayment Agreement by Honghua Holdings and Tank Tek; and
- (7) entering into of Debt Security Agreement.

**Completion:**

Pursuant to the Prime Agreement, the parties shall accomplish the completion matters in relation to the transfer of 30% equity interests in Prime within 30 working days from the date of fulfillment of the conditions precedent under the Prime Agreement.

The Board considers that taking the relevant valuation results as at 30 September 2017 as a reference for determining the consideration for the Equity Disposal on Offshore Segment is fair and reasonable for the Company and in the interests of the Company and the Shareholders as a whole, for the following reasons:

- (1) According to Article 24 of the “Practice Standards on Assets Valuation — Assets Valuation Report” in the PRC, the valuation conclusions of the equity interests in Jiangsu Offshore and Shanghai Offshore are valid for one year from the valuation benchmark date (i.e. 30 September 2017). As the Group conducted the public tender relating to the Equity Disposal on Offshore Segment on 19 September 2018 on the SUAEEEx, the asset valuation reports as of 30 September 2017 therefore can be used as the base bidding price, which is in full compliance with the “Practice Standards on Assets Valuation — Assets Valuation Procedures” and the requirements of the SUAEEEx. As for valuation results of equity interests in FSP, Tank Tek and Prime, there are no particular provisions on the validity period in the valuation report in relation thereto, therefore, in order to be consistent with the pricing references for Jiangsu Offshore and Shanghai Offshore, the valuation conclusion as at 30 September 2017 was also adopted for determining consideration for disposal of equity interests in FSP, Tank Tek and Prime; and
- (2) According to the valuation results of the Offshore Segment as at 30 September 2017, the valuation results for 51% equity interests in Jiangsu Offshore and Shanghai Offshore were RMB–242.8550 million and RMB–55.0749 million respectively, while

## LETTER FROM THE BOARD

the valuation results of 25% equity interests in FSP, 70% equity interests in Tank Tek and 30% equity interests in Prime as at 30 September 2017 were €–29,300, USD–3.1718 million and USD–370,400 respectively. As at 31 August 2018, the valuation results of 51% equity interests in Jiangsu Offshore and Shanghai Offshore were RMB–308.7609 million and RMB–56.6523 million respectively, while the valuation results of 25% equity interests in FSP, 70% equity interests in Tank Tek and 30% equity interests in Prime were €–44,138, USD–4.1059 million and USD–402,922 respectively. Based on such valuation results above, it is apparent to the Board that the Offshore Segment has been incurring continuing and worsening losses since 30 September 2017.

### DEBT ARRANGEMENT FOR OFFSHORE SEGMENT

#### I. Domestic Debt Repayment Agreement

The principal terms of the Domestic Debt Repayment Agreement are as follows:

Date: 28 October 2018

Parties: Honghua Investment (as creditor)

Jiangsu Offshore (as debtor)

Shanghai Offshore

Amount of debt: As at the date of the Domestic Debt Repayment Agreement, the existing total debt owed by Jiangsu Offshore to Honghua Investment is RMB1,989.5049 million. These debts consist of two debts with principal of RMB1,783.1178 million (“Debt 1”) and RMB27.0037 million (“Debt 2”) respectively as well as historical interest of RMB179.3834 million (“Interest 1”) incurred on Debt 1.

Interest rate: interest rate of 4.75% per annum, being applicable to Debt 1 and Debt 2 only and accruing from the completion date of change of industrial and commercial registration for transfer of 51% equity interests in Jiangsu Offshore to the date when Debt 1 and Debt 2 are fully repaid. As for Interest 1, Jiangsu Offshore is not required to pay interest.

## LETTER FROM THE BOARD

Repayment arrangement: Based on the debt repayment arrangement as agreed under the Domestic Debt Repayment Agreement, the debtor shall repay interest first, and then the principal, until all the principal and interest are fully repaid. The schedule of repayment is set out as follows:

- (1) Jiangsu Offshore shall repay to Honghua Investment no less than RMB802.00 million before 31 December 2021 (“Repayment Period of First Instalment of Domestic Debt Repayment Agreement”); and
- (2) Jiangsu Offshore shall repay to Honghua Investment all the remaining debt and corresponding interest before 31 December 2023 (“Repayment Period of Second Instalment of Domestic Debt Repayment Agreement”).

Conditions precedent:

- (1) equity transfer under the Jiangsu Offshore Agreement and Shanghai Offshore Agreement and the debt repayment as agreed under the Domestic Debt Repayment Agreement having been approved at general meeting of the Company and, if necessary, approved by creditors;
- (2) entering into of Debt Security Agreement; and
- (3) completion of change of industrial and commercial registration for transfer of 51% equity interests in Jiangsu Offshore and 51% equity interests in Shanghai Offshore.

## II. Overseas Debt Repayment Agreement

The principal terms of the Overseas Debt Repayment Agreement are as follows:

Date: 28 October 2018

Parties: Honghua Holdings (as creditor)  
Tank Tek (as debtor)

Amount of debt: As at the date of the Overseas Debt Repayment Agreement, the existing total debt owed by Tank Tek to Honghua Holdings is USD16.9291 million. These debts consist of two debts with principal of USD12.2850 million (“Debt 3”) and USD3.7800 million (“Debt 4”) respectively as well as historical interest of USD864,100 (“Interest 2”) incurred on Debt 3.

## LETTER FROM THE BOARD

- Interest rate: interest rate of 6% per annum, being applicable to Debt 3 and Debt 4 only and accruing from the completion date of change of industrial and commercial registration for transfer of 51% equity interests in Jiangsu Offshore and transfer of 51% equity interests in Shanghai Offshore to the date when Debt 3 and Debt 4 are fully repaid. As for Interest 2, Tank Tek is not required to pay interest.
- Repayment arrangement: Based on the debt repayment arrangement as agreed under the Overseas Debt Repayment Agreement, the debtor shall repay interest first, and then the principal, until all the principal and interest are fully repaid. The schedule of repayment is set out as follows:
- (1) Tank Tek shall repay to Honghua Holdings no less than USD9.0404 million before 31 December 2021 (“Repayment Period of First Instalment of Overseas Debt Repayment Agreement”); and
  - (2) Tank Tek shall repay to Honghua Holdings all the remaining debt and corresponding interest before 31 December 2023 (“Repayment Period of Second Instalment of Overseas Debt Repayment Agreement”).
- Conditions precedent:
- (1) equity transfer under the FSP and Tank Tek Agreement and Prime Agreement and the debt repayment as agreed under the Overseas Debt Repayment Agreement having been approved at general meeting of the Company and, if necessary, approved by creditors;
  - (2) entering into of Debt Security Agreement; and
  - (3) completion of transfer of 70% equity interests in Tank Tek.

## LETTER FROM THE BOARD

### III. Debt Security Agreement

The principal terms of the Debt Security Agreement are as follows:

Date: 28 October 2018

Parties: Honghua Investment;  
Honghua Holdings;  
Jiangsu Hongjieding;  
Jiangsu Offshore; and  
Shanghai Offshore

Secured obligations: the Domestic Debt and Overseas Debt

Security arrangements: (1) payment of RMB40 million by Jiangsu Hongjieding to Sichuan Honghua shall be made, as the security deposit for the repayment of debt under the Domestic Debt Repayment Agreement by Jiangsu Offshore to Honghua Investment. For this purpose, if Jiangsu Offshore fails to repay the debt and corresponding interest in full to Honghua Investment as agreed upon the expiry of Repayment Period of First Instalment of Domestic Debt Repayment Agreement, the security deposit shall be forfeited by Sichuan Honghua to repay the principal of the debt owed by Jiangsu Offshore to Honghua Investment; if Jiangsu Offshore has repaid the debt in full to Honghua Investment as agreed upon the expiry of Repayment Period of First Instalment of Domestic Debt Repayment Agreement, Honghua Investment shall procure Sichuan Honghua to return the above-mentioned security deposit to Jiangsu Hongjieding within five working days therefrom.

Jiangsu Hongjieding agrees to provide to Shanghai Offshore a borrowing, being equal to the amount of security deposit for the repayment of debt, as general working capital of Shanghai Offshore within 5 working days since the date when it receives the security deposit for the repayment of debt returned by Sichuan Honghua;

## LETTER FROM THE BOARD

- (2) equity interests to be held by Jiangsu Hongjieding in Jiangsu Offshore and Shanghai Offshore, and Shanghai Offshore's equity interests in Tank Tek, FSP and Prime shall be pledged as security for the debts under the Domestic Debt Repayment Agreement and Overseas Debt Repayment Agreement in favor of Honghua Investment and Honghua Holdings.

For this purpose, in respect of Domestic Debt Repayment Agreement,

- (i) if Jiangsu Offshore fails to repay the debt in full to Honghua Investment as agreed upon the expiry of Repayment Period of First Instalment of Domestic Debt Repayment Agreement, Jiangsu Offshore shall be deemed to be unable to repay its due debt, and Honghua Investment shall be entitled to request Jiangsu Hongjieding or Shanghai Offshore to perform its obligations related to share pledge;
- (ii) if Jiangsu Offshore has repaid the debt in full to Honghua Investment as agreed upon the expiry of Repayment Period of First Instalment of Domestic Debt Repayment Agreement, Honghua Investment will partially release the share pledge provided by Jiangsu Hongjieding and Shanghai Offshore in favor of Honghua Investment, and the proportion to be released shall then be determined upon negotiations between parties.

And in respect of Overseas Debt Repayment Agreement,

- (i) if Tank Tek fails to repay the debt in full to Honghua Holdings as agreed upon the expiry of Repayment Period of First Instalment of Overseas Debt Repayment Agreement, Tank Tek shall be deemed to be unable to repay its due debt, and Honghua Holdings shall be entitled to request Jiangsu Hongjieding or Shanghai Offshore to perform its obligations related to share pledge;

## LETTER FROM THE BOARD

- (ii) if Tank Tek has repaid the debt in full to Honghua Holdings as agreed upon the expiry of Repayment Period of First Instalment of Overseas Debt Repayment Agreement, Honghua Holdings will partially release the share pledge provided by Jiangsu Hongjieding and Shanghai Offshore in favor of Honghua Holdings, and the proportion to be released shall then be determined upon negotiations between parties; and
- (3) all the assets of Jiangsu Offshore and Shanghai Offshore (the “Security Assets”) shall be used as security for the debts under the Domestic Debt Repayment Agreement and Overseas Debt Repayment Agreement.

Pursuant to Debt Security Agreement, there are certain clauses restricting the usage and/or disposal of the Security Assets as set out below:

- (i) the Security Assets shall be possessed and kept by Jiangsu Offshore and Shanghai Offshore, but all the title certificates of Security Assets shall be kept by the Group, while Jiangsu Offshore and Shanghai Offshore agree to facilitate the inspection of the Security Assets to be carried out by the Group or personnel assigned by the Group at any time;
- (ii) Jiangsu Offshore and Shanghai Offshore shall properly keep, maintain and preserve the Security Assets and take effective measures to safeguard the Security Assets. In case that it is necessary to repair the Security Assets, Jiangsu Offshore and Shanghai Offshore shall conduct such repairs in a timely manner and at their own expense;

## LETTER FROM THE BOARD

- (iii) without the written consent of the Group, Jiangsu Offshore and Shanghai Offshore shall not transfer, lease, lend, contribution in kind, transform, reconstruct, refurbish or otherwise dispose of the whole or part of the Security Assets; for any disposal upon the written consent of the Group, the proceeds from such disposal shall be utilized to repay the debts under the Domestic Debt Repayment Agreement and Overseas Debt Repayment Agreement as a priority or deposited to the third party designated by the Group; and
- (iv) upon the security obligations under the Debt Security Agreement being triggered, the Group shall be entitled to require Jiangsu Offshore and Shanghai Offshore to deliver the Security Assets to the Group, or to make payments to the Group with proceeds derived from auction or disposal of the Security Assets, to repay the debts owed to the Group under the Domestic Debt Repayment Agreement and Overseas Debt Repayment Agreement as a priority.

Security period:

- (1) Jiangsu Hongjieding shall provide share pledge in favor of Honghua Investment, and Jiangsu Offshore and Shanghai Offshore shall provide assets as security in favor of Honghua Investment until two years after the expiry date of Repayment Period of Second Instalment of Domestic Debt Repayment Agreement;
- (2) Shanghai Offshore shall provide share pledge in favor of Honghua Holdings until two years after the expiry date of Repayment Period of Second Instalment of Overseas Debt Repayment Agreement; and
- (3) If an extension agreement has been reached in respect of the period for discharging creditors' rights under the Domestic Debt Repayment Agreement and Overseas Debt Repayment Agreement, the security period shall last until the expiry date of the period for discharging principal creditors' rights as agreed under the extension agreement.

## LETTER FROM THE BOARD

### IV. Borrowing Agreement

The principal terms of the Borrowing Agreement are as follows:

|                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Date:                   | 28 October 2018                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Parties:                | Jiangsu Hongjieding (as lender)<br>Shanghai Offshore (as borrower)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Amount of borrowing:    | Jiangsu Hongjieding shall lend to Shanghai Offshore no less than RMB80 million within 5 working days since the date when the transactions contemplated under the Jiangsu Offshore Agreement, Shanghai Offshore Agreement and the Domestic Debt Repayment Agreement are approved at general meeting of the Company and, if necessary, approved by creditors.                                                                                                                                                                                                                                                                                                               |
| Term of borrowing:      | three years since the date when Shanghai Offshore receives the borrowing from Jiangsu Hongjieding                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Interest rate:          | interest rate of 4.75% per annum                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Repayment arrangement:  | Shanghai Offshore shall make one-off repayment of the principal and interest by the maturity date of term of borrowing.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Security for borrowing: | <p>Jiangsu Hongjieding shall pay security deposit of RMB10 million for the borrowing to Sichuan Honghua. Sichuan Honghua shall return such security deposit for the borrowing to Jiangsu Hongjieding within 3 working days from the date when the borrowing received by Shanghai Offshore from Jiangsu Hongjieding amounts to RMB80 million.</p> <p>Jiangsu Hongjieding shall provide Shanghai Offshore with borrowing equal to the amount of security deposit within 3 working days since the date when it receives the above-mentioned return of security deposit, and these borrowings shall carry the same interest rate as agreed under the Borrowing Agreement.</p> |
| Conditions precedent:   | the transactions contemplated under the Jiangsu Offshore Agreement, Shanghai Offshore Agreement and Domestic Debt Repayment Agreement having been approved at general meeting of the Company and, if necessary, approved by creditors.                                                                                                                                                                                                                                                                                                                                                                                                                                    |

## LETTER FROM THE BOARD

### V. Shareholders Agreement

- Date: 28 October 2018
- Parties: Sichuan Honghua (as the shareholder of Jiangsu Offshore and Shanghai Offshore)
- Jiangsu Hongjieding (as the shareholder of Jiangsu Offshore and Shanghai Offshore)
- Principal terms:
- (1) The parties agree that, since the date when Shanghai Offshore receives the first borrowing from Jiangsu Hongjieding, if the accumulated sum of investment amounts and/or various kinds of borrowings received by Jiangsu Offshore and Shanghai Offshore from Jiangsu Hongjieding or new investors exceeds RMB200 million, the parties shall actively procure Jiangsu Offshore and Shanghai Offshore to utilize 70% of the excess of accumulated sum of amounts received by it over RMB200 million to repay the debt owed by Jiangsu Offshore to Honghua Investment and the remaining 30% of which shall be used to replenish the working capital of Jiangsu Offshore and Shanghai Offshore; and
  - (2) The parties agree that, upon the completion of change of industrial and commercial registration for equity transfer of Jiangsu Offshore and Shanghai Offshore, the board of directors of each of Jiangsu Offshore and Shanghai Offshore shall be composed of three directors, of which one director shall be appointed by Sichuan Honghua and two directors shall be appointed by Jiangsu Hongjieding, and the position of chairman shall be held by the director appointed by Jiangsu Hongjieding. The general manager shall be hired by the board of directors. The financial controller shall be nominated by the director appointed by Sichuan Honghua and engaged by the board of directors. Each of Jiangsu Offshore and Shanghai Offshore shall appoint a supervisor.

### VI. SIIC Guarantee

On 5 August 2015, Honghua Investment issued an unconditional and irrevocable guarantee in favor of SIIC pursuant to which Honghua Investment guarantees for the debt owed by Jiangsu Offshore to SIIC with an aggregated amount of RMB470 million up to the date when Jiangsu Offshore fully repays such debt, together with interests and fees incurred therefrom.

## LETTER FROM THE BOARD

In June 2018, SIIC, as the plaintiff, filed a legal proceedings against Jiangsu Offshore, as the first defendant, and Honghua Investment, as the second defendant, claiming that Jiangsu Offshore shall pay approximately RMB320.7 million for materials costs, agency fees and interest thereon, and claiming that Honghua Investment shall undertake the guarantee responsibility (please refer to the announcement of the Company dated 2 July 2018 for relevant details). The related proceedings is still ongoing as of the Latest Practicable Date. At the same time, as confirmed by the PRC legal adviser, if the court rules that Honghua Investment shall bear the guarantee liability, Honghua Investment will have the right to claim the recovery of the guarantee amount from Jiangsu Offshore.

According to the valuation report of Jiangsu Offshore and Shanghai Offshore as at 30 September 2017, the total net assets of Jiangsu Offshore and Shanghai Offshore were approximately RMB–583 million. From the benchmark date of valuation (i.e. 30 September 2017) to the Latest Practicable Date, the Offshore Segment suffered continued losses. Notwithstanding this, Jiangsu Hongjieding is still willing to take the valuation result as at 30 September 2017 as the base for pricing, which takes into account the SIIC Guarantee. Therefore, the Company considers that it is reasonable to continue to provide the SIIC Guarantee.

### INFORMATION OF JIANGSU OFFSHORE

Jiangsu Offshore is a wholly-owned subsidiary of the Company incorporated in the PRC in June 2009 with the principal business activities being design, manufacture and sales of offshore oil and gas engineering equipment and offshore engineering vessels, drilling and oil and gas field technology services. As at 30 June 2018, the total assets and net assets of Jiangsu Offshore were RMB2,141.3942 million and RMB–417.9065 million, respectively.

Set out below are certain financial information of Jiangsu Offshore for the two financial years ended 31 December 2016 and 2017:

|                 | <b>Year ended<br/>31 December<br/>2016<br/>(audited)<br/>RMB'000</b> | <b>Year ended<br/>31 December<br/>2017<br/>(audited)<br/>RMB'000</b> |
|-----------------|----------------------------------------------------------------------|----------------------------------------------------------------------|
| <b>Results</b>  |                                                                      |                                                                      |
| Turnover        | 197,793                                                              | 164,402                                                              |
| Loss before tax | (166,395)                                                            | (720,471)                                                            |
| Loss after tax  | (124,278)                                                            | (832,673)                                                            |

### INFORMATION OF SHANGHAI OFFSHORE

Shanghai Offshore is a wholly-owned subsidiary of the Company incorporated in the PRC in September 2009 with the principal business activities being offshore oil and gas engineering and research and development, design, sales and maintenance of vessels, etc. As at 30 June 2018, the total assets and net assets of Shanghai Offshore were RMB47.6007 million and RMB–121.1515 million, respectively.

## LETTER FROM THE BOARD

Set out below are certain financial information of Shanghai Offshore for the two financial years ended 31 December 2016 and 2017:

|                 | <b>Year ended<br/>31 December<br/>2016<br/>(audited)<br/>RMB'000</b> | <b>Year ended<br/>31 December<br/>2017<br/>(audited)<br/>RMB'000</b> |
|-----------------|----------------------------------------------------------------------|----------------------------------------------------------------------|
| <b>Results</b>  |                                                                      |                                                                      |
| Turnover        | 6,789                                                                | 1,911                                                                |
| Loss before tax | (13,038)                                                             | (16,521)                                                             |
| Loss after tax  | (15,729)                                                             | (30,950)                                                             |

### INFORMATION OF FSP

FSP is a company with limited liability incorporated under laws of the Netherlands. It's the licensing agency of series of FSP (Flat-panel, Semi-membrane, Prismatic liquid cargo containment system) patents. FSP is held as to 25% and 75% by Honghua Holdings and by other independent parties respectively as at the Latest Practicable Date. As at 31 December 2017, the total assets and net assets of FSP were €9,700 and €-154,100, respectively.

Set out below are certain financial information of FSP for the two financial years ended 31 December 2016 and 2017:

|                 | <b>Year ended<br/>31 December<br/>2016<br/>(unaudited)<br/>RMB'000</b> | <b>Year ended<br/>31 December<br/>2017<br/>(unaudited)<br/>RMB'000</b> |
|-----------------|------------------------------------------------------------------------|------------------------------------------------------------------------|
| <b>Results</b>  |                                                                        |                                                                        |
| Turnover        | 0                                                                      | 0                                                                      |
| Loss before tax | (351)                                                                  | (547)                                                                  |
| Loss after tax  | (351)                                                                  | (547)                                                                  |

## LETTER FROM THE BOARD

### INFORMATION OF TANK TEK

Tank Tek is a company incorporated under laws of Hong Kong, with the principal business activities being technical research and development, manufacture and sales of LNG tank. Tank Tek is held as to 70% and 30% by Honghua Holdings and by other independent parties respectively as at the Latest Practicable Date. As at 30 June 2018, the total assets and net assets of Tank Tek were USD13.8061 million and USD-5.4477 million, respectively.

Set out below are certain financial information of Tank Tek for the two financial years ended 31 December 2016 and 2017:

|                 | <b>Year ended<br/>31 December<br/>2016<br/>(audited)<br/>RMB'000</b> | <b>Year ended<br/>31 December<br/>2017<br/>(audited)<br/>RMB'000</b> |
|-----------------|----------------------------------------------------------------------|----------------------------------------------------------------------|
| <b>Results</b>  |                                                                      |                                                                      |
| Turnover        | 0                                                                    | 0                                                                    |
| Loss before tax | (14,565)                                                             | (13,566)                                                             |
| Loss after tax  | (10,507)                                                             | (11,327)                                                             |

### INFORMATION OF PRIME

Prime is a company with limited liability, incorporated under laws of the United States, with the principal business activities being promotion and sales of LNG tank. Prime is held as to 30% and 70% by Honghua Investment and by other independent parties respectively as at the Latest Practicable Date. As at 30 June 2018, the total assets and net assets of Prime were USD896.75 and USD-1.3149 million, respectively.

Set out below are certain financial information of Prime for the two financial years ended 31 December 2016 and 2017:

|                 | <b>Year ended<br/>31 December<br/>2016<br/>(unaudited)<br/>RMB'000</b> | <b>Year ended<br/>31 December<br/>2017<br/>(unaudited)<br/>RMB'000</b> |
|-----------------|------------------------------------------------------------------------|------------------------------------------------------------------------|
| <b>Results</b>  |                                                                        |                                                                        |
| Turnover        | 112                                                                    | 71                                                                     |
| Loss before tax | (324)                                                                  | (366)                                                                  |
| Loss after tax  | (324)                                                                  | (366)                                                                  |

## LETTER FROM THE BOARD

### FINANCIAL EFFECT OF THE DISPOSAL OF OFFSHORE SEGMENT (INCLUDING THE RELEVANT DEBT ARRANGEMENT)

Upon the completion of the disposal of Offshore Segment, Jiangsu Offshore, Shanghai Offshore and Tank Tek will cease to be the subsidiaries of the Company and therefore their results will no longer be consolidated into the financial statements of the Group.

It is expected that the disposal of Offshore Segment would cause a decrease of RMB540 million in the total assets of the Group and a decrease of RMB610 million in the total liabilities of the Group. Since the results of the Target Companies will no longer be consolidated into the financial statements of the Group, it is expected that the net assets of the Group would increase by approximately RMB70 million. The Company expects that the disposal of Offshore Segment (including the relevant debt arrangement) will generate a net gain of approximately RMB70 million for the Group. As disclosed by the interim report of the Group as at 30 June 2018, on a consolidated basis, the total assets and total liabilities of the Offshore Segment amounted to approximately RMB2.118 billion and approximately RMB634 million, respectively; while as at 30 June 2018, on an individual basis, the total assets and liabilities of the Offshore Segment amounted to approximately RMB2.118 billion and approximately RMB2.741 billion (including the debts of Offshore Segment of approximately RMB2.107 billion payable to the Group), respectively. The net assets of the Offshore Segment amounted to approximately RMB-623 million. On a consolidated basis, as the above debts of the Offshore Segment payable to the Group is required to be offset upon consolidation, the total assets and liabilities of the Offshore Segment after offsetting amounted to approximately RMB2.118 billion and approximately RMB634 million, respectively. Upon the completion of Equity Disposal of the Offshore Segment, Jiangsu Offshore, Shanghai Offshore and Tank Tek will no longer be included in the consolidated financial statements of the Group, and the creditor's rights of the Group due from the Offshore Segment will also be included in the external long-term receivables of the Group in an amount of approximately RMB2.107 billion. In addition, based on 1. the operating conditions of the Offshore Segment in the second half of the year; 2. the result of the recoverability assessment on the long-term receivables; 3. after taking a comprehensive consideration of the impact of income tax, the net assets of the Group are expected to further decrease by approximately RMB553 million. On the one hand, by stripping off the Offshore Segment, the creditor's rights of the Group due from Jiangsu Offshore and Tank Tek, which is RMB2.107 billion in total, will become external long-term receivables of the Group, and thus the net assets of the Group would increase. Pursuant to the Debt Security Agreement and the Debt Repayment Agreement, the Group has made an impairment provision of approximately RMB585 million upon its assessment on the Security Assets related to these long-term receivables and estimation on the recoverable amount of the long-term receivables, and thus the net assets of the Group would decrease accordingly. The recoverability assessment has been made upon considerations from the management based on the current situations from the perspective of prudent judgment, and is not necessarily related to the recoverability of these creditor's rights. The management will continue to strive to maximize the recoverable amount of the long-term receivables in the future. On the other hand, the Group expects that the Offshore Segment would incur staff costs and other expenses amounting to approximately RMB7 million in the second half of the year and the deferred income tax assets would increase by approximately RMB25 million, which in aggregate would cause an increase in the net assets of the Group by approximately RMB32 million. After

## LETTER FROM THE BOARD

comprehensively taking into account the aforesaid factors, the net assets of the Group are expected to decrease by approximately RMB553 million. Therefore, the Company expects that the disposal of the Offshore Segment (including relevant debt arrangements) will generate a net gain of approximately RMB70 million for the Group.

The Company didn't take into account the financial effect of the SIIC Guarantee when calculating the above net gain to be generated from the disposal of Offshore Segment due to the considerations that (1) if Honghua Investment is actually requested to fulfill its guarantee liability, it will have the recourse right to claim the same from Jiangsu Offshore (while the Company believes that, taking into account the current arrangements under the Debt Security Agreement as well as the bright business prospect and thus the anticipated appreciation of business value of the Offshore Segment as a result of the Transactions (please refer to the section of "Reasons and Benefits of the Transactions as a Whole" in this circular for further details in this regard ), such recourse right to claim relevant amount from Jiangsu Offshore, if exercised, will be duly satisfied in the future); and (2) the SIIC Guarantee had already been taken into account by the Group when determining the consideration for the disposal of Offshore Segment.

After the disposal of the Offshore Segment and after taking into account the relevant debt arrangement, the domestic creditors' rights and overseas creditors' rights of the Group will therefore increase by RMB1,989.5049 million and USD16.9291 million, respectively. According to the repayment arrangement, these creditors' rights will be recorded as long-term creditors' rights in the balance sheet of the Group.

The actual gains or losses generated from the disposal of Offshore Segment may vary and shall be subject to auditing, and will be determined based on the amount of the consolidated net assets/net liabilities (as the case may be) of the Target Companies on the completion date and the amount of expenses incurred by the disposal of Offshore Segment.

### USE OF PROCEEDS

The proceeds generated from the disposal of Offshore Segment will be used as general working capital of the Group.

### REASONS FOR AND BENEFITS OF THE TRANSACTIONS AS A WHOLE

Given the development and performance of the Offshore Segment has fallen short of the Group's expectation in the past few years, the Group is considering the disposal of Offshore Segment and reaching debt arrangement with Jiangsu Offshore and Tank Tek. Since 2008, the Group has invested an amount of RMB870 million in the Offshore Segment and has provided shareholder loans amounting to approximately RMB1.917 billion. During more than nine years of operation, the Offshore Segment has recorded losses.

With the status quo of the Offshore Segment, the management of the Group has not only actively carrying out strategic transformation to LNG business, but actively trying to improve the Offshore Segment through the following measures, including, in terms of capital, continuously investing shareholder loan of about RMB2 billion during more than nine years, fully supporting its investment in fixed assets and R&D, and providing security for the

## LETTER FROM THE BOARD

Offshore Segment in the financial institution loans in the status of shareholder. In terms of management, the Company engaged professional managers to join the management team of the Offshore Segment, constantly improved the operation and management system and enhanced the level of project management. However, the performance of the Offshore Segment has not been improved as expected. To achieve profitability through the Group's continued operation of the Offshore Segment, it needs to continue to invest time and costs in the Offshore Segment from a financial point of view.

The Board examines the opportunities and choices of the Group's business portfolio from time to time. As the operation of the Group will be difficult due to the current layout and allocation of resources, the Group conducted a public tender on 19 September 2018 on the SUEX to sell 51% of its interests in Shanghai Offshore and Jiangsu Offshore and all of its indirectly held shares in Tank Tek, FSP and Prime. As a result of the disposal of the Offshore Segment and the corresponding debt arrangement for Offshore Segment, the Board believes that the Group can be benefited from the following:

- (1) In terms of the Group's strategy, the Group is implementing the development strategy of focusing on the main business and optimizing the asset structure. By stripping off the Offshore Segment, the Company can reduce the burden of assets, optimize the allocation of resources, and focus on the development of its own core industry, namely, land oil and gas equipment manufacturing and integrated services. In 2018, the international oil price has continued to rebound strongly, and repeatedly exceeded USD80/barrel. The global oil and gas industry shows an obvious recovery trend. Amidst a good external industry market environment, the Company can go forward with less burden as soon as possible through stripping off the Offshore Segment, focus on the development of inherent advantageous business, and focus on promoting new product R&D of land oil and gas equipment business, service system construction and international market expansion;
- (2) In terms of the Group's performance, the sale of the Offshore Segment with a long-term loss can improve the Group's performance indicators significantly in the short term while enhancing profitability, consolidating core competitiveness, and balancing the short-term and long-term interests of the Group and shareholders, thereby significantly enhancing market confidence;
- (3) In respect of capital, providing loans to the Offshore Segment through the Jiangsu Hongjieding will alleviate the financial pressure of the Group's continued investment in the Offshore Segment;
- (4) In terms of industry expectation, the Group believes that the development of LNG industry in the next 20 years is expected to be greatly favorable under the stimulation of market demand and the support of government policies. The newly transformed LNG segment will accelerate the technological breakthrough and market expansion by introducing investors with stronger industrial integration capability. Once the LNG segment gets the good project achievement verification, it can capture more market opportunities in golden development period of the LNG industry, thus

## LETTER FROM THE BOARD

forming sustainable operation ability of the Offshore Segment. Moreover, the Group can enjoy the benefits brought about by the growth of the Offshore Segment in the future through its direct or indirect shareholding of 49% in such segment.

The Board have given due regard to the fact that there is certain level of credit risk associated with the debts owed by the Offshore Segment to the Group. Notwithstanding this, having considered the multiple layers of protection available to the Group as set forth below, the Board believes that such credit risk is not high and is controllable:

- (1) Pursuant to the Debt Security Agreement, the security arrangements to be provided by Jiangsu Hongjieding will include: (i) a payment of RMB40 million to be given to Sichuan Honghua as the security deposit for repayment of debts. If Jiangsu Offshore fails to repay the debt and corresponding interest in full to Honghua Investment as agreed upon the expiry of Repayment Period of First Instalment of Domestic Debt Repayment Agreement, the security deposit shall be forfeited by Sichuan Honghua; (ii) all assets of Jiangsu Offshore and Shanghai Offshore shall be used as security for the debts under the Domestic Debt Repayment Agreement and Overseas Debt Repayment Agreement. As of 31 August 2018, the total assets of Jiangsu Offshore and Shanghai Offshore amounted to approximately RMB2.107 billion and approximately RMB62 million respectively, totaling approximately RMB2.169 billion; (iii) the equity interests in Jiangsu Offshore and Shanghai Offshore held by Jiangsu Hongjieding and the equity interests in Tank Tek, FSP and Prime held by Shanghai Offshore shall be pledged as security for the debts under the Domestic Debt Repayment Agreement and Overseas Debt Repayment Agreement in favor of the Group. The Board is of the belief that, with the support of the borrowing to be provided by Jiangsu Hongjieding to Shanghai Offshore, the Offshore Segment can further carry out its business development on a going concern and that, with the sustained business development of the Offshore Segment, the value of the equity interests of the Offshore Segment will be further increased;
- (2) According to the Domestic Debt Repayment Agreement and the Overseas Debt Repayment Agreement, the debt repayment period is five years, and the Repayment Period of First Instalment will be until 31 December 2021. Such repayment arrangements were negotiated and based on the Company's estimation that the Offshore Segment will need a relatively long period of time before it can improve its business performance and thus be able to repay the debts it owes to the Group; and
- (3) According to the Shareholders Agreement, if the accumulated sum of investment borrowings and/or various kinds of borrowings received by Jiangsu Offshore and Shanghai Offshore from Jiangsu Hongjieding or new investors exceeds RMB200 million, 70% of the excess amounts will be utilized to repay the debt owed by Jiangsu Offshore to Honghua Investment. This arrangement ensures that Jiangsu Offshore, as long as it continues to operate in the future, may obtain additional funds from new investors or creditors to support its operations and thus timely repayment of its debts owed to the Group.

## LETTER FROM THE BOARD

The Group's exposure to its investment in and its lending to the Offshore Segment has been persistent, therefore the Group may be exposed to greater credit risk if the disposal of the Offshore Segment could not be completed as soon as possible to obtain new funds to support the continued operation of the Offshore Segment. By virtue of this disposal of the Offshore Segment, not only can the Offshore Segment be moved out of the consolidated financial statements of the Group, the Offshore Segment can also obtain a lending of RMB90 million to improve its cash flow status. In addition, the Group also obtains an means by which the debts owed by the Offshore Segment can be repaid over the sustained development of Offshore Segment; on the other hand, given the security arrangements under the Debt Security Agreement, if the Offshore Segment fails to make repayment as scheduled, the Group can protect itself by exercise its rights under such security arrangements.

In the light of the above and also taking into account the Board's assessment of relevant credit risk involved, the Board considers that the terms of the Domestic Debt Repayment Agreement and the Overseas Debt Repayment Agreement are fair and reasonable and in the interest of the shareholders as a whole.

Taking into account the above as well as the following aspects, the Board considers that the Transactions, including the amount of consideration, the repayment terms of the debts and all other terms of the Transactions, are fair and reasonable and in the interests of the shareholders:

*(1) Conducive to the improvement of financial performance and avoidance of unnecessary investment of the Group*

The Group's financial performance indicators are expected to be improved as a result of the disposal of the negative net assets with continued losses like the Offshore Segment. However, in order to achieve profitability through the Group's continued operation of the Offshore Segment, the Group would need to continue to invest considerable time and costs into the Offshore Segment: (i) as of 30 September 2018, the Offshore Segment had a working capital of approximately RMB-1.945 billion which was far less than current liabilities, and therefore the Offshore Segment will not be able to sustain its operation without further investment; (ii) an estimated RMB43 million will be required for the capital expenditures for the Offshore Segment for the year of 2019. At present, the working capital of the Group are mainly employed for the operations of the land equipment segment and the oil and gas engineering services segment, thus no available funding to cater for the huge capital need of the Offshore Segment; (iii) during the past ten years of operation of the Offshore Segment, the Group's capital investment amounted to an aggregated amount of approximately RMB2.811 billion but without any satisfactory return. Given the above, the Group and the Board do not have the intention to further invest in the Offshore Segment.

*(2) Conducive to the repayment of debts of the Offshore Segment to the Group*

As an integral part of the Transactions, the debt arrangement in relation to the Offshore Segment, as the ancillary arrangements to the Equity Disposal on the Offshore Segment, will help and facilitate the Offshore Segment make repayment of its debts owed to the Group in a timely and efficient manner. Therefore, the Board of Director expects

## LETTER FROM THE BOARD

that the debt arrangement in relation to the Offshore Segment could effectively ensure the timely settlement of the relevant debts of the Offshore Segment, thereby further bettering the working capital status of the Group.

*(3) Conducive to the future operation of the Offshore Segment and corresponding returns to the Group*

The Offshore Segment has been underperforming due to its focus on the traditional marine industry in the first few years of the Offshore Segment. Under the influence of the slowdown of global economic growth and dramatic fall of oil price in the recent years, the marine industry concentrated in stock consumption as it has not yet recovered and is still under the trough stage. In respect of the traditional offshore engineering equipment market such as drilling platforms and supporting vessels, due to the higher operation breakeven point, usually this market will start to recover only following the restoration of land oil and gas market, therefore it is likely to remain stagnant for the offshore drilling platforms that previously contracted by the Offshore Segment of the Company and the suspended projects, and also it sees few new project opportunities. Since 2015, the Group has transformed into the LNG industry and recognized the popular trend of offshore LNG development and was committed to innovation and early deployment. However, due to various challenges including the innovative technical concept adopted for the engineering and equipment of core projects such as Platform of Liquefied Natural Gas, Platform Storage Regasification Unit, Friction Stir Processing, the new business model, long R & D period, and substantial capital investment, problems such as insufficient funding, limited resource integration capacity, and slow market expansion have emerged in the process of project execution, and accordingly resulting in the less-than-expected progress of projects related to offshore LNG new energy industry.

