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中國機械設備工程股份有限公司
China Machinery Engineering Corporation*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code:1829)

ANNOUNCEMENT

CONNECTED TRANSACTION

ACQUISITION OF 64.82% EQUITY INTEREST IN HARBIN POWER SYSTEM ENGINEERING AND RESEARCH INSTITUTE CO., LTD.

On December 17, 2019, the Company and Science and Technology Research Institute entered into the Acquisition Agreement, pursuant to which the Company has agreed to acquire, and Science and Technology Research Institute has agreed to dispose of, 64.82% equity interest in CHPI for an aggregate consideration of RMB100,885,800, subject to the terms and conditions of the Acquisition Agreement.

As at the date of this announcement, SINOMACH directly and indirectly holds approximately 77.99% of the issued share capital of the Company. SINOMACH is a controlling shareholder of the Company, and Science and Technology Research Institute is a subsidiary of SINOMACH, thus a connected person of the Company according to Rule 14A.07(4) of the Listing Rules. Therefore, the Acquisition contemplated under the Acquisition Agreement entered into between the Company and Science and Technology Research Institute constitutes a connected transaction of the Company under Rule 14A.24(1) and 14A.25 of the Listing Rules.

As the applicable percentage ratios (as defined under Chapter 14 of the Listing Rules) for this Acquisition Agreement are more than 0.1% but less than 5%, the entering into of the Acquisition Agreement is subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Attention: Shareholders and potential investors should note that the Acquisition is subject to the fulfillment of a number of conditions, and accordingly, the transaction contemplated under the Acquisition Agreement may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares of the Company.

I. PRINCIPAL TERMS OF THE ACQUISITION AGREEMENT

1. Date

December 17, 2019

2. Parties

- 1) The Company (as Purchaser); and
- 2) Science and Technology Research Institute (as Seller).

3. Interests to be acquired

The 64.82% equity interest in CHPI held by Science and Technology Research Institute.

4. Consideration

The aggregate consideration for the transfer of the 64.82% equity interest in CHPI by Science and Technology Research Institute to the Company is RMB100,885,800.

The consideration was determined after arm's length negotiation between the parties to the Acquisition Agreement, based on the appraised value of CHPI's total shareholders' equity as at December 31, 2018 (the "**Valuation Benchmark Date**") by adopting the income approach, being RMB155,640,000 (book value is RMB90,041,800), as set out in the asset valuation report (the "**Valuation Report**") issued by the Valuer on November 28, 2019. The Company shall, in respect of the 64.82% equity interest of CHPI, enjoy the profits earned, or bear the losses incurred, by CHPI for the period from the Valuation Benchmark Date to the Completion Date, as the case may be.

Profit Forecast in relation to the Valuation Report

Given that the appraisal of CHPI has adopted the use of the income approach, which involves the discounted cash flow method, such valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

Pursuant to Rule 14.62(1) of the Listing Rules, the principal assumptions upon which the Valuation Report has been prepared are set out below:

- (1) Assuming CHPI will continue as a going concern after the Valuation Benchmark Date;
- (2) Assuming that CHPI's income, cost and expenses of the forecasting period are all occurred during the period;
- (3) Assuming that both parties, whose assets are in trading or proposed to be traded on the market, have equal status, chance and time to obtain enough market information, so as to make rational judgment on the transaction value of total shareholders' equity of CHPI;

- (4) There is no significant change in the current applicable laws, regulations and policies of the country and the national macroeconomic situation; there is no significant change to the political, economic and social environment of the areas at which the parties of this transaction are located;
- (5) Assuming the operator is responsible for CHPI and CHPI's management is competent for its job;
- (6) Assuming CHPI maintains the existing management style and level, business scope and mode;
- (7) Assuming CHPI fully complies with all relevant laws and regulations, unless otherwise stated;
- (8) Assuming that the accounting policies that CHPI will adopt are the same as the accounting policies adopted when preparing the Valuation Report in material aspects;
- (9) CHPI is a high-tech enterprise, enjoying the preferential conditions for income tax paid at 15%, assuming that CHPI can continue to be recognized as high-tech enterprise in the future years;
- (10) There is no significant change in interest rates, tax base, tax rates and policy-based collection costs; and
- (11) There are no force majeure events or unforeseeable factors that may have material adverse impact on CHPI.

