THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Sany Heavy Equipment International Holdings Company Limited, you should at once hand this circular to the purchaser(s) or the transferee(s) or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

SANYI

SANY HEAVY EQUIPMENT INTERNATIONAL HOLDINGS COMPANY LIMITED

三一重裝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 631)

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

中信证券
CITIC SECURITIES

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

SOMERLEY CAPITAL LIMITED

Capitalised terms used in this cover page shall have the same meanings as defined in the section headed "Definitions" in this circular unless otherwise specified.

A letter from the Board is set out on pages 5 to 40 of the circular. A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders is set out on pages 41 to 42 of this circular. A letter from Somerley Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 43 to 70 of this circular.

A notice convening the EGM to be held at Conference Room 103, Research and Development Building, Sany Heavy Equipment Co., Ltd., No. 25, 16 Kaifa Road, Shenyang Economic of Technological Development Zone, Shenyang, Liaoning Province, PRC at 10:00 a.m. on Friday, 9 June 2023 is set out on pages 100 to 102 of this circular. Shareholders who intend to appoint a proxy to attend the EGM shall complete the accompanying form of proxy for use at the EGM in accordance with the instructions printed thereon and return the same to the Company's Hong Kong share registrar, 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 less than 48 hours before the time appointed for the holding of 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 thereof should you so wish.

23 May 2023

CONTENTS

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

"Acquisition"	the acquisition of the Sale Shares, being the entire issued share capital of the Target Company, by the Company from the Vendor pursuant to the terms and conditions of the Agreement
"Agreement"	the sale and purchase agreement dated 12 April 2023 entered into between the Vendor and the Company in respect of the Acquisition
"Announcement"	the Announcement of the Company dated 12 April 2023 in relation to the Agreement
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	means a day (other than Saturdays, Sundays and on which a tropical cyclone warning No. 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are open for general banking business
"Company"	Sany Heavy Equipment International Holdings Company Limited (三一重裝國際控股有限公司), a company incorporated with limited liability on 23 July 2009 under the laws of the Cayman Islands and the Shares of which are listed on the Stock Exchange (stock code: 631)
"Completion"	the completion of the Acquisition in accordance with the terms of the Agreement
"Completion Date"	within 10 Business Days immediately following the day of the fulfilment (or waiver, as applicable) of all the conditions precedent or on such other date as the Company and the Vendor may agree in writing pursuant to the Agreement
"connected person(s)"	has the same meaning as ascribed to it under the Listing Rules
"connected transaction(s)"	has the same meaning as ascribed to it under the Listing Rules
"Consideration"	the consideration for the Sale Shares, being RMB2,980 million payable by the Company to the Vendor
"controlling shareholder(s)"	has the same meaning as ascribed to it under the Listing Rules

"Convertible Preference Shares"	the convertible preference shares of the Company
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Agreement and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hunan Sany Petroleum Equipment"	Hunan Sany Petroleum Equipment Co., Ltd.* (湖南三一石油裝備有限公司), a company established in the PRC with limited liability
"Independent Board Committee"	the independent board committee of the Company comprising all independent non-executive Directors formed for the purpose of advising the Independent Shareholders in respect of the terms of the Agreement and the transactions contemplated thereunder
"Independent Financial Adviser"	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder
"Independent Shareholder(s)"	Shareholders other than those who are involved or interested in the Acquisition
"Independent Third Party(ies)"	third party(ies) who is/are independent of and not connected with the Company and its connected persons
"Latest Practicable Date"	16 May 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Long Stop Date"	30 September 2023 or such later date as the parties to the Agreement may agree in writing