However, according to the Borrowing Agreement, Jiangsu Hongjieding will inject into Shanghai Offshore with a borrowing of RMB90 million to relieve the issue of cash flow shortage of the Offshore Segment. Moreover, the Offshore Segment has already laid a foundation for its future business development in LNG industry, together with the resources and advantages of Jiangsu Hongjieding and its shareholders, the performance of the Offshore Segment are expected to be improved. Therefore, the Group, being the shareholder of 49% equity interests in the Offshore Segment, is expected to have the opportunity to share in the benefits brought about by the growth of the Offshore Segment in the future and the value of the Group's equity interests in the Offshore Segment will be increased accordingly then.

## LETTER FROM THE BOARD

In October 2017, the Company proposed to dispose of its 100% equity interests in the Offshore Segment through a public tender conducted on the SUAEEx, but only one qualified investor made a bid eventually, and the tender eventually lapsed in September 2018 due to investor's financing difficulties. The Company's change of proposal to dispose of only 51% interests in each of Jiangsu Offshore and Shanghai Offshore this time is based on the following considerations:

- (1) The Group's disposal of the Offshore Segment, through the proposed disposal of 51% equity interests in Jiangsu Offshore and Shanghai Offshore, 25% equity interests in FSP, 70% equity interests in Tank Tek and 30% equity interests in PRIME, can still be fulfill the strategic objective that the Offshore Segment will no longer be included in the consolidated financial statements of the Group, whereby the Group's performance indicators are expected be improved in the short term while enhancing market confidence, and bringing the Group back to profitability by focusing on the main business, thereby bringing better returns to the Shareholders of the Company;
- (2) By holding 49% equity interests in the Offshore Segment after the disposal of the Offshore Segment, the Group will be able to appoint directors and nominate financial controller to Jiangsu Offshore and Shanghai Offshore in accordance with the parties' mutual agreements, thereby achieving strategic monitoring and business supervision of the Offshore Segment and thus further ensuring the timely repayment of existing debts owed by the Offshore Segment to the Group; and
- (3) Through the continued operation of the Offshore Segment, the Company expects that its future performance may improve given the assistance from Jiangsu Hongjieding and its shareholders, therefore the value of the 49% equity interests to be held by the Group is expected to be increased accordingly.

The Company and Jiangsu Hongjieding, as the prospective shareholders of Jiangsu Offshore and Shanghai Offshore upon the completion of the Transactions, conducted discussions on the future development of Offshore Segment with an aim to improving the business operation of the Offshore Segment and enhancing its sustainable viability. The preliminary business plan is summarized as follows:

- (1) Sorting out the inventory to reduce the inventory level of the Offshore Segment by leveraging on the business network and resources of Jiangsu Hongjieding. For the existing inventory of 4 barges, the Offshore Segment will strive to realize the disposal of the abovementioned inventory in 2019 by taking various measures including pushing forward the transformation of 4 barges, accomplishing the disposals of 4 barges after such transformation and endeavoring to realize sales of approximately USD4.3 million depending on the market demand for wind power operation and maintenance ships.
- (2) Pushing forward the commercialization of Friction Stir Processing (攪拌摩擦加工技術) LNG tank. After becoming the shareholder of the Offshore Segment, Jiangsu Hongjieding will provide financial support to the Offshore Segment to facilitate the engineering certification for Friction Stir Processing LNG tank, aiming to lay a solid

## LETTER FROM THE BOARD

technological foundation for the independent market development of Friction Stir Processing LNG tank in 2019. Meanwhile, Jiangsu Hongjieding will help the Offshore Segment accelerate the study on domestic market demand for land tank and the related marketing and planning programs, and also establish a professional sales team and provide customers with competitive tank solutions. With the advantages of CASIC in the field of technology and domestic market area, Jiangsu Hongjieding is expected to help the Offshore Segment diversify the channels for market expansion, aiming to realize the independent sales of Friction Stir Processing LNG tank products in 2019 and accomplish tank sales volume of 50,000 cubic meters (or an estimated sales of approximately USD30 million) within three years.

- (3) Promoting the Platform Storage Regasification Unit (固定式海上LNG存儲氣化平臺) project and seeking recognition and regulatory approval from the relevant governmental authorities. Jiangsu Hongjieding and its shareholders will devote greater efforts to help the Offshore Segment to boost its progress of key projects located in Lianyungang, Yingkou, Dongying, and so on, while pushing forward the follow-up, offering of solutions and business negotiations on new business opportunities in other potential market. With these assistances, the Offshore Segment will seek regulatory approval from the relevant governmental authorities for the first project in this area and is expecting to realize sales to its customers within 2019.
- (4) Continuing to carry forward the Platform of Liquefied Natural Gas (平臺式海上天然氣液化工廠) project and help the US Platform of Liquefied Natural Gas project to obtain the project feasibility report. In May 2017, a framework agreement amounting to USD2.2 billion has been entered into for this project, pursuant to which specific transaction agreements will be signed within three months upon the signing of the project feasibility report.

It is currently estimated that the total capital need for the initiation and operation of the projects mentioned above would amount to approximately US\$27–30 million. Such capital need is expected to be financed through the following channels: (i) lending by Jiangsu Hongjieding to the Offshore Segment; (ii) stage payments and/or advance payments to be made by customers of these projects to the Offshore Segment; and (iii) project financing to be conducted by the Offshore Segment itself from independent financial institutions.

The Board also considers that Jiangsu Hongjieding will bring about business and financial growth to the Offshore Segment in the future given the following aspects of role and contribution of Jiangsu Hongjieding:

- (1) According to the Borrowing Agreement, Jiangsu Hongjieding shall provide Shanghai Offshore with borrowings with an aggregated amount of RMB90 million, which is the key source of funding for the continued operation of the Offshore Segment and a crucial factor for the sustainability of the Offshore Segment;
- (2) Nanjing Hangzhi is one of the shareholders of Jiangsu Hongjieding, and it is one of the investment platforms of CASIC. Nanjing Hangzhi will make its first instalment of investment of RMB60 million into Jiangsu Hongjieding pursuant to the Articles of

## LETTER FROM THE BOARD

Association of Jiangsu Hongjieding. Nanjing Hangzhi will, on a going basis, focus on and support the business development of the Offshore Segment. Leveraging on the business network and experiences in investment and financing industries accumulated by Nanjing Hangzhi in Jiangsu Province and throughout the PRC for years, coupled with the advantages of CASIC in the fields of resources and technology in domestic and overseas markets, Nanjing Hangzhi is expected to provide the Offshore Segment with professional advices on business positioning, broader market for business development and richer resources for R&D; and

- (3) Mr. Zhang Mi is another shareholder of Jiangsu Hongjieding. In 2004, Mr. Zhang obtained a senior engineer qualification granted by the Committee for Evaluation of Senior Technical Positions of the China National Petroleum Corporation. He has been receiving special subsidies granted by the State Council since February 2007, for his significant contribution to the development of machinery engineering in the PRC. Mr. Zhang Mi was rewarded as national model worker in 2015. As one of the founders of the Group, Mr. Zhang has accumulated abundant and sufficient knowledge, expertise and experiences in oil and gas equipment manufacturing industry. Since the establishment of the Offshore Segment of the Group, Mr. Zhang has been committed to the business development of the Offshore Segment, whereby he has professional experiences in offshore oil and gas equipment manufacturing and is familiar with the strategic layout of the Offshore Segment. Besides, he also enjoys a high reputation in the Offshore Segment and is expected to bring together the excellent team of the Offshore Segment and to attract more excellent talents to devote to the Offshore Segment. The Company believes that Mr. Zhang will continue to promote and contribute to a brighter business prospect of the Offshore Segment through Jiangsu Hongjieding.

Therefore, the Company believes that, given the SOE background and resources of CASIC combined with the contribution and management experiences of Mr. Zhang Mi, the Offshore Segment will have more business opportunities and thus a better prospect of development.

The Directors are of the view that the terms of the Equity Disposal on Offshore Segment, the debt arrangement for Offshore Segment and SIIC Guarantee are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

### LISTING RULES IMPLICATIONS

CASIC, through its wholly-owned subsidiary, namely Kehua, indirectly holds approximately 29.98% of the Shares in the Company, and therefore is a substantial shareholder and connected person of the Company. CASIC, through its subsidiary, controls the general partner of Nanjing Hangzhi, thus Nanjing Hangzhi is an associate of CASIC under the Listing Rules, and it holds 46.15% of equity interests in Jiangsu Hongjieding. In addition, Mr. Zhang Mi is an executive Director of the Company, holding 1,088,681,363 Shares or approximately 20.32% of the Shares in the Company. As at the Latest Practicable Date, Mr. Zhang Mi, through his sole proprietorship, holds 53.85% of equity interests in Jiangsu Hongjieding. Therefore, Jiangsu Hongjieding and Shanghai Offshore (after the completion of

## LETTER FROM THE BOARD

its equity transfer) are connected persons of the Company under the Listing Rules. Therefore, the Equity Disposal on Offshore Segment constitutes connected transaction for the Company under Chapter 14A of the Listing Rules and since certain applicable percentage ratios calculated under Rule 14A.81 of the Listing Rules in aggregate exceed 5%, is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Upon the completion of Equity Disposal on Offshore Segment, Jiangsu Offshore, Shanghai Offshore and Tank Tek will cease to be subsidiaries of the Company and will become subsidiaries of Jiangsu Hongjieding. Therefore, the Domestic Debt and Overseas Debt will then constitute financial assistance provided by the Group to Jiangsu Offshore and Tank Tek, thus connected transactions for the Company under Chapter 14A of the Listing Rules. In addition, upon the completion of Equity Disposal on Offshore Segment, Jiangsu Offshore will become a subsidiary of Jiangsu Hongjieding and therefore the SIIC Guarantee will constitute financial assistance provided by the Group to a connected person. Since certain applicable percentage ratios in relation to the above-mentioned financial assistance calculated, on an aggregated basis under Rule 14A.81 of the Listing Rules, exceed 5%, the above financial assistance will be subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further, since certain applicable percentage ratios calculated in aggregate in respect of the above-mentioned financial assistance exceed 25%, it constitutes a major transaction for the Company under Chapter 14 of the Listing Rules.

In addition, the transactions contemplated under the Debt Security Agreement constitute financial assistance provided by Jiangsu Hongjieding, Jiangsu Offshore and Shanghai Offshore to the Group. Given that they are conducted on normal commercial terms and are not secured by any assets of the Group, the relevant financial assistance is exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.90 of the Listing Rules.

### **INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee comprising all the independent non-executive Directors (namely Mr. Liu Xiaofeng, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok, Mr. Chang Qing and Mr. Wu Yuwu) has been established to advise the Independent Shareholders in respect of the Transactions. Gram Capital has been appointed by the Company with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in this regard.

Since CASIC and Mr. Zhang Mi, an executive Director of the Company, have material interests in the Transactions, CASIC and Mr. Zhang Mi and their associates will abstain from voting to approve the Transactions at the EGM. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, there is no other Shareholder who has a material interest in the Transactions and is required to abstain from voting on the relevant resolutions at the EGM.

## LETTER FROM THE BOARD

The entering into of the Transactions has been approved by all the Directors, except for Mr. Jin Liliang, Mr. Han Guangrong and Mr. Chen Wenle, who are Directors appointed by CASIC and its associates, and Mr. Zhang Mi, an executive Director of the Company, and who are deemed to be interested in the Transactions and thus had abstained from voting.

### GENERAL INFORMATION

#### Information of Jiangsu Hongjieding

Jiangsu Hongjieding was incorporated in the PRC in September 2018 with the principal business activities being technological development and consultation related to areas of energy and drilling and exploiting, manufacture and sales of oil drilling and exploiting equipment, and offshore oil engineering and design services, etc.

#### Information of SIIC

SIIC, a company incorporated in the PRC, is principally engaged in domestic commercial wholesale and retail, trading and international cargo transport agency.

#### Information of the Group

The Group is principally engaged in the business of developing, manufacturing and selling drilling rigs, rig parts and components and after-sales services.

#### Information of Sichuan Honghua

Sichuan Honghua, incorporated in the PRC, is a wholly-owned subsidiary of the Company with principal business activities being research, design, manufacture and set-assembly of oil drilling rigs and oil exploration and development equipment.

#### Information of Honghua Holdings

Honghua Holdings, a wholly-owned subsidiary of the Company and incorporated in Hong Kong, is an investment holding company.

#### Information of Honghua Investment

Honghua Investment, a wholly-owned subsidiary of the Company and incorporated in the PRC, is an investment holding company.

### THE EGM

A notice convening the EGM of the Company to be held at Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Thursday, 20 December 2018 at 9:30 a.m. and a form of proxy for use at the EGM is enclosed herein.

If you do not propose to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor

## **LETTER FROM THE BOARD**

Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, 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 adjourned meeting if you so wish, and in such event, the form of proxy shall be deemed to be revoked.

CASIC (through its wholly-owned subsidiary, namely Kehua, indirectly holding approximately 29.98% of the Shares in the Company as at the Latest Practicable Date) and Mr. Zhang Mi (holding 1,088,681,363 Shares or approximately 20.32% of the Shares in the Company as at the Latest Practicable Date) who are involved in, or interested in the Transactions will abstain from voting in the relevant resolutions approving the Transactions at the EGM.

### **RECOMMENDATION**

The Board considers that the Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole and accordingly recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM for approving the Transactions. The entering into of the Transactions have been approved by all the Directors, except for Mr. Jin Liliang, Mr. Han Guangrong and Mr. Chen Wenle (being the Directors appointed by CASIC and its associates) and Mr. Zhang Mi (being an executive Director of the Company) who were deemed to be interested in the Transactions and thus had abstained from voting.

The Independent Board Committee, having taken into account the advice of Gram Capital, considers that the Transactions are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and accordingly recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM for approving the Transactions.

### **OTHER INFORMATION**

Your attention is drawn to the letter of advice from Gram Capital set out in pages 39 to 64 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in connection with the Transactions and the letter from the Independent Board Committee set out in page 38 of this circular which contains its recommendation to the Independent Shareholders in relation to the Transactions.

The attention of the Shareholders is drawn to the other information set out in the appendices to this circular.

## LETTER FROM THE BOARD

Shareholders and other investors should note that completion of the Transactions is subject to the satisfaction of various conditions precedent and therefore there is no assurance that the Transactions will be implemented as contemplated or at all. Shareholders and other investors are advised to exercise caution when dealing in the securities of the Company.

Yours faithfully,  
By order of the Board  
**Honghua Group Limited**  
**Jin Liliang**  
*Chairman*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**



**宏华集团**  
HONGHUA GROUP

**Honghua Group Limited**

**宏華集團有限公司**

*(a company incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 196)**

4 December 2018

*To the Independent Shareholders,*

Dear Sir or Madam,

**CONNECTED TRANSACTION AND MAJOR  
AND CONNECTED TRANSACTION**

We refer to the circular of the Company dated 4 December 2018 (the “Circular”) to the Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to advise the Independent Shareholders on whether the Transactions are fair and reasonable and on normal commercial terms, and whether the Transactions are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

We wish to draw your attention to the letter from the Board set out in pages 5 to 37 of the Circular and the letter from Gram Capital, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Transactions, set out in pages 39 to 64 of the Circular.

Having considered the factors and reasons considered by and the opinion of Gram Capital stated in its letter of advice contained in the Circular, we are of the view that the Transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Transactions.

Yours faithfully,

For and on behalf of the

**Independent Board Committee**

**Mr. Liu Xiaofeng**  
**Mr. Poon Chiu Kwok**

**Mr. Chen Guoming**  
**Mr. Chang Qing**  
*Independent non-executive Directors*

**Ms. Su Mei**  
**Mr. Wu Yuwu**

## LETTER FROM GRAM CAPITAL

*Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions for the purpose of inclusion in this circular.*



Room 1209, 12/F.  
Nan Fung Tower  
88 Connaught Road Central/  
173 Des Voeux Road Central  
Hong Kong

4 December 2018

*To: The independent board committee and the independent shareholders  
of Honghua Group Limited*

Dear Sir/Madam,

**(I) DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO DISPOSAL OF EQUITY INTERESTS  
IN OFFSHORE SEGMENT  
AND  
(II) MAJOR AND CONNECTED TRANSACTION  
IN RELATION TO  
DEBT ARRANGEMENT FOR OFFSHORE SEGMENT**

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 4 December 2018 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

### Equity Disposal on Offshore Segment

On 28 October 2018, Sichuan Honghua entered into the Jiangsu Offshore Agreement with Jiangsu Hongjieding, pursuant to which Sichuan Honghua has agreed to sell and Jiangsu Hongjieding has agreed to acquire Sichuan Honghua’s 51% equity interests in Jiangsu Offshore for a cash consideration of RMB1.

On 28 October 2018, Sichuan Honghua entered into the Shanghai Offshore Agreement with Jiangsu Hongjieding, pursuant to which Sichuan Honghua has agreed to sell and Jiangsu Hongjieding has agreed to acquire Sichuan Honghua’s 51% equity interests in Shanghai Offshore for a cash consideration of RMB1.

## LETTER FROM GRAM CAPITAL

On 28 October 2018, Honghua Holdings entered into the FSP and Tank Tek Agreement with Shanghai Offshore, pursuant to which Honghua Holdings has agreed to sell and Shanghai Offshore has agreed to acquire Honghua Holdings' 25% equity interests in FSP and 70% equity interests in Tank Tek, each for a cash consideration of USD1.

On 28 October 2018, Honghua Investment entered into the Prime Agreement with Shanghai Offshore, pursuant to which Honghua Investment has agreed to sell and Shanghai Offshore has agreed to acquire Honghua Investment's 30% equity interests in Prime for a cash consideration of USD1.

### **Debt arrangement for Offshore Segment**

On 28 October 2018, Honghua Investment entered into the Domestic Debt Repayment Agreement with Jiangsu Offshore and Shanghai Offshore, pursuant to which Jiangsu Offshore shall repay an existing debt of an aggregated amount of RMB1,989.5049 million, together with relevant interest to Honghua Investment after the completion of its equity transfer.

On 28 October 2018, Honghua Holdings entered into the Overseas Debt Repayment Agreement with Tank Tek, pursuant to which Tank Tek shall repay an existing debt of an aggregated amount of USD16.9291 million, together with relevant interest to Honghua Holdings after the completion of its equity transfer.

On 28 October 2018, Honghua Investment, Honghua Holdings, Jiangsu Hongjieding, Jiangsu Offshore and Shanghai Offshore entered into the Debt Security Agreement in relation to the Domestic Debt and the Overseas Debt.

On 28 October 2018, Jiangsu Hongjieding and Shanghai Offshore entered into the Borrowing Agreement.

On 28 October 2018, Sichuan Honghua and Jiangsu Hongjieding entered into the Shareholders Agreement in respect of Jiangsu Offshore and Shanghai Offshore.

On 5 August 2015, Honghua Investment issued an irrevocable guarantee in favor of SIIC for the debt owed by Jiangsu Offshore to SIIC.

With reference to the Board Letter, the Equity Disposal on Offshore Segment constitutes discloseable and connected transaction for the Company under Chapter 14 and Chapter 14A of the Listing Rules respectively and is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Upon the completion of Equity Disposal on Offshore Segment, Jiangsu Offshore, Shanghai Offshore and Tank Tek will cease to be subsidiaries of the Company and will become subsidiaries of Jiangsu Hongjieding. Therefore, the Domestic Debt and Overseas Debt will then constitute financial assistance provided by the Group to Jiangsu Offshore and Tank Tek, thus connected transactions for the Company under Chapter 14A of the Listing Rules. In addition, upon the completion of Equity Disposal on Offshore Segment, Jiangsu Offshore will become a subsidiary of Jiangsu Hongjieding and therefore the SIIC Guarantee will constitute financial assistance provided by the Group to a connected person. The above financial

## LETTER FROM GRAM CAPITAL

assistance will be subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The above financial assistance also constitutes major transaction for the Company under Chapter 14 of the Listing Rules.

The Independent Board Committee comprising Mr. Liu Xiaofeng, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok, Mr. Chang Qing and Mr. Wu Yuwu (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Transactions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We have not made any independent evaluation or appraisal of the assets and liabilities of either the Group, Jiangsu Offshore, Shanghai Offshore, Prime, FSP or Tank Tek, and we have been furnished with (i) the valuation report dated 4 December 2018 on 100% equity interest in Jiangsu Offshore, summary of which is set out under Appendix II(iv) to the Circular (the “**JO Valuation Report**”); (ii) the valuation report dated 4 December 2018 on Shanghai Offshore, summary of which is set out under Appendix II(v) to the Circular (the “**SO Valuation Report**”); (iii) the indicative value analysis dated 2 November 2018 on the Company's 30% indirect equity interest in Prime, the Company's 25% indirect equity interest in FSP and the Company's 70% indirect equity interest in Tank Tek summary of which is set out under Appendix II(vi) to the Circular (the “**Prime FSP TT Valuation Analysis**”). The JO Valuation Report and SO Valuation Report are prepared by China Alliance Appraisal Co., Ltd (“**China Alliance**”), an independent valuer; and the Prime FSP TT Valuation Analysis is prepared by Ernst & Young (China) Advisory Limited Beijing Branch (“**EY**”), an independent valuer.

## LETTER FROM GRAM CAPITAL

Since we are not experts in the valuation of business, we have relied solely upon the JO Valuation Report, the SO Valuation Report and the Prime FSP TT Valuation Analysis for the value of Jiangsu Offshore, Shanghai Offshore, the Company's 30% indirect equity interest in Prime, the Company's 25% indirect equity interest in FSP and the Company's 70% indirect equity interest in Tank Tek as at 31 August 2018.

The 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 the 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 the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Jiangsu Offshore, Shanghai Offshore, Prime, FSP, Tank Tek, Jiangsu Hongjieding or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

#### **1. Background of and reasons for the Transactions**

##### *Business overview of the Group*

With reference to the Board Letter, the Group is principally engaged in the business of developing, manufacturing and selling drilling rigs, rig parts and components and after-sales services.

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Set out below are the consolidated financial information of the Group for the two years ended 31 December 2017 and the six months ended 30 June 2018 (“**1H18**”) (with comparative figures) as extracted from the Company’s annual report for the year ended 31 December 2017 (the “**2017 Annual Report**”) and interim report for 1H2018 (the “**2018 Interim Report**”):

|                                    | <b>For the year<br/>ended<br/>31 December<br/>2017<br/>RMB’000</b> | <b>For the year<br/>ended<br/>31 December<br/>2016<br/>RMB’000</b> | <b>Change from<br/>2016 to 2017<br/>%</b> |
|------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------|
| Revenue from continuing operations | 2,175,856                                                          | 2,147,592                                                          | 1.32                                      |
| Gross profit                       | 635,093                                                            | 357,876                                                            | 77.46                                     |
| Loss from continuing operations    | (395,196)                                                          | (517,471)                                                          | (23.63)                                   |
| Loss from discontinued operations  | (834,386)                                                          | (109,778)                                                          | 660.07                                    |
| Loss for the year                  | (1,229,582)                                                        | (627,249)                                                          | 96.03                                     |
|                                    | <b>For the six<br/>months ended<br/>30 June 2018<br/>RMB’000</b>   | <b>For the six<br/>months ended<br/>30 June 2017<br/>RMB’000</b>   | <b>Change from<br/>2017 to 2018<br/>%</b> |
| Revenue from continuing operations | 1,146,723                                                          | 701,006                                                            | 63.58                                     |
| Gross profit                       | 186,330                                                            | 83,933                                                             | 122.00                                    |
| Loss from continuing operations    | (108,808)                                                          | (336,260)                                                          | (67.64)                                   |
| Loss from discontinued operations  | (5,135)                                                            | (61,031)                                                           | (91.59)                                   |
| Loss for the period                | (113,943)                                                          | (397,291)                                                          | (71.32)                                   |

As illustrated in the above table, the Group’s revenue from continuing operations amounted to approximately RMB2.18 billion for the year ended 31 December 2017 (“**FY2017**”), representing an increase of approximately 1.32% as compared to that for the year ended 31 December 2016 (“**FY2016**”). For FY2017, the Group recorded loss of approximately RMB1.23 billion, representing an increase of approximately 96.03% as compared to FY2016. With reference to the 2017 Annual Report, the loss for FY2017 was mainly due to the continuous losses on the discontinued operations of the Offshore Segment (loss from the Group’s discontinued operations amounted to approximately RMB834.39 million for FY2017). Besides, the Group made impairment provision for (i) assets exposed to significant impairment risk for the offshore drilling rigs segment; and (ii) certain assets and related lawsuits for the oil and gas engineering services segment. As confirmed by the Directors, the aforesaid factors contributed to the Group’s loss for FY2017.

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As illustrated in the above table, there was significant improvement in the Group's revenue from continuing operations and gross profit for 1H2018 as compared to the corresponding period in 2017 ("1H17"). With reference to the 2018 Interim Report, the gradual rebound in oil price and the recovery of demand for global oil and gas led to substantially increased sales volume and hiking price of the Group's drilling rigs and parts segment and the oil and gas services segment. The Group's loss for 1H2018 also reduced substantially as compared to 1H2017. Such reduction is mainly attributable to (i) the aforesaid improvement in revenue from continuing operations and gross profit; (ii) significant reduction in distribution expenses; and (iii) other net gain recorded for 1H18 as compared to other net losses recorded for 1H17.

With reference to the 2018 Interim Report, the Group will focus on "disposing historical issues, realizing to turn losses into profits and plotting transformation and upgrading", namely, the rapid and effective disposal of a series of loss-making enterprises; the Group will struggle for orders, enhance production and control costs; and the Group will deploy the medium and long-term strategies for upgrading its market competitiveness and transforming its development mode through making breakthroughs in the core equipment technology in the oil and gas industry and integrating information technology.

### *Information on Sichuan Honghua*

With reference to the Board Letter, Sichuan Honghua, incorporated in the PRC, is a wholly-owned subsidiary of the Company with principal business activities being research, design, manufacture and set-assembly of oil drilling rigs and oil exploration and development equipment.

### *Information on Honghua Holdings*

With reference to the Board Letter, Honghua Holdings, a wholly-owned subsidiary of the Company and incorporated in Hong Kong, is an investment holding company.

### *Information on Honghua Investment*

With reference to the Board Letter, Honghua Investment, a wholly-owned subsidiary of the Company and incorporated in the PRC, is an investment holding company.

### *Information on Jiangsu Hongjieding*

With reference to the Board Letter, Jiangsu Hongjieding was incorporated in the PRC in September 2018 with the principal business activities being technological development and consultation related to areas of energy and drilling and exploiting, manufacture and sales of oil drilling and exploiting equipment, and offshore oil engineering and design services, etc.

CASIC (being a substantial Shareholder), through its subsidiary, controls the general partner of Nanjing Hangzhi, thus Nanjing Hangzhi is an associate of CASIC under the Listing Rules, and it holds 46.15% of equity interests in Jiangsu Hongjieding.

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Mr. Zhang Mi (being an executive Director and a substantial Shareholder), through his sole proprietorship, holds 53.85% of equity interests in Jiangsu Hongjieding.

### *Information on Jiangsu Offshore*

With reference to the Board Letter, Jiangsu Offshore is a wholly-owned subsidiary of the Company incorporated in the PRC in June 2009 with the principal business activities being design, manufacture and sales of offshore oil and gas engineering equipment and offshore engineering vessels, drilling and oil and gas field technology services.

Set out below are certain audited financial information of Jiangsu Offshore for each of the two years ended 31 December 2017 as extracted from the Board Letter:

|                 | <b>For the year<br/>ended<br/>31 December<br/>2016<br/>RMB'000</b> | <b>For the year<br/>ended<br/>31 December<br/>2017<br/>RMB'000</b> |
|-----------------|--------------------------------------------------------------------|--------------------------------------------------------------------|
| Turnover        | 197,793                                                            | 164,402                                                            |
| Loss before tax | (166,395)                                                          | (720,471)                                                          |
| Loss after tax  | (124,278)                                                          | (832,673)                                                          |

### *Information on Shanghai Offshore*

With reference to the Board Letter, Shanghai Offshore is a wholly-owned subsidiary of the Company incorporated in the PRC in September 2009 with the principal business activities being offshore oil and gas engineering and research and development, design, sales and maintenance of vessels, etc.

Set out below are certain audited financial information of Shanghai Offshore for each of the two years ended 31 December 2017 as extracted from the Board Letter:

|                 | <b>For the year<br/>ended<br/>31 December<br/>2016<br/>RMB'000</b> | <b>For the year<br/>ended<br/>31 December<br/>2017<br/>RMB'000</b> |
|-----------------|--------------------------------------------------------------------|--------------------------------------------------------------------|
| Turnover        | 6,789                                                              | 1,911                                                              |
| Loss before tax | (13,038)                                                           | (16,521)                                                           |
| Loss after tax  | (15,729)                                                           | (30,950)                                                           |

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### *Information on FSP*

With reference to the Board Letter, FSP is a company with limited liability incorporated under laws of the Netherlands. It is the licensing agency of series of FSP (Flat-panel, Semi-membrane, Prismatic liquid cargo containment system) patents. FSP is held as to 25% and 75% by Honghua Holdings and by other independent parties respectively as at the Latest Practicable Date.

Set out below are certain unaudited financial information of FSP for each of the two years ended 31 December 2017 as extracted from the Board Letter:

|                 | <b>For the year<br/>ended<br/>31 December<br/>2016<br/>RMB'000</b> | <b>For the year<br/>ended<br/>31 December<br/>2017<br/>RMB'000</b> |
|-----------------|--------------------------------------------------------------------|--------------------------------------------------------------------|
| Turnover        | —                                                                  | —                                                                  |
| Loss before tax | (351)                                                              | (547)                                                              |
| Loss after tax  | (351)                                                              | (547)                                                              |

### *Information on Tank Tek*

With reference to the Board Letter, Tank Tek is a company incorporated under laws of Hong Kong, with the principal business activities being technical research and development, manufacture and sales of LNG tank. Tank Tek is held as to 70% and 30% by Honghua Holdings and by other independent parties respectively as at the Latest Practicable Date.

Set out below are certain audited financial information of Tank Tek for each of the two years ended 31 December 2017 as extracted from the Board Letter:

|                 | <b>For the year<br/>ended<br/>31 December<br/>2016<br/>RMB'000</b> | <b>For the year<br/>ended<br/>31 December<br/>2017<br/>RMB'000</b> |
|-----------------|--------------------------------------------------------------------|--------------------------------------------------------------------|
| Turnover        | —                                                                  | —                                                                  |
| Loss before tax | (14,565)                                                           | (13,566)                                                           |
| Loss after tax  | (10,507)                                                           | (11,327)                                                           |

### *Information on Prime*

With reference to the Board Letter, Prime is a company with limited liability, incorporated under laws of the United States, with the principal business activities being promotion and sales of LNG tank. Prime is held as to 30% and 70% by Honghua Investment and by other independent parties respectively as at the Latest Practicable Date.

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Set out below are certain unaudited financial information of Prime for each of the two years ended 31 December 2017 as extracted from the Board Letter:

|                 | <b>For the year<br/>ended<br/>31 December<br/>2016<br/>RMB'000</b> | <b>For the year<br/>ended<br/>31 December<br/>2017<br/>RMB'000</b> |
|-----------------|--------------------------------------------------------------------|--------------------------------------------------------------------|
| Turnover        | 112                                                                | 71                                                                 |
| Loss before tax | (324)                                                              | (366)                                                              |
| Loss after tax  | (324)                                                              | (366)                                                              |

### *Reasons for and benefits of the Transactions*

With reference to the Board Letter, given the development and performance of the Offshore Segment has fallen short of the Group's expectation in the past few years, the Group is considering the disposal of Offshore Segment and reaching debt arrangement with Jiangsu Offshore and Tank Tek. During more than nine years of operation, the Group invested substantial amount and provided substantial amount of shareholder loans to the Offshore Segment and the Offshore Segment recorded losses.

To achieve profitability through the Group's continued operation of the Offshore Segment, it needs to continue to invest time and costs in the Offshore Segment from a financial point of view. The Board examines the opportunities and choices of the Group's business portfolio from time to time. As the operation of the Group will be difficult due to the current layout and allocation of resources, the Group conducted a public tender on 19 September 2018 on the SUAEEx to sell 51% of its interests in Shanghai Offshore and Jiangsu Offshore and all of its indirectly held shares in Tank Tek, FSP and Prime. As a result of the disposal of the Offshore Segment and the corresponding debt arrangement for Offshore Segment, the Board believes that the Group can be benefited from the following:

- (i) The Group is implementing the development strategy of focusing on the main business and optimizing the asset structure. By stripping off the Offshore Segment, the Company can reduce the burden of assets, optimize the allocation of resources, and focus on the development of its own core industry, namely, land oil and gas equipment manufacturing and integrated services.
- (ii) Disposal of the Offshore Segment with a long-term loss can improve the Group's performance indicators significantly in the short term.
- (iii) Providing loans to the Offshore Segment through Jiangsu Hongjieding will alleviate the financial pressure of the Group's continued investment in the Offshore Segment.
- (iv) The Group can enjoy the benefits brought about by the possible growth of the Offshore Segment in the future through its direct or indirect shareholding of 49% in such segment.

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Detailed reasons and benefits of the Transactions are set out under the section headed “REASONS FOR AND BENEFITS OF THE TRANSACTIONS AS A WHOLE” in the Board Letter.

For our due diligence purpose, we obtained financial summary of each of the Target Companies. From the aforesaid financial summary, we noticed that (i) Jiangsu Offshore, Tank Tek, FSP and Prime were loss-making for each financial year from its incorporation date up to 31 December 2017 and the eight months ended 31 August 2018; (ii) Shanghai Offshore was loss-making for each financial year from its incorporation date up to 31 December 2017 and made profit after tax of approximately RMB12.68 million (including operating profit of approximately RMB5.60 million and government subsidy of RMB6.73 million) for the eight months ended 31 August 2018; and (iii) each of the Target Companies recorded net current liabilities as at 31 August 2018.

The above financial positions of the Target Companies are unsatisfactory. Although Shanghai Offshore made operating profit of approximately RMB5.60 million for the eight months ended 31 August 2018, Jiangsu Offshore, Tank Tek, FSP and Prime still made loss for the same period, in particular, Jiangsu Offshore made operating loss of approximately RMB48.18 million for the eight months ended 31 August 2018. The net current liabilities as at 31 August 2018 recorded by each of the Target Companies may also cast doubt on the Target Companies’ ability to continue as going concern. As aforementioned, the Group recorded loss of approximately RMB1.23 billion for FY2017 which was mainly due to the continuous losses on the discontinued operations of the Offshore Segment.

Given the above, it is reasonable for the Group to dispose the Offshore Segment and focus on the development of its own core industry, namely, land oil and gas equipment manufacturing and integrated services. Such disposal can also improve the Group’s performance indicators significantly in the short term.

With reference to the Board Letter, the Company and Jiangsu Hongjieding, as the prospective shareholders of Jiangsu Offshore and Shanghai Offshore upon the completion of the Transactions, conducted discussions on the future development of Offshore Segment with an aim to improving the business operation of the Offshore Segment and enhancing its sustainable viability. The preliminary business plan is summarized as follows:

- (i) Sorting out the inventory and to reduce the inventory level of the Offshore Segment by making use of the business network and resources of Jiangsu Hongjieding. For the existing inventory of 4 barges, the Offshore Segment will strive to realize the disposal of the abovementioned inventory in 2019 by taking various measures including pushing forward the transformation of 4 barges, accomplishing the disposals of 4 barges after such transformation and endeavoring to realize sales of approximately USD4.3 million depending on the market demand for wind power operation and maintenance ships.

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- (ii) Pushing forward the commercialization of Friction Stir Processing LNG tank. After becoming the shareholder of the Offshore Segment, Jiangsu Hongjieding will provide financial support to the Offshore Segment to facilitate the engineering certification for Friction Stir Processing LNG tank, aiming to lay a solid technological foundation for the independent market development of Friction Stir Processing LNG tank in 2019. Meanwhile, Jiangsu Hongjieding will help the Offshore Segment accelerate the study on domestic market demand for land tank and the related marketing and planning programs, and also establish a professional sales team and provide customers with competitive tank solutions. With the advantages of CASIC in the field of technology and domestic market area, Jiangsu Hongjieding is expected to help the Offshore Segment diversify the channels for market expansion, aiming to realize the independent sales of Friction Stir Processing LNG tank products in 2019 and accomplish tank sales volume of 50,000 cubic meters (or an estimated sales of approximately USD30 million) within three years.
- (iii) Promoting the Platform Storage Regasification Unit project and seeking recognition and regulatory approval from the relevant governmental authorities. Jiangsu Hongjieding and its shareholders will devote greater efforts to help the Offshore Segment to boost its progress of key projects located in Lianyungang, Yingkou, Dongying, and so on, while pushing forward the follow-up, supply of solutions and business negotiations on new business opportunities in other potential market. With these assistance, the Offshore Segment will seek regulatory approval from the relevant governmental authorities for the first project in this area and is expecting to realize sales to its customers within 2019.
- (iv) Continuing to carry forward the Platform of Liquefied Natural Gas project and help the US Platform of Liquefied Natural Gas project to obtain the project feasibility report. In May 2017, a framework agreement amounting to USD2.2 billion has been entered into for this project, pursuant to which specific transaction agreements will be signed within three months upon the signing of the project feasibility report.