Ernst & Young (“EY”) has reviewed the calculation method of the income approach used in the Valuation Report, and the Financial Adviser has also confirmed that the forecast has been made by the Directors after due and careful enquiry. A letter from EY and a letter from the Financial Adviser are set out in Appendix I and Appendix II to this announcement, respectively.

The qualifications of the experts who have provided their opinions and advises, which are included in this announcement, are as follows:

Name	Qualification
Beijing Zhuoxindahua Appraisal Co., Ltd.	Qualified Independent Valuer in the PRC
EY	Certified Public Accountants
China Securities (International) Corporate Finance Company Limited	a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)

Each of the above experts has given and has not withdrawn its written consent to the issue of this announcement with a copy of its letter and/or the reference to its name (including its qualification) and its advice included in this announcement in the form and context in which it respectively appears.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, all the above experts are third parties independent from the Group and its connected persons.

As at the date of the announcement, none of the above experts has any equity interests in any member of the Group and has any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group.

Payment Terms

The consideration for the Acquisition Agreement will be settled by cash on the Completion Date.

5. Conditions Precedent

The Company's payment obligation shall be conditional on, among other things, the following conditions having been fulfilled or waived partially or entirely by the Company:

- (1) Science and Technology Research Institute and CHPI having obtained necessary approval and authorization from their respective internal decision-making bodies in respect of the Acquisition;
- (2) Other shareholders of CHPI having issued a written statement waiving the pre-emptive rights to the equity interest to be transferred by Science and Technology Research Institute;
- (3) The Company having obtained approval from the Stock Exchange (if required) and necessary approval and authorization from internal decision-making bodies in respect of the Acquisition, including the approval and authorization of independent Shareholders who are not interested;
- (4) The superior supervisory unit of Science and Technology Research Institute (i.e. SINOMACH) having approved the Acquisition and completed the registration of the assets valuation results of CHPI;
- (5) CHPI having completed the procedures for the change of industrial and commercial registration in relation to the Acquisition;
- (6) There being no material adverse change to CHPI and its subsidiaries as at or up to the Completion Date;

- (7) As at or up to the Completion Date, the representations and warranties under the Acquisition Agreement made by Science and Technology Research Institute remaining true, accurate, complete and not misleading, and all undertakings made by Science and Technology Research Institute having been fulfilled;
- (8) The business, legal and financial due diligence on CHPI and its subsidiaries conducted by the Company having been completed; and
- (9) If the laws and regulations applicable to the Acquisition are revised before the implementation of the Acquisition, and other mandatory approval requirements or exemption of some administrative permissions are proposed, the above conditions precedent shall be adjusted based on the laws and regulations in effect at that time.

6. Completion

Completion shall take place on the fifth business day after all the conditions precedent set out in the Acquisition Agreement have been fulfilled or waived by the Company in writing, or any other date agreed by Science and Technology Research Institute and the Company (the “**Completion Date**”).

Upon completion, the Company will hold 64.82% equity interest in CHPI, while Science and Technology Research Institute will cease to hold any equity interest in CHPI.

II. REASONS FOR AND BENEFITS FROM THE ACQUISITION

The Directors are of the view that the reasons for and benefits from the Acquisition are as follows:

1. To Avoid Competition and Realise Undertakings Made upon Listing

Reference is made to the announcement of the Company dated April 9, 2018 in relation to the completion of the connected and major transaction in relation to the acquisition of 100% equity interest in China National Electric Engineering Co., Ltd., to avoid competition and realise undertakings made upon Listing, the Company has completed the acquisition of CNEEC.