"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Mr. Liang"	Mr. Liang Wengen, a controlling shareholder of the Company
"PRC"	the People's Republic of China, which for the purpose of this circular shall exclude Hong Kong, Macau and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	3,634,000 ordinary shares in the share capital of the Target Company, being the entire issued share capital of the Target Company held by the Vendor
"Sany Group"	Sany Group Co., Ltd.* (三一集團有限公司), a company established under the laws of the PRC
"Sany HK"	Sany Hongkong Group Limited, a company incorporated in Hong Kong with limited liability and a controlling shareholder of the Company
"Sany Petroleum Intelligent Equipment"	Sany Petroleum Intelligent Equipment Co., Ltd.* (三一石油智能裝備有限公司), a company established in the PRC with limited liability
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	the shares of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto under the Listing Rules
"Target Company"	Sany Oil Technology Hongkong Limited, a company incorporated in Hong Kong with limited liability which is wholly-owned by the Vendor as at the date of the Agreement
"Target Group"	the Target Company and its subsidiaries
"Valuation Report"	the valuation report prepared by Beijing Guorong Xinhua Assets Appraisal Co., Ltd., an independent valuer, adopting market approach in respect of the valuation of the entire equity interest of the Target Company as at 31 December 2022, the text of which is set out in Appendix I to this circular

"Vendor"	Sany Perpetual Enterprise Holdings Company Limited, a company incorporated in the British Virgin Islands with limited liability
"%"	per cent.

SANY HEAVY EQUIPMENT INTERNATIONAL HOLDINGS COMPANY LIMITED
三一重裝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 631)

Executive Directors:
Mr. Liang Zaizhong *(Chairman)*
Mr. Qi Jian
Mr. Fu Weizhong

Non-executive Directors:
Mr. Tang Xiuguo
Mr. Xiang Wenbo

Independent non-executive Directors:
Mr. Ng Yuk Keung
Mr. Poon Chiu Kwok
Mr. Hu Jiquan

Registered Office:
Cricket Square Hutchins Drive
P.O. Box 1681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
Room 2010, 20th Floor, Landmark North
No. 39 of Lung Sum Avenue
Sheung Shui
N.T. Hong Kong

23 May 2023

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY

INTRODUCTION

Reference is made to the announcement of the Company dated 12 April 2023 in relation to the Acquisition. As set out in the Announcement, on 12 April 2023, the Company and the Vendor entered into the Agreement pursuant to which the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company at the Consideration of RMB 2,980 million.

The purpose of this circular is to provide you with (i) further information regarding the Acquisition; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the advice from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) the valuation report of the Target Company; and (v) the notice convening the EGM.

THE ACQUISITION

On 12 April 2023, the Company and the Vendor entered into the Agreement pursuant to which the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company at the Consideration of RMB2,980 million.

THE AGREEMENT

The principal terms and conditions of the Agreement are set out below:

Date

12 April 2023

Parties

(i) the Company as the purchaser; and

(ii) Sany Perpetual Enterprise Holdings Company Limited as the Vendor.

Subject matter

Pursuant to the Agreement, the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company.

Consideration

Pursuant to the Agreement, the Consideration shall be RMB2,980 million, which shall be payable by the Company to the Vendor in cash in RMB or other foreign currency in equivalent value (due to fluctuation in exchange rates, the actual amount will be based on the central parity rate of the RMB exchange rate in the inter-bank foreign exchange market announced by the People's Bank of China on the date of payment), in the following manner:

(i) as to RMB894 million, being 30% of the Consideration, shall be payable in cash by the Company to the Vendor within 60 days after the Completion Date; and

(ii) as to RMB2,086 million, being 70% of the Consideration, shall be payable in cash by the Company to the Vendor on or before 31 December 2023.

The Company intends to satisfy the Consideration partly by the internal resources of the Group and partly by external financing.

Basis for the determination of the Consideration

The Consideration of RMB2,980 million, representing a discount of approximately 30.4% of the valuation of the Target Company based on the Valuation Report, was determined after arm's length negotiations between the Company and the Vendor on normal commercial terms after taking into account that:

(i) the valuation of the Target Company of RMB4,281 million as at 31 December 2022 appraised by an independent valuer using market approach in the Valuation Report;

(ii) the Consideration will be payable by the Company in cash. The Acquisition will also be a more straightforward transaction, which in turn will allow for an earlier integration of research and development, manufacturing and sales resources between the Group and the Target Group and achieve synergistic developments earlier;

(iii) as the shareholders of the Vendor are optimistic about the long-term development prospects of the enlarged Group and the synergistic effect brought by the Acquisition as more particularized in the section headed "Reasons for and Benefit of the Acquisition" in this circular, the beneficial shareholders of the Vendor, some of which being shareholders of the Company, would like to materialize the support with a discount for the Company; and

(iv) the difference between the Consideration and the valuation, which the Company will retain, will allow the Company to have better cashflow to support the operations and long-term development of the enlarged Group.