The Board also considers that Jiangsu Hongjieding will bring about business and financial growth to the Offshore Segment in the future given the following aspects of role and contribution of Jiangsu Hongjieding:

- (i) According to the Borrowing Agreement, Jiangsu Hongjieding shall provide Shanghai Offshore with borrowing of an aggregated amount of RMB90 million, which is the key source of funding for the continued operation of the Offshore Segment and a crucial factor for the sustainability of the Offshore Segment;
- (ii) Nanjing Hangzhi is one of the shareholders of Jiangsu Hongjieding and it is one of the investment platforms of CASIC. Nanjing Hangzhi will make its first instalment of investment of RMB60 million into Jiangsu Hongjieding pursuant to the Articles of Association of Jiangsu Hongjieding. Nanjing Hangzhi will, on

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a going basis, focus on and support the business development of the Offshore Segment. Leveraging on the business network and experience in investment and financing industries accumulated by Nanjing Hangzhi in Jiangsu Province and throughout the PRC for years and with the advantages of CASIC in the fields of resources and technology in domestic and overseas markets, Nanjing Hangzhi is expected to provide the Offshore Segment with professional advices on business positioning, broader market for business development and richer resources for R&D; and

- (iii) Mr. Zhang Mi is another shareholder of Jiangsu Hongjieding. In 2004, Mr. Zhang Mi obtained a senior engineer qualification granted by the Committee for Evaluation of Senior Technical Positions of the China National Petroleum Corporation. He has been receiving special subsidies granted by the State Council since February 2007, for his significant contribution to the development of machinery engineering in the PRC. Mr. Zhang Mi was rewarded as national model worker in 2015. As one of the founders of the Group, Mr. Zhang Mi has accumulated abundant and sufficient knowledge, expertise and experiences in oil and gas equipment manufacturing industry. Since the establishment of the Offshore Segment of the Group, Mr. Zhang Mi has been committed to the business development of the Offshore Segment, whereby he has professional experience in offshore oil and gas equipment manufacturing and is familiar with the strategic layout of the Offshore Segment. Besides, he also enjoys a high reputation in the Offshore Segment and is expected to bring together the excellent team of the Offshore Segment and to attract more excellent talents to devote to the Offshore Segment. The Company believes that Mr. Zhang Mi will continue to promote and contribute to a brighter business prospect of the Offshore Segment through Jiangsu Hongjieding.

We noted from the website of CASIC ([www.casic.com](http://www.casic.com)) that CASIC is a state-owned, strategic, innovation-oriented high-tech enterprise, formerly known as the Fifth Research Institute of the Ministry of National Defense established in October 1956. CASIC is currently composed of the headquarters, 6 research institutes, 17 wholly-owned or holding companies and subordinate units. There are more than 500 enterprises and institutions of CASIC all over the PRC. At present, CASIC has more than 150,000 employees, and a large number of well-known experts and scholars, including more than 200 state-level scientific and technological talents. The high-quality and young scientific and technical personnel have played a major role in the team of innovative talents.

The aforesaid business plan and contribution of Jiangsu Hongjieding may enhance further development and operation of the Target Companies. Should the Target Companies' financial performance improve in future, the Group can be benefited from its shareholding of 49% in Jiangsu Offshore and Shanghai Offshore.

Under the Domestic Debt Repayment Agreement and the Overseas Debt Repayment Agreement, Jiangsu Offshore and Tank Tek agreed to repay the Domestic Debt and the Overseas Debt according to the terms of the said agreements. Such agreements are also

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secured by the Debt Security Agreement. This arrangement may allow the Group to retrieve substantial part of its significant investment (i.e. the shareholder loans provided) in the Target Companies.

We noticed that the amounts of the Domestic Debt (RMB1,989.5049 million) and the Overseas Debt (USD16.9291 million) are substantial and the repayment term is around five years. We consider the debt arrangements under the Domestic Debt Repayment Agreement, the Overseas Debt Repayment Agreement and the Debt Security Agreement are in the interests of the Company and the Shareholders as a whole given the followings:

- (i) Under the Debt Security Agreement, the Domestic Debt and the Overseas Debt are secured by: (a) payment of RMB40 million by Jiangsu Hongjieding to Sichuan Honghua, as the security deposit for the repayment of debt under the Domestic Debt Repayment Agreement by Jiangsu Offshore to Honghua Investment; (b) equity interests to be held by Jiangsu Hongjieding in Jiangsu Offshore and Shanghai Offshore, and Shanghai Offshore's equity interests in Tank Tek, FSP and Prime; and (c) all the assets of Jiangsu Offshore and Shanghai Offshore (according to the Board Letter, the total assets of Jiangsu Offshore and Shanghai Offshore amounted to approximately RMB2.1 billion and approximately RMB62 million respectively as at 31 August 2018).
- (ii) The repayment term of around five years can allow more time for the Target Companies to improve its operation and financial status.

In light of the above, we concur with the Directors that the Transactions are fair and reasonable and in the interests of the Shareholders as a whole.

## 2. Principal terms of the Equity Disposal on Offshore Segment

### *Jiangsu Offshore Agreement*

|                      |                                                                                                 |
|----------------------|-------------------------------------------------------------------------------------------------|
| Date:                | 28 October 2018                                                                                 |
| Parties:             | Jiangsu Hongjieding (as transferee)<br>Sichuan Honghua (as transferor)                          |
| Subject of contract: | Sichuan Honghua's 51% equity interests in Jiangsu Offshore                                      |
| Consideration:       | The consideration for the Jiangsu Offshore Agreement is RMB1 (the " <b>JO Consideration</b> "). |

With reference to the Board Letter, the JO Consideration was the base bidding price in the public tender of the 51% equity interests in Jiangsu Offshore conducted on the SUAEEx. It was determined after parties' arm's length negotiation with reference to, among others, the valuation on Jiangsu Offshore as at 30 September 2017 prepared under asset-based approach by China Alliance.

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To assess the fairness and reasonableness of the JO Consideration, we obtained the JO Valuation Report prepared under asset-based approach by China Alliance and noted that the value of 100% equity interest in Jiangsu Offshore as at 31 August 2018 was approximately negative RMB605 million.

For our due diligence purpose, we have reviewed and enquired into (i) the terms of engagement of China Alliance with the Company; (ii) China Alliance's qualification and experience in relation to the preparation of the JO Valuation Report; and (iii) the steps and due diligence measures taken by China Alliance for conducting the JO Valuation Report. From the mandate letter and other relevant information provided by China Alliance and based on our interview with them, we are satisfied with the terms of engagement of China Alliance as well as their qualification and experience for preparation of the JO Valuation Report. China Alliance has also confirmed that they are independent to the Group, the Target Companies and Jiangsu Hongjieding.

We have further reviewed and enquired into China Alliance on the methodology adopted and the basis and assumptions adopted in the JO Valuation Report in order for us to understand the JO Valuation Report. As confirmed by China Alliance, the assets-based approach is one of the commonly adopted approaches for valuation of companies and is also consistent with normal market practice.

With reference to the JO Valuation Report, income approach, market approach and asset-based approach are three basic approaches for valuation. Upon our enquiry with China Alliance, we understand that for the purpose of the JO Valuation Report, (i) as the management of Jiangsu Offshore is unable to estimate the future income of Jiangsu Offshore on a reliable basis, income approach was considered not appropriate; and (ii) having considered the financial positions of Jiangsu Offshore (i.e. continuing losses and net liabilities), market approach was considered not appropriate.. Given the above, we did not consider other approaches to assess the value of 100% equity interest in Jiangsu Offshore.

The summary of JO Valuation Report is set out in Appendix II(iv) to the Circular. During our discussion with China Alliance, we have not identified any major factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the JO Valuation Report. However, Shareholders should note that valuation of assets or companies usually involves assumptions and therefore the JO Valuation Report may or may not reflect the value of 100% equity interest in Jiangsu Offshore as at 31 August 2018 accurately.

Having considered the above and that the value of 100% equity interest in Jiangsu Offshore as at 31 August 2018 was approximately negative RMB605 million while the JO Consideration is RMB1, we are of the opinion that the JO Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

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### *Shanghai Offshore Agreement*

|                      |                                                                                                  |
|----------------------|--------------------------------------------------------------------------------------------------|
| Date:                | 28 October 2018                                                                                  |
| Parties:             | Jiangsu Hongjieding (as transferee)<br>Sichuan Honghua (as transferor)                           |
| Subject of contract: | Sichuan Honghua's 51% equity interests in Shanghai Offshore                                      |
| Consideration:       | The consideration for the Shanghai Offshore Agreement is RMB1 (the " <b>SO Consideration</b> "). |

With reference to the Board Letter, the SO Consideration was the base bidding price in the public tender of the 51% equity interests in Shanghai Offshore conducted on the SUAEEx. It was determined after parties' arm's length negotiation with reference to, among others, the valuation on Shanghai Offshore as at 30 September 2017 prepared under asset-based approach by China Alliance.

To assess the fairness and reasonableness of the SO Consideration, we obtained the SO Valuation Report prepared under asset-based approach by China Alliance and noted that the value of 100% equity interest in Shanghai Offshore as at 31 August 2018 was approximately negative RMB111 million.

For our due diligence purpose, we have reviewed and enquired into (i) the terms of engagement of China Alliance with the Company; (ii) China Alliance's qualification and experience in relation to the preparation of the SO Valuation Report; and (iii) the steps and due diligence measures taken by China Alliance for conducting the SO Valuation Report. From the mandate letter and other relevant information provided by China Alliance and based on our interview with them, we are satisfied with the terms of engagement of China Alliance as well as their qualification and experience for preparation of the SO Valuation Report. China Alliance has also confirmed that they are independent to the Group, the Target Companies and Jiangsu Hongjieding.

We have further reviewed and enquired into China Alliance on the methodology adopted and the basis and assumptions adopted in the SO Valuation Report in order for us to understand the SO Valuation Report. As confirmed by China Alliance, the assets-based approach is one of the commonly adopted approaches for valuation of companies and is also consistent with normal market practice.

With reference to the SO Valuation Report, income approach, market approach and asset-based approach are three basic approaches for valuation. Upon our enquiry with China Alliance, for the purpose of the SO Valuation Report, (i) as the management of Shanghai Offshore is unable to estimate the future income of Shanghai Offshore on a reliable basis, income approach was considered not appropriate; and (ii) having considered the financial positions of Shanghai Offshore (i.e. continuing losses up to

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FY2017 and net liabilities), market approach was considered not appropriate. Given the above, we did not consider other approaches to assess the value of 100% equity interest in Shanghai Offshore.

The summary of SO Valuation Report is set out in Appendix II(v) to the Circular. During our discussion with China Alliance, we have not identified any major factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the SO Valuation Report. However, Shareholders should note that valuation of assets or companies usually involves assumptions and therefore the SO Valuation Report may or may not reflect the value of 100% equity interest in Shanghai Offshore as at 31 August 2018 accurately.

Having considered the above and that the value of 100% equity interest in Shanghai Offshore as at 31 August 2018 was approximately negative RMB111 million while the SO Consideration is RMB1, we are of the opinion that the SO Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

### *FSP and Tank Tek Agreement*

|                      |                                                                                                                                                              |
|----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Date:                | 28 October 2018                                                                                                                                              |
| Parties:             | Shanghai Offshore (as transferee)<br>Honghua Holdings (as transferor)                                                                                        |
| Subject of contract: | Honghua Holdings' 25% equity interests in FSP and its 70% equity interests in Tank Tek                                                                       |
| Consideration:       | The cash consideration for each of the 25% equity interests in FSP and 70% equity interests in Tank Tek is USD1 (the " <b>FSP/Tank Tek Consideration</b> "). |

With reference to the Board Letter, the FSP/Tank Tek Consideration was determined after parties' arm's length negotiation with reference to, among others, the valuation report on 25% equity interests in FSP and 70% equity interests in Tank Tek as at 30 September 2017 prepared under asset-based approach by an independent valuer.

### *Prime Agreement*

|                      |                                                                                         |
|----------------------|-----------------------------------------------------------------------------------------|
| Date:                | 28 October 2018                                                                         |
| Parties:             | Shanghai Offshore (as transferee)<br>Honghua Holdings (as transferor)                   |
| Subject of contract: | Honghua Investment's 30% equity interests in Prime                                      |
| Consideration:       | The consideration for the Prime Agreement is USD1 (the " <b>Prime Consideration</b> "). |

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With reference to the Board Letter, the Prime Consideration was determined after parties' negotiation with reference to, among others, the valuation report on 30% equity interests in Prime as at 30 September 2017 prepared under asset-based approach by an independent valuer.

To assess the fairness and reasonableness of the FSP/Tank Tek Consideration and the Prime Consideration, we obtained the Prime FSP TT Valuation Analysis prepared under asset-based approach by EY and noted that the value of the Company's 30% indirect equity interest in Prime, the Company's 25% indirect equity interest in FSP and the Company's 70% indirect equity interest in Tank Tek as at 31 August 2018 were approximately negative USD402,922, negative EUR44,138 and negative USD4.11 million respectively.

For our due diligence purpose, we have reviewed and enquired into (i) the terms of engagement of EY with the Company; (ii) EY's qualification and experience in relation to the preparation of the Prime FSP TT Valuation Analysis; and (iii) the steps and measures taken by EY for conducting the Prime FSP TT Valuation Analysis. From the mandate letter and other relevant information provided by EY and based on our interview with them, we are satisfied with the terms of engagement of EY as well as their qualification and experience for preparation of the Prime FSP TT Valuation Analysis. EY has also confirmed that they are independent to the Group, the Target Companies and Jiangsu Hongjieding.

We have further reviewed and enquired into EY on the methodology adopted and the basis and assumptions adopted in the Prime FSP TT Valuation Analysis in order for us to understand the Prime FSP TT Valuation Analysis. As confirmed by EY, given the current operational and financial status of Prime, FSP and Tank Tek, the assets-based approach, which is one of the commonly adopted approaches for valuation of companies, has been adopted in the Prime FSP TT Valuation Analysis.

With reference to the Prime FSP TT Valuation Analysis, income approach, market approach and asset-based approach are three commonly adopted approaches for valuation. Upon our enquiry with EY, we understand that for the purpose of the Prime FSP TT Valuation Analysis, (i) as the management of Prime, FSP and Tank Tek is difficult to reliably estimate related future prospect/forecast for Prime, FSP and Tank Tek given their stage of operation, income approach was considered not applicable; and (ii) having considered the current operational and financial status of Prime, FSP and Tank Tek (i.e. lack of revenue, continuing losses and net liabilities), market approach was considered not appropriate. Given the above, we did not consider other approaches to assess the Company's 30% indirect equity interest in Prime, the Company's 25% indirect equity interest in FSP and the Company's 70% indirect equity interest in Tank Tek.

The summary of Prime FSP TT Valuation Analysis is set out in Appendix II(vi) to the Circular. During our discussion with EY, we have not identified any major factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the Prime FSP TT Valuation Analysis. However, Shareholders should note that valuation of assets or companies usually involves assumptions and

## LETTER FROM GRAM CAPITAL

therefore the Prime FSP TT Valuation Analysis may or may not reflect the value of the Company's 30% indirect equity interest in Prime, the Company's 25% indirect equity interest in FSP and the Company's 70% indirect equity interest in Tank Tek as at 31 August 2018 accurately.

Having considered the above and that the value of the Company's 30% indirect equity interest in Prime, the Company's 25% indirect equity interest in FSP and the Company's 70% indirect equity interest in Tank Tek as at 31 August 2018 were approximately negative USD402,922, negative EUR44,138 and negative USD4.11 million respectively while each of the FSP/Tank Tek Consideration and the Prime Consideration is USD1, we are of the opinion that the FSP/Tank Tek Consideration and the Prime Consideration are fair and reasonable so far as the Independent Shareholders are concerned.

Other principal terms of the Jiangsu Offshore Agreement, Shanghai Offshore Agreement, FSP and Tank Tek Agreement and Prime Agreement are set out in the section headed "DISPOSAL OF EQUITY INTERESTS IN OFFSHORE SEGMENT" in the Board Letter.

Having considered the principal terms of the Disposal of Equity Interests in Offshore Segment as set out above, we are of the opinion that such terms are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

### 3. Principal terms of the debt arrangement for Offshore Segment

#### *Domestic Debt Repayment Agreement*

Date: 28 October 2018

Parties: Honghua Investment (as creditor)  
Jiangsu Offshore (as debtor)  
Shanghai Offshore

Amount of debt: As at the date of the Domestic Debt Repayment Agreement, the existing total debt owed by Jiangsu Offshore to Honghua Investment is RMB1,989.5049 million. These debts consist of two debts with principal of RMB1,783.1178 million ("**Debt 1**") and RMB27.0037 million ("**Debt 2**") respectively as well as historical interest of RMB179.3834 million ("**Interest 1**") incurred on Debt 1.

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Interest rate: Interest rate of 4.75% per annum (the “**Domestic Rate**”), being applicable to Debt 1 and Debt 2 only and accruing from the completion date of change of industrial and commercial registration for transfer of 51% equity interests in Jiangsu Offshore to the date when Debt 1 and Debt 2 are fully repaid. As for Interest 1, Jiangsu Offshore is not required to pay interest.

Repayment arrangement: Based on the debt repayment arrangement as agreed under the Domestic Debt Repayment Agreement, the debtor shall repay interest first, and then the principal, until all the principal and interest are fully repaid. The schedule of repayment is set out as follows:

(1) Jiangsu Offshore shall repay to Honghua Investment no less than RMB802.00 million before 31 December 2021; and

(2) Jiangsu Offshore shall repay to Honghua Investment all the remaining debt and corresponding interest before 31 December 2023.

### *Overseas Debt Repayment Agreement*

Date: 28 October 2018

Parties: Honghua Holdings (as creditor)  
Tank Tek (as debtor)

Amount of debt: As at the date of the Overseas Debt Repayment Agreement, the existing total debt owed by Tank Tek to Honghua Holdings is USD16.9291 million. These debts consist of two debts with principal of USD12.2850 million (“**Debt 3**”) and USD3.7800 million (“**Debt 4**”) respectively as well as historical interest of USD864,100 (“**Interest 2**”) incurred on Debt 3.

Interest rate: Interest rate of 6% per annum (the “**Overseas Rate**”), being applicable to Debt 3 and Debt 4 only and accruing from the completion date of change of industrial and commercial registration for transfer of 51% equity interests in Jiangsu Offshore and transfer of 51% equity interests in Shanghai Offshore to the date when Debt 3 and Debt 4 are fully repaid. As for Interest 2, Tank Tek is not required to pay interest.

## LETTER FROM GRAM CAPITAL

Repayment arrangement: Based on the debt repayment arrangement as agreed under the Overseas Debt Repayment Agreement, the debtor shall repay interest first, and then the principal, until all the principal and interest are fully repaid. The schedule of repayment is set out as follows:

(1) Tank Tek shall repay to Honghua Holdings no less than USD9.0404 million before 31 December 2021; and

(2) Tank Tek shall repay to Honghua Holdings all the remaining debt and corresponding interest before 31 December 2023.

As part of our analysis, we identified recent transactions regarding provision of financial assistance in the form of loan by Hong Kong listed companies to their respective connected persons/which constituted connected transactions as published on the Stock Exchange's website from 29 July 2018 up to 28 October 2018, being an approximate three-month period up to and including the date of the Domestic Debt Repayment Agreement and Overseas Debt Repayment Agreement (the “**Comparables**”). To the best of our knowledge and as far as we are aware of, we found 13 transactions which met the said criteria. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the subject companies of the Comparables. Set out below is a summary of the Comparables:

| Company                                                           | Announcement date | Term<br>( <i>approximate<br/>years</i> ) | Interest rate<br>per annum<br>(%)     | Loan<br>amount<br>( <i>approximate<br/>RMB'000</i> ) | Security/<br>guarantee |
|-------------------------------------------------------------------|-------------------|------------------------------------------|---------------------------------------|------------------------------------------------------|------------------------|
| Sun Hung Kai & Co. Limited (86)                                   | 23 October 2018   | 0.5                                      | 18                                    | 8,850                                                | Yes                    |
| Sun Hung Kai & Co. Limited (86)                                   | 23 October 2018   | 1                                        | 19.625 and<br>7.625 ( <i>Note 1</i> ) | 101,770                                              | Yes                    |
| Sun Hung Kai & Co. Limited (86)                                   | 23 October 2018   | 1                                        | 7.625                                 | 26,549                                               | Yes                    |
| Sany Heavy Equipment International Holdings Company Limited (631) | 22 October 2018   | 0.5                                      | 6                                     | 100,000                                              | Yes                    |
| AviChina Industry & Technology Company Limited (2357)             | 19 October 2018   | 1                                        | 6                                     | 76,106 ( <i>Note 2</i> )                             | No relevant disclosure |
| Lee's Pharmaceutical Holdings Limited (950)                       | 28 September 2018 | 1                                        | 4                                     | 2,655                                                | No relevant disclosure |
| eprint Group Limited (1884)                                       | 27 September 2018 | 1                                        | 10                                    | 8,850                                                | No relevant disclosure |

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| Company                                                     | Announcement date | Term<br>(approximate<br>years) | Interest rate<br>per annum<br>(%) | Loan<br>amount<br>(approximate<br>RMB'000) | Security/<br>guarantee |
|-------------------------------------------------------------|-------------------|--------------------------------|-----------------------------------|--------------------------------------------|------------------------|
| Orient Victory Travel Group Company Limited (265)           | 13 September 2018 | 3                              | Nil                               | 71,100                                     | No relevant disclosure |
| Binhai Investment Company Limited (2886)                    | 30 August 2018    | 1                              | 6                                 | 200,000                                    | Yes                    |
| Eternity Investment Limited (764)                           | 20 August 2018    | 2                              | 9                                 | 25,000                                     | Yes                    |
| Golden Meditech Holdings Limited (801)                      | 13 August 2018    | 5                              | 5                                 | 148,673                                    | No relevant disclosure |
| Gemdale Properties and Investment Corporation Limited (535) | 2 August 2018     | 0.83                           | 4.35                              | 180,000                                    | No relevant disclosure |
| Gemdale Properties and Investment Corporation Limited (535) | 2 August 2018     | 0.83                           | 4.35                              | 160,000                                    | No relevant disclosure |
|                                                             | <b>Maximum</b>    | 5                              | 19.625                            |                                            |                        |
|                                                             | <b>Minimum</b>    | 0.5                            | Nil                               |                                            |                        |
|                                                             | <b>Average</b>    | 1.44                           | 6.69                              |                                            |                        |

*Notes:*

1. 19.625% per annum for the first instalment and 7.625% for other instalments
2. Not more than HK\$86 million.

## LETTER FROM GRAM CAPITAL

As depicted from the table above, the interest rates of the Comparables ranged from nil to 19.625% per annum. Both of the Domestic Rate and the Overseas Rate are within the aforesaid range.

Upon our enquiry, we were advised by the Company that (i) Honghua Investment charged weighted average interest rates of approximately 2.87% per annum during FY2017 for its shareholders loan to Jiangsu Offshore (the Domestic Rate is higher than such rate); and (ii) Honghua Holdings charged weighted average interest rates of approximately 5% per annum during FY2017 for its shareholders loan to Tank Tek (the Overseas Rate is higher than such rate).

Having considered the above, we consider that the Domestic Rate and the Overseas Rate are justifiable.

### *Debt Security Agreement*

Date: 28 October 2018

Parties: Honghua Investment;  
Honghua Holdings;  
Jiangsu Hongjieding;  
Jiangsu Offshore; and  
Shanghai Offshore

Secured obligations: the Domestic Debt and Overseas Debt

Security arrangements: (1) payment of RMB40 million by Jiangsu Hongjieding to Sichuan Honghua shall be made, as the security deposit for the repayment of debt under the Domestic Debt Repayment Agreement by Jiangsu Offshore to Honghua Investment. For this purpose, if Jiangsu Offshore fails to repay the debt and corresponding interest in full to Honghua Investment as agreed upon the expiry of Repayment Period of First Instalment of Domestic Debt Repayment Agreement, the security deposit shall be forfeited by Sichuan Honghua to repay the principal of the debt owed by Jiangsu Offshore to Honghua Investment; if Jiangsu Offshore has repaid the debt in full to Honghua Investment as agreed upon the expiry of Repayment Period of First Instalment of Domestic Debt Repayment Agreement, Honghua Investment shall procure Sichuan Honghua to return the above-mentioned security deposit to Jiangsu Hongjieding within five working days therefrom.

## LETTER FROM GRAM CAPITAL

(2) equity interests to be held by Jiangsu Hongjieding in Jiangsu Offshore and Shanghai Offshore, and Shanghai Offshore's equity interests in Tank Tek, FSP and Prime shall be pledged as security for the debts under the Domestic Debt Repayment Agreement and Overseas Debt Repayment Agreement in favor of Honghua Investment and Honghua Holdings.

(3) all the assets of Jiangsu Offshore (i.e. the Security Assets) and Shanghai Offshore shall be used as security for the debts under the Domestic Debt Repayment Agreement and Overseas Debt Repayment Agreement (there are certain clauses under the Debt Security Agreement restricting the usage and/or disposal of the Security Assets as set out under the section headed "III. Debt Security Agreement" of the Board Letter).

Having considered the terms of the Debt Security Agreement, we consider that the Group's rights under the Domestic Debt Repayment Agreement and the Overseas Debt Repayment Agreement can be secured to a certain extent. In the worst case scenario (i.e. there is no repayment of the Domestic Debt and the Overseas Debt according to the terms of the Domestic Debt Repayment Agreement and the Overseas Debt Repayment Agreement respectively), the Group can retrieve the equity interests of the Target Companies disposed under the Disposal of Equity Interests in Offshore Segment.

### *Shareholders Agreement*

Date: 28 October 2018

Parties: Sichuan Honghua (as the shareholder of Jiangsu Offshore and Shanghai Offshore)

Jiangsu Hongjieding (as the shareholder of Jiangsu Offshore and Shanghai Offshore)

Principal terms: (1) The parties agree that, since the date when Shanghai Offshore receives the first borrowing from Jiangsu Hongjieding, if the accumulated sum of investment amounts and/or various kinds of borrowings received by Jiangsu Offshore and Shanghai Offshore from Jiangsu Hongjieding or new investors exceeds RMB200 million, the parties shall actively procure Jiangsu Offshore and Shanghai Offshore to utilize 70% of the excess of accumulated sum of amounts received by it over RMB200 million to repay the debt owed by Jiangsu Offshore to Honghua Investment and the remaining 30% of which shall be used to replenish the working capital of Jiangsu Offshore and Shanghai Offshore; and

(2) The parties agree that, upon the completion of change of industrial and commercial registration for equity transfer of Jiangsu Offshore and Shanghai Offshore, the board of directors of each of Jiangsu Offshore and Shanghai Offshore shall be composed of three directors, of which one director shall be appointed by Sichuan Honghua and two directors shall be appointed by Jiangsu Hongjieding, and the position of chairman shall be held by the director appointed by Jiangsu Hongjieding. The general manager shall be hired by the board of directors. The financial controller shall be nominated by the director appointed by Sichuan Honghua and engaged by the board of directors. Each of Jiangsu Offshore and Shanghai Offshore shall appoint a supervisor.

The above provision enhanced the feasibility of the repayment of the Domestic Debt and allow the Group to monitor/influence the operation of Jiangsu Offshore and Shanghai Offshore.

*SIIC Guarantee*

With reference to the Board Letter, on 5 August 2015, Honghua Investment issued an unconditional and irrevocable guarantee in favour of SIIC pursuant to which Honghua Investment guarantees for the debt owed by Jiangsu Offshore to SIIC with an aggregated amount of RMB470 million (the “**Guaranteed Amount**”) up to the date when Jiangsu Offshore fully repays such debt, together with interests and fees incurred therefrom.

In June 2018, SIIC, as the plaintiff, filed a legal proceedings against Jiangsu Offshore, as the first defendant, and Honghua Investment, as the second defendant, claiming that Jiangsu Offshore shall pay approximately RMB320.7 million (the “**Claimed Amount**”) for materials costs, agency fees and interest thereon, and claiming that Honghua Investment shall undertake the guarantee responsibility (please refer to the announcement of the Company dated 2 July 2018 for relevant details). The related proceedings is still ongoing as of the Latest Practicable Date. As confirmed by the PRC legal adviser, if the court rules that Honghua Investment shall bear the guarantee liability, Honghua Investment will have the right to claim the recovery of the guarantee amount from Jiangsu Offshore.

According to the valuation report of Jiangsu Offshore and Shanghai Offshore as at 30 September 2017, the total net assets of Jiangsu Offshore and Shanghai Offshore were approximately negative RMB583 million. According to the JO Valuation Report and the SO Valuation Report, (i) the value of 100% equity interest in Jiangsu Offshore as at 31 August 2018 was approximately negative RMB605 million; and (ii) the value of 100% equity interest in Shanghai Offshore as at 31 August 2018 was approximately negative RMB111 million. Notwithstanding this, Jiangsu Hongjieding is still willing to take the

## LETTER FROM GRAM CAPITAL

valuation result as at 30 September 2017 as the base for pricing, which takes into account the SIIC Guarantee. Therefore, the Company considers that it is reasonable to continue to provide the SIIC Guarantee.

In relation to the above, the Company provided us the PRC legal opinion from its PRC legal adviser (the “**PRC Legal Opinion**”). According to the PRC Legal Opinion, (i) as the related proceedings is still ongoing as at the Latest Practicable Date, the Claimed Amount of RMB320.7 million may be reduced subject to the court’s final judgement; and (ii) if the court rules that Honghua Investment shall bear the guarantee liability, Honghua Investment will have the right to claim the recovery of the guarantee amount from Jiangsu Offshore.

Having considered the above and that Jiangsu Hongjieding is willing to acquire 51% equity interests in each of Jiangsu Offshore and Shanghai Offshore at consideration of RMB1 each while (i) the value of 100% equity interest in Jiangsu Offshore as at 31 August 2018 was approximately negative RMB605 million; and (ii) the value of 100% equity interest in Shanghai Offshore as at 31 August 2018 was approximately negative RMB111 million, we are of the view that the SIIC Guarantee is justifiable.

Having considered the principal terms of the debt arrangement for Offshore Segment as set out above, we are of the opinion that such terms are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

#### **4. Effects of the Transactions**

With reference to the Board Letter, upon the completion of the disposal of Offshore Segment, Jiangsu Offshore, Shanghai Offshore and Tank Tek will cease to be the subsidiaries of the Company and therefore their results will no longer be consolidated into the financial statements of the Group.

It is expected that the disposal of Offshore Segment would cause a decrease of RMB540 million in the total assets of the Group and a decrease of RMB610 million in the total liabilities of the Group. Since the results of the Target Companies will no longer be consolidated into the financial statements of the Group, it is expected that the net assets of the Group would increase by approximately RMB70 million. The Company expects that the disposal of Offshore Segment (including the relevant debt arrangement) will generate a net gain of approximately RMB70 million for the Group, after taking into account various factors such as (i) exclusion of Jiangsu Offshore, Shanghai Offshore and Tank Tek in the consolidated financial statements of the Group; (ii) inclusion of creditor’s rights of the Group due from the Offshore Segment as external long-term receivables; and (iii) impairment provision (detailed basis of the net gain is set out under the section headed “FINANCIAL EFFECT OF THE DISPOSAL OF OFFSHORE SEGMENT (INCLUDING THE RELEVANT DEBT ARRANGEMENT)” of the Board Letter).

According to the Board Letter, the Company did not take into account the financial effect of the SIIC Guarantee when calculating the above net gain to be generated from the disposal of Offshore Segment due to the considerations that (1) if Honghua Investment is requested to bear the guarantee liability, it will have the recourse right to claim the same

## LETTER FROM GRAM CAPITAL

from Jiangsu Offshore (while the Company believes that, taking into account the current arrangements under the Debt Security Agreement as well as the bright business prospect and thus the anticipated appreciation of business value of the Offshore Segment as a result of the Transactions, such recourse right to claim relevant amount from Jiangsu Offshore, if exercised, will be duly satisfied in the future); and (2) the SIIC Guarantee had already been taken into account when determining the consideration for the disposal of Offshore Segment.

After the disposal of the Offshore Segment and after taking into account the relevant debt arrangement, the domestic creditors' rights and overseas creditors' rights of the Group will therefore increase by RMB1,989.5049 million and USD16.9291 million, respectively. According to the repayment arrangement, these creditors' rights will be recorded as long-term creditors' rights in the balance sheet of the Group.

The actual gains or losses generated from the disposal of Offshore Segment may vary and shall be subject to auditing, and will be determined based on the amount of the consolidated net assets/net liabilities (as the case may be) of the Target Companies on the completion date and the amount of expenses incurred by the disposal of Offshore Segment.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Transactions.

### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the Transactions are not conducted under the ordinary and usual course of business of the Group, the Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the EGM and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,  
For and on behalf of  
**Gram Capital Limited**  
**Graham Lam**  
*Managing Director*

## 1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2015, 2016 and 2017 are disclosed in the annual reports of the Company for the years ended 31 December 2015, 2016 and 2017, respectively. These annual reports are published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.hh-gltd.com>):

- annual report of the Company for the year ended 31 December 2015 published on 20 April 2016;
- annual report of the Company for the year ended 31 December 2016 published on 26 April 2017; and
- annual report of the Company for the year ended 31 December 2017 published on 27 April 2018.

## 2. STATEMENT OF INDEBTEDNESS

### Borrowings

As at the close of business on 31 October 2018, being the latest practicable date for the purpose of this indebtedness statement, the total indebtedness of the Group amounted to approximately RMB3,017,998,000, details of which are set out below:

|                                       | <i>RMB'000</i>          |
|---------------------------------------|-------------------------|
| Secured bank loans (i)                | 114,000                 |
| Unsecured bank loans                  | 1,538,733               |
| Secured loan from related parties (i) | 72,000                  |
| Unsecured loan from a related party   | 530,000                 |
| Senior notes (ii)                     | <u>763,265</u>          |
|                                       | <u><u>3,017,998</u></u> |

- (i) As at 31 October 2018, the bank loans and the secured loan from related parties were secured by interest in land use rights of approximately RMB35,523,000, property, plant and equipment of approximately RMB32,211,000 and 20% equity interest of Sichuan Honghua Petroleum Equipment Co., Ltd., a subsidiary of the Group.
- (ii) The Senior Notes are guaranteed by the Group's existing subsidiaries other than those established/incorporated under the laws of the PRC, Honghua America, Sichuan Honghua International (H.K.) Limited, PT. Newco Indo Resources and Golden Asia Success Limited.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, as at the close of business on 31 October 2018, the Group did not have any outstanding issued or agreed-to-be-issued loan capital, bank overdrafts, loans, or other similar borrowings, liabilities or liabilities under acceptance credit, debentures, mortgages, charges, hire-purchase commitments, guarantees or other material contingent liabilities.

### **3. WORKING CAPITAL**

Having taken into account the financial resources available to the Group, including internally generated funds and the available banking facilities, the Directors of the Company are of the opinion that the Group has sufficient working capital for its requirement for at least 12 months from the date of this circular.

### **4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

The recovery in the global oil and gas market and the continuous reduction on production has provided steady support for international crude oil price. This is expected to boost the capital expenses by large international oil companies in the future and drive the steady revival of oil and gas equipment as well as oil services industry. Under the new situation of oil and gas industry, the Group will focus on improving the value of its businesses and adhere to technological innovation, so as to lay the foundation for its long-term development goal of becoming a world-class oil and gas exploration and development equipment and technology provider and an integrated supplier of comprehensive energy services and solutions with comprehensive business competitive edge in the future. Upon the completion of Equity Disposal on Offshore Segment, the Group will further optimize its asset structure. Meanwhile, the Group will also review its operations from time to time, in order to formulate suitable business strategies and thus enhance the Shareholders' value.

**Sichuan Honghua Petroleum Equipment Co., Ltd.  
Proposed Transfer of Equity Interests held in Honghua Offshore Oil  
and Gas Equipment (Jiangsu) Co., Ltd.**

**Asset Valuation Report**

**Zhong Tong Hua Ping Bao Zi (2017) No. 1019**

**China Alliance Appraisal Co., Ltd.**

**Date of Report: 24 November 2017**

**Sichuan Honghua Petroleum Equipment Co., Ltd.**  
**Proposed Transfer of Equity Interests held in Honghua Offshore Oil**  
**and Gas Equipment (Jiangsu) Co., Ltd.**

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**Sichuan Honghua Petroleum Equipment Co., Ltd.  
Proposed Transfer of Equity Interests held in Honghua Offshore Oil  
and Gas Equipment (Jiangsu) Co., Ltd.**

**ASSET VALUER'S STATEMENT**

**To Honghua (China) Investment Co., Ltd.,**

As commissioned by your company, we have assessed the value of the entire equity interests of shareholders in Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. (hereinafter referred to as "Honghua Offshore") as at the base date of valuation (i.e. 30 September 2017), and hereby make the following statements:

1. We carried out the asset valuation in compliance with the relevant laws, regulations and the asset valuation standards and based on the principles of independence, objectivity and fairness. According to the information collected in the course of our practice, the statements in the valuation report are objective, and we assume the corresponding legal liabilities for the reasonableness on the conclusion of the valuation.
2. The list of assets and liabilities of the appraised subject is reported and confirmed by signature and sealed by the client and the appraised entity. Client and the relevant parties shall be responsible for the authenticity, legality and completeness of the information provided as well as the appropriate usage of the valuation report.
3. We have no existing or anticipated interest in the appraised subject as set out in the valuation report, nor do we have any existing or anticipated interest in the relevant parties, and have no prejudice with the relevant parties.
4. We have conducted on-site inspection for the appraised subject and its assets as set out in the valuation report. We have paid necessary attention to the legal ownership of the appraised subject and its assets, and have checked and verified the legal ownership of the appraised subject and its assets.
5. The analyses, judgements and conclusion in the valuation report issued by us are subject to the assumptions and limitations in the valuation report. The users of the valuation report shall fully consider the assumptions, limitations and explanations on specific issues set out in the valuation report as well as their impacts on the valuation conclusion.

**Sichuan Honghua Petroleum Equipment Co., Ltd.**  
**Proposed Transfer of Equity Interests held in Honghua Offshore Oil**  
**and Gas Equipment (Jiangsu) Co., Ltd.**

**SUMMARY OF ASSET VALUATION REPORT**

**Zhong Tong Hua Ping Bao Zi (2017) No. 1019**

**To Honghua (China) Investment Co., Ltd.,**

The appraised subject of the valuation was the value of the entire equity interests of shareholders in Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. The scope of the valuation covered all the assets and liabilities reported by Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd., including current assets, non-current assets, current liabilities and non-current liabilities. The base date of valuation was 30 September 2017, and the type of value was market value.