Reference is also made to page 17 of the circular of the Company dated November 25, 2017, which disclosed CHPI has been undergoing a work relating to the benefit plan of retired employees that requires the approval from relevant PRC governmental authorities, thus on October 26, 2017, CNEEC disposed of CHPI to Science and Technology Research Institute (which is wholly-owned by SINOMACH) at nil consideration. The above work has been completed now, and it is the prime time to acquire CHPI for the Company. Through the Acquisition, the commitment regarding the reorganization of CNEEC into the Company will be fully undertaken.

- 2. The Acquisition could perfect the full industry chain capabilities of the Company's major business, improve the front-end design, process monitoring and back-end operation and maintenance capabilities of the Company's international engineering contracting segment and enhance the comprehensive competitiveness of the Company**

CHPI is mainly engaged in the equipment package design of water and thermal power stations and technical services and consulting; equipment supervision of power station engineering; units commissioning of power station engineering; research and development of high-tech products and design and supply of power plant control equipment, etc. It possesses first-class professional and technical level in China especially in the design and consulting business and equipment supervision of power station engineering business. Through the Acquisition, the full industry chain capabilities of the Company's major business could be further improved. In particular, the front-end design, process monitoring and back-end operation and maintenance capabilities of the Company's international engineering contracting segment will be effectively supplemented, which will in turn further enhance the comprehensive competitiveness of the Company's major business.

- 3. The Acquisition will enrich the core talent team of the Company and further expand the engineering project management team and professional technical team of the Company**

Among the existing team of staff in CHPI, 81.6% of them hold bachelor's degrees or above, and 81% of them are engineers. Through the Acquisition, the professional technical team of the Company will be further supplemented in an effective manner, the technical talent pool will be enhanced, and the core competitiveness of the Company will be improved.

III. DIRECTORS' OPINION

The Directors (including the INEDs) confirmed that the terms of the Acquisition Agreement and the transaction contemplated thereunder are: (i) fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and (ii) in the interests of the Company and the Shareholders as a whole.

Except for Mr. BAI Shaotong, none of the Directors (including the INEDs) holds management position in SINOMACH, Science and Technology Research Institute or CHPI, nor do they hold any material interests in the Acquisition Agreement and the transaction contemplated thereunder and hence, except for Mr. BAI Shaotong, none of the Directors (including the INEDs) has abstained from voting on the board resolution approving the entering into of the Acquisition Agreement and the transaction contemplated thereunder.

IV. LISTING RULES IMPLICATIONS

As at the date of this announcement, SINOMACH directly and indirectly holds approximately 77.99% of the issued share capital of the Company. SINOMACH is a controlling shareholder of the Company, and Science and Technology Research Institute is a wholly-owned subsidiary of SINOMACH, thus a connected person of the Company according to Rule 14A.07(4) of the Listing Rules. Therefore, the Acquisition contemplated under the Acquisition Agreement entered into between the Company and Science and Technology Research Institute constitutes a connected transaction of the Company under Rule 14A.24(1) and 14A.25 of the Listing Rules.

As the applicable percentage ratios (as defined under Chapter 14 of the Listing Rules) for this Acquisition Agreement are more than 0.1% but less than 5%, the entering into of the Acquisition Agreement is subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

V. INFORMATION ON THE PARTIES

1. Information on Science and Technology Research Institute

Science and Technology Research Institute is a limited company incorporated in the PRC and a wholly-owned subsidiary of SINOMACH. The major businesses of Science and Technology Research Institute include general equipment, special-purpose equipment, transportation equipment, electric machinery and equipment, metal tools, metal surface processing and thermal processing, mechanical materials, instrumentations, automation and intelligence, technological research, development and production of waste utilization and equipment; research, development and production of new energy technology and equipment; engineering and technical research, etc.