As set out in the sub-section headed "Financial Information of the Target Group" in this circular, the Board is of the view that the Target Company's net asset value is not a meaningful and appropriate indicator in assessing the fairness and reasonableness of the Consideration.

As set out in the information on Sany Petroleum Intelligent Equipment in the sub-section headed "Group Structure of the Target Group upon Completion" in this circular, the Board considers that original cost of acquisition of 99% equity interest in Sany Petroleum Intelligent Equipment by Hunan Sany Petroleum Equipment shall not be taken into account when determining the Consideration.

Conditions Precedent

Completion is conditional upon the fulfillment or waiver (as the case may be) of the following conditions:

(a) the Vendor having delivered to the Company the executed instrument of transfer, sold note and share certificate(s) of the Target Company to the Company;

(b) the Company having complied with the Listing Rules in respect of the Agreement, including but not limited to the reporting to the Stock Exchange, publication of announcement and obtaining the Independent Shareholders' approval in relation to the Agreement and the transactions contemplated thereunder at the EGM;

(c) the Company having been satisfied with the results of the due diligence in respect of the Target Group;

(d) all necessary consents, permissions, approvals, licenses, waivers, orders, reliefs or notices from government and regulatory authorities or any other third parties required to be obtained by the Target Group in respect of the Agreement and the transactions contemplated thereunder having been obtained and not having been withdrawn prior to the Completion Date;

(e) all representations, warranties and undertakings remaining true, accurate and not misleading in all material aspects from the date of the Agreement till the Completion Date, and not causing material adverse changes to the Acquisition;

(f) from the date of the Agreement till the Completion Date, there being (i) no material adverse changes to the Target Group; and (ii) no material adverse changes to the Target Group due to the applicable laws of the jurisdictions in which the Target Group operates;

(g) from the date of the Agreement till the Completion Date, there being no breach or failure to perform any covenant, contract, lease, mortgage, trust deed, instrument agreement, loan agreement or other agreement, obligation, condition, covenant or instrument which any company in the Target Group is a party to or binds its respective assets, and that such breach or failure to perform resulting in a material adverse change to the Target Group; and

(h) the Vendor having fulfilled all its obligations in the Agreement prior to Completion.

The above conditions precedent (except for conditions precedent (b) and (d) which are not waivable) may be waived in part or in whole by the Company by notice in writing to the Vendor. The Vendor shall procure the fulfilment of the above conditions precedent. As at the Latest Practicable Date, none of the above conditions precedent had been fulfilled or waived (as the case may be). In the event that any of the above conditions is not fulfilled (or waived, if applicable) prior to the Long Stop Date, then the Company shall not be bound to proceed with the Acquisition and the Agreement shall cease to be of any effect.

Completion

Completion shall take place after, among others, all the conditions precedent under the Agreement have been fulfilled or waived by the Company (as the case may be), or such other date as agreed by the parties to the Agreement.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company. The financial statements of the Target Group will be consolidated into the financial statements of the Company after Completion.

INFORMATION ON THE PARTIES

The Company and the Group

The Company is an investment holding company and its subsidiaries are principally engaged in the design, manufacture and sales of mining equipment, logistics equipment, robotic and smart mined products and spare parts and the provision of related services.

The Vendor

The Vendor is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding.

As at the Latest Practicable Date, the Vendor is beneficially owned as to approximately 43.167% by Throne Eagle Limited, 18.609% by Meng Hao Capital Investment Company Limited, 8.920% by Sany New Energy Unions Holdings Company Limited, 6.657% by Bei Qing Investment Company Limited, 6.087% by See Long Holdings Limited, 6.087% by Double Good International Holdings Company Limited, 2.663% by China Red Capital International Holdings Company Limited, 2.283% by Yi Tongda Investment Company Limited, 2.283% by Thick Base Industrial Limited, 0.761% by Billion Ruby Capital Investment Limited, 0.761% by Yi Lin Industrial Company Limited, 0.521% by Water Fore Investment Limited, 0.457% by Yuan Zu Company Limited, 0.380% by Jupiter Machinery Company Limited, 0.304% by Wintrend Technology Company Limited and 0.061% by Bright Unison Investments Limited.