In this valuation, the valuation results based on assets-based approach have been selected as the final valuation conclusion of the market value of the entire equity interests of shareholders in Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. as at the base date of valuation. The specific valuation conclusion is as follows:

**Summary of Assets Valuation Results**

*Unit: in RMB ten thousand*

|                                                    |    | Net Book   |            |            | Rate of      |
|----------------------------------------------------|----|------------|------------|------------|--------------|
|                                                    |    | value      | Valuation  | Changes    | appreciation |
|                                                    |    | A          | B          | C=B-A      | (%)          |
| Items                                              |    |            |            |            | D=C/A x 100  |
| Current assets                                     | 1  | 87,151.56  | 85,893.73  | -1,257.83  | -1.44        |
| Non-current assets                                 | 2  | 127,917.62 | 108,039.30 | -19,878.32 | -15.54       |
| Of which: Long-term equity investment              | 3  | 1,000.00   | —          | -1,000.00  | -100.00      |
| Investment real estates                            | 4  | —          | —          | —          | —            |
| Fixed assets                                       | 5  | 75,287.23  | 68,514.91  | -6,772.32  | -9.00        |
| Constructions in progress                          | 6  | 7,165.56   | 3,908.88   | -3,256.68  | -45.45       |
| Intangible assets                                  | 7  | 15,374.07  | 15,301.39  | -72.68     | -0.47        |
| Of which: Land use right                           | 8  | 15,368.79  | 15,298.68  | -70.11     | -0.46        |
| Other non-current assets                           | 9  | 29,090.76  | 20,314.12  | -8,776.64  | -30.17       |
| <b>Total assets</b>                                | 10 | 215,069.18 | 193,933.03 | -21,136.15 | -9.83        |
| Current liabilities                                | 11 | 241,258.40 | 241,258.40 | —          | —            |
| Non-current liabilities                            | 12 | 293.26     | 293.26     | —          | —            |
| <b>Total liabilities</b>                           | 13 | 241,551.66 | 241,551.66 | —          | —            |
| <b>Net assets (equity interests of the owners)</b> | 14 | -26,482.48 | -47,618.63 | -21,136.15 | -79.81       |

The valuation report only serves as a reference for the value of the economic activities described in the valuation report. The valuation conclusion is valid for use within one year from the base date of valuation. Should there be any material changes to the status of the assets and market conditions as compared to those as at the base date of valuation during the effective period, the client shall appoint a valuation agency to appraise the updated business or conduct a reappraisal.

According to the document “Reply concerning the Free Transfer of the Equity Interests of Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. at no consideration” (Tian Gong Zi Shang [2017] No. 383) of China Aerospace Science and Industry Corp. dated 27 October 2017, the entire equity interests in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. held by Honghua Offshore was assigned and transferred to Sichuan Honghua Petroleum Equipment Co., Ltd. at no consideration on 31 December 2016, being the base date on which the assignment and transfer took place.

The aforesaid content was extracted from the text of the assets valuation report. For a comprehensive understanding of the valuation, please refer to the full text of the assets valuation report carefully.

**Sichuan Honghua Petroleum Equipment Co., Ltd.  
Proposed Transfer of Equity Interests held in Honghua Offshore Oil  
and Gas Equipment (Jiangsu) Co., Ltd.**

**ASSET VALUATION REPORT**

**Zhong Tong Hua Ping Bao Zi (2017) No. 1019**

**To Honghua (China) Investment Co., Ltd.,**

**I. CLIENT, APPRAISED ENTITY AND OTHER USERS OF THE VALUATION  
REPORT IN THE ENGAGEMENT LETTER**

The Client of this asset valuation is Honghua (China) Investment Co., Ltd, the appraised entity is Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. and other users of the valuation report in the engagement letter are report users stipulated by laws and regulations.

**(I) Particulars of the client**

*Status of Registration*

|                        |                                                                                                                             |
|------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| Company Name:          | Honghua (China) Investment Co., Ltd.                                                                                        |
| Type:                  | limited liability company (solely invested by Taiwan, Hong Kong and Macau legal corporation)                                |
| Registered capital:    | US\$320,000,000                                                                                                             |
| Date of incorporation: | 14 January 2010                                                                                                             |
| Scope of operation:    | (I) To invest sectors in which the Chinese government encourages and allows foreign investment in accordance with the laws; |

- (II) As commissioned by its investment enterprises in writing (unanimously resolved by the Board) to provide its investment enterprises with the following services: 1. To assist or act as the agent for its investment enterprises to purchase, locally and internationally, the machineries and equipments, office appliances for its own use and raw materials, components and parts required for production, as well as to sell, locally and internationally, products produced by its investment enterprises, and to provide after-sales services; 2. to balance foreign exchange revenue and expenditure among the investment enterprises under the consent and supervision of the foreign exchange administration authorities; 3. to provide the investment enterprises with services such as technical support, staff training and internal human resources management during the course of production, sales and marketing development of its products; 4. To assist the investment enterprises to obtain loans;
- (III) To set up research and development centre or department in the PRC to conduct the research and development of new products and high and new technology, to assign its research and development deliverables and to provide relevant technical services;
- (IV) To provide its investors with consultancy services and to provide its associated companies with the consultancy services such as market information and investment policies in respect of their investments;
- (V) to undertake the outsourcing business for the foreign companies and the associated companies of its parent company;
- (VI) to conduct import and export trade and provide wholesale and commission agent services (excluding auction) for the products produced by its parent company and its associated companies and subsidiaries, and to provide ancillary services (commodities that involve quota licensing administration or special regulations shall be handled in compliance with the relevant state regulations).

**(II) Particulars of the Appraised Entity***1. Registration Information*

|                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Company Name:               | Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Unified social credit code: | 91320681690282032T                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Address:                    | Gaiyaogang, Yinyangzhen, Qidong City, Jiangsu Province                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Legal representative:       | Zhang Mi                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Registered capital:         | RMB874.992609 million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Type of enterprise:         | Company with limited liability (sole proprietorship invested or held by natural person)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Date of incorporation:      | 8 June 2009                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Scope of operation:         | Design, manufacture, maintenance, installation and sale of offshore oil and gas drilling equipment, offshore engineering structures, offshore engineering vessels and support vessels, R&D and design of automatic drilling system, drilling and oil and gas field technical services, engage in the business of export of products and technology of our company and engage in the business of import of electrical engineering equipment, parts and components, raw materials and auxiliary accessories, and technology for the needs of our company. (The projects, which are subject to approval in accordance with the laws, shall be operated only after obtaining approval from the relevant authorities) |

2. *Shareholding Structure of the Company**Unit: RMB ten thousand*

| <b>Name of Shareholder</b>                    | <b>Capital Contribution</b> | <b>Shareholding Percentage</b> |
|-----------------------------------------------|-----------------------------|--------------------------------|
| Sichuan Honghua Petroleum Equipment Co., Ltd. | <u>87,499.2609</u>          | <u>100%</u>                    |
| Total                                         | <u><u>87,499.2609</u></u>   | <u><u>100%</u></u>             |

3. *Assets, Financial and Operational Position for the recent three years and as at the base date of valuation:***Balance Sheet***Unit: RMB ten thousand*

| <b>Item</b>                          | <b>31 December 2014</b> | <b>31 December 2015</b> | <b>31 December 2016</b> | <b>30 September 2017</b> |
|--------------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| Total current assets                 | 73,555.75               | 62,074.43               | 79,850.14               | 87,151.56                |
| Total non-current assets             | 180,689.95              | 185,516.13              | 180,111.50              | 127,917.62               |
| Total assets                         | 254,245.71              | 247,590.56              | 259,961.63              | 215,069.18               |
| Total current liabilities            | 165,603.36              | 192,039.13              | 216,721.85              | 241,258.40               |
| Total non-current liabilities        | 20,734.00               | —                       | —                       | 293.26                   |
| Total liabilities                    | 186,337.36              | 192,039.13              | 216,721.85              | 241,551.66               |
| Total equity interests of the owners | 67,908.34               | 55,551.43               | 43,239.78               | -26,482.48               |

**Statement of Profit or Loss***Unit: RMB ten thousand*

| <b>Item</b>       | <b>For the Year 2014</b> | <b>For the Year 2015</b> | <b>For the Year 2016</b> | <b>January to September 2017</b> |
|-------------------|--------------------------|--------------------------|--------------------------|----------------------------------|
| Operating revenue | 10,781.46                | 25,424.69                | 19,779.32                | 14,778.64                        |
| Operating cost    | 11,522.94                | 27,666.54                | 21,243.25                | 16,072.96                        |
| Operating profit  | -12,848.64               | -16,854.76               | -16,962.30               | -58,322.31                       |
| Total profit      | -12,500.35               | -16,630.32               | -16,639.48               | -58,768.34                       |
| Net profit        | -9,398.84                | -12,417.46               | -12,427.81               | -69,801.39                       |

The financial information for the year 2014 and 2015 were audited by PricewaterhouseCoopers Zhong Tian LLP, Chongqing Branch which issued a standard unqualified opinion audit report of PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2016) No. 088. The financial information for the year 2016 was audited by PricewaterhouseCoopers Zhong Tian LLP, Chongqing Branch which issued a standard unqualified opinion audit report of PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2017) No. 079. The financial information as at the base date was audited by PricewaterhouseCoopers Zhong Tian LLP, Chongqing Branch which issued a standard unqualified opinion audit report of PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2017) No. 26982.

*4. Relationship between the Client and the Appraised Entity*

The appraised entity is a wholly-owned subsidiary of the client.

## II. PURPOSE OF VALUATION

According to the “Asset Valuation Engagement Letter” entered into between the client and China Alliance Appraisal, the purpose of the valuation is to provide value reference of the entire equity interests of shareholders in Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. involved in the proposed transfer of the equity interests of Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. by Sichuan Honghua Petroleum Equipment Co., Ltd.

**III. APPRAISED SUBJECT AND SCOPE OF VALUATION**

The appraised subject of the valuation is the value of the entire equity interests of shareholders in Honghua Offshore, and the scope of the valuation covers the audited assets and liabilities as at the base date of valuation reported by Honghua Offshore. The specific asset types and audited book value are set out below:

*Unit: RMB*

| <b>Item</b>                                             | <b>Book Value</b>       |
|---------------------------------------------------------|-------------------------|
| <b>I. Total current assets</b>                          | <b>871,515,592.79</b>   |
| Cash and cash equivalent                                | 15,738,747.46           |
| Account receivables                                     | 117,635,365.32          |
| Prepayments                                             | 34,255,120.17           |
| Other receivables                                       | 193,160,960.61          |
| Inventory                                               | 409,202,021.23          |
| Other current assets                                    | 101,523,378.00          |
| <b>II. Total non-current assets</b>                     | <b>1,279,176,234.28</b> |
| Long-term equity investments                            | 10,000,000.00           |
| Fixed assets                                            | 752,872,281.60          |
| Of which: Buildings                                     | 638,534,300.90          |
| Equipment                                               | 114,337,980.70          |
| Constructions in progress                               | 71,655,628.66           |
| Construction materials                                  | 549,435.90              |
| Intangible assets                                       | 153,740,737.05          |
| Of which: Land use rights                               | 153,687,880.42          |
| Other intangible assets                                 | 52,856.63               |
| R&D expenses                                            | 20,977,322.22           |
| Deferred income tax assets                              | 27,894,366.85           |
| Other non-current assets                                | 241,486,462.00          |
| <b>III. Total assets</b>                                | <b>2,150,691,827.07</b> |
| <b>IV. Total current liabilities</b>                    | <b>2,412,584,032.94</b> |
| Short-term borrowings                                   | 9,500,000.00            |
| Accounts payables                                       | 369,828,123.36          |
| Receipts in advance                                     | 12,891,416.06           |
| Payable employee salaries                               | 97,355.00               |
| Tax payable                                             | 1,426,713.00            |
| Interest payable                                        | 149,284,923.85          |
| Other payables                                          | 1,869,555,501.67        |
| <b>V. Total non-current liabilities</b>                 | <b>2,932,618.00</b>     |
| Estimated liabilities                                   | 2,932,618.00            |
| <b>VI. Total liabilities</b>                            | <b>2,415,516,650.94</b> |
| <b>VII. Net assets (equity interests of the owners)</b> | <b>-264,824,823.87</b>  |

1. The appraised subject and scope of valuation are in line with those involved in the economic activities. The financial information as at the base date stated above was audited by PricewaterhouseCoopers Zhong Tian LLP, Chongqing Branch which issued a standard unqualified opinion audit report of PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2017) No. 26982.

2. Long-term Equity Investments

The long-term equity investment included in the scope of valuation is Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd., a wholly-owned subsidiary, the carrying amount of which is RMB10,000,000.00.

### **Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd.**

1. Registration Information

|                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Company Name:               | Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Unified social credit code: | 91310000694192253U                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Address:                    | Room 2035, Block 21, No. 30, Lane 1698, Wangyuan Road, Nanqiao Town, Fengxian District, Shanghai                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Legal representative:       | Zhang Mi                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Registered capital:         | RMB10 million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Type of enterprise:         | Company with limited liability (sole proprietorship invested or held by non-natural person)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Date of incorporation:      | 9 September 2009                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Scope of operation:         | R&D and design of offshore oil and gas drilling equipment, automatic drilling system and its ancillary equipment, and vessels and its ancillary equipment, sales and maintenance of offshore oil and gas drilling equipment and vessels, technology development, technology transfer, technical consultancy and technical services of offshore oil and gas equipment, and engage in the business of import and export of goods and technology. The projects, which are subject to approval in accordance with the laws, shall be operated only after obtaining approval from the relevant authorities |

## 2. Shareholding Structure of the Company

*Unit: RMB ten thousand*

| Name of Shareholder                                        | Capital Contribution | Shareholding Percentage |
|------------------------------------------------------------|----------------------|-------------------------|
| Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. | 1,000                | 100%                    |

## 3. Assets, Financial and Operational Position for the recent three years and as at the base date of valuation:

**Balance Sheet***Unit: RMB ten thousand*

| Item                                 | 31 December<br>2014 | 31 December<br>2015 | 31 December<br>2016 | 30 September<br>2017 |
|--------------------------------------|---------------------|---------------------|---------------------|----------------------|
| Total current assets                 | 402.97              | 241.89              | 330.07              | 841.39               |
| Total non-current assets             | 1,925.09            | 2,247.60            | 2,318.08            | 1,103.12             |
| Total assets                         | 2,328.06            | 2,489.49            | 2,648.16            | 1,944.51             |
| Total current liabilities            | 8,254.83            | 9,730.03            | 11,229.97           | 12,472.74            |
| Total non-current liabilities        | —                   | —                   | —                   | —                    |
| Total liabilities                    | 8,254.83            | 9,730.03            | 11,229.97           | 12,472.74            |
| Total equity interests of the owners | -5,926.77           | -7,240.54           | -8,581.81           | -10,528.23           |

**Statement of Profit or Loss***Unit: RMB ten thousand*

| Item              | For the Year<br>2014 | For the Year<br>2015 | For the Year<br>2016 | January to<br>September<br>2017 |
|-------------------|----------------------|----------------------|----------------------|---------------------------------|
| Operating revenue | 975.82               | 581.89               | 678.88               | 229.00                          |
| Operating cost    | 894.93               | 491.67               | 576.01               | 207.11                          |
| Operating profit  | -1,443.71            | -1,749.50            | -1,072.17            | -751.44                         |
| Total profit      | -1,443.71            | -1,749.50            | -1,072.17            | -753.18                         |
| Net profit        | -1,088.37            | -1,313.77            | -1,341.27            | -1,946.42                       |

The financial information for the year 2014 and 2015 were audited by PricewaterhouseCoopers Zhong Tian LLP, Chongqing Branch which issued a standard unqualified opinion audit report of PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2016) No. 088. The financial information for the year 2016 was audited by

PricewaterhouseCoopers Zhong Tian LLP, Chongqing Branch which issued a standard unqualified opinion audit report of PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2017) No. 079. The financial information as at base date was audited by PricewaterhouseCoopers Zhong Tian LLP, Chongqing Branch which issued a standard unqualified opinion audit report of PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2017) No. 26982.

4. Intangible assets in the book record reported by the company mainly include land use rights and other intangible assets.

The land use rights reported by Honghua Offshore are 4 land use rights obtained by way of transfer. The area of the land plots is 164,118.00 sq. m, 237,805.00 sq. m, 94,934.00 sq. m and 20,722.00 sq. m respectively, with the total original book value of RMB169,222,317.79 and total net book value is RMB119,873,308.42.

Other intangible assets reported by the company include 2 licences of computer software, details of which are set out below:

*Unit: RMB*

| <b>Name and information of intangible assets</b> | <b>Date of acquisition</b> | <b>Statutory/estimated useful life</b> | <b>Original recorded value</b> | <b>Book value</b> |
|--------------------------------------------------|----------------------------|----------------------------------------|--------------------------------|-------------------|
| Project Pricing Software                         | 1 January 2016             | 3                                      | 1,500.00                       | 624.93            |
| Autodesk AutoCAD Mechanical 2017                 | 1 November 2016            | 3                                      | 75,213.68                      | 52,231.70         |

The company does not possess any intangible assets with no book entry and the valuation officer has also not identified any other intangible asset.

5. The appraised entity has no other off-balance sheet assets.
6. This valuation report made no reference to conclusion of any report issued by other institutions.

**IV. TYPE AND DEFINITION OF VALUATION**

The valuation serves as a reference of the value of the proposed transfer of equity interests of Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. by Sichuan Honghua Petroleum Equipment Co., Ltd., the value of which is generally determined based on open and fair terms. Therefore, the market value on the going concern basis is selected as the type of value, and the specific definitions of which are set out below:

Market value refers to the estimated value of the appraised subject under normal and fair transaction reasonably conducted on the base date of valuation between a willing purchaser and a willing seller wherein both parties act knowledgeably and without compulsion.

Going concern basis in this report refers to the production and operation activities of the appraised subject will maintain the status quo, and that no material changes will occur in the foreseeable future.

**V. BASE DATE OF VALUATION**

According to the “Asset Valuation Engagement Letter” executed by the client and China Alliance Appraisal, the base date of the valuation is 30 September 2017.

The price and other parameters adopted in the valuation are the same as those as at the base date of valuation.

The base date of valuation, i.e. 30 September 2017, was determined according to the needs of the economic activities by the client.

**VI. BASIS OF VALUATION****(I) Basis of Economic Activity**

“Asset Valuation Engagement Letter” executed by the client and China Alliance Appraisal;

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

1. “The Asset Appraisal Law of the People’s Republic of China” (《中華人民共和國資產評估法》), Presidential Decree No. 46 adopted at the 12th Session of the Standing Committee of the National People’s Congress (2 July 2016);
2. “Company Law of the People’s Republic of China” (《中華人民共和國公司法》), Presidential Decree No. 42 of the People’s Republic of China (28 December 2013);
3. “The Law of the People’s Republic of China on the State-Owned Assets of Enterprises” (《中華人民共和國企業國有資產法》), Presidential Decree No.5 of the People’s Republic of China (28 October 2008);

4. “Administrative Measures on State-owned Asset Valuation” (《國有資產評估管理辦法》), Order No. 91 of the State Council (16 November 1991);
5. “Measures on Supervision and Administration of the of Enterprise State-Owned Assets Transactions” (《企業國有資產交易監督管理辦法》), Order No. 32 of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance;
6. “Detailed Rules for the Implementation of the Administrative Measures on State-Owned Assets Valuation” (《國有資產評估管理辦法施行細則》), Guo Zi Ban Fa [1992] No. 36 of the former State-Owned Assets Administration Bureau (18 July 1992);
7. “Regulations on Certain Issues regarding Management on the Provisions on Several Issues concerning State-owned Asset Valuation” (《國有資產評估管理若干問題的規定》), Order No. 14 of the Ministry of Finance (31 December 2001);
8. “Interim Measures on the Administration of the Transfer of the State-owned Property Right of Enterprises” (《企業國有產權轉讓管理暫行辦法》), Order No. 3 of State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance (31 December 2003);
9. “Notice on the Relevant Matters on the Transfer of State-owned Property Rights of Enterprises” (《關於企業國有產權轉讓有關事項的通知》) (Guo Zi Fa Chan Quan [2006] No. 306) of the State-owned Assets Supervision and Administration Commission of the State Council;
10. “Interim Regulations on the Supervision and Administration of State-Owned Assets of Enterprises” (《企業國有資產監督管理暫行條例》), Order No. 378 of the State Council of the People’s Republic of China (13 May 2003);
11. “Interim Measures on the Administration of Valuation of State-owned Assets of Enterprises” (《企業國有資產評估管理暫行辦法》), Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council (25 August 2005);
12. “Notice on Issues Concerning Enhancement of Administration of Valuation of State-owned Assets of Enterprises” (《加強企業國有資產評估管理工作有關問題》) (Guo Zi Chan Quan [2006] No. 274 (12 December 2006)) of the State-owned Assets Supervision and Administration Commission of the State Council;
13. “Urban Real Estate Administration Law of the People’s Republic of China”, (《中華人民共和國城市房地產管理法》), Presidential Decree No. 72 of the People’s Republic of China as amended at the 29th Session of the Standing Committee of the 10th National People’s Congress (30 August 2007);

14. “Regulations on Urban Land Valuation” (《城鎮土地估價規程》) (GB/T18508-2014) jointly issued by the General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China and Standardization Administration of the People’s Republic of China (as implemented on 1 December 2014);
15. “Code for Real Estate Valuation” (《房地產估價規範》) of the Ministry of Housing and Urban-Rural Development of the People’s Republic of China (GBT50291-2015);
16. “Land Administration Law of the People’s Republic of China” (《中華人民共和國土地管理法》), Presidential Decree No. 28 of the People’s Republic of China as amended at the 11th Session of the Standing Committee of the 10th National People’s Congress of the People’s Republic of China (28 August 2004);
17. “Interim Regulations of the People’s Republic of China on Land Use Tax in respect of Urban Town Land” (《中華人民共和國城鎮土地使用稅暫行條例》), Order No. 483 of the State Council of the People’s Republic of China (as amended at the 163rd Executive Meeting of the State Council, 31 December 2006);
18. “The Enterprise Income Tax Law of the People’s Republic of China” (《中華人民共和國企業所得稅法》) as adopted at the 5th Session of the 10th National People’s Congress of the People’s Republic of China (16 March 2007);
19. “Notice of the Ministry of Finance regarding on Comprehensive Implementation of the Pilot Program for Replacement of Business Tax with Value-Added Tax” (《關於全面推開營業稅改徵增值稅試點的通知》) (Caishui [2016] No. 36);
20. “Guidelines on the Filing for Valuation Projects of State-owned Assets of Enterprises” (《企業國有資產評估項目備案工作指引》), Guo Zi Fa Chan Quan [2013] No. 64;
21. Other laws and regulations related to assets valuation.

**(III) Basis of Standards**

1. “Notice of the Ministry of Finance on Issuing of Assets Valuation Standards — Basic Standards” (《資產評估準則—基本準則》的通知) (Cai Zi [2017] No. 43, 23 August 2017);
2. “Notice of the China Appraisal Society on Issuing of Professional Ethical Standards of Assets Valuation” (《資產評估職業道德準則》) (Zhong Ping Xie [2017] No. 30, 8 September 2017);
3. “Notice of the China Appraisal Society on Issuing the Practice Standards on Assets Valuation — Assets Valuation Procedures” (《資產評估執業準則 — 資產評估程序》的通知) (Zhong Ping Xie [2017] No. 31, 8 September 2017);
4. “Notice of the China Appraisal Society on Issuing the Practice Standards on Assets Valuation — Assets Valuation Report” (《資產評估執業準則 — 資產評估報告》的通知) (Zhong Ping Xie [2017] No. 32, 8 September 2017);
5. “Notice of the China Appraisal Society on Issuing the Practice Standards on Assets Valuation — Assets Valuation Entrustment Contract” (《資產評估執業準則 — 資產評估委託合同》的通知) (Zhong Ping Xie [2017] No. 33, 8 September 2017);
6. “Notice of the China Appraisal Society on Issuing the Practice Standards on Assets Valuation — Assets Valuation Archive” (《資產評估執業準則 — 資產評估檔案》的通知) (Zhong Ping Xie [2017] No. 34, 8 September 2017);
7. “Notice of the China Appraisal Society on Issuing the Practice Standards on Assets Valuation — Enterprise Value” (《資產評估執業準則 — 企業價值》的通知) (Zhong Ping Xie [2017] No. 36, 8 September 2017);
8. “Notice of the China Appraisal Society on Issuing the Practice Standards on Assets Valuation — Machinery and Equipment” (《資產評估執業準則 — 機器設備》的通知) (Zhong Ping Xie [2017] No. 39, 8 September 2017);
9. “Notice of the China Appraisal Society on Issuing the Practice Standards on Assets Valuation — Intangible Assets” (《資產評估執業準則 — 無形資產》的通知) (Zhong Ping Xie [2017] No. 37, 8 September 2017);
10. “Notice of the China Appraisal Society on Issuing the Guidelines for Valuation Reports on State-owned Assets of Enterprises” (《企業國有資產評估報告指南》的通知) (Zhong Ping Xie [2017] No. 42, 8 September 2017);
11. “Notice of the China Appraisal Society on Issuing the Guidelines on Quality Control of Business Operations of Valuation Institutions” (《資產評估機構業務質量控制指南》的通知) (Zhong Ping Xie [2017] No. 46, 8 September 2017);

12. “Notice of the China Appraisal Society on Issuing the Guiding Opinions on Types of Value under Asset Valuation” (《資產評估價值類型指導意見》的通知) (Zhong Ping Xie [2017] No. 47, 8 September 2017);
13. “Notice of the China Appraisal Society on Issuing the Guiding Opinions on Legal Ownership of Appraised Entities” (《資產評估對象法律權屬指導意見》的通知) (Zhong Ping Xie [2017] No. 49, 8 September 2017).

#### **(IV) Basis of Ownership**

1. Building ownership certificates;
2. State-owned land use right certificates;
3. Motor vehicle driving license;
4. Equipment purchase contract and invoice;
5. Patent certificate;
6. Other title documents provided by the appraised entity.

#### **(V) Basis for Pricing**

1. “Manual of Data and Parameters Commonly Used for Asset Valuation” (《資產評估常用數據與參數手冊》) (China Economic Science Press);
2. “Interim Regulations of the People’s Republic of China on Value-Added Tax” (《中華人民共和國增值稅暫行條例》), Order No. 538 of the State Council of the People’s Republic of China;
3. “Provisions on the Standards for Compulsory Discard of Motor Vehicles” (《機動車強制報廢標準規定》), Order (2012) No. 12 of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection;
4. “Provisions on the Preparation of Estimated Budget for Coastal Port Construction Projects” (《沿海港口建設工程概算預算編製規定》) issued by the Ministry of Transport in 2004;
5. The prevailing loan rate published by People’s Bank of China;
6. “Notice of the State Planning Commission on Issuing the Interim Measures on the Administration of Service Fees Charged for Tender Agency Services” (《招標代理服務收費管理暫行辦法》的通知) (Ji Jia Ge [2002] No. 1980, 15 October 2002);

7. “Notice of the National Development and Reform Commission and the Ministry of Construction on Issuing the Provisions on the Administration of Service Fees Charged for Construction Project Supervision and Related Services” (《建設工程監理與相關服務收費管理規定》) (Fa Gai Jia Zi [2007] No. 670, 30 March 2007);
8. Wind Data Information;
9. Purchase contracts and agreements of the appraised assets;
10. Relevant price information collected;
11. Relevant information obtained from site inspection and market research performed by the valuers.

#### **(VI) Other Basis**

1. “Asset Valuation Engagement Letter” entered into between the client and China Alliance Appraisal Co., Ltd.;
2. Various “Assets Valuation Reporting Breakdown” provided by the appraised entity;
3. Audit report, accounting statement, accounting documents, information on financial management, bank statements and bank reconciliation statement as of previous years and as at the base date, as well as the relevant agreements, contracts, invoices and other financial information provided by the appraised entity;
4. Interview records of the relevant personnel of the appraised entity;
5. Other relevant information provided by the appraised entity.

### **VII. VALUATION APPROACH**

#### **The asset-based approach**

The asset-based approach used in the assessment of enterprise value refers to the valuation approach for determining the value of the appraised enterprise by reasonable assessment of on-balance sheet and off-balance sheet assets and liabilities of the enterprise based on the balance sheet of the appraised enterprise on the base date of valuation.

- (1) Monetary current assets: includes cash and bank deposits. The appraisal value is determined based on the verified book value which was arrived at after checking of on-site inventory checking, verification of bank reconciliation statements and bank confirmations and other proofs of monetary funds.

- (2) Debt-based current assets: includes account receivables, prepayments and other receivables. The appraisal value is determined after verifying the authenticity of the debts by confirmations, verifications and other methods and considering the possible losses from bad debts by analyzing the creditworthiness, solvency and aging of debts of the debtors.
- (3) Tangible current assets: mainly consist of inventories, which include procured raw materials and materials, and work-in-process. The valuation approach for each type of inventories is determined based on the corresponding characteristics of the inventories.

Purchased raw materials and materials: The appraisal value is determined based on the verified amount multiplied by the prevailing market purchase price, plus reasonable freight and miscellaneous fees, wastage, inspection and acceptance fee for admission into warehouse and other reasonable fee in the process of material procurement after the appraiser has obtained the recent purchase price of raw materials or alternatives by market research. For the purchased raw materials and materials that are invalid, deteriorated, damaged, scrapped and useless, the appraisal value is determined by deducting the corresponding depreciation after analysed and calculated based on the actual on-site inspection. The appraisal value of the provision for depreciation shall be accounted for as zero.

Work-in-process: The appraisal value is determined based on the contract of work-in-process and the input costs after considering applicable devaluation factors.

- (4) Other current assets: the appraisal value of other current assets, which refers to the input VAT to be deducted, is determined based on the verified book value.
- (5) Long-term equity investment: For the long-term equity investment that has the right of control and is normally operated by the investee, the investee should be assessed using the same base date of valuation. The appraisal value of the long-term equity investment is determined based on the net assets after assessment of the investee multiplied by the shareholding ratio.
- (6) Construction materials: the appraisal value is determined based on the verified reasonable expenses after considering applicable devaluation factors.
- (7) R&D expenses: the appraisal value is determined based on the verified book value after considering applicable devaluation factors.
- (8) Non-current assets — Deferred income tax assets: mainly refers to the temporary difference arisen from deductible loss, and the appraisal value is determined based on the verified book value.

- (9) Other non-current assets: the appraisal value is determined based on the verified book value after considering applicable devaluation factors.
- (10) Fixed assets — buildings: replacement cost approach is adopted in the valuation. The basic formula is: Appraisal Value = Full Replacement Cost × Residue Ratio; Full Replacement Cost = Construction and Installation Cost + Preliminary Cost + Other Expenses + Capital Cost — Value-added Tax.
- (11) Fixed assets — Machinery and Equipment, Vehicles and Electronic Equipment: the appraisal value is determined by adopting the replacement cost approach, and the basic formula is: Appraisal Value = Full Replacement Cost × Residue Ratio.
- (12) Constructions in progress: the valuation approach is determined depending on the nature of the verified expenses incurred in the construction equipment, after understanding the actual situation of the constructions in progress by on-site inspection.
- (13) Intangible assets — Land use rights: the appraisal value is determined using the arithmetic average method by adopting the cost approach and market comparison approach.
- (14) Intangible assets — other intangible assets: for computer software, the appraisal value is determined based on the price of related types of computer software on the base date of valuation after considering applicable depreciation factors. For patented technologies, the current appraisal value is zero since no substantial profit or cost-saving is contributed by such patented technology to the enterprise.
- (15) Liabilities: the appraisal value of liabilities is determined, on the basis of auditing, based on the actual liabilities and amount assumed by the enterprise on the base date of valuation.

## VIII. PROCESS AND STATUS FOR THE IMPLEMENTATION OF VALUATION PROCEDURES

This valuation is conducted mainly in four stages.

### (I) Preparation for valuation

Conduct negotiations with the client to set out the basic matters for the valuation engagement; Conduct a comprehensive analysis and an appraisal on its own professional competence, independence and business risks before accepting the commission and executing the Asset Valuation Engagement Letter; Confirmation of officer in charge of the project, set up the valuation team and prepare the valuation plan; Provide guidance to the appraised entity on completing the asset valuation declaration form; Prepare the information required for the asset valuation.

**(II) On-site investigation and collection of valuation data and information**

Based on the specific conditions of this valuation and in accordance with the criteria of valuation procedures and other relevant requirements, the valuation officer conducts on-site investigation by means such as enquiry, external confirmation, verification, supervision of stocktaking, investigation, inspection and sampling check and acquire valuation data and information from all possible sources, identify the scope of valuation and understand the current status of the appraised entity and its legal title of ownership.

**(III) Valuation and estimation**

Valuation data and information collected will go through the necessary analysis, collation and consolidation to formulate the bases for the valuation and estimation. Based on relevant conditions such as the subject under valuation, types of value and the status on the collection of valuation data and information, a suitable valuation will be selected, and an initial valuation results will be formulated based on the analysis, calculation and determination conducted by using the corresponding formulae and parameters.

**(IV) Preparation and submission of valuation report**

Prepare the relevant valuation explanation based on the preliminary valuation results on various types of assets by various valuation teams. Upon verifying and confirming that the valuation results of the relevant appraisal on the specific asset items are accurate and free from error and no duplication and omission of valuation work is found, the assets valuation summary will be analyzed based on the explanation of each asset valuation, the final conclusion on valuation will be confirmed and asset valuation report will be drawn up. Necessary internal audit on the valuation report and execution of the valuation procedures will be conducted in accordance with relevant laws, regulations, asset valuation standard as well as the internal quality control system of the appraised entity. Necessary communication in respect of the relevant contents contained in the valuation report will be made to the client or the relevant counterparties authorized by the client. A formal asset valuation report will be submitted to the client in compliance with the requirements stated in the Asset Valuation Engagement Letter.

**IX. VALUATION ASSUMPTIONS**

In this valuation, the valuation officers have complied with the following valuation assumptions:

1. This valuation is subject to the specific valuation purposes set out in this valuation report;
2. In this valuation, it is assumed that the operation of the appraised entity is legal and there will not be any unforeseeable factor that will render its operation unsustainable;

3. Only market value will be considered in this valuation. The impact of the economic behaviour involved in the purposes of this valuation on the operations of the entities will not be taken into consideration;
4. The relevant basic data and financial information provided by the appraised entity and the client are true, correct and complete;
5. In this valuation, unless otherwise specified, neither the effect of any security and guarantee over the equity interests or underlying assets of the appraised entity on the appraised value, nor the effect of any change in national macro-economic policies and occurrences of events of force of nature and other force majeure on the value of the assets has been taken into consideration;
6. This valuation is based on existing national laws, regulations, taxation policies and financial policies, and any future unforeseeable material change on the basis of valuation has not been taken into account;
7. This valuation is conducted on the basis that the future management team of the appraised entity will perform its duties diligently and continue to adopt its current model of operations and management, and that the operating activities of, and the services provided by the appraised entity will be in line with national industry policies, and that all operating activities are legal and will not have any material changes in the foreseeable future;
8. This valuation is based on the current capabilities of the appraised entity on the base date of valuation without taking into account the potential future expansion of business capabilities related to the management, business strategies and additional investments;
9. This valuation is a reasonable forecast based on the current market conditions without considering taking into account any future material change and fluctuation to the market which are currently unpredictable, such as political turmoil, economic crisis and hyperinflation;
10. In this valuation, it is assumed that the shareholders have obtained net cash flow in equal portion during the year;
11. The financial reports and transaction data of the comparable companies relied upon by the valuation officers are true and reliable.

If any violation on the above assumptions and conditions occurs, the valuation results will become invalid in general.

**X. VALUATION CONCLUSION****1. Valuation results based on asset-based approach and reasons for the increase/decrease in value**

The appraised value of the entire equity interest of shareholders in Honghua Offshore determined based on the asset-based approach adopted amounts to RMB476,186,300, representing an impairment of RMB211,361,500 and an impairment rate of 79.81% as compared with the audited book value of net asset. The valuation results are as follows:

**Summary of Asset Valuation Results (Asset-based Approach)**

*Unit: in RMB ten thousand*

| Items                                                      |    | Net Book<br>value<br>A | Appraisal<br>value<br>B | Changes<br>C=B-A | Rate of<br>appreciation<br>(%)<br>D=C/A x 100 |
|------------------------------------------------------------|----|------------------------|-------------------------|------------------|-----------------------------------------------|
| Current assets                                             | 1  | 87,151.56              | 85,893.73               | -1,257.83        | -1.44                                         |
| Non-current assets                                         | 2  | 127,917.62             | 108,039.30              | -19,878.32       | -15.54                                        |
| Of which: Long-term<br>equity investment                   | 3  | 1,000.00               | —                       | -1,000.00        | -100.00                                       |
| Investment real estate                                     | 4  |                        |                         |                  |                                               |
| Fixed assets                                               | 5  | 75,287.23              | 68,514.91               | -6,772.32        | -9.00                                         |
| Constructions in progress                                  | 6  | 7,165.56               | 3,908.88                | -3,256.68        | -45.45                                        |
| Intangible assets                                          | 7  | 15,374.07              | 15,301.39               | -72.68           | -0.47                                         |
| Of which: Land use<br>rights                               | 8  | 15,368.79              | 15,298.68               | -70.11           | -0.46                                         |
| Other non-current assets                                   | 9  | 29,090.76              | 20,314.12               | -8,776.64        | -30.17                                        |
| <b>Total asset</b>                                         | 10 | 215,069.18             | 193,933.03              | -21,136.15       | -9.83                                         |
| Current liabilities                                        | 11 | 241,258.40             | 241,258.40              | —                | —                                             |
| Non-current liabilities                                    | 12 | 293.26                 | 293.26                  | —                | —                                             |
| <b>Total liabilities</b>                                   | 13 | 241,551.66             | 241,551.66              | —                | —                                             |
| <b>Net assets (equity<br/>interests of the<br/>owners)</b> | 14 | -26,482.48             | -47,618.63              | -21,136.15       | -79.81                                        |

For details of the valuation results using asset-based approach, please refer to the table of valuation particulars using asset-based approach.