2. Information on the Group

The Company is a joint stock company incorporated in the PRC with limited liability. The Group is an international engineering contractor and service provider with a primary focus on EPC projects and particular expertise in the power sector, capable of providing one-stop customized and integrated engineering contracting solutions and services. The engineering contracting solutions and services that the Group provides include preliminary project consultation, financing solutions for projects, project design, procurement, logistics, construction, installation, commissioning and related works, in a combination of any of the above services in keeping with the needs of the project owners.

3. Information on CHPI

CHPI is a company incorporated in the PRC and a subsidiary owned as to 64.82% by Science and Technology Research Institute. CHPI is principally engaged in the whole process consulting service in the power station field.

The financial information of CHPI for the two accounting years preceding the Acquisition is set out in the table below. Such financial information is quoted in the financial statement of CHPI prepared on a special basis of preparation. CHPI provides supplementary retired benefits to retired employees and has an internal retirement plan in place. Pursuant to Accounting Standards for Business Enterprises 9 – Staff Remuneration (revised in 2014), such supplementary retired benefits scheme of CHPI should be regarded as a defined benefit scheme under dismissal welfare. The welfare scheme of early retired staff during the early retirement period should be regarded as dismissal welfare scheme. The data related to the welfare expenses of retired employees in the aforementioned financial statements is prepared according to the relevant requirements regarding type of staff and scope of welfare expenses in the Notice of the Ministry of Finance on the Financial Management of the Payments for the Resettlement of Employees in the Restructuring of Enterprises (Cai Qi [2009] No. 117).

	For the year ended December 31, 2017 RMB'000 (audited)	For the year ended December 31, 2018 RMB'000 (audited)
Net Profits before tax	20,343	24,422
Net Profits after tax	17,925	21,097
Total assets	250,076	276,089
Net assets	33,068	90,108

After the completion of the Acquisition, CHPI shall be consolidated into the consolidated financial statements of the Company.

VI. DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Acquisition”	the acquisition of the entire equity interest in CHPI held by Science and Technology Research Institute by the Company in accordance with the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the equity transfer agreement dated December 17, 2019 entered into by and between the Company and Science and Technology Research Institute in relation to the transfer of the 64.82% equity interest in CHPI held by Science and Technology Research Institute to the Company
“applicable percentage ratios”	the five ratios as set out in Rule 14.07 of the Listing Rules to be applied for determining the classification of a transaction under the Listing Rules
“Board”	the board of directors of the Company
“CHPI”	Harbin Power System Engineering and Research Institute Co., Ltd.* (哈爾濱電站設備成套設計研究所有限公司), a corporation established in the PRC on January 14, 1997, which is currently controlled by Science and Technology Research Institute (as to 64.82%), and other three shareholders are Harbin Chenglian Enterprise Management Partnership (Limited Partnership)* (哈爾濱成聯企業管理合夥企業(有限合夥)), Hangzhou Boiler Group Co., Ltd.* (杭州鍋爐集團股份有限公司) and Heilongjiang Dazheng Investment Group Limited Liability Company* (黑龍江省大正投資集團有限責任公司)

“CNEEC”	China National Electric Engineering Co., Ltd., a limited liability company established in the PRC on October 1979 (including all subsidiaries of CNEEC unless the context requires otherwise), which is a subsidiary of the Company
“Company”	China Machinery Engineering Corporation* (中國機械設備工程股份有限公司), a joint stock company incorporated in the PRC with limited liability, whose H Shares are listed and traded on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Shares”	ordinary shares in the capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC incorporated entities
“Financial Adviser”	China Securities (International) Corporate Finance Company Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time), which is the financial adviser of the Company
“Group”	the Company and, except where the context otherwise requires, all its subsidiaries
“H Shares”	overseas listed foreign shares in the Company’s ordinary share capital with a nominal value of RMB1.00 each, which are subscribed for and traded in HK\$ and listed on the Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“INEDs”	the independent non-executive Directors of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
“RMB”	Renminbi yuan, the lawful currency of the PRC