Throne Eagle Limited is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. It is wholly owned by Mr. Liang.

Meng Hao Capital Investment Company Limited is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. It is wholly owned by Mr. Yuan Jinhua.

Sany New Energy Unions Holdings Company Limited is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. As at the Latest Practicable Date, Sany New Energy Unions Holdings Company Limited is owned as to approximately 19.058% by Mr. Miao Xionghui, 15.695% by Mr. Yu Xuyang, 12.556% by Mr. Yu Zhijie, 8.408% by Mr. Peng Letao, 8.408% by Mr. Li Jianjun, 5.605% by Mr. Tan Haibo, 4.765% by Mr. Wang Anwei, 4.484% by Mr. Zhang Ti, 4.484% by Ms. Li Xiaoyu, 2.859% by Mr. Liu Cunyong, 1.906% by Mr. Xu Xianhua, 1.906% by Mr. Yang Xin, 1.121% by Mr. Liang Cong, 1.121% by Mr. Xie Wang, 1.065% by Mr. Liu Xiaopeng, 1.065% by Mr. Liu Lijun, 1.065% by Mr. Chen Mingkai, 0.953% by Mr. Jiang Guoping, 0.953% by Mr. Zhi Haijun, 0.953% by Mr. Han Lusheng, 0.953% by Mr. Xie Xuezhi, 0.561% by Ms. Wang Li and 0.056% by Meng Hao Capital Investment Company

Limited. To the best of the knowledge, information and belief of the Board after making all reasonable enquiries, each of the beneficial owners of Sany New Energy Unions Holdings Company Limited are Independent Third Parties.

Bei Qing Investment Company Limited is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. It is wholly owned by Mr. Tang Xiuguo.

See Long Holdings Limited is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. It is wholly owned by Mr. Xiang Wenbo.

Double Good International Holdings Company Limited is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. It is wholly owned by Mr. Mao Zhongwu.

China Red Capital International Holdings Company Limited is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. It is wholly owned by Mr. Zhou Fugui.

Yi Tongda Investment Company Limited is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. It is wholly owned by Mr. Yi Xiaogang.

Thick Base Industrial Limited is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. It is wholly owned by Ms. Wang Haiyan.

Billion Ruby Capital Investment Limited is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. It is wholly owned by Mr. Zhao Xiangzhang.

Yi Lin Industrial Company Limited is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. It is wholly owned by Mr. Wang Zuochun.

Water Fore Investment Limited is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. It is wholly owned by Mr. Duan Dawei.

Yuan Zu Company Limited is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. It is wholly owned by Mr. Zhai Xian.

Jupiter Machinery Company Limited is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. It is wholly owned by Mr. Liang Linhe.

Wintrend Technology Company Limited is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. It is wholly owned by Ms. Zhai Chun.

Bright Unison Investments Limited is a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. It is wholly owned by Mr. Huang Jianlong.