The reasons for the significant increase/decrease in the appraised value as determined by asset-based approach are as follows:

Impairment of the appraised value of receivables: it is mainly due to the differences between the provision on bad debts made by the enterprise, which is based on the present value of the recoverable amount, and the provision on bad debts made in this valuation, which is based on ageing.

Impairment of the appraised value of long-term equity investment: the decrease in appraised value was caused by the lack of profitability of the investee entities in recent years, which resulted in negative value recorded in terms of the value of the entire equity interests attributable to shareholders as at the base date.

Impairment of the appraised value of buildings and fixtures: the economic values of certain buildings and fixtures that are dedicated for a more specific purpose have decreased due to their ineffective usage against the backdrop of the less promising prospect in the related industries, which in turn leads to the impairment of appraised value.

Impairment of the appraised value of machinery and equipment: Affected by the changes in both domestic and overseas oil markets as well as the enterprise's own operating condition, the usage rate of corporate equipment decreased substantially, resulting in depreciation in economic value and impairment of appraised value.

Main reasons for the appreciation in the appraised value of vehicles and electronic equipment: the depreciable lives of corporate transportation vehicles and assets of electronic equipment were shorter than their economic useful lives adopted in the valuation, which contributed to the appreciation in appraised value.

Impairment of the appraised value of constructions in progress and materials for construction: Affected by the changes in both domestic and overseas oil markets as well as the enterprise's own operating condition, the usage rate of corporate equipment decreased substantially, which contributed to the depreciation in economic value and impairment of appraised value.

Impairment of the appraised value of land use right: the carrying value of land use right consists a portion of the dredging and filling costs for certain registered lands, and such portion has already been accounted for in buildings and fixtures, which contributed to the impairment of appraised value.

Impairment of the appraised value of other intangible assets: The yield of assets decreased due to market changes, which resulted in depreciation in economic value.

Impairment of the appraised value of development expenses: The yield of assets decreased due to market changes, which resulted in depreciation in economic value.

Impairment of the appraised value of deferred tax assets: Based on the forecast on the future expected income of the enterprise in this valuation, it is determined that it would be difficult to recover the differences caused by enterprise losses in the coming years (which is assessed as zero), which resulted in impairment of appraised value.

Impairment of the appraised value of other non-current assets: the same factors contributed to the depreciation in value of constructions in progress also exist in the prepayments related to constructions in progress among other non-current assets, which resulted in impairment of appraised value.

## **2. Conclusion of valuation**

The appraised value by using the asset-based approach amounts to RMB476,186,300.

This conclusion of the valuation is arrived at based on the above valuation engagement involved.

## **XI. SPECIAL ISSUES**

We wish to draw the attention on the users of this report to the following special issues contained herein:

1. The conclusion of the valuation contained herein is reached by the value stated herein for the purpose of valuation as reflected as at the base date of valuation on the presumptions that there have been no changes or variations whatsoever to the appraised entities under valuation through engagement as a going concern subject to the external macroeconomic environment.
2. The valuation report is compiled and prepared based on data and information contained in the fundamental documents provided by the client and the counterparties concerned. It is the responsibility of the client and the counterparties concerned to provide the necessary information and to ensure its truthfulness, legitimacy and completeness. It is the responsibility of the valuer to analyze and estimate the value of the appraised subject for a specific purpose as at the base date of valuation and express its professional opinions.
3. According to the document “Reply concerning the Free Transfer of the Equity Interests of Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd at no consideration” (Tian Gong Zi Shang [2017] No. 383) of China Aerospace Science and Industry Corp. dated 27 October 2017, the entire equity interests in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd held by Honghua Offshore was assigned and transferred to Sichuan Honghua Petroleum Equipment Co., Ltd at no consideration on 31 December 2016, being the base date on which such assignment and transfer took place.
4. The effect of liquidity has not been taken into consideration in this valuation conclusion.

5. This valuation conclusion shall not be deemed as a guarantee to the realizable price of the appraised subject.
6. The possible changes in the taxation obligations due to the increase or decrease in appraised values have not been taken into consideration in this valuation conclusion.
7. The client and the relevant counterparties concerned shall be responsible for the truthfulness, legitimacy and completeness of the information in respect of the legal title of ownership of the appraised subject provided by them. It is the responsibility of the asset valuer to make the necessary verification and disclosure as required for such information and its sources with no assurance given on the title of ownership of the assets subject to valuation under this engagement. It would exceed the scope of practice of the asset valuer to recognize or express any opinion on the legal title of ownership of the appraised subject. We hereby draw the attention of the users of this report to the impact of the defects in title on the valuation conclusion as disclosed herein.

We hereby draw the attention of the users of this report to the impact of the abovementioned special issues on the valuation conclusion.

## **XII. LIMITATIONS ON THE USE OF THE VALUATION REPORT**

The limitations on the use of the valuation report are as follows:

1. This valuation report can only be used by the users as stated herein and for the evaluation intentions and purposes as stated herein. The users should use this valuation report in a proper manner in accordance with the relevant laws, regulations as well as the requirements as stated in the Asset Valuation Engagement Letter. The users of this report shall assume the inconvenience and loss caused by the incorrect and improper use of this valuation report.
2. The valuation conclusion shall not be used until the filing of this report to the supervisory and administrative authorities on the valuation of state assets of enterprises is complete.
3. No extraction, quotation or disclosure of this valuation report in its substances is allowed unless with the written consent of the Company, save and except otherwise specified by laws, regulations or otherwise agreed by the counterparties concerned.
4. The use of the valuation report shall be valid, in principle, for one year commencing from the base date of valuation. Should there be any material changes to the status of the assets and market conditions as compared to those as at the base date valuation, the client shall appoint a valuation agency to appraise the updated business or conduct a reappraisal.

## **XIII. VALUATION REPORT DATE**

This valuation report is dated 24 November 2017.

**Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd.  
Proposed Transfer of Equity Interests held in Shanghai Honghua Offshore Oil  
and Gas Equipment Co., Ltd.**

**Asset Valuation Report**

**Zhong Tong Hua Ping Bao Zi (2017) No. 1020**

**China Alliance Appraisal Co., Ltd.**

**Date of Report: 24 November 2017**

**Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd.**  
**Proposed Transfer of Equity Interests held in Shanghai Honghua Offshore Oil**  
**and Gas Equipment Co., Ltd.**

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**Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd.**  
**Proposed Transfer of Equity Interests held in Shanghai Honghua Offshore Oil**  
**and Gas Equipment Co., Ltd.**

**ASSET VALUER'S STATEMENT**

**To Honghua (China) Investment Co., Ltd.,**

As commissioned by your company, we have assessed the value of the entire equity interests of shareholders in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. (hereinafter referred to as "Shanghai Honghua Offshore") as at the base date of valuation (i.e. 30 September 2017), and hereby make the following statements:

1. We carried out the asset valuation in compliance with the relevant laws, regulations and the asset valuation standards and based on the principles of independence, objectivity and fairness. According to the information collected in the course of our practice, the statements in the valuation report are objective, and we assume the corresponding legal liabilities for the reasonableness on the conclusion of the valuation.
2. The list of assets and liabilities of the appraised subject is reported and confirmed by signature and sealed by the client and the appraised entity. Client and the relevant parties shall be responsible for the authenticity, legality and completeness of the information provided as well as the appropriate usage of the valuation report.
3. We have no existing or anticipated interest in the appraised subject as set out in the valuation report, nor do we have any existing or anticipated interest in the relevant parties, and have no prejudice with the relevant parties.
4. We have conducted on-site inspection for the appraised subject and its assets as set out in the valuation report. We have paid necessary attention to the legal ownership of the appraised subject and its assets, and have checked and verified the legal ownership of the appraised subject and its assets.
5. The analyses, judgements and conclusion in the valuation report issued by us are subject to the assumptions and limitations in the valuation report. The users of the valuation report shall fully consider the assumptions, limitations and explanations on specific issues set out in the valuation report as well as their impacts on the valuation conclusion.

**Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd.**  
**Proposed Transfer of Equity Interests held in Shanghai Honghua Offshore Oil**  
**and Gas Equipment Co., Ltd.**

**SUMMARY OF ASSET VALUATION REPORT**

**Zhong Tong Hua Ping Bao Zi (2017) No. 1020**

**To Honghua (China) Investment Co., Ltd.,**

The appraised subject of the valuation was the value of the entire equity interests of shareholders in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. The scope of the valuation covered all the assets and liabilities reported by Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd., including current assets, non-current assets and current liabilities. The base date of valuation was 30 September 2017, and the type of value was market value.

In this valuation, the valuation results based on assets-based approach have been selected as the final valuation conclusion of the market value of the entire equity interests of shareholders in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. as at the base date of valuation. The specific valuation conclusion is as follows:

**Summary of Assets Valuation Results**

*Unit: in RMB ten thousand*

|                                                    |    | Net Book    |            |         | Rate of      |
|----------------------------------------------------|----|-------------|------------|---------|--------------|
|                                                    |    | value       | Valuation  | Changes | appreciation |
|                                                    |    | A           | B          | C=B-A   | (%)          |
| Items                                              |    |             |            |         | D=C/A x 100  |
| Current assets                                     | 1  | 841.39      | 841.39     | —       | —            |
| Non-current assets                                 | 2  | 754.58      | 828.41     | 73.83   | 9.78         |
| Of which: Long-term equity investment              | 3  | 31.20       | —          | -31.20  | -100.00      |
| Investment real estates                            | 4  | —           | —          | —       | —            |
| Fixed assets                                       | 5  | 43.27       | 266.74     | 223.47  | 516.50       |
| Constructions in progress                          | 6  | 19.87       | 19.87      | —       | —            |
| Intangible assets                                  | 7  | 0.79        | 0.92       | 0.13    | 16.25        |
| Of which: Land use right                           | 8  | —           | —          | —       | —            |
| Other non-current assets                           | 9  | 659.45      | 540.88     | -118.57 | -17.98       |
| <b>Total assets</b>                                | 10 | 1,595.97    | 1,669.80   | 73.83   | 4.63         |
| Current liabilities                                | 11 | 12,472.74   | 12,468.80  | -3.94   | -0.03        |
| Non-current liabilities                            | 12 | —           | —          | —       | —            |
| <b>Total liabilities</b>                           | 13 | 12,472.74   | 12,468.80  | -3.94   | -0.03        |
| <b>Net assets (equity interests of the owners)</b> | 14 | (10,876.77) | -10,799.00 | 77.77   | 0.71         |

The valuation report only serves as a reference for the value of the economic activities described in the valuation report. The valuation conclusion is valid for use within one year from the base date of valuation. Should there be any material changes to the status of the assets and market conditions as compared to those as at the base date of valuation, the client shall appoint a valuation agency to appraise the updated business or conduct a reappraisal.

According to the document “Reply concerning the Free Transfer of the Equity Interests of Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. at no consideration” (Tian Gong Zi Shang [2017] No. 383) of China Aerospace Science and Industry Corp. dated 27 October 2017, the entire equity interests in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. held by Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd was assigned and transferred to Sichuan Honghua Petroleum Equipment Co., Ltd. at no consideration on 31 December 2016, being the base date on which the assignment and transfer took place.

The aforesaid content was extracted from the text of the assets valuation report. For a comprehensive understanding of the valuation, please refer to the full text of the assets valuation report carefully.

**Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd.  
Proposed Transfer of Equity Interests held in Shanghai Honghua Offshore Oil  
and Gas Equipment Co., Ltd.**

**ASSET VALUATION REPORT**

**Zhong Tong Hua Ping Bao Zi (2017) No. 1020**

**To Honghua (China) Investment Co., Ltd.,**

**I. CLIENT, APPRAISED ENTITY AND OTHER USERS OF THE VALUATION  
REPORT IN THE ENGAGEMENT LETTER**

The client of this asset valuation is Honghua (China) Investment Co., Ltd, the appraised entity is Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. and other users of the valuation report in the engagement letter are report users stipulated by laws and regulations.

**(I) Particulars of the client**

*Status of Registration*

|                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Company Name:          | Honghua (China) Investment Co., Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Type:                  | limited liability company (solely invested by Taiwan, Hong Kong and Macau legal corporation)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Registered capital:    | US\$320,000,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Date of incorporation: | 14 January 2010                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Scope of operation:    | <p>(I) To invest sectors in which the Chinese government encourages and allows foreign investment in accordance with the laws;</p> <p>(II) As commissioned by its investment enterprises in writing (unanimously resolved by the Board) to provide its investment enterprises with the following services:</p> <ol style="list-style-type: none"> <li>1. To assist or act as the agent for its investment enterprises to purchase, locally and internationally, the machineries and equipments, office appliances for its own use and raw materials, components and parts required for production, as well as to sell, locally and internationally, products produced by its investment enterprises, and to provide after-sales services;</li> </ol> |

2. to balance foreign exchange revenue and expenditure among the investment enterprises under the consent and supervision of the foreign exchange administration authorities;
  3. to provide the investment enterprises with services such as technical support, staff training and internal human resources management during the course of production, sales and marketing development of its products;
  4. To assist the investment enterprises to obtain loans.
- (III) To set up research and development centre or department in the PRC to conduct the research and development of new products and high and new technology, to assign its research and development deliverables and to provide relevant technical services;
- (IV) To provide its investors with consultancy services and to provide its associated companies with the consultancy services such as market information and investment policies in respect of their investments;
- (V) to undertake the outsourcing business for the foreign companies and the associated companies of its parent company;
- (VI) to conduct import and export trade and provide wholesale and commission agent services (excluding auction) for the products produced by its parent company and its associated companies and subsidiaries, and to provide ancillary services (commodities that involve quota licensing administration or special regulations shall be handled in compliance with the relevant state regulations).

**(II) Particulars of the Appraised Entity***1. Registration Information*

|                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Company Name:               | Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Unified social credit code: | 91310000694192253U                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Address:                    | Room 2035, Block 21, No. 30, Lane 1698, Wangyuan Road, Nanqiao Town, Fengxian District, Shanghai                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Legal representative:       | Zhang Mi                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Registered capital:         | RMB10 million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Type of enterprise:         | Company with limited liability (sole proprietorship invested or held by non-natural person)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Date of incorporation:      | 9 September 2009                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Scope of operation:         | R&D and design of offshore oil and gas drilling equipment, automated drilling system and its ancillary equipment and vessels and its ancillary equipment, sales and maintenance of offshore oil and gas drilling equipment and vessels, technology development, technology transfer, technical consultancy and technical services of offshore oil and gas equipment and engage in the business of import and export of goods and technology. The projects, which are subject to approval in accordance with the laws, shall be operated only after obtaining approval from the relevant authorities |

*2. Shareholding Structure of the Company**Unit: RMB ten thousand*

| <b>Name of Shareholder</b>                                | <b>Capital Contribution</b> | <b>Shareholding Percentage</b> |
|-----------------------------------------------------------|-----------------------------|--------------------------------|
| Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd | <u>1,000</u>                | <u>100%</u>                    |

3. *Assets, Financial and Operational Position for the recent three years and as at the base date of valuation:***Balance Sheet***Unit: RMB ten thousand*

| Item                                 | 31 December<br>2014 | 31 December<br>2015 | 31 December<br>2016 | 30 September<br>2017 |
|--------------------------------------|---------------------|---------------------|---------------------|----------------------|
| Total current assets                 | 402.97              | 241.89              | 330.07              | 841.39               |
| Total non-current assets             | 1,925.09            | 2,247.60            | 2,318.08            | 754.58               |
| Total assets                         | 2,328.06            | 2,489.49            | 2,648.16            | 1,595.97             |
| Total current liabilities            | 8,254.83            | 9,730.03            | 11,229.97           | 12,472.74            |
| Total non-current liabilities        | —                   | —                   | —                   | —                    |
| Total liabilities                    | 8,254.83            | 9,730.03            | 11,229.97           | 12,472.74            |
| Total equity interests of the owners | -5,926.77           | -7,240.54           | -8,581.81           | -10,876.77           |

**Statement of Profit or Loss***Unit: RMB ten thousand*

| Item              | For the Year<br>2014 | For the Year<br>2015 | For the Year<br>2016 | January to<br>September<br>2017 |
|-------------------|----------------------|----------------------|----------------------|---------------------------------|
| Operating revenue | 975.82               | 581.89               | 678.88               | 229.00                          |
| Operating cost    | 894.93               | 491.67               | 576.01               | 207.11                          |
| Operating profit  | -1,443.71            | -1,749.50            | -1,072.17            | -779.26                         |
| Total profit      | -1,443.71            | -1,749.50            | -1,072.17            | -781.00                         |
| Net profit        | -1,088.37            | -1,313.77            | -1,341.27            | -2,294.96                       |

The financial information for the year 2014 and 2015 were audited by PricewaterhouseCoopers Zhong Tian LLP, Chongqing Branch which issued a standard unqualified opinion audit report of PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2016) No. 088. The financial information for the year 2016 was audited by PricewaterhouseCoopers Zhong Tian LLP, Chongqing Branch which issued a standard unqualified opinion audit report of PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2017) No. 079. The financial information as at the base date was audited by PricewaterhouseCoopers Zhong Tian LLP, Chongqing Branch which issued a standard unqualified opinion audit report of PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2017) No. 26983.

4. *Relationship between the Client and the Appraised Entity*

The appraised entity is a wholly-owned subsidiary of the client.

**II. PURPOSE OF VALUATION**

According to the “Asset Valuation Engagement Letter” entered into between the client and us, the purpose of the valuation is to provide value reference of the entire equity interests of shareholders in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. involved in the proposed transfer of the equity interests of Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. by Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd.

**III. APPRAISED SUBJECT AND SCOPE OF VALUATION**

The appraised subject of the valuation is the value of the entire equity interests of shareholders in Shanghai Honghua Offshore, and the scope of the valuation covers the audited assets and liabilities as at the base date of valuation reported by Shanghai Honghua Offshore. The specific asset types and audited book value are set out below:

*Unit: RMB*

| Item                                                    | Book Value             |
|---------------------------------------------------------|------------------------|
| <b>I. Total current assets</b>                          | <b>8,413,938.05</b>    |
| Cash and cash equivalent                                | 217.11                 |
| Prepayments                                             | 200,000.00             |
| Other receivables                                       | 7,601,774.82           |
| Other current assets                                    | 611,946.12             |
| <b>II. Total non-current assets</b>                     | <b>7,545,812.53</b>    |
| Long-term equity investments                            | 311,950.00             |
| Fixed assets                                            | 432,673.52             |
| Of which: Buildings                                     |                        |
| Equipment                                               | 432,673.52             |
| Constructions in progress                               | 198,667.12             |
| Intangible assets                                       | 7,916.61               |
| Of which: Land use rights                               |                        |
| Other intangible assets                                 | 7,916.61               |
| R&D expenses                                            | 3,934,391.89           |
| Long-term deferred expenses                             | 43,149.39              |
| Deferred income tax assets                              | 2,617,064.00           |
| <b>III. Total assets</b>                                | <b>15,959,750.58</b>   |
| <b>IV. Total current liabilities</b>                    | <b>124,727,436.50</b>  |
| Accounts payables                                       | 4,333.53               |
| Receipts in advance                                     | 2,875,538.00           |
| Payable employee salaries                               | 2.23                   |
| Tax payable                                             | 29,928.01              |
| Other payables                                          | 121,817,634.73         |
| <b>V. Total non-current liabilities</b>                 |                        |
| <b>VI. Total liabilities</b>                            | <b>124,727,436.50</b>  |
| <b>VII. Net assets (equity interests of the owners)</b> | <b>-108,767,685.92</b> |

1. The appraised subject and scope of valuation are in line with those involved in the economic activities. The financial information as at the base date stated above was audited by PricewaterhouseCoopers Zhong Tian LLP, Chongqing Branch which issued a standard unqualified opinion audit report of PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2017) No. 26983.
2. Real assets reported by Shanghai Honghua Offshore for valuation mainly comprised of vehicles and electronic equipment.

*Vehicles:* a total of 8 transportation vehicles (which are various kinds of sedans) were entrusted by Shanghai Honghua Offshore Oil and Gas Equipment Co. Ltd for valuation. The Company purchased the vehicles between December 2009 and November 2014. The overall condition and maintenance level of the vehicles are average. All vehicles suitable for on-road use have not encountered any material traffic accidents. All vehicles are suitable for on-road usage, except the unlicensed vehicles are being used in the factories.

*Electronic equipment:* 168 (sets) of electronic equipment in total were entrusted in this valuation, which mainly comprised of various kinds of office furnitures, computers, laptop computers, servers, printers, photocopiers, plotters, air-conditioners, video cameras, digital cameras, Televisions and other office equipment. After verifications, the electronic equipment reported being in use by the Company were purchased between 2009 and 2017, among which about 59 sets were purchased after 2013, accounting for 35% of all the electronic equipment. Their overall conditions are relatively outdated. The overall conditions of the electronic equipment of the Company are average but most of them are outdated. The usage environment is relatively good and the maintenance level is average. All equipment can be used normally.

3. The appraised entity does not possess any intangible assets with no book entry or record.
4. This valuation report made no reference to conclusion of any report issued by other institution.

#### IV. TYPE AND DEFINITION OF VALUATION

The valuation serves as a reference of the value of the proposed transfer of equity interests of Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. by Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd., the value of which is generally determined based on open and fair terms. Therefore, the market value on the going concern basis is selected as the type of value, and the specific definitions of which are set out below:

Market value refers to the estimated value of the appraised subject under normal and fair transaction reasonably conducted on the base date of valuation between a willing purchaser and a willing seller wherein both parties act knowledgeably and without compulsion.

Going concern basis in this report refers to the production and operation activities of the appraised subject will maintain the status quo, and that no material changes will occur in the foreseeable future.

#### V. BASE DATE OF VALUATION

According to the “Asset Valuation Engagement Letter” executed by the client and China Alliance Appraisal, the base date of the valuation is 30 September 2017.

The price and other parameters adopted in the valuation are the same as those as at the base date of valuation.

The base date of valuation, i.e. 30 September 2017, was determined according to the needs of the economic activities by the client.

#### VI. BASIS OF VALUATION

##### (I) Basis of Economic Activity

“Asset Valuation Engagement Letter” executed by the client and China Alliance Appraisal;

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

1. “The Asset Appraisal Law of the People’s Republic of China” (《中華人民共和國資產評估法》), Presidential Decree No. 46 adopted at the 12th Session of the Standing Committee of the National People’s Congress (2 July 2016);
2. “Company Law of the People’s Republic of China” (《中華人民共和國公司法》), Presidential Decree No. 42 of the People’s Republic of China (28 December 2013);
3. “The Law of the People’s Republic of China on the State-Owned Assets of Enterprises” (《中華人民共和國企業國有資產法》), Presidential Decree No. 5 of the People’s Republic of China (28 October 2008);

4. “Administrative Measures on State-owned Asset Valuation” (《國有資產評估管理辦法》), Order No. 91 of the State Council (16 November 1991);
5. “Measures on Supervision and Administration of the of Enterprise State-Owned Assets Transactions” (《企業國有資產交易監督管理辦法》), Order No. 32 of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance;
6. “Detailed Rules for the Implementation of the Administrative Measures on State-Owned Assets Valuation” (《國有資產評估管理辦法施行細則》), Guo Zi Ban Fa [1992] No. 36 of the former State-Owned Assets Administration Bureau (18 July 1992);
7. “Regulations on Certain Issues regarding Management on the Provisions on Several Issues concerning State-owned Asset Valuation” (《國有資產評估管理若干問題的規定》), Order No. 14 of the Ministry of Finance (31 December 2001);
8. “Interim Measures on the Administration of the Transfer of the State-owned Property Right of Enterprises” (《企業國有產權轉讓管理暫行辦法》), Order No. 3 of State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance (31 December 2003);
9. “Notice on the Relevant Matters on the Transfer of State-owned Property Rights of Enterprises” (《關於企業國有產權轉讓有關事項的通知》) (Guo Zi Fa Chan Quan [2006] No. 306) of the State-owned Assets Supervision and Administration Commission of the State Council;
10. “Interim Regulations on the Supervision and Administration of State-Owned Assets of Enterprises” (《企業國有資產監督管理暫行條例》), Order No. 378 of the State Council of the People’s Republic of China (13 May 2003);
11. “Interim Measures on the Administration of Valuation of State-owned Assets of Enterprises” (《企業國有資產評估管理暫行辦法》), Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council (25 August 2005);
12. “Notice on Issues Concerning Enhancement of Administration of Valuation of State-owned Assets of Enterprises” (《加強企業國有資產評估管理工作有關問題》) (Guo Zi Chan Quan [2006] No. 274 (12 December 2006)) of the State-owned Assets Supervision and Administration Commission of the State Council;
13. “The Enterprise Income Tax Law of the People’s Republic of China” (《中華人民共和國企業所得稅法》) as adopted at the 5th Session of the 10th National People’s Congress of the People’s Republic of China (16 March 2007);

14. “Notice of the Ministry of Finance regarding on Comprehensive Implementation of the Pilot Program for Replacement of Business Tax with Value-Added Tax” (《關於全面推開營業稅改徵增值稅試點的通知》) (Caishui [2016] No. 36);
15. “Guidelines on the Filing for Valuation Projects of State-owned Assets of Enterprises” (《企業國有資產評估項目備案工作指引》), Guo Zi Fa Chan Quan [2013] No. 64;
16. Other laws and regulations related to assets valuation.

### (III) Basis of Standards

1. “Notice of the Ministry of Finance on Issuing of Assets Valuation Standards — Basic Standards” (《資產評估準則—基本準則》的通知) (Cai Zi [2017] No. 43, 23 August 2017);
2. “Notice of the China Appraisal Society on Issuing of Professional Ethical Standards of Assets Valuation” (《資產評估職業道德準則》) (Zhong Ping Xie [2017] No. 30, 8 September 2017);
3. “Notice of the China Appraisal Society on Issuing the Practice Standards on Assets Valuation — Assets Valuation Procedures” (《資產評估執業準則 — 資產評估程序》的通知) (Zhong Ping Xie [2017] No. 31, 8 September 2017);
4. “Notice of the China Appraisal Society on Issuing the Practice Standards on Assets Valuation — Assets Valuation Report” (《資產評估執業準則 — 資產評估報告》的通知) (Zhong Ping Xie [2017] No. 32, 8 September 2017);
5. “Notice of the China Appraisal Society on Issuing the Practice Standards on Assets Valuation — Assets Valuation Entrustment Contract” (《資產評估執業準則 — 資產評估委託合同》的通知) (Zhong Ping Xie [2017] No. 33, 8 September 2017);
6. “Notice of the China Appraisal Society on Issuing the Practice Standards on Assets Valuation — Assets Valuation Archive” (《資產評估執業準則 — 資產評估檔案》的通知) (Zhong Ping Xie [2017] No. 34, 8 September 2017);
7. “Notice of the China Appraisal Society on Issuing the Practice Standards on Assets Valuation — Enterprise Value” (《資產評估執業準則 — 企業價值》的通知) (Zhong Ping Xie [2017] No. 36, 8 September 2017);
8. “Notice of the China Appraisal Society on Issuing the Practice Standards on Assets Valuation — Machinery and Equipment” (《資產評估執業準則 — 機器設備》的通知) (Zhong Ping Xie [2017] No. 39, 8 September 2017);

9. “Notice of the China Appraisal Society on Issuing the Practice Standards on Assets Valuation — Intangible Assets” (《資產評估執業準則 — 無形資產》的通知) (Zhong Ping Xie [2017] No. 37, 8 September 2017);
10. “Notice of the China Appraisal Society on Issuing the Guidelines for Valuation Reports on State-owned Assets of Enterprises” (《企業國有資產評估報告指南》的通知) (Zhong Ping Xie [2017] No. 42, 8 September 2017);
11. “Notice of the China Appraisal Society on Issuing the Guidelines on Quality Control of Business Operations of Valuation Institutions” (《資產評估機構業務質量控制指南》的通知) (Zhong Ping Xie [2017] No. 46, 8 September 2017);
12. “Notice of the China Appraisal Society on Issuing the Guiding Opinions on Types of Value under Asset Valuation” (《資產評估價值類型指導意見》的通知) (Zhong Ping Xie [2017] No. 47, 8 September 2017);
13. “Notice of the China Appraisal Society on Issuing the Guiding Opinions on Legal Ownership of Appraised Entities” (《資產評估對象法律權屬指導意見》的通知) (Zhong Ping Xie [2017] No. 49, 8 September 2017).

#### **(IV) Basis of Ownership**

1. Equipment purchase contract and invoice;
2. Other title documents provided by the appraised entity.

#### **(V) Basis for Pricing**

1. “Manual of Data and Parameters Commonly Used for Asset Valuation” (《資產評估常用數據與參數手冊》) (China Economic Science Press);
2. “Interim Regulations of the People’s Republic of China on Value-Added Tax” (《中華人民共和國增值稅暫行條例》), Order No. 538 of the State Council of the People’s Republic of China;
3. The prevailing loan rate published by the People’s Bank of China;
4. Wind Data Information;
5. Purchase contracts and agreements of the appraised assets;
6. Relevant price information collected;
7. Relevant information obtained from site inspection and market research performed by the valuers.

**(VI) Other Basis**

1. Various “Assets Valuation Reporting Breakdown” provided by the appraised entity;
2. Audit report, accounting statement, accounting documents, information on financial management, bank statements and bank reconciliation statement as of previous years and as at the base date, as well as the relevant agreements, contracts, invoices and other financial information provided by the appraised entity;
3. Interview records of the relevant personnel of the appraised entity;
4. Other relevant information provided by the appraised entity.

**VII. VALUATION APPROACH****The asset-based approach**

The asset-based approach used in the assessment of enterprise value refers to the valuation approach for determining the value of the appraised enterprise by reasonable assessment of on-balance sheet and off-balance sheet assets and liabilities of the enterprise based on the balance sheet of the appraised enterprise on the base date of valuation.

- (1) *Monetary current assets*: mainly includes cash. The appraisal value is determined based on the verified book value which was arrived at after checking of on-site inventory checking, verification of the proofs of monetary funds.
- (2) *Debt-based current assets*: includes prepayments and other receivables. The appraisal value is determined after verifying the authenticity of the debts by confirmations, verifications and other methods and considering the possible losses from bad debts by analyzing the creditworthiness, solvency and aging of debts of the debtors.
- (3) *Fixed Asset — Vehicles and Electronic Equipment*: the appraised value is determined by replacement cost method. The basic formula is: Appraised Value = Full Replacement Cost x Residue Ratio.
- (4) Other current assets: the appraisal value of other current assets is determined based on the verified book value.
- (5) *Long-term equity investment*: The appraisal value of the long-term equity investment is determined based on the net assets after assessment of the investee multiplied by the shareholding ratio.

- (6) *Constructions in progress*: The appraised value is determined based on the verified book value.
- (7) *Other intangible assets*: Other intangible assets are computer software. In this valuation, the replacement cost is determined by market price quotation, while the appraised value is determined after taken depreciation factors caused by functional obsolescence and other reasons and estimated useful life into account.
- (8) *R&D expenses*: The appraised value of R&D expenses is determined based on the verified book value.
- (9) *Long-term deferred expenses*: the appraised value is determined based on the verified book value.
- (10) *Non-current assets — Deferred income tax assets*: mainly refers to the temporary difference arisen from accumulated loss, and the appraisal value is determined as the verified book value.
- (11) *Liabilities*: the appraisal value of liabilities is determined, on the basis of auditing, based on the actual liabilities and amount assumed by the enterprise on the base date of valuation.

## VIII. PROCESS AND STATUS FOR THE IMPLEMENTATION OF VALUATION PROCEDURES

This valuation is conducted mainly in four stages.

### (I) Preparation for valuation

Conduct negotiations with the client to set out the basic matters for the valuation engagement; Conduct a comprehensive analysis and an appraisal on its own professional competence, independence and business risks before accepting the commission and executing the Asset Valuation Engagement Letter; Confirmation of officer in charge of the project, set up the valuation team and prepare the valuation plan; Provide guidance to the appraised entity on completing the asset valuation declaration form; Prepare the information required for the asset valuation.

### (II) On-site investigation and collection of valuation data and information

Based on the specific conditions of this valuation and in accordance with the criteria of valuation procedures and other relevant requirements, the valuation officer conducts on-site investigation by means such as enquiry, external confirmation, verification, supervision of stocktaking, investigation, inspection and sampling check and acquire valuation data and information from all possible sources, identify the scope of valuation and understand the current status of the appraised entity and its legal title of ownership.

**(III) Valuation and estimation**

Valuation data and information collected will go through the necessary analysis, collation and consolidation to formulate the bases for the valuation and estimation. Based on relevant conditions such as the subject under valuation, types of value and the status on the collection of valuation data and information, a suitable valuation will be selected, and an initial valuation results will be formulated based on the analysis, calculation and determination conducted by using the corresponding formulae and parameters.

**(IV) Preparation and submission of valuation report**

Prepare the relevant valuation explanation based on the preliminary valuation results on various types of assets by various valuation teams. Upon verifying and confirming that the valuation results of the relevant appraisal on the specific asset items are accurate and free from error and no duplication and omission of valuation work is found, the assets valuation summary will be analyzed based on the explanation of each asset valuation, the final conclusion on valuation will be confirmed and asset valuation report will be drawn up. Necessary internal audit on the valuation report and execution of the valuation procedures will be conducted in accordance with relevant laws, regulations, asset valuation standard as well as the internal quality control system of the appraised entity. Necessary communication in respect of the relevant contents contained in the valuation report will be made to the client or the relevant counterparties authorized by the client. A formal asset valuation report will be submitted to the client in compliance with the requirements stated in the Asset Valuation Engagement Letter.

**IX. VALUATION ASSUMPTIONS**

In this valuation, the valuation officers have complied with the following valuation assumptions:

1. This valuation is subject to the specific valuation purposes set out in this valuation report;
2. In this valuation, it is assumed that the operation of the appraised entity is legal and there will not be any unforeseeable factor that will render its operation unsustainable;
3. Only market value will be considered in this valuation. The impact of the economic behaviour involved in the purposes of this valuation on the operations of the entities will not be taken into consideration;
4. The relevant basic data and financial information provided by the appraised entity and the client are true, correct and complete;

5. In this valuation, unless otherwise specified, neither the effect of any security and guarantee over the equity interests or underlying assets of the appraised entity on the appraised value, nor the effect of any change in national macro-economic policies and occurrences of events of force of nature and other force majeure on the value of the assets has been taken into consideration;
6. This valuation is based on existing national laws, regulations, taxation policies and financial policies, and any future unforeseeable material change on the basis of valuation has not been taken into account;
7. This valuation is conducted on the basis that the future management team of the appraised entity will perform its duties diligently and continue to adopt its current model of operations and management, and that the operating activities of, and the services provided by the appraised entity will be in line with national industry policies, and that all operating activities are legal and will not have any material changes in the foreseeable future;
8. This valuation is based on the current capabilities of the appraised entity on the base date of valuation without taking into account the potential future expansion of business capabilities related to the management, business strategies and additional investments;
9. This valuation is a reasonable forecast based on the current market conditions without considering taking into account any future material change and fluctuation to the market which are currently unpredictable, such as political turmoil, economic crisis and hyperinflation;
10. In this valuation, it is assumed that the shareholders have obtained net cash flow in equal portion during the year;
11. In this valuation, it is assumed that the appraised enterprise can continue to obtain high and new Technology Enterprise qualification and enjoy the Enterprise Income Tax rate of 15%;
12. The financial reports and transaction data of the comparable companies relied upon by the valuation officers are true and reliable.

If any violation on the above assumptions and conditions occurs, the valuation results will become invalid in general.

**X. VALUATION CONCLUSION****1. Valuation results based on asset-based approach and reasons for the increase/decrease in value**

The appraised value of the entire equity interest of shareholders in Shanghai Honghua Offshore determined based on the asset-based approach adopted amounts to RMB107,990,000, representing an increase of RMB777,700 and an appreciation rate of 0.71% as compared with the audited book value of net asset. The valuation results are as follows:

**Summary of Asset Valuation Results (Asset-based Approach)**

*Unit: in RMB ten thousand*

| Items                                              |           | Net Book<br>Value<br>A | Valuation<br>B    | Changes<br>C=B-A | Rate of<br>appreciation<br>(%)<br>D=C/A × 100 |
|----------------------------------------------------|-----------|------------------------|-------------------|------------------|-----------------------------------------------|
| Current assets                                     | 1         | 841.39                 | 841.39            | —                | —                                             |
| Non-current assets                                 | 2         | 754.58                 | 828.41            | 73.83            | 9.78                                          |
| Of which: Long-term equity investment              | 3         | 31.20                  | —                 | -31.20           | -100.00                                       |
| Investment real estate                             | 4         | —                      | —                 | —                | —                                             |
| Fixed assets                                       | 5         | 43.27                  | 266.74            | 223.47           | 516.50                                        |
| Constructions in progress                          | 6         | 19.87                  | 19.87             | —                | —                                             |
| Intangible assets                                  | 7         | 0.79                   | 0.92              | 0.13             | 16.25                                         |
| Of which: Land use rights                          | 8         |                        |                   |                  |                                               |
| Other non-current assets                           | 9         | 659.45                 | 540.88            | -118.57          | -17.98                                        |
| <b>Total asset</b>                                 | <b>10</b> | <b>1,595.97</b>        | <b>1,669.80</b>   | <b>73.83</b>     | <b>4.63</b>                                   |
| Current liabilities                                | 11        | 12,472.74              | 12,468.80         | -3.94            | -0.03                                         |
| Non-current liabilities                            | 12        |                        |                   |                  |                                               |
| <b>Total liabilities</b>                           | <b>13</b> | <b>12,472.74</b>       | <b>12,468.80</b>  | <b>-3.94</b>     | <b>-0.03</b>                                  |
| <b>Net assets (equity interests of the owners)</b> | <b>14</b> | <b>(10,876.77)</b>     | <b>-10,799.00</b> | <b>77.77</b>     | <b>0.71</b>                                   |

For details of the valuation results using asset-based approach, please refer to the table of valuation particulars using asset-based approach.