“Science and Technology Research Institute”	SINOMACH Academy of Science and Technology Co., Ltd.* (國機集團科學技術研究院有限公司), a limited liability company established in the PRC, which is wholly-owned by SINOMACH, and a connected person of the Company
“Share(s)”	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Shares and the H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“SINOMACH”	China National Machinery Industry Corporation* (中國機械工業集團有限公司), a state-owned enterprise established in the PRC on May 21, 1988, the controlling shareholder of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Valuer”	Beijing Zhuoxindahua Appraisal Co., Ltd.* (北京卓信大華資產評估有限公司), an independent appraiser
“%”	percent

Attention: Shareholders and potential investors should note that the Acquisition is subject to the fulfillment of a number of conditions, and accordingly, the transaction contemplated under the Acquisition Agreement may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares of the Company.

By order of the Board
China Machinery Engineering Corporation*
BAI Shaotong
Chairman

Beijing, the PRC, December 17, 2019

As at the date of this announcement, the Board comprises: Mr. BAI Shaotong, Mr. YU Benli and Mr. ZHANG Fusheng as Non-executive Directors; and Mr. LIU Li, Ms. LIU Hongyu, Mr. FANG Yongzhong and Mr. WU Tak Lung as Independent Non-executive Directors.

* *For identification purposes only*

APPENDIX I – LETTER FROM ERNST & YOUNG

REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF HARBIN POWER SYSTEM ENGINEERING AND RESEARCH INSTITUTE CO., LTD.

To the Directors of China Machinery Engineering Corporation,

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the “Forecast”) on which the valuation dated November 28, 2019 prepared by Beijing Zhuo Xin Da Hua Appraisal Co., Ltd. (北京卓信大華資產評估有限公司) in respect of the 100% equity interest in Harbin Power System Engineering & Research Institute Co., Ltd. (“CHPI”) as at base date of December 31, 2018 is based. The valuation is set out in the announcement of China Machinery Engineering Corporation (the “Company”) dated December 17, 2019 (the “Announcement”) in connection with the proposed acquisition of SINOMACH Academy of Science and Technology Co.,Ltd.’s equity interest in CHPI. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Directors’ responsibilities

The directors of the Company (the “Directors”) are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the “Assumptions”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The principal assumptions of the Forecast are set out in the section headed “III. Disclosure in Relation to Rules 14.61 and 14.62 of the Listing Rules-Profit forecast in relation to the Valuation Report” of the Announcement.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of CHPI. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue Central
Hong Kong

December 17, 2019

APPENDIX II – LETTER FROM CHINA SECURITIES

The Board of Directors
China Machinery Engineering Corporation
No. 178 Guang'anmenwai Street
Beijing, PRC

Dear Sirs,

We refer to the valuation prepared by Beijing Zhuoxindahua Appraisal Co., Ltd (the “**Valuer**”) in relation to 100% equity interest in Harbin Power System Engineering and Research Institute Co., Ltd. (the “**Valuation**”), which is set out in the valuation report, dated November 28, 2019, referred to in the announcement of China Machinery Engineering Corporation (the “**Company**”) dated December 17, 2019 relating to the Acquisition (the “**Announcement**”).

The Valuation has been arrived at using the discounted cash flow method and is regarded as a profit forecast (the “**Forecast**”) under Rule 14.61 of the Listing Rules. We, as the Financial Adviser to the Company in relation to the Acquisition, have reviewed the Forecast upon which the Valuation has been made, for which you as the Directors are solely responsible, and have discussed with the management of the Company and the Valuer the bases and assumptions upon which the Forecast has been prepared. We have also considered the letter from Ernst & Young (EY) dated December 17, 2019 addressed to yourselves as set out in Appendix I to the Announcement regarding the discounted future estimated cash flows.

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

The work undertaken by us in giving the above opinion has been undertaken for the purpose of reporting solely to you under Rule 14.62(3) of the Listing Rules and for no other purpose.

We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

For and on behalf of

China Securities (International) Corporate Finance Company Limited

December 17, 2019