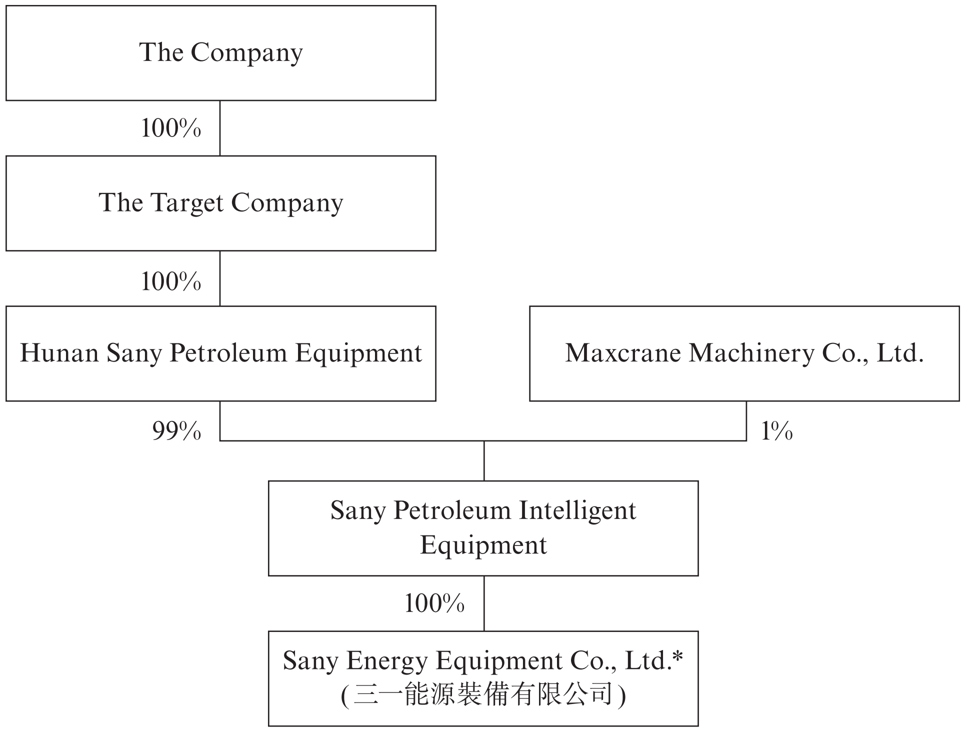
Save for Mr. Liang who is a controlling shareholder of the Company, Mr. Liang Linhe who is the nephew of Mr. Liang, each of Mr. Tang Xiuguo and Mr. Xiang Wenbo who is a non-executive Director, to the best of the knowledge, information and belief of the Board after making all reasonable enquiries, each of Mr. Mao Zhongwu, Mr. Yuan Jinhua, Mr. Zhou Fugui, Mr. Yi Xiaogang, Ms. Wang Haiyan, Mr. Zhao Xiangzhang, Mr. Wang Zuochun, Mr. Duan Dawei, Mr. Zhai Xian, Ms. Zhai Chun and Mr. Huang Jianlong are Independent Third Parties.

The Target Company and the Target Group

The Target Company is a company incorporated in Hong Kong with limited liability and is wholly owned by the Vendor. It is principally engaged in investment holding. The Target Company was incorporated by the existing shareholders of the Vendor (except for Sany New Energy Unions Holdings Company Limited) in 2015 with an issued but unpaid share capital of RMB800,000. As of the Latest Practicable Date, the issued share capital of the Target Company is RMB290.72 million, among which, RMB289.92 million has been paid up.

The Target Group is principally engaged in the research and development, production and sales of frac spreads and spare parts for oil and gas field, as well as oil and gas field cementing and stimulation technical services. Its principal businesses are operated by Sany Petroleum Intelligent Equipment and its subsidiaries. The main business types of the Target Group can be classified into: (i) research and development, production and sales of frac spreads and spare parts; (ii) research and development, production and sales of drilling, workover and automated pipe handling equipment; and (iii) after-market business and oil & gas field technical services.

Group Structure of the Target Group upon Completion



Hunan Sany Petroleum Equipment is a company established in the PRC with limited liability and wholly owned by the Target Company. It is principally engaged in investment holding. Hunan Sany Petroleum Equipment was established by the Target Company in 2016 with a registered capital of RMB800,000. In 2022, the registered capital of Hunan Sany Petroleum Equipment was increased to RMB289.92 million. In 2022, the Target Company has fully paid up the registered capital of Hunan Sany Petroleum Equipment.