**1. The main reasons for the significant increase/decrease in the appraised value:**

The main reasons for the changes in the appraised value of machinery: The increase in the original appraised value was due to the rising trend of market value for certain equipment, while the increase in the net appraised value was

due to the appraised economic life exceeding the depreciation period allowed for enterprise under its accounting policy, which leads accelerated corporate depreciation.

2. The main reasons for variation in the appraised value of vehicles:

the increase in the net appraised value was due to the appraised economic use life exceeding the depreciation period allowed for enterprise under its accounting policy, which leads accelerated corporate depreciation and appreciation in the appraised value.

## 2. Conclusion of valuation

The appraised value by using the asset-based approach amounts to RMB–107,990,000.

## XI. SPECIAL ISSUES

We wish to draw the attention on the users of this report to the following special issues contained herein:

1. The conclusion of the valuation contained herein is reached by the value stated herein for the purpose of valuation as reflected as at the base date of valuation on the presumptions that there have been no changes or variations whatsoever to the appraised entities under valuation through engagement as a going concern subject to the external macroeconomic environment.
2. The valuation report is compiled and prepared based on data and information contained in the fundamental documents provided by the client and the counterparties concerned. It is the responsibility of the client and the counterparties concerned to provide the necessary information and to ensure its truthfulness, legitimacy and completeness. It is the responsibility of the valuer to analyze and estimate the value of the appraised subject for a specific purpose as at the base date of valuation and express its professional opinions.
3. According to the document “Reply concerning the Free Transfer of the Equity Interests of Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd at no consideration” (Tian Gong Zi Shang [2017] No. 383) of China Aerospace Science and Industry Corp. dated 27 October 2017, the entire equity interests in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd held by Honghua Offshore Oil and Gas Equipment (Jiangshu) Co., Ltd. was assigned and transferred to Sichuan Honghua Petroleum Equipment Co., Ltd at no consideration on 31 December 2016, being the base date on which such assignment and transfer took place.
4. This valuation conclusion shall not be deemed as a guarantee to the realizable price of the appraised subject.
5. The effect of liquidity has not been taken into consideration in this valuation conclusion.

6. The possible changes in the taxation obligations due to the increase or decrease in appraised values have not been taken into consideration in this valuation conclusion.
7. The client and the relevant counterparties concerned shall be responsible for the truthfulness, legitimacy and completeness of the information in respect of the legal title of ownership of the appraised subject provided by them. It is the responsibility of the asset valuer to make the necessary verification and disclosure as required for such information and its sources with no assurance given on the title of ownership of the assets subject to valuation under this engagement. It would exceed the scope of practice of the asset valuer to recognize or express any opinion on the legal title of ownership of the appraised subject. We hereby draw the attention of the users of this report to the impact of the defects in title on the valuation conclusion as disclosed herein.

We hereby draw the attention of the users of this report to the impact of the abovementioned special issues on the valuation conclusion.

## **XII. LIMITATIONS ON THE USE OF THE VALUATION REPORT**

The limitations on the use of the valuation report are as follows:

1. This valuation report can only be used by the users as stated herein and for the evaluation intentions and purposes as stated herein. The users should use this valuation report in a proper manner in accordance with the relevant laws, regulations as well as the requirements as stated in the Asset Valuation Engagement Letter. The users of this report shall assume the inconvenience and loss caused by the incorrect and improper use of this valuation report.
2. The valuation conclusion shall not be used until the filing of this report to the supervisory and administrative authorities on the valuation of state assets of enterprises is complete.
3. No extraction, quotation or disclosure of this valuation report in its substances is allowed unless with the written consent of the Company, save and except otherwise specified by laws, regulations or otherwise agreed by the counterparties concerned.
4. The use of the valuation report shall be valid, in principle, for one year commencing from the base date of valuation. Should there be any material changes to the status of the assets and market conditions as compared to those as at the base date valuation, the client shall appoint a valuation agency to appraise the updated business or conduct a reappraisal.

## **XIII. VALUATION REPORT DATE**

This valuation report is dated 24 November 2017.

19 December, 2017

Honghua (China) Investment Co., Ltd.  
No. 99, East Rd., Information Park,  
Jinniu District, Chengdu, Sichuan, China

## Summary of Valuation Report

Dear Sirs

### 1. Introduction

Ernst & Young (China) Advisory Limited Beijing Branch (“EY” or “we”), was engaged by Honghua (China) Investment Co., Ltd. (“Honghua”) to perform indicative valuation analysis of the market values of the 25% equity interest in FSP LNG B.V., the 70% equity interest in Hong Kong Tank Tek Limited and the 30% equity interest in Prime FSP LLC (collectively known as the “Target Companies”) as of September 30, 2017. This letter has been prepared for the purpose of disclosure as an Appendix to this circular and is a summary of the information contained in our Indicative Value Analysis Report dated 19 December, 2017 (the “Report”). Accordingly, this letter should be read in conjunction with the full text of the Report.

### 2. Terms of reference

#### *Valuation purpose*

Honghua intends to transfer the equity shares, respectively, 25% in FSP LNG B.V., 70% in Hong Kong Tank Tek Limited and 30% in Prime FSP LLC, directly or indirectly owned by it to a related party. The valuation analysis is performed for Honghua reference only.

#### *Value basis*

EY adopted market value as the basis of value for this indicative value analysis. Market value is defined as “the estimated amount for which a business should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.”

#### *Valuation date*

September 30, 2017

*Limitations of valuation*

This letter and the Report has been prepared for the purpose disclosed in the engagement agreement signed between EY and Honghua (the “Engagement Agreement”) and should not be used or relied upon for any other purpose. This letter and the Report and its contents may not be quoted, referred to or shown to any other parties except as provided in the Engagement Agreement. We accept no responsibility or liability to any person other than Honghua, or to such party to whom we have agreed in writing to accept a duty of care in respect of this Report, and accordingly if such other persons choose to rely upon any of the contents of this Report, they do so at their own risk.

No investigation has been made of, and no responsibility is assumed for, the legal description of the intellectual property being valued or legal matters, including title or encumbrances. Title to the intellectual property is assumed to be good and marketable unless otherwise stated. The intellectual property is assumed to be free and clear of any liens, easements, encroachments, or other encumbrances unless otherwise stated.

Information furnished by others, upon which all or portions of this appraisal are based, is believed to be reliable but has not been verified in all cases. No warranty is given as to the accuracy of such information.

It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can readily be obtained or renewed for any use on which the value estimates contained in this letter are based.

No responsibility is taken for changes in market conditions, and no obligation is assumed to revise this letter to reflect events or conditions, which occur subsequent to the date hereof.

Neither EY nor any individual signing or associated with this letter shall be required by reason of this letter to give further consultation, provide testimony, or appear in court or at other legal proceedings unless specified arrangements therefore have been made.

This letter has been made only for the purpose stated and shall not be used for any other purpose. Neither this letter nor any portions thereof (including, without limitation, any conclusions as to value or the identity of EY or any individual signing or associated with this letter or the professional associations or organizations with which they are affiliated) shall be disseminated to third parties by any means without the prior written consent and approval of EY.

The Valuation Date to which the opinions expressed in this letter apply is set forth in the report. Our recommendation of value is based on the purchasing power of the local Unit, as of that date.

As part of the valuation process we have adopted an approach combining various valuation procedures to determine the market value of the subject assets.

We prepared this letter having regard to information supplied by management and to information compiled and gathered by EY. We have been assured that all information supplied to us by management is accurate and unbiased. During our investigations we found no reason or evidence to suggest otherwise. As part of the valuation process, we adopted an approach combining various valuation procedures to determine the market value of the subject assets.

All information used or produced by EY to obtain this valuation complies with recognized valuation practice and methodologies.

The valuation methodologies used in this valuation are appropriate. In our choice of methodologies used for this valuation we have taken into account the type of assets, location, age, the industry and current domestic and overseas industry markets.

Our views are based on the current economic, market, industry, regulatory, monetary and other conditions and the information made available to us as of the date of the letter. Such conditions may change significantly over a relatively short period of time and we assume no responsibility and are not required to update, revise or reaffirm our conclusion set out in the letter to reflect events or developments subsequent to the date of this letter.

*Nature and scope of the services*

The nature and scope of the services, including the basis and limitations, are detailed in the Engagement Agreement. This valuation analysis should not be construed as investment advice and should not be used as a basis to set a transaction price. We assume no responsibility for any potential buyer or Honghua to negotiate a purchase or sale at the recommended values. The contents of our Report have been reviewed by the Company's management, who has confirmed to us their factual accuracy.

We are not expressing an opinion on the commercial merits and structure of the Target Companies, and accordingly the letter do not purport to contain all the information that may be necessary or desirable to fully evaluation the commercial or investment merits of the Target Companies by the current and prospective investors. The assessment of the commercial or investment merits of the Target Companies is solely the responsibility of the Directors of Honghua. Additionally, our work should not be construed as investment advice to the current and prospective investors of the Target Companies.

We have not conducted a comprehensive review of the business, operational or financial conditions of the business of the Target Companies, and accordingly the Report do not make any representation or warranty, express or implied, in this regard.

The scope of our engagement does not require us to express, and we do not express, a view on the future prospects of the Target Companies. We are, therefore not expressing any views on the financial condition of the Target Companies.

*Use of our letter*

This letter are addressed solely to and for the use and benefit of Honghua for the purpose as set out above, and accordingly neither the letter may be used or relied upon by, no confer any benefit to, any other person (including without limitation, the current and prospective investors of Honghua).

Any recommendations made by the management of Honghua (the “Management”) to the current and prospective investors shall remain the responsibility of Honghua.

*Reliance on information and representation*

In the course of our work, we have held discussions with the Management. We have also examined and relied on information provided by them and reviewed other relevant publicly available information. We have not independently verified all such information provided or any representation or assurance made by them, whether written or verbal, and accordingly cannot and do not warrant or accept responsibility for the accuracy or completeness of such information, representation or assurance. We have been assured that all information supplied to us by management is accurate and unbiased. During our investigations we found no reason or evidence to suggest otherwise. As part of the valuation process, we adopted an approach combining various valuation procedures to determine the market value of the subject assets.

Any recommendations made by the management of Honghua (the “Management”) to the current and prospective investors shall remain the responsibility of Honghua.

In no circumstances shall we be liable, other than in the event of our bad faith or willful default, for any loss or damage, of whatsoever nature arising from information material to our work being withheld or concealed from us or misrepresented to us by the Management, employees, or agents or any person of whom we may have made inquiries of during the course of our work.

Honghua agree to indemnify and to hold harmless EY and its partners, employees and affiliated entities (“Associates”) from and against any and all losses, claims, costs, damages, actions, proceedings, demands, liabilities and expenses whatsoever (the “Claims”), joint or several, which EY and its Associates may suffer or incur in any jurisdiction whatsoever and which relate to or arise from, directly or indirectly, the provision of EY of its services, including but not limited to any action or claim by third parties in this engagement. For the avoidance of doubt, in the event of any claims whatsoever by any third parties herein, Honghua shall fully indemnify EY against such action or claim.

Neither EY nor any of its Associates will be liable to you or to any third parties whatsoever and howsoever arising out of (directly or indirectly) this engagement and you also agree that you will not make any claim against EY and its Associates in respect of any matter howsoever and whatsoever arising out of or at all connected with this engagement except to the extent that the liabilities arise from fraud on the part of EY or its Associates.

The foregoing indemnity and exclusion of liabilities shall be in addition and without prejudice, to any rights that EY and its Associates may have at common law or otherwise and shall remain in full force and effect regardless of whether EY's appointment hereunder is terminated.

### **3. Valuation methodology**

In arriving at the market values of respective equity interests owned by Honghua in the Target Companies, we have adopted Asset-based Approach.

The Asset-based Approach is based on the balance sheet and restates the company's net asset value by estimating the market value of the total assets minus the market value of the liabilities.

### **4. Valuation conclusion**

Based on the Target Companies' historical financial data provided by the Management, combined with other key assumptions and information, we conclude that the market values of the respected equity interests of the Target Companies as of the Valuation Date under Asset-based Approach were:

- Negative EUR 29,339 for the 25% equity interest in FSP LNG B.V.;
- Negative USD 3,171,772 for the 70% equity interest in Hong Kong Tank Tek Limited; and
- Negative USD 370,357 for the 30% equity interest in Prime FSP LLC.

Our views are based on the current economic, market, industry, regulatory, monetary and other conditions and the information made available to us as of the date of this letter. Such conditions may change significantly over a relatively short period of time and we assume no responsibility and are not required to update, revise or reaffirm our conclusion set out in this letter to reflect events or developments subsequent to the date of this letter.

**Asset Valuation Report**

**The Entire Shareholders' Equity in Honghua Offshore Oil  
and Gas Equipment (Jiangsu) Co., Ltd. Proposed to  
Be Verified by Honghua (China) Investment Co., Ltd.**

**Zhong Tong Hua Ping Bao Zi (2018) No. 030453**

**Date of Report: 4 December 2018**

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and Gas Equipment (Jiangsu) Co., Ltd. Proposed to  
Be Verified by Honghua (China) Investment Co., Ltd.

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**ASSET VALUER'S STATEMENT****The Entire Shareholders' Equity in Honghua Offshore Oil and  
Gas Equipment (Jiangsu) Co., Ltd. Proposed to  
Be Verified by Honghua (China) Investment Co., Ltd.**

**To Honghua (China) Investment Co., Ltd.,**

As commissioned by the Company, we have conducted the valuation on the entire shareholders' equity in Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. (hereinafter referred to as "Honghua Offshore") as at the Valuation Date (i.e. 31 August 2018), and hereby make the following statements:

1. We carried out the asset valuation in compliance with the relevant laws, regulations and the asset valuation standards and based on the principles of independence, objectivity and fairness. According to the information collected in the course of our practice, the statements in the valuation report are objective, and we assume the corresponding legal liabilities for the reasonableness on the conclusion of the valuation.
2. The list of assets and liabilities of the appraised subject is reported and confirmed by signature and sealed by the client and the appraised entity. Client and the relevant parties shall be responsible for the authenticity, legality and completeness of the information provided as well as the appropriate usage of the valuation report.
3. We have no existing or anticipated interest in the appraised subject as set out in the valuation report, nor do we have any existing or anticipated interest in the relevant parties, and have no prejudice with the relevant parties.
4. We have conducted on-site inspection for the appraised subject and its assets as set out in the valuation report. We have paid necessary attention to the legal ownership of the appraised subject and its assets, and have checked and verified the legal ownership of the appraised subject and its assets.
5. The analyses, judgements and conclusion in the valuation report issued by us are subject to the assumptions and limitations in the valuation report. The users of the valuation report shall fully consider the assumptions, limitations and explanations on specific issues set out in the valuation report as well as their impacts on the valuation conclusion.

**SUMMARY OF ASSET VALUATION REPORT**

**The Entire Shareholders' Equity in Honghua Offshore Oil  
and Gas Equipment (Jiangsu) Co., Ltd. Proposed to  
Be Verified by Honghua (China) Investment Co., Ltd.**

**Zhong Tong Hua Ping Bao Zi (2018) No. 030453**

**To Honghua (China) Investment Co., Ltd.,**

In acceptance of the engagement by the Company, China Alliance Appraisal Co., Ltd. (hereinafter referred to as “China Alliance Appraisal” or “we”) has conducted the valuation on the market value of the entire shareholders' equity in Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. as at the Valuation Date, with the assets-based approach on an ongoing concern and open market basis, pursuant to relevant laws, regulations, assets valuation standards and assets valuation principles and in accordance with all the necessary valuation processes.

The appraised subject of the valuation was the entire shareholders' equity in Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. The scope of the valuation covered all the assets and liabilities reported by Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd., including current assets, non-current assets, current liabilities and non-current liabilities. The Valuation Date was 31 August 2018, and the type of value was market value.

In this valuation, the valuation results based on assets-based approach have been selected as the final valuation conclusion of the market value of the entire shareholders' equity in Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. as at the Valuation Date. The specific valuation conclusion is as follows:

### Summary of Assets Valuation Results

*Unit: RMB ten thousand*

| Items                                                  |    | Net Book<br>value<br>A | Valuation  | Changes<br>C=B-A | Rate of<br>appreciation<br>(%)<br>D=C/A x100 |
|--------------------------------------------------------|----|------------------------|------------|------------------|----------------------------------------------|
| Current assets                                         | 1  | 106,197.32             | 89,858.48  | -16,338.84       | -15.39                                       |
| Non-current assets                                     | 2  | 99,109.41              | 97,812.34  | -1,297.07        | -1.31                                        |
| Of which: Long-term equity<br>investment               | 3  |                        |            |                  |                                              |
| Investment real estates                                | 4  |                        |            |                  |                                              |
| Fixed assets                                           | 5  | 65,788.34              | 63,838.02  | -1,950.32        | -2.96                                        |
| Constructions in progress                              | 6  | 8,917.49               | 11,833.20  | 2,915.71         | 32.70                                        |
| Intangible assets                                      | 7  | 15,063.59              | 15,248.44  | 184.85           | 1.23                                         |
| Of which: Land use right                               | 8  | 15,058.46              | 15,246.93  | 188.47           | 1.25                                         |
| Other non-current assets                               | 9  | 9,339.99               | 6,892.68   | -2,447.31        | -26.20                                       |
| <b>Total assets</b>                                    | 10 | 205,306.73             | 187,670.82 | -17,635.91       | -8.59                                        |
| Current liabilities                                    | 11 | 248,030.31             | 247,988.92 | -41.39           | -0.02                                        |
| Non-current liabilities                                | 12 | 435.00                 | 223.25     | -211.75          | -48.68                                       |
| <b>Total liabilities</b>                               | 13 | 248,465.31             | 248,212.17 | -253.14          | -0.10                                        |
| <b>Net assets (equity interests<br/>of the owners)</b> | 14 | -43,158.58             | -60,541.35 | -17,382.77       | -40.28                                       |

The valuation report only serves as a reference for the value of the economic activities described in the valuation report. The valuation conclusion is valid for use within one year from the Valuation Date. Should there be any material changes to the status of the assets and market conditions for the validity period as compared to those as at the Valuation Date, the client shall appoint a valuation agency to appraise the updated business or conduct a reappraisal.

The aforesaid content was extracted from the text of the assets valuation report. For a comprehensive understanding of the valuation, please refer to the full text of the assets valuation report carefully.

## ASSET VALUATION REPORT

The Entire Shareholders' Equity in Honghua Offshore Oil  
and Gas Equipment (Jiangsu) Co., Ltd. Proposed to  
Be Verified by Honghua (China) Investment Co., Ltd.

Zhong Tong Hua Ping Bao Zi (2018) No. 030453

To Honghua (China) Investment Co., Ltd.,

In acceptance of the engagement by the Company, China Alliance Appraisal Co., Ltd. (hereinafter referred to as "China Alliance Appraisal" or "we") has conducted the valuation on the market value of the entire shareholders' equity in Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. as at 31 August 2018, with the assets-based approach on an ongoing concern and open market basis, pursuant to relevant laws, regulations, assets valuation standards and assets valuation principles and in accordance with all necessary valuation processes. The asset valuation is reported as follows:

**I. CLIENT, APPRAISED ENTITY AND OTHER USERS OF THE VALUATION  
REPORT IN THE ASSET VALUATION ENGAGEMENT CONTRACT**

The Client of this asset valuation is Honghua (China) Investment Co., Ltd, the appraised entity is Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. and other users of the valuation report in the Asset Valuation Engagement Contract are report users stipulated by laws and regulations.

**(I) Particulars of the client***Status of Registration*

|                        |                                                                                              |
|------------------------|----------------------------------------------------------------------------------------------|
| Company Name:          | Honghua (China) Investment Co., Ltd. (hereinafter referred to as "Honghua Investment")       |
| Type:                  | limited liability company (solely invested by Taiwan, Hong Kong and Macau legal corporation) |
| Registered capital:    | US\$320,000,000                                                                              |
| Date of incorporation: | 14 January 2010                                                                              |

**Scope of operation:**

(I) to invest sectors in which the Chinese government encourages and allows foreign investment in accordance with the laws; (II) as commissioned by its investment enterprises in writing (unanimously resolved by the Board) to provide its investment enterprises with the following services: 1. to assist or act as the agent for its investment enterprises to purchase, locally and internationally, the machineries and equipments, office appliances for its own use and raw materials, components and parts required for production, as well as to sell, locally and internationally, products produced by its investment enterprises, and to provide after-sales services; 2. to balance foreign exchange revenue and expenditure among the investment enterprises under the consent and supervision of the foreign exchange administration authorities; 3. to provide the investment enterprises with services such as technical support, staff training and internal human resources management during the course of production, sales and marketing development of its products; 4. To assist the investment enterprises to obtain loans; (III) to set up research and development centre or department in the PRC to conduct the research and development of new products and high and new technology, to assign its research and development deliverables and to provide relevant technical services; (IV) to provide its investors with consultancy services and to provide its associated companies with the consultancy services such as market information and investment policies in respect of their investments; (V) to undertake the outsourcing business for the foreign companies and the associated companies of its parent company; (VI) to conduct import and export trade and provide wholesale and commission agent services (excluding auction) for the products produced by its parent company and its associated companies and subsidiaries, and to provide ancillary services (commodities that involve quota licensing administration or special regulations shall be handled in compliance with the relevant state regulations).

**(II) Particulars of the Appraised Entity***1. Registration Information*

|                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Company Name:               | Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Unified social credit code: | 91320681690282032T                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Address:                    | Gaiyaogang, Yinyangzhen, Qidong City, Jiangsu Province                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Legal representative:       | Zhang Mi                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Registered capital:         | RMB874,992,609                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Type of enterprise:         | Company with limited liability (sole proprietorship invested or held by natural person)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Date of incorporation:      | 8 June 2009                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Scope of operation:         | Design, manufacture, maintenance, installation and sale of offshore oil and gas drilling equipment, offshore engineering structures, offshore engineering vessels and support vessels, R&D and design of automatic drilling system, drilling and oil and gas field technical services, engage in the business of export of products and technology of our company and engage in the business of import of electrical engineering equipment, parts and components, raw materials and auxiliary accessories, and technology for the needs of our company. (The projects, which are subject to approval in accordance with the laws, shall be operated only after obtaining approval from the relevant authorities) |

2. *Shareholding Structure of the Company**Unit: RMB ten thousand*

| Name of Shareholder                           | Capital Contribution | Shareholding Percentage |
|-----------------------------------------------|----------------------|-------------------------|
| Sichuan Honghua Petroleum Equipment Co., Ltd. | 87,499.2609          | 100%                    |
| Total                                         | 87,499.2609          | 100%                    |

3. *Assets, Financial and Operational Position for the recent three years and as at the Valuation Date:***Balance Sheet***Unit: RMB ten thousand*

| Item                                 | 31 December 2015 | 31 December 2016 | 31 December 2017 | 31 August 2018 |
|--------------------------------------|------------------|------------------|------------------|----------------|
| Total current assets                 | 62,074.43        | 79,850.14        | 85,998.19        | 106,197.32     |
| Total non-current assets             | 185,516.13       | 180,111.50       | 124,935.76       | 99,109.41      |
| Total assets                         | 247,590.56       | 259,961.63       | 210,991.77       | 205,306.73     |
| Total current liabilities            | 192,039.13       | 216,721.85       | 250,943.58       | 248,030.31     |
| Total non-current liabilities        | —                | —                | —                | 435.00         |
| Total liabilities                    | 192,039.13       | 216,721.85       | 250,943.58       | 248,465.31     |
| Total equity interests of the owners | 55,551.43        | 43,239.78        | -39,951.81       | -43,158.58     |

**Statement of Profit or Loss***Unit: RMB ten thousand*

| Item              | For the Year 2015 | For the Year 2016 | For the Year 2017 | January to August 2018 |
|-------------------|-------------------|-------------------|-------------------|------------------------|
| Operating revenue | 25,424.69         | 19,779.32         | 16,440.16         | 2,710.51               |
| Operating cost    | 27,666.54         | 21,243.25         | 17,803.43         | 34.87                  |
| Operating profit  | -16,854.76        | -16,962.30        | -69,933.85        | -244.79                |
| Total profit      | -16,630.32        | -16,639.48        | -72,047.08        | -241.06                |
| Net profit        | -12,417.46        | -12,427.81        | -83,267.33        | -241.06                |

The financial information for the year 2015 was audited by PricewaterhouseCoopers Zhong Tian LLP, Chongqing Branch which issued a standard unqualified opinion audit report of PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2016) No. 088. The financial information for the year 2016 was audited by PricewaterhouseCoopers Zhong Tian LLP, Chongqing Branch which issued a standard unqualified opinion audit report of PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2017) No. 079. The financial information for the year 2017 was audited by PricewaterhouseCoopers Zhong Tian LLP, which issued a standard unqualified opinion audit report of PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2018) No. 26158. The unaudited financial information as at the Valuation Date was provided by the appraised entity.

*4. Relationship between the Client and the Appraised Entity*

The appraised entity is a subsidiary of a wholly-owned subsidiary of the client.

## **II. PURPOSE OF VALUATION**

According to the “Asset Valuation Engagement Contract” entered into between the client and China Alliance Appraisal, the purpose of the valuation is to provide value reference of the entire shareholders’ equity in Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. proposed to be verified by Honghua (China) Investment Co., Ltd..

## III. APPRAISED SUBJECT AND SCOPE OF VALUATION

The appraised subject of the valuation is the value of the entire shareholders' equity in Honghua Offshore, and the scope of the valuation covers the assets and liabilities as at the Valuation Date reported by Honghua Offshore. The specific asset types and their book value are set out below:

*Unit: RMB*

| Sequence Number | Item                                                    | Book Value              |
|-----------------|---------------------------------------------------------|-------------------------|
| <b>1</b>        | <b>I. Total current assets</b>                          | <b>1,061,973,172.83</b> |
| 2               | Cash and cash equivalent                                | 21,059,622.82           |
| 3               | Account receivables                                     | 405,006,601.56          |
| 4               | Prepayments                                             | 296,353,983.26          |
| 5               | Other receivables                                       | 197,796,967.97          |
| 6               | Inventory                                               | 141,755,997.22          |
| <b>7</b>        | <b>II. Total non-current assets</b>                     | <b>991,094,063.48</b>   |
| 8               | Fixed assets                                            | 657,883,411.45          |
| 9               | Of which: Buildings                                     | 606,330,041.02          |
| 10              | Equipment                                               | 51,553,370.43           |
| 11              | Constructions in progress                               | 89,174,908.44           |
| 12              | Construction materials                                  | 549,435.90              |
| 13              | Intangible assets                                       | 150,635,909.87          |
| 14              | Of which: Land use rights                               | 150,584,556.23          |
| 15              | Other intangible assets                                 | 51,353.64               |
| 16              | R&D expenses                                            | 68,841,631.38           |
| 17              | Deferred income tax assets                              | 24,008,766.44           |
| <b>18</b>       | <b>III. Total assets</b>                                | <b>2,053,067,236.31</b> |
| <b>19</b>       | <b>IV. Total current liabilities</b>                    | <b>2,480,303,081.71</b> |
| 20              | Accounts payables                                       | 425,450,624.26          |
| 21              | Receipts in advance                                     | 26,168,816.16           |
| 22              | Payable employee salaries                               | -125,793.95             |
| 23              | Tax payable                                             | -33,757,795.27          |
| 24              | Interest payable                                        | 179,352,472.74          |
| 25              | Other payables                                          | 1,883,214,757.77        |
| <b>26</b>       | <b>V. Total non-current liabilities</b>                 | <b>4,350,000.00</b>     |
| 27              | Estimated liabilities                                   | 4,350,000.00            |
| <b>28</b>       | <b>VI. Total liabilities</b>                            | <b>2,484,653,081.71</b> |
| <b>29</b>       | <b>VII. Net assets (equity interests of the owners)</b> | <b>-431,585,845.40</b>  |

1. The appraised subject and scope of valuation are in line with those involved in the economic activities. The financial information as at the Valuation Date stated above was unaudited.

2. The book records of intangible assets declared by the entity are mainly the land use rights and other intangible assets.

The land use rights declared by Honghua Offshore are 4 land use rights obtained by way of transfer. The area of the land plots is 164,118.00 sq. m, 237,805.00 sq. m, 94,934.00 sq. m and 20,722.00 sq. m respectively, with the total original book value of RMB169,222,317.79 and total net book value is RMB119,873,308.42.

Other intangible assets declared by the company include 10 use rights of computer software and 29 patents, details of which are as follows:

| Sequence Number | Name and Information of the Intangible Assets | Patent Number | Date of obtaining/<br>application of the Patent | Category                    |
|-----------------|-----------------------------------------------|---------------|-------------------------------------------------|-----------------------------|
| 1               | GHS software                                  |               | 2009/12/1                                       | Purchased computer software |
| 2               | Budget software                               |               | 2009/12/1                                       | Purchased computer software |
| 3               | SACS software                                 |               | 2010/3/1                                        | Purchased computer software |
| 4               | MSC software                                  |               | 2010/9/1                                        | Purchased computer software |
| 5               | AVEVA software                                |               | 2010/11/1                                       | Purchased computer software |
| 6               | ANSYS&AQWA software                           |               | 2012/3/1                                        | Purchased computer software |
| 7               | GHS software                                  |               | 2013/10/1                                       | Purchased computer software |
| 8               | Intelligent datacom collection software       |               | 2014/6/1                                        | Purchased computer software |
| 9               | Engineering pricing software                  |               | 2016/1/1                                        | Purchased computer software |
| 10              | Autodesk AutoCAD Mechanical                   |               | 2016/11/1                                       | Purchased computer software |
| 11              | Artificial island platform                    | 2013200668220 | 2013/2/5                                        | Utility model               |
| 12              | Movable self-elevating artificial island      | 2013200667641 | 2013/2/5                                        | Utility model               |
| 13              | Hanging foldable mooring device               | 2013200659452 | 2013/2/5                                        | Utility model               |
| 14              | Artificial island construction method         | 201310047077X | 2013/2/5                                        | Patent for Invention        |
| 15              | Hanging foldable mooring device               | 2013100451887 | 2013/2/5                                        | Patent for Invention        |

| Sequence Number | Name and Information of the Intangible Assets                                               | Patent Number | Date of obtaining/<br>application of the Patent | Category             |
|-----------------|---------------------------------------------------------------------------------------------|---------------|-------------------------------------------------|----------------------|
| 16              | Locking device for platform with buried pile leg                                            | 2013101173111 | 2013/4/3                                        | Patent for Invention |
| 17              | construction method of artificial island with self-elevating straight-through deck platform | 2013101157655 | 2013/4/3                                        | Patent for Invention |
| 18              | Method for forming self-elevating artificial island through connection of platform units    | 201310115727X | 2013/4/3                                        | Patent for Invention |
| 19              | Self-elevating platform pile leg and mounting method thereof                                | 2013103231925 | 2013/7/29                                       | Patent for Invention |
| 20              | Deepwater fracturing stimulation vessel                                                     | 2014101592497 | 2014/4/21                                       | Patent for Invention |
| 21              | Self-elevating off-island hotel                                                             | 2015304033974 | 2015/10/19                                      | Appearance design    |
| 22              | Workover platform with propulsion power positioning system                                  | 2015208065061 | 2015/10/19                                      | Utility model        |
| 23              | Automatic anchoring system of workover platform                                             | 2015208064406 | 2015/10/19                                      | Utility model        |
| 24              | Self-elevating off-island hotel                                                             | 2015208063333 | 2015/10/19                                      | Utility model        |
| 25              | Propelling and dynamic positioning system of workover platform                              | 2015208063051 | 2015/10/19                                      | Utility model        |
| 26              | Workover platform with propulsion power positioning system                                  | 2015106750699 | 2015/10/19                                      | Patent for Invention |
| 27              | Self-elevating liquefied natural gas platform                                               | 2016200361767 | 2016/1/15                                       | Utility model        |
| 28              | Self-elevating liquefied natural gas platform                                               | 2016100248881 | 2016/1/15                                       | Patent for Invention |

| Sequence Number | Name and Information of the Intangible Assets                                                   | Patent Number | Date of obtaining/<br>application of the Patent | Category                    |
|-----------------|-------------------------------------------------------------------------------------------------|---------------|-------------------------------------------------|-----------------------------|
| 29              | Adjustable fixed strengthening device suitable for hoisting and transporting semi-flexible tank | 2016201599537 | 2016/3/3                                        | Utility model               |
| 30              | Adjustable fixed strengthening device suitable for hoisting and transporting semi-flexible tank | 2016101186971 | 2016/3/3                                        | Patent for Invention        |
| 31              | Quick launch and lift apparatus for boats and ships                                             | 2016208211306 | 2016/8/1                                        | Utility model               |
| 32              | Collapsible mast of the boats and ships                                                         | 201620821101X | 2016/8/1                                        | Utility model               |
| 33              | A LNG security control system for dry bulk freighter of LNG power                               | 2016208210958 | 2016/8/1                                        | Utility model               |
| 34              | Fuel Gas Double Cannula Structure for LNG Powered Inland Vessels                                | 201620820940X | 2016/8/1                                        | Utility model               |
| 35              | A pin holepinhole of the inverted pear shape for cylinder spud leg                              | 201620819457X | 2016/8/1                                        | Utility model               |
| 36              | A bolt for self-elevating platform cylinder formula spud leg                                    | 2016208191529 | 2016/8/1                                        | Utility model               |
| 37              | A LNG vaporizer adds hot-water heating system for LNG Powered Inland Vessels                    | 2016208184099 | 2016/8/1                                        | Utility model               |
| 38              | Method of transporting ships with semi-submerged ship                                           | 201610618340X | 2016/8/1                                        | Patent for Invention        |
| 39              | Stern tube mounting process                                                                     | 2016106160910 | 2016/8/1                                        | Patent for Invention patent |

The company does not possess any intangible assets with no book entry and the valuation officer has also not identified any other intangible asset.

3. The appraised entity has no other off-balance sheet assets.
4. This valuation report made no reference to conclusion of any report issued by other institutions.

#### **IV. TYPE AND DEFINITION OF VALUATION**

The valuation serves as a reference of the entire shareholders' equity in Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. proposed to be verified by Honghua (China) Investment Co., Ltd., which is generally determined based on open and fair terms. Therefore, the market value on the going concern basis is selected as the type of value, and the specific definitions of which are set out below:

Market value refers to the estimated value of the appraised subject under normal and fair transaction reasonably conducted on the Valuation Date between a willing purchaser and a willing seller wherein both parties act knowledgeably and without compulsion.

Going concern basis in this report refers to the production and operation activities of the appraised subject will maintain the status quo, and that no material changes will occur in the foreseeable future.

#### **V. VALUATION DATE**

According to the "Asset Valuation Engagement Contract" executed by the client and China Alliance Appraisal, the Valuation Date is 31 August 2018.

The price and other parameters adopted in the valuation are the same as those as at the Valuation Date.

The Valuation Date, i.e. 31 August 2018, was determined according to the needs of the economic activities by the client.