Sany Petroleum Intelligent Equipment is a company established by Sany Group in 2015 in the PRC with limited liability and is currently owned as to 99% by Hunan Sany Petroleum Equipment and 1% by Maxcrane Machinery Co., Ltd. In 2022, the registered capital of Sany Petroleum Intelligent Equipment was increased to RMB133,131,313. It is principally engaged in the research and development, production and sales of equipment and accessories for oil and gas fields, as well as technical services related to oil and gas field cementing and stimulation. The original cost of acquisition of 99% equity interest in Sany Petroleum Intelligent Equipment by Hunan Sany Petroleum Equipment, in 2022, was approximately RMB289.6 million. The acquisition of 99% equity interest in Sany Petroleum Intelligent Equipment was an internal reorganization (the "**Internal Reorganization**") in order to consolidate the shareholdings of the Original Vendors (as defined below). Immediately before the Internal Reorganization, Sany Petroleum Intelligent Equipment was owned as to 75.324% by Sany Group, 14.850% by Mr. Yuan Jinhua, 1.683% by Mr. Miao Xionghui, 1.386% by Mr. Yu Xuyang, 1.109% by Mr. Yu Zhijie, 0.743% by Mr. Peng Letao, 0.743% by Mr. Li Jianjun, 0.495% by Mr. Tan Haibo, 0.421% by Mr. Wang Anwei, 0.396% by Ms. Li Xiaoyu, 0.396% by Mr. Zhang Ti, 0.252% by Mr. Liu Cunyong, 0.168% by Mr. Xu Xianhua, 0.168% by Mr. Yang Xin, 0.099% by Mr. Liang

Cong, 0.099% by Mr. Xie Wang, 0.094% by Mr. Liu Xiaopeng, 0.094% by Mr. Liu Lijun, 0.094% by Mr. Chen Mingkai, 0.084% by Mr. Jiang Guoping, 0.084% by Mr. Zhi Haijun, 0.084% by Mr. Han Lusheng, 0.084% by Mr. Xie Xuezhi, 0.050% by Ms. Wang Li (the "**Original Vendors**") and 1.000% by Maxcrane Machinery Co., Ltd. To implement the Internal Reorganization, the Original Vendors undertook reorganization steps to reflect their effective interests in Sany Petroleum Intelligent Equipment proportionally through special purpose vehicles in the Vendor. Thereafter, Hunan Sany Petroleum Equipment, which is indirectly wholly-owned by the Vendor, acquired 99% equity interest in Sany Petroleum Intelligent Equipment in August 2022 at an original acquisition cost of RMB289.6 million, which was determined by an independent valuer using an asset-based approach, which is a common approach to be adopted for implementing internal reorganization in the PRC. As the original acquisition cost of RMB289.6 million was the cost of the Internal Reorganization and was paid and received by the Original Vendors, the Board considers that such original acquisition cost shall not be taken into account when determining the Consideration. Maxcrane Machinery Co., Ltd is a company incorporated in Thailand and is principally engaged in the business of construction machinery and equipment. It is a business partner of Sany Group and its subsidiaries and became a shareholder of Sany Petroleum Intelligent Equipment in 2022. To the best of the knowledge, information and belief of the Board after making all reasonable enquiries, the ultimate beneficial owners of Maxcrane Machinery Co. Ltd are Independent Third Parties.

Sany Energy Equipment Co., Ltd.* (三一能源裝備有限公司) is a company established in the PRC with limited liability and wholly owned by Sany Petroleum Intelligent Equipment. It is principally engaged in the research and development, production and sales of equipment and accessories for oil and gas fields.

Financial Information of the Target Group

Set out below is the audited consolidated financial information of the Target Group for the three years ended 31 December 2022:

	For the year ended 31 December		
	2020	**2021**	**2022**
	RMB (million)	*RMB (million)*	*RMB (million)*
Revenue	894.5	1,740.3	2,087.0
Net profit before taxation	71.3	348.1	427.7
Net profit after taxation	69.5	304.4	385.6
Total assets	1,310.9	1,657.4	2,301.3
Net assets	307.0	611.9	566.6
Total liabilities	1,003.9	1,045.5	1,734.7
Cost of sales	637.8	1,121.0	1,346.4
Administrative expenses	155.4	186.2	198.1
Selling and distribution expenses	48.1	104.6	121.2
Finance costs	14.4	14.0	7.5

Based on the audited consolidated financial information of the Target Group, the net asset value of the Target Group was approximately RMB566.634 million as at 31 December 2022.

Due to the widespread of the COVID-19 pandemic and the drop in oil and gas price in early 2020, the revenue and net profit of the Target Group were adversely affected during the year of 2020. However, since 2021, as the Target Group had responded and adapted quickly to minimize the impact of the COVID-19 pandemic, the Target Group was able to swiftly recover its operation and performance. Coupled with emerging return on the Target Group's research and development efforts with increased sales of the new automation products in 2021 and increased sales of the new electric drive fracturing equipment in 2022, and the recovery of the oil industry which had an increasing demand for the Target Group's oilfield services, the revenue of the Target Group was recovered to a normal level and continued to increase in 2021 and 2022.