#### **VI. BASIS OF VALUATION**

##### **(I) Basis of Economic Activity**

"Asset Valuation Engagement Contract" executed by the client and China Alliance Appraisal;

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

1. "The Asset Appraisal Law of the People's Republic of China" (《中華人民共和國資產評估法》), adopted at the 21st Session of the Standing Committee of the 12th National People's Congress of the People's Republic of China on 2 July 2016;

2. “Company Law of the People’s Republic of China” (《中華人民共和國公司法》), amended at the 6th Session of the Standing Committee of the 12th National People’s Congress dated 28 December 2013;
3. “The Law of the People’s Republic of China on the State-Owned Assets of Enterprises” (《中華人民共和國企業國有資產法》), adopted at the 5th Session of the Standing Committee of the 11th National People’s Congress of the People’s Republic of China dated 28 October 2008;
4. “Urban Real Estate Administration Law of the People’s Republic of China”, (《中華人民共和國城市房地產管理法》), adopted at the 29th Session of the Standing Committee of the 10th National People’s Congress of the People’s Republic of China dated 30 August 2007;
5. “Land Administration Law of the People’s Republic of China” (《中華人民共和國土地管理法》) (adopted at the 11th Session of the Standing Committee of the 10th National People’s Congress of the People’s Republic of China dated 28 August 2004) and its implementation regulations;
6. “The Enterprise Income Tax Law of the People’s Republic of China” (《中華人民共和國企業所得稅法》) (adopted at the 5th Session of the Standing Committee of the 10th National People’s Congress of the People’s Republic of China dated 16 March 2007) and its implementation regulations;
7. “Administrative Measures on State-owned Asset Valuation” (《國有資產評估管理辦法》), Order No. 91 of the State Council (1991);
8. “Interim Regulations on the Supervision and Administration of State-Owned Assets of Enterprises” (《企業國有資產監督管理暫行條例》), Order No. 378 of the State Council (2003);
9. “Interim Regulations of the People’s Republic of China on Value-Added Tax” (《中華人民共和國增值稅暫行條例》), Order No. 538 of the State Council (2008) and related revisions (revised in 2017);
10. “Provisional Regulations of the People’s Republic of China on Land Value-added Taxes” (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》), Order No. 55 of the State Council (1990);
11. “Provisional Regulations of the People’s Republic of China on Land Value-added Taxes” (《中華人民共和國土地增值稅暫行條例》) (Order No. 138 of the State Council (1993)) and its implementation rules;
12. “Regulations on Certain Issues regarding Management on the Provisions on Several Issues concerning State-owned Asset Valuation” (《國有資產評估管理若干問題的規定》), Order No. 14 of the Ministry of Finance (2001);

13. “Notice of the Ministry of Finance regarding on Comprehensive Implementation of the Pilot Program for Replacement of Business Tax with Value-Added Tax” (《關於全面推開營業稅改徵增值稅試點的通知》), Order No. 36 of the Ministry of Finance, the State Administration of Taxation Caishui [2016];
14. “Measures for the Fiscal Supervision and Administration of the Asset Appraisal Industry” (《資產評估行業財政監督管理辦法》), Order No. 86 of the Ministry of Finance (2017);
15. “Interim Measures on the Administration of Valuation of State-owned Assets of Enterprises” (《企業國有資產評估管理暫行辦法》), Order No. 12 of SASAC of the State Council (2005);
16. “Notice on Issues Concerning Enhancement of Administration of Valuation of State-owned Assets of Enterprises” (《關於加強企業國有資產評估管理工作有關問題的通知》) (Guo Zi Wei Chan Quan [2006] No. 274);
17. “Notice on Issues Concerning the Development of Publication System for Assets Valuation Items of the Central Enterprises” (《關於建立中央企業資產評估項目公示制度有關事項的通知》) (Guo Zi Fa Chan Quan [2016] No. 41);
18. “Notice on Issues Concerning Enhancement of Administration of Alternative Pools of Asset Appraisal Institutions for Central Enterprises” (《關於加強中央企業評估機構備選庫管理有關事項的通知》) (Guo Zi Fa Chan Quan [2016] No. 42);
19. “Notice of the General Office of the Ministry of Land and Resources on Promulgating the Technical Specifications for Land Price Evaluation in relation to Transfer of Rights to Use State-Owned Construction Lands (Trial Implementation)” (《關於發佈〈國有建設用地使用權出讓地價評估技術規範(試行)〉的通知》) (Guo Tu Zi Ting Fa [2013] No. 20);
20. Other laws and regulations related to assets valuation.

### (III) Basis of Standards

1. “Asset Valuation Basic Standards” (《資產評估基本準則》) (Cai Zi [2017] No. 43);
2. “Professional Ethical Standards of Assets Valuation” (《資產評估職業道德準則》) (Zhong Ping Xie [2017] No. 30);
3. “Practice Standards on Assets Valuation — Assets Valuation Procedures” (《資產評估執業準則 — 資產評估程序》) (Zhong Ping Xie [2017] No. 31);

4. “Practice Standards on Assets Valuation — Assets Valuation Report” (《資產評估執業準則 — 資產評估報告》) (Zhong Ping Xie [2017] No. 32);
5. “Practice Standards on Assets Valuation — Assets Valuation Engagement Contract” (《資產評估執業準則 — 資產評估委託合同》) (Zhong Ping Xie [2017] No. 33);
6. “Practice Standards on Assets Valuation — Assets Valuation Archive” (《資產評估執業準則 — 資產評估檔案》) (Zhong Ping Xie [2017] No. 34);
7. “Practice Standards on Assets Valuation — Enterprise Value” (《資產評估執業準則 — 企業價值》) (Zhong Ping Xie [2017] No. 36);
8. “Practice Standards on Assets Valuation — Intangible Assets” (《資產評估執業準則 — 無形資產》) (Zhong Ping Xie [2017] No. 37);
9. “Practice Standards on Asset Valuation — Real Estate” (《資產評估執業準則 — 不動產》) (Zhong Ping Xie [2017] No. 38);
10. “Practice Standards on Assets Valuation — Machinery and Equipment” (《資產評估執業準則 — 機器設備》) (Zhong Ping Xie [2017] No. 39);
11. “Guidelines for Valuation Reports on State-owned Assets of Enterprises” (《企業國有資產評估報告指南》) (Zhong Ping Xie [2017] No. 42);
12. “Guidelines on Quality Control of Business Operations of Valuation Institutions” (《資產評估機構業務質量控制指南》) (Zhong Ping Xie [2017] No. 46);
13. “Guiding Opinions on Types of Value under Asset Valuation” (《資產評估價值類型指導意見》) (Zhong Ping Xie [2017] No. 47);
14. “Guiding Opinions on Legal Ownership of Appraised Entities” (《資產評估對象法律權屬指導意見》) (Zhong Ping Xie [2017] No. 48);
15. “Guiding Opinions on Valuation of Patent Assets” (《專利資產評估指導意見》) (Zhong Ping Xie [2017] No. 49);
16. “Regulations for Valuation on Urban Land” (《城鎮土地估價規程》) (GB/T18508-2014);
17. “Regulations for Gradation and Classification on Urban Land” (《城鎮土地分等定級規程》) (GB/T18507-2014);
18. “Code for Real Estate Appraisal” (《房地產估價規範》) (GB/T50291-2015);

**(IV) Basis of Ownership**

1. Building ownership certificates;
2. State-owned land use right certificates;
3. Motor vehicle driving license;
4. Equipment purchase contract and invoice;
5. Patent certificate;
6. Other title documents provided by the appraised entity.

**(V) Basis for Pricing**

1. “Manual of Data and Parameters Commonly Used for Asset Valuation” (《資產評估常用數據與參數手冊》) (China Economic Science Press);
2. “Interim Regulations of the People’s Republic of China on Value-Added Tax” (《中華人民共和國增值稅暫行條例》), Order No. 538 of the State Council of the People’s Republic of China;
3. “Provisions on the Standards for Compulsory Discard of Motor Vehicles” (《機動車強制報廢標準規定》), Order (2012) No. 12 of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection;
4. “Provisions on the Preparation of Estimated Budget for Coastal Port Construction Projects” (《沿海港口建設工程概算預算編製規定》) issued by the Ministry of Transport in 2004;
5. The prevailing loan rate published by People’s Bank of China;
6. “Notice of the State Planning Commission on Issuing the Interim Measures on the Administration of Service Fees Charged for Tender Agency Services” (《招標代理服務收費管理暫行辦法》) 的通知) (Ji Jia Ge [2002] No. 1980, 15 October 2002);
7. Notice of the National Development and Reform Commission and the Ministry of Construction on Issuing the Provisions on the Administration of Service Fees Charged for Construction Project Supervision and Related Services” (《建設工程監理與相關服務收費管理規定》) 的通知) (Fa Gai Jia Zi [2007] No. 670, 30 March 2007);
8. Wind Data Information;
9. Purchase contracts and agreements of the appraised assets;

10. Relevant price information collected;
11. Relevant information obtained from site inspection and market research performed by the valuers.

**(VI) Other Basis**

1. “Asset Valuation Engagement Contract” entered into between the client and China Alliance Appraisal Co., Ltd.;
2. Various “Assets Valuation Reporting Breakdown” provided by the appraised entity;
3. Audit report, accounting statement, accounting documents, information on financial management, bank statements and bank reconciliation statement as of previous years and as at the Valuation Date, as well as the relevant agreements, contracts, invoices and other financial information provided by the appraised entity;
4. Interview records of the relevant personnel of the appraised entity;
5. Other relevant information provided by the appraised entity.

**VII. VALUATION APPROACH**

**Introduction on the valuation approach**

*The asset-based approach*

The asset-based approach used in the assessment of enterprise value refers to the valuation approach for determining the value of the appraised enterprise by reasonable assessment of on-balance sheet and off-balance sheet assets and liabilities of the enterprise based on the balance sheet of the appraised enterprise on the Valuation Date.

- (1) *Monetary current assets*: includes cash and bank deposits. The appraisal value is determined based on the verified book value which was arrived at after checking of on-site inventory checking, verification of bank reconciliation statements and bank confirmations and other proofs of monetary funds.
- (2) *Debt-based current assets*: includes account receivables, prepayments and other receivables. The appraisal value is determined after verifying the authenticity of the debts by confirmations, verifications and other methods and considering the possible losses from bad debts by analyzing the creditworthiness, solvency and aging of debts of the debtors.

- (3) *Tangible current assets*: mainly consist of inventories, which include procured raw materials and materials, and work-in-process. The valuation approach for each type of inventories is determined based on the corresponding characteristics of the inventories.

*Purchased raw materials and materials*: the appraisal value is determined based on the verified amount multiplied by the prevailing market purchase price, plus reasonable freight and miscellaneous fees, wastage, inspection and acceptance fee for admission into warehouse and other reasonable fee in the process of material procurement after the appraiser has obtained the recent purchase price of raw materials or alternatives by market research. For the purchased raw materials and materials that are invalid, deteriorated, damaged, scrapped and useless, the appraisal value is determined by deducting the corresponding depreciation after analysed and calculated based on the actual on-site inspection. The appraisal value of the provision for depreciation shall be accounted for as zero.

*Work-in-process*: the appraisal value is determined based on the contract of work-in-process and the input costs after considering applicable devaluation factors.

- (4) *Construction materials*: the appraisal value is determined based on the verified reasonable expenses after considering applicable devaluation factors.
- (5) *R&D expenses*: the appraisal value is determined based on the verified book value after considering applicable devaluation factors.
- (6) *Non-current assets — deferred income tax assets*: in view of the operation conditions of the enterprises, the deferred income tax assets cannot be reversed in the foreseeable future, and it is difficult to obtain the taxable income used to offset the temporary difference in the future. The current appraised value is 0.
- (7) *Fixed assets — buildings*: replacement cost approach is adopted in the valuation. The basic formula is: Appraisal Value = Full Replacement Cost × Residue Ratio; Full Replacement Cost = Construction and Installation Cost + Preliminary Cost + Other Expenses + Capital Cost — Value-added Tax.
- (8) *Fixed assets — machinery and equipment, Vehicles and Electronic Equipment*: the appraisal value is determined by adopting the replacement cost approach, and the basic formula is: Appraisal Value = Full Replacement Cost × Residue Ratio.
- (9) *Constructions in progress*: the valuation approach is determined by the nature of the various verified expenditures incurred for equipment under construction after the actual situation of the constructions in progress is well-understood through on-site investigations.

- (10) *Intangible assets — land use rights*: the appraisal value is determined using the arithmetic average method by adopting the cost approach and market comparison approach.
- (11) *Intangible assets — other intangible assets*: for computer software, the appraisal value is determined, taking into account of depreciation factors, based on the price of that particular type of computer software available as at the Valuation Date. For patent technologies, the current appraisal value is 0 since no substantial profit or cost-saving is contributed by such patented technology to the enterprise.
- (12) *Liabilities*: determined based on the actual liabilities and amount assumed by the enterprise on the Valuation Date.

## VIII. PROCESS AND STATUS FOR THE IMPLEMENTATION OF VALUATION PROCEDURES

This valuation is conducted mainly in four stages.

### (I) Preparation for valuation

Conduct negotiations with the client to set out the basic matters for the valuation engagement; Conduct a comprehensive analysis and an appraisal on its own professional competence, independence and business risks before accepting the commission and executing the Asset Valuation Engagement Contract; Confirmation of officer in charge of the project, set up the valuation team and prepare the valuation plan; Provide guidance to the appraised entity on completing the asset valuation declaration form; Prepare the information required for the asset valuation.

### (II) On-site investigation and collection of valuation data and information

Based on the specific conditions of this valuation and in accordance with the criteria of valuation procedures and other relevant requirements, the valuation officer conducts on-site investigation by means such as enquiry, external confirmation, verification, supervision of stocktaking, investigation, inspection and sampling check and acquire valuation data and information from all possible sources, identify the scope of valuation and understand the current status of the appraised entity and its legal title of ownership.

### (III) Valuation and estimation

Valuation data and information collected will go through the necessary analysis, collation and consolidation to formulate the bases for the valuation and estimation. Based on relevant conditions such as the subject under valuation, types of value and the status on the collection of valuation data and information, a suitable valuation will be selected, and an initial valuation results will be formulated based on the analysis, calculation and determination conducted by using the corresponding formulae and parameters.

**(IV) Preparation and submission of valuation report**

Prepare the relevant valuation explanation based on the preliminary valuation results on various types of assets by various valuation teams. Upon verifying and confirming that the valuation results of the relevant appraisal on the specific asset items are accurate and free from error and no duplication and omission of valuation work is found, the assets valuation summary will be analyzed based on the explanation of each asset valuation, the final conclusion on valuation will be confirmed and asset valuation report will be drawn up. Necessary internal audit on the valuation report and execution of the valuation procedures will be conducted in accordance with relevant laws, regulations, asset valuation standard as well as the internal quality control system of the appraised entity. Necessary communication in respect of the relevant contents contained in the valuation report will be made to the client or the relevant counterparties authorized by the client. A formal asset valuation report will be submitted to the client in compliance with the requirements stated in the Asset Valuation Engagement Contract.

**IX. VALUATION ASSUMPTIONS**

In this valuation, the valuation officers have complied with the following valuation assumptions:

1. This valuation is subject to the specific valuation purposes set out in this valuation report;
2. In this valuation, it is assumed that the operation of the appraised entity is legal and there will not be any unforeseeable factor that will render its operation unsustainable;
3. Only market value will be considered in this valuation. The impact of the economic behaviour involved in the purposes of this valuation on the operations of the entities will not be taken into consideration;
4. The relevant basic data and financial information provided by the appraised entity and the client are true, correct and complete;
5. In this valuation, unless otherwise specified, neither the effect of any security and guarantee over the equity interests or underlying assets of the appraised entity on the appraised value, nor the effect of any change in national macro-economic policies and occurrences of events of force of nature and other force majeure on the value of the assets has been taken into consideration;
6. This valuation is based on existing national laws, regulations, taxation policies and financial policies, and any future unforeseeable material change on the basis of valuation has not been taken into account;

If any violation on the above assumptions and conditions occurs, the valuation results will become invalid in general.

**X. VALUATION CONCLUSION****Valuation results based on asset-based approach**

The appraised value of the entire equity interest of shareholders in Honghua Offshore determined based on the adopted asset-based approach amounts to RMB605,413,500, representing an impairment of RMB173,827,700 and an impairment rate of 40.28% as compared with the book value of net asset. The valuation results are as follows:

**Summary of Asset Valuation Results (Asset-based Approach)**

*Unit: RMB ten thousand*

| Items                                                  |           | Net Book<br>Value<br>A | Appraisal<br>value | Changes<br>C=B-A  | Rate of<br>appreciation<br>(%)<br>D=C/A×100 |
|--------------------------------------------------------|-----------|------------------------|--------------------|-------------------|---------------------------------------------|
| Current assets                                         | 1         | 106,197.32             | 89,858.48          | -16,338.84        | -15.39                                      |
| Non-current assets                                     | 2         | 99,109.41              | 97,812.34          | -1,297.07         | -1.31                                       |
| Of which: Long-term<br>equity investment               | 3         |                        |                    |                   |                                             |
| Investment real estate                                 | 4         |                        |                    |                   |                                             |
| Fixed assets                                           | 5         | 65,788.34              | 63,838.02          | -1,950.32         | -2.96                                       |
| Constructions in progress                              | 6         | 8,917.49               | 11,833.20          | 2,915.71          | 32.70                                       |
| Intangible assets                                      | 7         | 15,063.59              | 15,248.44          | 184.85            | 1.23                                        |
| Of which: Land use rights                              | 8         | 15,058.46              | 15,246.93          | 188.47            | 1.25                                        |
| Other non-current assets                               | 9         | 9,339.99               | 6,892.68           | -2,447.31         | -26.20                                      |
| <b>Total asset</b>                                     | <b>10</b> | <b>205,306.73</b>      | <b>187,670.82</b>  | <b>-17,635.91</b> | <b>-8.59</b>                                |
| Current liabilities                                    | 11        | 248,030.31             | 247,988.92         | -41.39            | -0.02                                       |
| Non-current liabilities                                | 12        | 435.00                 | 223.25             | -211.75           | -48.68                                      |
| <b>Total liabilities</b>                               | <b>13</b> | <b>248,465.31</b>      | <b>248,212.17</b>  | <b>-253.14</b>    | <b>-0.10</b>                                |
| <b>Net assets (equity<br/>interests of the owners)</b> | <b>14</b> | <b>-43,158.58</b>      | <b>-60,541.35</b>  | <b>-17,382.77</b> | <b>-40.28</b>                               |

For details of the valuation results using asset-based approach, please refer to the table of valuation particulars using asset-based approach.

The valuation conclusion is arrived based on the above assessment work.

**XI. SPECIAL ISSUES**

We wish to draw the attention on the users of this report to the following special issues contained herein:

1. The conclusion of the valuation contained herein is reached by the value stated herein for the purpose of valuation as reflected as at the Valuation Date at the premise of the assumption that there have been no changes or variations whatsoever to the appraised entities under valuation through engagement as a going concern subject to the external macroeconomic environment.
2. The valuation report is prepared based on data and information contained in the fundamental documents provided by the client and the relevant counterparties. It is the responsibility of the client and the relevant counterparties to provide the necessary information and to ensure its truthfulness, legitimacy and completeness. It is the responsibility of the valuer to analyze and estimate the value of the appraised subject for a specific purpose as at the Valuation Date and express its professional opinions.
3. This valuation conclusion shall not serve as the assurance for the realizable price of the appraised subject.
4. The possible changes in the taxation obligations due to the increase or decrease in appraised values have not been taken into consideration in this valuation conclusion.
5. The client and the relevant counterparties shall be responsible for the truthfulness, legitimacy and completeness of the information in respect of the legal title of ownership of the appraised subject provided by them. It is the responsibility of the asset valuer to make the necessary verification and disclosure as required for such information and its sources with no assurance given on the title of ownership of the assets to be appraised under this engagement. The confirmation of or views on the legal title of ownership of the appraised subject would go beyond the scope of practice of the certified asset valuer. We hereby draw the attention of the users of this report to the impact of the defects in title on the valuation conclusion as disclosed herein.

We hereby draw the attention of the users of this report to the impact of the abovementioned special issues on the valuation conclusion.

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

The restrictions on the use of the valuation report are as follows:

1. This valuation report can only be used by the users as stated herein for the evaluation objectives and purposes as stated herein. The users should use this valuation report in a proper manner in accordance with the relevant laws, regulations as well as the requirements as stated in the Asset Valuation Engagement Contract. The users of this report shall assume the inconvenience and loss caused by the incorrect and improper use of this valuation report.
2. The valuation conclusion shall not be used until the filing of this valuation report to the supervisory and administrative authorities on the valuation of state-owned assets of enterprises is complete.
3. No extraction, quotation or disclosure of the content of this valuation report is allowed unless written consent is obtained from the Company, save and except otherwise specified by laws, regulations or otherwise agreed by the relevant counterparties.
4. The use of the conclusion of the valuation report shall be valid, in principle, for one year commencing from the Valuation Date. Should there be any material changes to the status of the assets and market conditions for the validity period as compared to those as at the Valuation Date, the client shall appoint a valuation agency to appraise the updated business or conduct a reappraisal.

**XIII. VALUATION REPORT DATE**

This valuation report is dated 4 December 2018.

**ASSET VALUATION REPORT**

**The Entire Shareholders' Equity in Shanghai Honghua Offshore Oil and  
Gas Equipment Co., Ltd. Proposed to Be Verified  
by Honghua (China) Investment Co., Ltd.**

**Zhong Tong Hua Ping Bao Zi (2018) No. 030454**

**Date of Report: 4 December 2018**

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by Honghua (China) Investment Co., Ltd.**

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**ASSET VALUER'S STATEMENT**

**The Entire Shareholders' Equity in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. Proposed to Be Verified  
by Honghua (China) Investment Co., Ltd.**

**To Honghua (China) Investment Co., Ltd.,**

As commissioned by the Company, we have assessed the value of the entire shareholders' equity in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. (hereinafter referred to as "Shanghai Honghua") as at the Valuation Date (i.e. 31 August 2018), and hereby make the following statements:

1. We carried out the asset valuation in compliance with the relevant laws, regulations and the asset valuation standards and based on the principles of independence, objectivity and fairness. According to the information collected in the course of our practice, the statements in the valuation report are objective, and we assume the corresponding legal liabilities for the reasonableness on the conclusion of the valuation.
2. The list of assets and liabilities of the appraised subject is reported and confirmed by signature and sealed by the client and the appraised entity. Client and the relevant parties shall be responsible for the authenticity, legality and completeness of the information provided as well as the appropriate usage of the valuation report.
3. We have no existing or anticipated interest in the appraised subject as set out in the valuation report, nor do we have any existing or anticipated interest in the relevant parties, and have no prejudice with the relevant parties.
4. We have conducted on-site inspection for the appraised subject and its assets as set out in the valuation report. We have paid necessary attention to the legal ownership of the appraised subject and its assets, and have checked and verified the legal ownership of the appraised subject and its assets.
5. The analyses, judgements and conclusion in the valuation report issued by us are subject to the assumptions and limitations in the valuation report. The users of the valuation report shall fully consider the assumptions, limitations and explanations on specific issues set out in the valuation report as well as their impacts on the valuation conclusion.

**SUMMARY OF ASSET VALUATION REPORT**

**The Entire Shareholders' Equity in Shanghai Honghua Offshore Oil and  
Gas Equipment Co., Ltd. Proposed to Be Verified  
by Honghua (China) Investment Co., Ltd.**

**Zhong Tong Hua Ping Bao Zi (2018) No. 030454**

**To Honghua (China) Investment Co., Ltd.,**

In acceptance of the engagement by the Company, China Alliance Appraisal Co., Ltd. (hereinafter referred to as “China Alliance Appraisal” or “we”, “us”) has conducted the valuation on the market value of the entire shareholders' equity in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. as at the Valuation Date, with the assets-based approach on an ongoing concern and open market basis, pursuant to the relevant laws, regulations, assets valuation standards and assets valuation principles and in accordance with all the necessary valuation processes.

The appraised subject of the valuation was the entire shareholders' equity in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. The scope of the valuation covered all the assets and liabilities reported by Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd., including current assets, non-current assets and current liabilities. The Valuation Date was 31 August 2018, and the type of value was market value.

In this valuation, the valuation results based on assets-based approach have been selected as the final valuation conclusion of the market value of the entire shareholders' equity in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. as at the Valuation Date. The specific valuation conclusion is as follows:

### Summary of Assets Valuation Results

*Unit: in RMB ten thousand*

| Items                                              |    | Net Book<br>value<br>A | Valuation  | Changes<br>C=B-A | Rate of<br>appreciation<br>(%)<br>D=C/Ax100 |
|----------------------------------------------------|----|------------------------|------------|------------------|---------------------------------------------|
| Current assets                                     | 1  | 3,278.96               | 3,178.96   | -100.00          | -3.05                                       |
| Non-current assets                                 | 2  | 4,683.39               | 4,738.49   | 55.10            | 1.18                                        |
| Of which: Long-term equity investment              | 3  | —                      | —          |                  |                                             |
| Investment real estates                            | 4  | —                      | —          |                  |                                             |
| Fixed assets                                       | 5  | 37.45                  | 228.33     | 190.88           | 509.76                                      |
| Constructions in progress                          | 6  | 241.63                 | 241.63     | —                | —                                           |
| Intangible assets                                  | 7  | 72.26                  | 82.19      | 9.93             | 13.73                                       |
| Of which: Land use right                           | 8  | —                      | —          |                  |                                             |
| Other non-current assets                           | 9  | 4,332.05               | 4,186.35   | -145.70          | -3.36                                       |
| <b>Total assets</b>                                | 10 | 7,962.35               | 7,917.45   | -44.90           | -0.56                                       |
| Current liabilities                                | 11 | 19,010.16              | 19,010.16  | —                | —                                           |
| Non-current liabilities                            | 12 | —                      | —          |                  |                                             |
| <b>Total liabilities</b>                           | 13 | 19,010.16              | 19,010.16  | —                | —                                           |
| <b>Net assets (equity interests of the owners)</b> | 14 | -11,047.81             | -11,092.71 | -44.90           | -0.41                                       |

The valuation report only serves as a reference for the value of the economic activities described in the valuation report. The valuation conclusion is valid for use within one year from the Valuation Date. Should there be any material changes to the status of the assets and market conditions for the validity period as compared to those as at the Valuation Date, the client shall appoint a valuation agency to appraise the updated business or conduct a reappraisal.

The aforesaid content was extracted from the text of the assets valuation report. For a comprehensive understanding of the valuation, please refer to the full text of the assets valuation report carefully.

**ASSET VALUATION REPORT**

**The Entire Shareholders' Equity in Shanghai Honghua Offshore Oil and  
Gas Equipment Co., Ltd. Proposed to Be Verified  
by Honghua (China) Investment Co., Ltd.**

**Zhong Tong Hua Ping Bao Zi (2018) No. 030454**

**To Honghua (China) Investment Co., Ltd.,**

In acceptance of the engagement by the Company, China Alliance Appraisal Co., Ltd. (hereinafter referred to as "China Alliance Appraisal" or "we") has conducted the valuation the market value of the entire shareholders' equity in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. as at 31 August 2018, with the assets-based approach on an ongoing concern and open market basis, pursuant to relevant laws, regulations, assets valuation standards and assets valuation principles and in accordance with all necessary valuation processes. The asset valuation is reported as follows:

**I. CLIENT, APPRAISED ENTITY AND OTHER USERS OF THE VALUATION  
REPORT IN THE ASSET VALUATION ENGAGEMENT CONTRACT**

The client of this asset valuation is Honghua (China) Investment Co., Ltd, the appraised entity is Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. and other users of the valuation report in the Asset Valuation Engagement Contract are report users stipulated by laws and regulations.

**(I) Particulars of the client**

*Status of Registration*

|                        |                                                                                              |
|------------------------|----------------------------------------------------------------------------------------------|
| Company Name:          | Honghua (China) Investment Co., Ltd. (hereinafter referred to as "Honghua Investment")       |
| Type:                  | limited liability company (solely invested by Taiwan, Hong Kong and Macau legal corporation) |
| Registered capital:    | US\$320,000,000                                                                              |
| Date of incorporation: | 14 January 2010                                                                              |

## Scope of operation:

(I) To invest sectors in which the Chinese government encourages and allows foreign investment in accordance with the laws; (II) As commissioned by its investment enterprises in writing (unanimously resolved by the Board) to provide its investment enterprises with the following services: 1. To assist or act as the agent for its investment enterprises to purchase, locally and internationally, the machineries and equipments, office appliances for its own use and raw materials, components and parts required for production, as well as to sell, locally and internationally, products produced by its investment enterprises, and to provide after-sales services; 2. to balance foreign exchange revenue and expenditure among the investment enterprises under the consent and supervision of the foreign exchange administration authorities; 3. to provide the investment enterprises with services such as technical support, staff training and internal human resources management during the course of production, sales and marketing development of its products; 4. To assist the investment enterprises to obtain loans. (III) To set up research and development centre or department in the PRC to conduct the research and development of new products and high and new technology, to assign its research and development deliverables and to provide relevant technical services; (IV) To provide its investors with consultancy services and to provide its associated companies with the consultancy services such as market information and investment policies in respect of their investments; (V) to undertake the outsourcing business for the foreign companies and the associated companies of its parent company; (VI) to conduct import and export trade and provide wholesale and commission agent services (excluding auction) for the products produced by its parent company and its associated companies and subsidiaries, and to provide ancillary services (commodities that involve quota licensing administration or special regulations shall be handled in compliance with the relevant state regulations).

**(II) Particulars of the Appraised Entity***1. Registration Information*

|                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Company Name:               | Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Unified social credit code: | 91310000694192253U                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Address:                    | Building C, No. 888, 2nd Huanhuxi Road, Nanhui Town, Pudong New Area                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Legal representative:       | Zhang Mi                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Registered capital:         | RMB10.00 million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Type of enterprise:         | Company with limited liability (sole proprietorship invested or held by non-natural person)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Date of incorporation:      | 9 September 2009                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Scope of operation:         | R&D and design of offshore oil and gas drilling equipment, automated drilling system and its ancillary equipment and vessels and its ancillary equipment, sales and maintenance of offshore oil and gas drilling equipment and vessels, technology development, technology transfer, technical consultancy and technical services of offshore oil and gas equipment and engage in the business of import and export of goods and technology. The projects, which are subject to approval in accordance with the laws, shall be operated only after obtaining approval from the relevant authorities |

*2. Company History*

Shanghai Honghua is incorporated as a limited liability company in Shanghai, People's Republic of China on 9 September 2009 and is established with investment form Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. The approved operation period of the company is from 9 September 2009 to 8 September 2029, while the registered capital is RMB10.00 million.

In December 2017, the entire equity interests in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. held by Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd was assigned and transferred to Sichuan Honghua Petroleum Equipment Co., Ltd. at no consideration.

The capital contribution and ratio of contributions from Shanghai Honghua as at the Valuation Date are as follows:

| Sequence Numbers | Name of Shareholder                           | Capital Contribution<br>(ten-thousand-yuan) | Ratio of Contributions<br>(%) |
|------------------|-----------------------------------------------|---------------------------------------------|-------------------------------|
| 1                | Sichuan Honghua Petroleum Equipment Co., Ltd. | 1,000.00                                    | 100.00                        |
| Total            |                                               | <u>1,000.00</u>                             | <u>100.00</u>                 |

As at the date of the Valuation Report, there is no change in the equity of Shanghai Honghua.

3. *Assets, Financial and Operational Position for the recent three years and as at the Valuation Date:*

**Balance Sheet**

*Unit: RMB ten thousand*

| Item        | 31 December<br>2015 | 31 December<br>2016 | 31 December<br>2017 | 30 June<br>2018 |
|-------------|---------------------|---------------------|---------------------|-----------------|
| Assets      | 2,489.49            | 2,648.16            | 3,211.00            | 7,962.35        |
| Liabilities | 9,730.03            | 11,229.97           | 15,125.14           | 19,010.16       |
| Net assets  | -7,240.54           | -8,581.81           | -11,914.14          | -11,047.81      |

  

| Item              | 2015      | 2016      | 2017      | January to<br>June in 2018 |
|-------------------|-----------|-----------|-----------|----------------------------|
| Operating revenue | 581.89    | 678.88    | 191.11    | 523.58                     |
| Operating cost    | 491.67    | 576.01    | 176.20    | 505.33                     |
| Net Profit        | -1,313.77 | -1,341.27 | -3,332.33 | 348.50                     |

The financial information for the year 2015 to 2017 were audited by PricewaterhouseCoopers Zhong Tian LLP, Chongqing Branch which issued a standard unqualified opinion audit report of PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2016) No. 088, PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2017) No. 076, and PricewaterhouseCoopers Zhong Tian Chongqing Shen Zi (2018) No. 26624. The information on the valuation date are information for the unaudited financial statement.

## 4. Relationship between the Client and the Appraised Entity

The appraised entity is a sub-subsidiary of the client.

## II. PURPOSE OF VALUATION

According to the “Asset Valuation Engagement Contract” entered into between the client and China Alliance Appraisal, the purpose of the valuation is to provide value reference of the entire shareholders’ equity in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. proposed to be verified by Honghua (China) Investment Co., Ltd..

## III. APPRAISED SUBJECT AND SCOPE OF VALUATION

The appraised subject of the valuation is the value of the entire shareholders’ equity in Shanghai Honghua Offshore, and the scope of the valuation covers the assets and liabilities as at the Valuation Date reported by Shanghai Honghua Offshore. The specific asset types and their book value are set out below:

Unit: RMB

| Sequence<br>Numbers | Item                                               | Book Value             |
|---------------------|----------------------------------------------------|------------------------|
| <b>I</b>            | <b>Total current assets</b>                        | <b>32,789,605.82</b>   |
| 1                   | Cash and cash equivalent                           | 14,983,076.38          |
| 2                   | Accounts receivables                               | 9,721,400.00           |
| 3                   | Other receivables                                  | 8,085,129.44           |
| <b>II</b>           | <b>Total non-current assets</b>                    | <b>46,833,859.66</b>   |
| 1                   | Fixed assets                                       | 374,453.75             |
| 2                   | Constructions in progress                          | 2,416,280.20           |
| 3                   | Intangible assets                                  | 722,648.03             |
| 4                   | R&D expenses                                       | 43,164,529.24          |
| 5                   | Long-term deferred expenses                        | 155,948.44             |
| <b>III</b>          | <b>Total assets</b>                                | <b>79,623,465.48</b>   |
| <b>IV</b>           | <b>Current liabilities</b>                         | <b>190,101,586.12</b>  |
| 1                   | Accounts payables                                  | 79,206.50              |
| 2                   | Receipts in advance                                | 33,199,672.00          |
| 3                   | Payable employee salaries                          | 0.25                   |
| 4                   | Tax payable                                        | -671,732.64            |
| 5                   | Accrued interest                                   | 4,167.21               |
| 6                   | Other payables                                     | 157,490,272.80         |
| <b>V</b>            | <b>Non-current liabilities</b>                     |                        |
| <b>VI</b>           | <b>Total liabilities</b>                           | <b>190,101,586.12</b>  |
| <b>VII</b>          | <b>Net assets (equity interests of the owners)</b> | <b>-110,478,120.64</b> |

1. The appraised subject and scope of valuation are in line with those involved in the economic activities. The financial information as at the Valuation Date stated above was unaudited.
2. The book records of intangible assets declared by the entity are mainly other intangible assets.

The other intangible assets declared by the entity are 2 use rights of computer software and 12 patents, details of which are as follows:

| Sequence Numbers | Name and Information of the Intangible Asset                                              | Patent Number | Date of Obtaining/<br>Application of the Patent | Category             |
|------------------|-------------------------------------------------------------------------------------------|---------------|-------------------------------------------------|----------------------|
| 1                | Computer Software (TRIBON Secondary Development Software)                                 |               | 2016/5/31                                       | External Software    |
| 2                | Computer software (ANSYS software V18.0)                                                  |               | 2018/5/10                                       | External Software    |
| 3                | Intelligent Liquefied Natural Gas (LNG) Power Generating Ship                             | 2017213923803 | 2017/10/26                                      | Utility Model        |
| 4                | Offshore LNG Production and Storage                                                       | 201721342756X | 2017/10/18                                      | Utility Model        |
| 5                | Flat Semi-membrane Prismatic Containment System                                           | 2017213435937 | 2017/10/18                                      | Utility Model        |
| 6                | Receiving and Distributing System for Offshore Platform LNG                               | 2017213435975 | 2017/10/18                                      | Utility Model        |
| 7                | Water Heating Systems for LNG Vaporizer for LNG Powered Inland Vessels                    | 2016208184099 | 2016/8/1                                        | Utility Model        |
| 8                | Fuel Gas Double Cannula Structure for LNG Powered Inland Vessels                          | 201620820940X | 2016/8/1                                        | Utility Model        |
| 9                | Adjustable Fixed Reinforcement Device for Semi-flexible Suspended Tank and Transportation | 2016201599537 | 2016/3/3                                        | Utility Model        |
| 10               | Self-elevating LNG Platform                                                               | 2016200361767 | 2016/1/15                                       | Utility Model        |
| 11               | Intelligent LNG Power Generating Ship                                                     | 2017110145848 | 2017/10/26                                      | Patent for Invention |
| 12               | Production, Storage, Transfer Device and Method of Offshore LNG                           | 2017109722929 | 2017/10/18                                      | Patent for Invention |
| 13               | Receiving and Distributing System for Offshore Platform LNG                               | 2017109722948 | 2017/10/18                                      | Patent for Invention |
| 14               | Flat Semi-membrane Diamond LNG Containment System                                         | 2017109733995 | 2017/10/18                                      | Patent for Invention |

The entity does not declare any intangible assets with no record, while the appraiser does not discover other intangible assets.

3. The appraised entity does not declare off-balance-sheet assets.
4. This valuation does not quote any conclusions of the reports issued by other institutions.

#### **IV. TYPE AND DEFINITION OF VALUATION**

The valuation serves as a reference of the entire shareholders' equity in Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. proposed to be verified by Honghua (China) Investment Co., Ltd., which is generally determined based on open and fair terms. Therefore, the market value on the going concern basis is selected as the type of value, and the specific definitions of which are set out below:

Market value refers to the estimated value of the appraised subject under normal and fair transaction reasonably conducted on the Valuation Date between a willing purchaser and a willing seller wherein both parties act knowledgeably and without compulsion.

Going concern basis in this report refers to the production and operation activities of the appraised subject will maintain the status quo, and that no material changes will occur in the foreseeable future.

#### **V. VALUATION DATE**

According to the "Asset Valuation Engagement Contract" executed by the client and China Alliance Appraisal, the base date of the valuation is 31 August 2018.

The price and other parameters adopted in the valuation are the same as those as at the Valuation Date.

The Valuation Date, i.e. 31 August 2018, was determined according to the needs of the economic activities by the client.

#### **VI. BASIS OF VALUATION**

##### **(I) Basis of Economic Activity**

"Asset Valuation Engagement Contract" executed by the client and China Alliance Appraisal;

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

1. "The Asset Appraisal Law of the People's Republic of China" (《中華人民共和國資產評估法》), adopted at the 21st Session of the Standing Committee of the 12th National People's Congress of the People's Republic of China on 2 July 2016;

2. “Company Law of the People’s Republic of China” (《中華人民共和國公司法》), amended at the 6th Session of the Standing Committee of the 12th National People’s Congress on 28 December 2013;
3. “The Law of the People’s Republic of China on the State-Owned Assets of Enterprises” (《中華人民共和國企業國有資產法》), adopted at the 5th Session of the Standing Committee of the eleventh National People’s Congress on 28 October 2008;
4. “Administrative Measures on State-owned Asset Valuation” (《國有資產評估管理辦法》), Order No. 91 of the State Council (1991);
5. “Interim Regulations on the Supervision and Administration of State-Owned Assets of Enterprises” (《企業國有資產監督管理暫行條例》), Order No. 378 of the State Council (2003);
6. “Regulations on Certain Issues regarding Management on the Provisions on Several Issues concerning State-owned Asset Valuation” (《國有資產評估管理若干問題的規定》), Order No. 14 of the Ministry of Finance (2001);
7. “Interim Measures on the Administration of the Transfer of the State-owned Property Right of Enterprises” (《企業國有產權轉讓管理暫行辦法》), Order No. 12 of SASAC of the State Council (2005);
8. “Notice on Issues Concerning Enhancement of Administration of Valuation of State-owned Assets of Enterprises” (《關於加強企業國有資產評估管理工作有關問題的通知》) (Guo Zi Wei Chan Quan [2006] No. 274);
9. “Notice on Issues Concerning the Development of Publication System for Assets Valuation Items of the Central Enterprises” (《關於建立中央企業資產評估項目公示制度有關事項的通知》) (Guo Zi Fa Chan Quan [2016] No. 41);
10. “Notice on Issues Concerning Enhancement of Administration of Alternative Pools of Asset Appraisal Institutions for Central Enterprises” (《關於加強中央企業評估機構備選庫管理有關事項的通知》) (Guo Zi Fa Chan Quan [2016] No. 42);
11. “The Enterprise Income Tax Law of the People’s Republic of China” (《中華人民共和國企業所得稅法》) (adopted at the 5th Session of the 10th National People’s Congress on 16 March 2007) and its implementing regulations;
12. “Provisional Regulations of the People’s Republic of China on Value-added Tax” (《中華人民共和國增值稅暫行條例》), Order No. 538 of the State Council (2008) and its related revisions (revised in 2017);

13. “Notice of the Ministry of Finance regarding on Comprehensive Implementation of the Pilot Program for Replacement of Business Tax with Value-Added Tax” (《關於全面推開營業稅改徵增值稅試點的通知》), Order No. 36 of the Ministry of Finance, the State Administration of Taxation Caishui [2016];
14. Measures for Financial Supervision and Administration of the Asset Appraisal Sector (《資產評估行業財政監督管理辦法》), Order No. 86 of the Ministry of Finance (2017);
15. Other laws and regulations related to assets valuation.

### (III) Basis of Standards

1. “Assets Valuation Basic Standards” (《資產評估基本準則》) (Cai Zi [2017] No. 43);
2. “Professional Ethical Standards of Assets Valuation” (《資產評估職業道德準則》) (Zhong Ping Xie [2017] No. 30);
3. “Practice Standards on Assets Valuation — Assets Valuation Procedures” (《資產評估執業準則 — 資產評估程序》) (Zhong Ping Xie [2017] No. 31);
4. “Practice Standards on Assets Valuation — Assets Valuation Report” (《資產評估執業準則 — 資產評估報告》) (Zhong Ping Xie [2017] No. 32);
5. “Practice Standards on Assets Valuation — Assets Valuation Engagement Contract” (《資產評估執業準則 — 資產評估委託合同》) (Zhong Ping Xie [2017] No. 33);
6. “Practice Standards on Assets Valuation — Assets Valuation Archive” (《資產評估執業準則 — 資產評估檔案》) (Zhong Ping Xie [2017] No. 34);
7. “Practice Standards on Assets Valuation — Enterprise Value” (《資產評估執業準則 — 企業價值》) (Zhong Ping Xie [2017] No. 36);
8. “Practice Standards on Assets Valuation — Intangible Assets” (《資產評估執業準則 — 無形資產》) (Zhong Ping Xie [2017] No. 37);
9. “Practice Standards on Assets Valuation — Machinery and Equipment” (《資產評估執業準則 — 機器設備》) (Zhong Ping Xie [2017] No. 39);
10. “Guidelines for Valuation Reports on State-owned Assets of Enterprises” (《企業國有資產評估報告指南》) (Zhong Ping Xie [2017] No. 42);
11. “Guidelines on Quality Control of Business Operations of Valuation Institutions” (《資產評估機構業務質量控制指南》) (Zhong Ping Xie [2017] No. 46);

12. “Guiding Opinions on Types of Value under Asset Valuation” (《資產評估價值類型指導意見》) (Zhong Ping Xie [2017] No. 47);
13. “Guiding Opinions on Legal Ownership of Appraised Entities” (《資產評估對象法律權屬指導意見》) (Zhong Ping Xie [2017] No. 48).

**(IV) Basis of Ownership**

1. Motor vehicle driving license;
2. Equipment purchase contract and invoice;
3. Patent certificate;
4. Other title documents provided by the appraised entity.

**(V) Basis for Pricing**

1. “Manual of Data and Parameters Commonly Used for Asset Valuation” (《資產評估常用數據與參數手冊》) (China Economic Science Press);
2. “Interim Regulations of the People’s Republic of China on Value-Added Tax” (《中華人民共和國增值稅暫行條例》), Order No. 538 of the State Council of the People’s Republic of China;
3. “Provisions on the Standards for Compulsory Retirement of Motor Vehicles” (《機動車強制報廢標準規定》), Order No. 12 [2012] of the Ministry of Commerce, National Development and Reform Commission, the Ministry of Public Security, and the Ministry of Environmental Protection;
4. Purchase contracts and agreements of the appraised assets;
5. Relevant price information collected;
6. Relevant information obtained from site inspection and market research performed by the valuers.

**(VI) Other Basis**

1. “Asset Valuation Engagement Contract” entered into between the Client and China Alliance Appraisal;
2. Various “Assets Valuation Reporting Breakdown” provided by the appraised entity;

3. Audit report for the previous years, financial statement as at the Valuation Date accounting documents, information on financial management, bank statements and bank reconciliation statement, as well as the relevant agreements, contracts, invoices and other financial information provided by the appraised entity;
4. Interview records of the relevant personnel of the appraised entity;
5. Other relevant information provided by the appraised entity.

## VII. VALUATION APPROACH

### Introduction on the valuation approach

#### *The asset-based approach*

The asset-based approach used in the assessment of enterprise value refers to the valuation approach for determining the value of the appraised enterprise by reasonable assessment of on-balance sheet and off-balance sheet assets and liabilities of the enterprise based on the balance sheet of the appraised enterprise on the Valuation Date.

- (1) *Monetary current assets*: includes cash and bank deposit. The appraisal value is determined based on the verified book value which is arrived at after checking of on-site inventory checking, verification of bank statements, bank confirmations, and verification of the proofs of monetary funds.
- (2) *Debt-based current assets*: includes prepayments and other receivables. The appraisal value is determined after verifying the authenticity of the debts by confirmations, verifications and other methods and considering the possible losses from bad debts by analyzing the creditworthiness, solvency and aging of debts of the debtors.
- (3) *Constructions in progress*: The appraisal value is determined in accordance with the principle of importance based on the verified book value which is arrived at after collecting compliance documents including the preliminary design and approval documents which are classified by the characteristics of the type of the construction in progress and the amount of money; collecting information related to the valuation, such as the engineering contracts and invoices, engineering drawings, budget estimation documents and project settlement documents; and checking the detailed amounts and the contents in the detailed accounts and general ledger of the construction in progress.
- (4) *Development expenditure*: the breakdown accounts and evidence of the development expenditure are examined; the accuracy of the book record is verified in accordance to tax laws; and the compliance with relevant requirement of the accounting record is evaluated. For the clearly terminated projects, the development expenditure are treated as expense in this assessment,

with its assessed value of zero; for the suspended projects and projects in progress, their verified and confirmed carrying amounts are recognized as assessed value.

- (5) *Fixed Asset — Vehicles and Electronic Equipment*: the appraised value is determined by replacement cost method. The basic formula is: Appraised Value = Full Replacement Cost x Residue Ratio.
- (6) *Constructions in progress*: the valuation method is determined by the nature of various verified expenditures incurred for equipment under construction after the actual situation of the constructions in progress is well-understood through on-site investigations.
- (7) *Intangible assets — other intangible assets*: for computer software, the appraisal value is determined, taking into account of depreciation factors, based on the price of that particular type of software available as at the Valuation Date. For patent technologies, the appraisal value in this assessment is recorded at its book value since there is no significant profit or cost-savings generated by the patent technologies to the enterprise.
- (8) *Long-term deferred expenses*: the detailed accounts of long-term deferred expenses are reviewed and analysed and the documents such as the original invoice as at the time when the long-term deferred expenses are incurred and related agreement and contracts are examined. In respect of the assets or rights that still existed in the appraised entity after the assessment purpose is achieved, the appraisal value is determined based on its book value in accordance with its original amount, benefit period.
- (9) *Liabilities*: determined based on the actual liabilities and amount assumed by the enterprise on the Valuation Date.

**VIII. PROCESS AND STATUS FOR THE IMPLEMENTATION OF VALUATION  
PROCEDURES**

This valuation is conducted mainly in four stages.

**(I) Preparation for valuation**

Conduct negotiations with the client to set out the basic matters for the valuation engagement; Conduct a comprehensive analysis and an appraisal on its own professional competence, independence and business risks before accepting the commission and executing the Asset Valuation Engagement Contract; Confirmation of officer in charge of the project, set up the valuation team and prepare the valuation plan; Provide guidance to the appraised entity on completing the asset valuation declaration form; Prepare the information required for the asset valuation.

**(II) On-site investigation and collection of valuation data and information**

Based on the specific conditions of this valuation and in accordance with the criteria of valuation procedures and other relevant requirements, the valuation officer conducts on-site investigation by means such as enquiry, external confirmation, verification, supervision of stocktaking, investigation, inspection and sampling check and acquire valuation data and information from all possible sources, identify the scope of valuation and understand the current status of the appraised entity and its legal title of ownership.

**(III) Valuation and estimation**

Valuation data and information collected will go through the necessary analysis, collation and consolidation to formulate the bases for the valuation and estimation. Based on relevant conditions such as the subject under valuation, types of value and the status on the collection of valuation data and information, a suitable valuation will be selected, and an initial valuation results will be formulated based on the analysis, calculation and determination conducted by using the corresponding formulae and parameters.

**(IV) Preparation and submission of valuation report**

Prepare the relevant valuation explanation based on the preliminary valuation results on various types of assets by various valuation teams. Upon verifying and confirming that the valuation results of the relevant appraisal on the specific asset items are accurate and free from error and no duplication and omission of valuation work is found, the assets valuation summary will be analyzed based on the explanation of each asset valuation, the final conclusion on valuation will be confirmed and asset valuation report will be drawn up. Necessary internal audit on the valuation report and execution of the valuation procedures will be conducted in accordance with relevant laws, regulations, asset valuation standard as well as the internal quality control system of the appraised entity. Necessary communication in respect of the relevant contents contained in the valuation

report will be made to the client or the relevant counterparties authorized by the client. A formal asset valuation report will be submitted to the client in compliance with the requirements stated in the Asset Valuation Engagement Contract.

## **IX. VALUATION ASSUMPTIONS**

In this valuation, the valuation officers have complied with the following valuation assumptions:

1. This valuation is subject to the specific valuation purposes set out in this valuation report;
2. In this valuation, it is assumed that the operation of the appraised entity is legal and there will not be any unforeseeable factor that will render its operation unsustainable;
3. Only market value will be considered in this valuation. The impact of the economic behaviour involved in the purposes of this valuation on the operations of the entities will not be taken into consideration;
4. The relevant basic data and financial information provided by the appraised entity and the client are true, correct and complete;
5. In this valuation, unless otherwise specified, neither the effect of any security and guarantee over the equity interests or underlying assets of the appraised entity on the appraised value, nor the effect of any change in national macro-economic policies and occurrences of events of force of nature and other force majeure on the value of the assets has been taken into consideration;
6. This valuation is based on existing national laws, regulations, taxation policies and financial policies, and any future unforeseeable material change on the basis of valuation has not been taken into account;

If any violation on the above assumptions and conditions occurs, the valuation results will become invalid in general.

**X. VALUATION CONCLUSION****Valuation results based on asset-based approach**

The appraised value of the entire shareholders' equity in Shanghai Honghua determined based on the adopted asset-based approach amounts to RMB110,927,100, representing an impairment of RMB449,000 and a impairment rate of 0.41%. The valuation results are as follows:

**Summary of Asset Valuation Results (Asset-based Approach)**

*Unit: RMB ten thousand*

| Items                                                  |           | Net Book<br>Value<br>A | Valuation         | Changes<br>C = B-A | Rate of<br>appreciation<br>(%)<br>D = C/A×100 |
|--------------------------------------------------------|-----------|------------------------|-------------------|--------------------|-----------------------------------------------|
| Current assets                                         | 1         | 3,278.96               | 3,178.96          | -100.00            | -3.05                                         |
| Non-current assets                                     | 2         | 4,683.39               | 4,738.49          | 55.10              | 1.18                                          |
| Of which: Long-term<br>equity investment               | 3         | —                      | —                 |                    |                                               |
| Investment real estate                                 | 4         | —                      | —                 |                    |                                               |
| Fixed assets                                           | 5         | 37.45                  | 228.33            | 190.88             | 509.76                                        |
| Constructions in progress                              | 6         | 241.63                 | 241.63            | —                  | —                                             |
| Intangible assets                                      | 7         | 72.26                  | 82.19             | 9.93               | 13.73                                         |
| Of which: Land use rights                              | 8         | —                      | —                 |                    |                                               |
| Other non-current assets                               | 9         | 4,332.05               | 4,186.35          | -145.70            | -3.36                                         |
| <b>Total asset</b>                                     | <b>10</b> | <b>7,962.35</b>        | <b>7,917.45</b>   | <b>-44.90</b>      | <b>-0.56</b>                                  |
| Current liabilities                                    | 11        | 19,010.16              | 19,010.16         | —                  | —                                             |
| Non-current liabilities                                | 12        | —                      | —                 |                    |                                               |
| <b>Total liabilities</b>                               | <b>13</b> | <b>19,010.16</b>       | <b>19,010.16</b>  | <b>—</b>           | <b>—</b>                                      |
| <b>Net assets (equity<br/>interests of the owners)</b> | <b>14</b> | <b>-11,047.81</b>      | <b>-11,092.71</b> | <b>-44.90</b>      | <b>-0.41</b>                                  |

For details of the valuation results using asset-based approach, please refer to the table of valuation particulars using asset-based approach.

The valuation conclusion is arrived based on the above assessment work.

**XI. SPECIAL ISSUES**

We wish to draw the attention on the users of this report to the following special issues contained herein:

1. The conclusion of the valuation contained herein is reached by the value stated herein for the purpose of valuation as reflected as at the Valuation Date at the premise of the assumption that there have been no changes or variations whatsoever to the appraised entities under valuation through engagement as a going concern subject to the external macroeconomic environment.
2. The valuation report is compiled and prepared based on data and information contained in the fundamental documents provided by the client and the relevant counterparties. It is the responsibility of the client and the relevant counterparties to provide the necessary information and to ensure its truthfulness, legitimacy and completeness. It is the responsibility of the valuer to analyze and estimate the value of the appraised subject for a specific purpose as at the Valuation Date and express its professional opinions.
3. This valuation conclusion shall not serve as the assurance for the realizable price of the appraised subject.
4. The possible changes in the taxation obligations due to the increase or decrease in appraised values have not been taken into consideration in this valuation conclusion.
5. The client and the relevant counterparties shall be responsible for the truthfulness, legitimacy and completeness of the information in respect of the legal title of ownership of the appraised subject provided by them. It is the responsibility of the asset valuer to make the necessary verification and disclosure as required for such information and its sources with no assurance given on the title of ownership of the assets to be appraised under this engagement. The confirmation of or views on the legal title of ownership of the appraised subject would go beyond the scope of practice of the certified asset valuer. We hereby draw the attention of the users of this report to the impact of the defects in title on the valuation conclusion as disclosed herein.

We hereby draw the attention of the users of this report to the impact of the abovementioned special issues on the valuation conclusion.

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

The restrictions on the use of the valuation report are as follows:

1. This valuation report can only be used by the users as stated herein for the evaluation objectives and purposes as stated herein. The users should use this valuation report in a proper manner in accordance with the relevant laws, regulations as well as the requirements as stated in the Asset Valuation Engagement Contract. The users of this report shall assume the inconvenience and loss caused by the incorrect and improper use of this valuation report.
2. The valuation conclusion shall not be used until the filing of this valuation report to the supervisory and administrative authorities on the valuation of state-owned assets of enterprises is complete.
3. No extraction, quotation or disclosure of the content of this valuation report is allowed unless with written consent is obtained from the Company, save and except otherwise specified by laws, regulations or otherwise agreed by the relevant counterparties.
4. The use of the conclusion of the valuation report shall be valid, in principle, for one year commencing from the Valuation Date. Should there be any material changes to the status of the assets and market conditions for the validity period as compared to those as at the Valuation Date, the client shall appoint a valuation agency to appraise the updated business or conduct a reappraisal.

**XIII. VALUATION REPORT DATE**

This valuation report is dated 4 December 2018.

2 November, 2018

Honghua (China) Investment Co., Ltd  
No. 99, East Rd., Information Park,  
Jinniu District, Chengdu, Sichuan, China

**Summary of Valuation Report**

Dear Sirs

**1. Introduction**

Ernst & Young (China) Advisory Limited Beijing Branch (“EY” or “we”), was engaged by Honghua (China) Investment Co., Ltd. (“Honghua” or the “Company”) to perform indicative valuation analysis of the market values of the 25% equity interest in FSP LNG B.V., the 70% equity interest in Hong Kong Tank Tek Limited and the 30% equity interest in Prime FSP LLC (collectively known as the “Target Companies”) as of August 31, 2018. This letter has been prepared for the purpose of disclosure as an Appendix to this circular and is a summary of the information contained in our Indicative Value Analysis Report dated 2 November, 2018 (the “Report”).

**2. Terms of reference***Valuation purpose*

Honghua intends to transfer the equity shares of 25% in FSP LNG B.V., 70% in Hong Kong Tank Tek Limited and 30% in Prime FSP LLC, directly or indirectly owned by it to a related party. The valuation analysis is performed for Honghua reference only.

*Value basis*

EY adopted market value as the basis of value for this indicative value analysis. Market value is defined as “the estimated amount for which a business should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.”

*Valuation date*

August 31, 2018

*Limitations of valuation*

This letter has been prepared for the purpose disclosed in the engagement agreement signed between EY and Honghua (the “Engagement Agreement”) and should not be used or relied upon for any other purpose. This letter and its contents may not be quoted, referred to or shown to any other parties except as provided in the Engagement

Agreement. We accept no responsibility or liability to any person other than Honghua, or to such party to whom we have agreed in writing to accept a duty of care in respect of this letter and the Report, and accordingly if such other persons choose to rely upon any of the contents of this letter and the Report, they do so at their own risk.

No investigation has been made of, and no responsibility is assumed for, the legal description of the intellectual property being valued or legal matters, including title or encumbrances. Title to the intellectual property is assumed to be good and marketable unless otherwise stated. The intellectual property is assumed to be free and clear of any liens, easements, encroachments, or other encumbrances unless otherwise stated.

Information furnished by others, upon which all or portions of this appraisal are based, is believed to be reliable but has not been verified in all cases. No warranty is given as to the accuracy of such information.

It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can readily be obtained or renewed for any use on which the value estimates contained in this letter are based.

No responsibility is taken for changes in market conditions, and no obligation is assumed to revise this letter to reflect events or conditions, which occur subsequent to the date hereof.

Neither EY nor any individual signing or associated with this letter shall be required by reason of this letter to give further consultation, provide testimony, or appear in court or at other legal proceedings unless specified arrangements therefore have been made.

This letter has been made only for the purpose stated and shall not be used for any other purpose. Neither this letter nor any portions thereof (including, without limitation, any conclusions as to value or the identity of EY or any individual signing or associated with this letter or the professional associations or organizations with which they are affiliated) shall be disseminated to third parties by any means without the prior written consent and approval of EY.

The Valuation Date to which the opinions expressed in this letter apply is set forth in this letter. Our recommendation of value is based on the purchasing power of the local unit, as of that date.

The Company shall indemnify and hold harmless EY and its personnel from and against any claims, liabilities, costs, and expenses (including, without limitation, attorneys' fees and the time of EY personnel involved) brought against, paid, or incurred by EY at any time and in any way arising out of or relating to EY's services under this letter, except to the extent finally determined to have resulted from the gross negligence or willful misconduct of EY personnel. This provision shall survive the termination of this

agreement for any reason. As part of the valuation process we have adopted an approach combining various valuation procedures to determine the market value of the subject assets.

We prepared this letter having regard to information supplied by the management of Honghua (the “Management”) and to information compiled and gathered by EY. We have been assured that all information supplied to us by the Management is accurate and unbiased. During our investigations we found no reason or evidence to suggest otherwise. As part of the valuation process, we adopted an approach combining various valuation procedures to determine the market value of the subject assets.

All information used or produced by EY to obtain this valuation complies with recognized valuation practice and methodologies.

The valuation methodologies used in this valuation are appropriate. In our choice of methodologies used for this valuation we have taken into account the type of assets, location, age, the industry and current domestic and overseas industry markets.

Our views are based on the current economic, market, industry, regulatory, monetary and other conditions and the information made available to us as of the date of the letter. Such conditions may change significantly over a relatively short period of time and we assume no responsibility and are not required to update, revise or reaffirm our conclusion set out in the letter to reflect events or developments subsequent to the date of this letter.

*Nature and scope of the services*

The nature and scope of the services, including the basis and limitations, are detailed in the Engagement Agreement. This valuation analysis should not be construed as investment advice and should not be used as a basis to set a transaction price. We assume no responsibility for any potential buyer or Honghua to negotiate a purchase or sale at the recommended values. The contents of our letter and the Report have been reviewed by the Company’s management, who has confirmed to us their factual accuracy.

We are not expressing an opinion on the commercial merits and structure of the Target Companies, and accordingly the letter do not purport to contain all the information that may be necessary or desirable to fully evaluate the commercial or investment merits of the Target Companies by the current and prospective investors. The assessment of the commercial or investment merits of the Target Companies is solely the responsibility of the Directors of Honghua. Additionally, our work should not be construed as investment advice to the current and prospective investors of the Target Companies.

We have not conducted a comprehensive review of the business, operational or financial conditions of the business of the Target Companies, and accordingly the letter do not make any representation or warranty, expressed or implied, in this regard.

The scope of our engagement does not require us to express, and we do not express, a view on the future prospects of the Target Companies. We are, therefore not expressing any views on the financial condition of the Target Companies.

*Use of our letter*

This letter are addressed solely to and for the use and benefit of Honghua for the purpose as set out above, and accordingly the letter may neither be used or relied upon by, nor confer any benefit to, any other person (including without limitation, the current and prospective investors of Honghua).

Any recommendations made by the Management to the current and prospective investors shall remain the responsibility of Honghua.

*Reliance on information and representation*

In the course of our work, we have held discussions with the Management. We have also examined and relied on information provided by them and reviewed other relevant publicly available information. We have not independently verified all such information provided or any representation or assurance made by them, whether written or verbal, and accordingly cannot and do not warrant or accept responsibility for the accuracy or completeness of such information, representation or assurance. We have been assured that all information supplied to us by the Management is accurate and unbiased. During our investigations we found no reason or evidence to suggest otherwise. As part of the valuation process, we adopted an approach combining various valuation procedures to determine the market value of the subject Target Companies.

Any recommendations made by the Management to the current and prospective investors shall remain the responsibility of Honghua.

In no circumstances shall we be liable, other than in the event of our bad faith or willful default, for any loss or damage, of whatsoever nature arising from information material to our work being withheld or concealed from us or misrepresented to us by the Management, employees, or agents or any person of whom we may have made inquiries of during the course of our work.

Honghua agrees to indemnify and to hold harmless EY and its partners, employees and affiliated entities (“Associates”) from and against any and all losses, claims, costs, damages, actions, proceedings, demands, liabilities and expenses whatsoever (the “Claims”), joint or several, which EY and its Associates may suffer or incur in any jurisdiction whatsoever and which relate to or arise from, directly or indirectly, the provision of EY of its services, including but not limited to any action or claim by third parties in this engagement. For the avoidance of doubt, in the event of any claims whatsoever by any third parties herein, Honghua shall fully indemnify EY against such action or claim.

Neither EY nor any of its Associates will be liable to you or to any third parties whatsoever and howsoever arising out of (directly or indirectly) this engagement and you also agreed that you will not make any claim against EY and its Associates in respect of any matter howsoever and whatsoever arising out of or at all connected with this engagement except to the extent that the liabilities arise from fraud on the part of EY or its Associates.

The foregoing indemnity and exclusion of liabilities shall be in addition and without prejudice, to any rights that EY and its Associates may have at common law or otherwise and shall remain in full force and effect regardless of whether EY's appointment hereunder is terminated.

### **3. Valuation methodology**

In arriving at the market values of respective equity interests owned by Honghua in the Target Companies, we have adopted Asset-based Approach.

The Asset-based Approach indicates the value of a business or a company by estimating the market value of the total assets minus the market value of total liabilities.

As the Target Companies are all in the early-stages of development, we have adopted the Asset-based Approach in our analysis. By using Asset-based Approach, the value of the assets and liabilities on the balances can be well reflected. The Income Approach typically applies to businesses which future financial performance can be reliably estimated. As the Management represented that it was difficult to reliably estimate related future prospect/forecast for the Target Companies given their stage of operation, the Income Approach is not applicable for the indicative value analysis. The Market Approach typically applies to business with stable financial performance. Considering Target Companies' current operational and financial status, the comparable companies may be difficult, if not impossible, to find. Furthermore, even if pricing data can be found, until product or service feasibility is achieved, comparability among early-stage enterprises is difficult to achieve. Hence, the Market Approach is not appropriate for the indicative value analysis.

### **4. Valuation conclusion**

Based on the Target Companies' historical financial data provided by the Management, key assumptions and other information, we conclude that the market values of the respective equity interests of the Target Companies as of the Valuation Date under Asset-based Approach were:

- Negative EUR44,138 for the 25% equity interest in FSP LNG B.V.;
- Negative USD4,105,933 for the 70% equity interest in Hong Kong Tank Tek Limited; and
- Negative USD402,922 for the 30% equity interest in Prime FSP LLC.

We have performed the valuation under the assumption that Target Companies are going-concerns. Future investors of the Target Companies are financially capable and willing to continue to invest and support the FSP technology's application in LNG tank, including research and development ("R&D") and commercialization and have the Target Companies settle their liabilities.

## 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) Directors and chief executive of the Company

As at the Latest Practicable Date, the following Directors of the Company had interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”):

(a) *Ordinary shares of HK\$0.1 each of the Company*

| Name         | Long/Short position | Nature of interest                                                         | Number of Shares held        | % of the issued share capital of the Company |
|--------------|---------------------|----------------------------------------------------------------------------|------------------------------|----------------------------------------------|
| Mr. Zhang Mi | Long                | Personal interest, corporate interest and settlor of a discretionary trust | 1,083,554,363 <sup>(1)</sup> | 20.23%                                       |
| Mr. Ren Jie  | Long                | Personal Interest, corporate interest and settlor of a discretionary trust | 33,776,200 <sup>(2)</sup>    | 0.63%                                        |
| Miss Su Mei  | Long                | Personal interest                                                          | 150,000 <sup>(3)</sup>       | 0.002%                                       |

*Notes:*

- (1) Zhang Mi individually owns 3,050,000 Shares. Yi Langlin, spouse of Zhang Mi owns 2,156,000 Shares. Zhang Mi is the settlor of a discretionary trust, The ZYL Family Trust, whose trustee, through Wealth Afflux Limited, holds the 36% of the issued share capital of Ally Giant Limited which holds 920,548,363 Shares. The Trustee of The ZYL Family Trust owns 157,800,000 Shares
- (2) Ren Jie individually owns 1,549,000 Shares. He is the settlor of a discretionary trust, The Trustee of The RJDJ Victory Trust owns 32,227,200 Shares.
- (3) Su Mei individually owns 150,000 Shares.

*(b) Share Options of the Company*

|                  | <b>Long/Short Position</b> | <b>Number of<br/>options held—<br/>Personal interest</b> |
|------------------|----------------------------|----------------------------------------------------------|
| Mr. Zhang Mi     | Long                       | 5,127,000                                                |
| Mr. Ren Jie      | Long                       | 5,472,000                                                |
| Mr. Liu Xiaofeng | Long                       | 3,450,000                                                |
| Mr. Chen Guoming | Long                       | 2,550,000                                                |

As at the Latest Practicable Date, so far as was known to the Directors, none of the Directors is a director or employee of a company which has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**(B) Substantial Shareholders**

As at the Latest Practicable Date, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had an interest of 5% or more in the issued share capital of the Company and this interest represents long positions in the ordinary shares of HK\$0.1 each of the Company.

|                                                           |                     |                   |                                 | Number of shares held |                                                         |   |                               |                                              |
|-----------------------------------------------------------|---------------------|-------------------|---------------------------------|-----------------------|---------------------------------------------------------|---|-------------------------------|----------------------------------------------|
| Name                                                      | Long/Short position | Personal interest |                                 | Corporate interest    | Corporate interest and Settlor of a Discretionary Trust |   | Interest of the Concert Group | % of the issued share capital of the Company |
|                                                           |                     | Share Option      | Shares Interest                 |                       |                                                         |   |                               |                                              |
| Ally Giant Limited                                        | Long                | —                 | 920,548,363                     | —                     | —                                                       | — | 920,548,363 <sup>(1)</sup>    | 17.18%                                       |
| Wealth Afflux Limited                                     | Long                | —                 | 157,800,000                     | 920,548,363           | —                                                       | — | 1,078,348,363 <sup>(2)</sup>  | 20.13%                                       |
| Equity Trustee Limited                                    | Long                | —                 | —                               | —                     | 1,226,625,763                                           | — | 1,226,625,763 <sup>(3)</sup>  | 22.90%                                       |
| Yi Langlin                                                | Long                | —                 | 2,156,000                       | —                     | —                                                       | — | 1,088,681,363 <sup>(4)</sup>  | 20.32%                                       |
|                                                           |                     |                   | 1,086,525,363 (family interest) |                       |                                                         |   |                               |                                              |
| Kehua Technology Co., Limited                             | Long                | —                 | 1,606,000,000                   | —                     | —                                                       | — | 1,606,000,000 <sup>(5)</sup>  | 29.98%                                       |
| Shenzhen Aerospace Industry Technology Research Institute | Long                | —                 | —                               | 1,606,000,000         | —                                                       | — | 1,606,000,000 <sup>(5)</sup>  | 29.98%                                       |
| China Aerospace Science & Industry Corporation Limited    | Long                | —                 | —                               | 1,606,000,000         | —                                                       | — | 1,606,000,000 <sup>(5)</sup>  | 29.98%                                       |

*Notes:*

- (1) Ally Giant Limited is owned by Wealth Afflux Limited and others 33 shareholders, holding 920,548,363 Shares in total.
- (2) Wealth Afflux Limited is held by Equity Trustee Limited (as the trustee of The ZYL Family Trust). The ZYL Family Trust is a discretionary trust established by Zhang Mi (as the settlor), with Equity Trustee Limited (as the trustee). The beneficiaries under The ZYL Family Trust are Zhang Mi and his family members.
- (3) Equity Trustee Limited, as the trustee of The ZYL Family Trust and the 8 other Trusts, holds 1,226,625,763 Shares in total.
- (4) Yi Langlin, spouse of Zhang Mi, is deemed to be interested in 1,088,681,363 Shares in which Zhang Mi holds 5,127,000 share options.
- (5) Kehua Technology Co., Limited is owned 40% by Shenzhen Aerospace Industry Technology Research Institute and 60% by China Aerospace Science and Industry Corporation Limited and holds 1,606,000,000 Shares.

Save as disclosed above, there is no person or entity other than a director or chief executive of the Company whose interests are disclosed under the paragraph headed “Directors’ interests” above, who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

### **3. DIRECTORS’ INTERESTS**

As at the Latest Practicable Date, none of the Directors had any interests, either directly or indirectly, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017, the date to which the latest published audited consolidated accounts of the Group were made up.

As at the Latest Practicable Date, there was no subsisting contracts of significance in relation to the Group’s business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly.

### **4. 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 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

### **5. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors nor their respective associates had an interest in any business apart from the Group’s business which competes or is likely to compete, either directly or indirectly, with the Group’s business.

### **6. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which is not expiring nor determinable by the Company or any of its subsidiaries within one year without payment of compensation other than statutory compensation.

## 7. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinions or advice contained in this circular:

| Name                                                         | Qualification                                                                                                |
|--------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| China Alliance Appraisal Co., Ltd.                           | PRC independent valuer                                                                                       |
| Ernst & Young (China) Advisory Limited Beijing Branch Office | PRC independent valuer                                                                                       |
| Gram Capital Limited                                         | a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO) |

As at the Latest Practicable Date, the above experts did not have:

- (a) any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017 (being the date to which the latest published audited consolidated financial statements of the Group were made up); and
- (b) any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

China Alliance Appraisal Co., Ltd., Ernst & Young (China) Advisory Limited Beijing Branch Office and Gram Capital have given and have not withdrawn their consent to the issue of this circular with the inclusion of its letter or extract of its report, and reference to its name in the form and context in which it appears herein.

## 8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong from 9:00 a.m. to 6:00 p.m. on any business day from the date of this circular up to and including the closing date of the EGM:

- (i) this circular;
- (ii) the agreements relating to the Transactions;
- (iii) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 38 of this circular;

- (iv) the letter of advice from Gram Capital to the Independent Board Committee and the Shareholders, the text of which is set out on pages 39 to 64 of this circular;
- (v) Valuation reports issued by China Alliance Appraisal Co., Ltd., and Ernst & Young (China) Advisory Limited Beijing Branch Office; and
- (vi) the written consents as referred to under the section headed “Experts and Consents” in this appendix.
- (vii) the Memorandum and Articles of Association, and the annual report for the financial years of 2016 and 2017 of the Company.

## 9. MATERIAL CONTRACTS

Save for the agreements in relation to the Transactions, no contract, not being contracts in the ordinary course of business of the Group, has been entered into by the members of the Group within the two (2) years immediately preceding the Latest Practicable Date.

## 10. LITIGATION

Save for the announcements of the Company dated 24 May 2018 and 2 July 2018, neither the Group nor any other member of the Group has engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

## 11. MISCELLANEOUS

- (i) Ms. Lee Mei Yi of Tricor Services Limited has been engaged by the Company as its joint company secretary. Its primary contact person at the Company is Ms. Zhuang Wenmin, another joint company secretary of the Company.
- (ii) The registered office of the Company is situated at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands and the principal place of business of the Company in Hong Kong is situated at Room 2508, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.
- (iii) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (iv) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.



宏华集团  
HONGHUA GROUP

**Honghua Group Limited**

宏華集團有限公司

*(a company incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 196)**

## **NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting (“EGM”) of Honghua Group Limited (the “**Company**”) will be held at Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Thursday, 20 December 2018 at 9:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

### **ORDINARY RESOLUTIONS**

**“THAT:**

1. (a) the Equity Disposal on Offshore Segment, comprising of Jiangsu Offshore Agreement, Shanghai Offshore Agreement, FSP and Tank Tek Agreement and Prime Agreement and the transactions contemplated thereunder be and are hereby approved; and  
  
(b) any one director be and is hereby authorised to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he may in his discretion consider necessary or desirable for the purposes of or in connection with or to give effect to the aforesaid Equity Disposal on Offshore Segment and the related agreements and the transactions contemplated thereunder.
2. (a) the debt arrangement for the Offshore Segment, comprising of Domestic Debt Repayment Agreement, Overseas Debt Repayment Agreement and their ancillary arrangements (including Debt Security Agreement, Borrowing Agreement and Shareholders Agreement) and the transactions contemplated thereunder be and are hereby approved; and  
  
(b) any one director be and is hereby authorised to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he may in his discretion consider necessary or desirable for the purposes of or in connection with or to give effect to the aforesaid debt arrangement for the Offshore Segment and the related agreements and the transactions contemplated thereunder.

## NOTICE OF EGM

3. (a) SIIC Guarantee and the transactions contemplated thereunder be and are hereby approved; and
- (b) any one director be and is hereby authorised to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he may in his discretion consider necessary or desirable for the purposes of or in connection with or to give effect to the SIIC Guarantee and the transactions contemplated thereunder.”

By order of the Board  
**Honghua Group Limited**  
**Jin Liliang**  
*Chairman*

Hong Kong, 4 December 2018

*Registered office:*

Clifton House, 75 Fort Street  
PO Box 1350, Grand Cayman  
KY1-1108, Cayman Islands

*Head Office:*

99 East Road,  
Information Park  
Jinniu District, Chengdu  
Sichuan  
People's Republic of China  
Post code: 610036

*Principal place of business  
in Hong Kong:*

Room 2508,  
Harcourt House  
39 Gloucester Road  
Wan Chai, Hong Kong

*Notes:*

1. A member of the Company who is entitled to attend and vote at the EGM convened by the above notice is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company but must attend in person to represent the member. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf. 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. Every member present in person or by proxy shall be entitled to one vote for each share held by him.
2. In order to be valid, the form of proxy together with the power of attorney or other authority under which it is signed or a certified copy of such power of attorney or authority, must be deposited at the Company's Hong Kong branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the EGM or any adjournment thereof. Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
3. Where there are joint registered holders of any share of the Company, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of shareholders of the Company in respect of such share shall alone be entitled to vote in respect thereof.

## NOTICE OF EGM

4. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 17 December 2018 to Thursday, 20 December 2018, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 14 December 2018.
5. Unless the context requires otherwise, capitalized terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 4 December 2018.

*As at the date hereof, the executive directors of the Company are Mr. Jin Liliang (Chairman), Mr. Zhang Mi and Mr. Ren Jie, the non-executive directors of the Company are Mr. Han Guangrong and Mr. Chen Wenle, and the independent non-executive directors of the Company are Mr. Liu Xiaofeng, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok, Mr. Chang Qing and Mr. Wu Yuwu.*