In respect of the net profit, the Target Group has actively implemented the strategy of digital and intelligent production and accelerate the construction of intelligent manufacturing factories, which have improved production efficiency and reduced production costs. Also, due to the significant increase in production volume achieving economies of scale, production costs were lowered. In addition, for the year ended 31 December 2021, the Target Group sold more automatic products which had a higher profit margin than other products. Considering the adverse effect of COVID-19 pandemic in 2020, the gross profit margin of the Target Group had increased by 6.9% from 28.7% for the year ended 31 December 2020 to 35.6% for the year ended 31 December 2021 and remained consistent at 35.5% for the year ended 31 December 2022. With enhanced internal management, the period expense ratio of the Group continued to decrease in the three years ended 31 December 2022. As a result of the above, the net profit of the Target Group had continued to increase during the three years ended 31 December 2022.

The daily manufacturing needs of the Target Group have been operating through leasing of plants and properties. As shown in the table below with market comparable selected by the independent valuer, the Target Group's ratio of revenue to fixed assets and intangible assets as well as the ratio of revenue to net assets are mostly significantly higher than those of the selected market comparable, suggesting that the Target Group is generating revenue more efficiently compared to its peers despite it had only a net asset value of RMB566.634 million as at 31 December 2022. Therefore, the Board is of the view that the net asset value is not a meaningful and appropriate indicator in assessing the fairness and reasonableness of the Consideration.

Set out below is a table of ratios of (i) revenue to fixed assets and intangible assets and (ii) revenue to net assets of the Target Group and selected market comparable for the three years ended 31 December 2022:

Company	Ratio	For the year ended 31 December 2020	2021	2022
The Target Group	Revenue to fixed assets and intangible assets	4.38	6.9	6.44
	Revenue to net assets	2.91	2.84	3.68
Jereh Group (杰瑞股份) (002353.SZ)	Revenue to fixed assets and intangible assets	3.78	3.52	3.77
	Revenue to net assets	0.73	0.68	0.63
Sinopec Oilfield Equipment Corporation (石化機械) (000852.SZ)	Revenue to fixed assets and intangible assets	6.23	5.61	4.62
	Revenue to net assets	4.22	4.62	2.38
Shanghai Shenkai Petroleum Equipment Co. Ltd. (神開股份)(002278.SZ)	Revenue to fixed assets and intangible assets	3.14	3.41	1.78
	Revenue to net assets	0.8	0.88	0.44
CMIC Ocean En-Tech Holding Co., Ltd. (華商國際海洋控股) (0206.HK)	Revenue to fixed assets and intangible assets	3.39	2.35	5.13
	Revenue to net assets	0.48	0.38	0.67

REASONS FOR AND BENEFIT OF THE ACQUISITION

Information on the Target Company and the Target Group

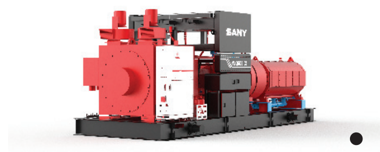
Information on the Target Group's Business

The Target Company is a holding company, and the principal business of the Target Group is operated by Sany Petroleum Intelligent Equipment Company Ltd.* (三一石油智能裝備有限公司) and its subsidiaries. The Target Group is principally engaged in the research and development, production and sale of frac spreads and spare parts for oil and gas field, as well as oil and gas field cementing and stimulation technical services. It is committed to protecting national energy security and providing customers with safe, efficient, intelligent and environmentally friendly complete sets of petroleum equipment as well as comprehensive solutions and integrated services.

The main business of the Target Group could be classified to: 1) research and development, production and sales of frac spreads and spare parts, 2) research and development, production and sales of drilling, workover and automated pipe handling equipment, and 3) after-market business and oil & gas field technical services. The Target Group has all series of frac spreads (mechanical transmission, hydraulic transmission and electric drive) and industry-leading drilling, workover and automated pipe handling equipment and possesses the relevant core technologies.

A number of products of the Target Group lead the Chinese market. In 2021 and 2022, the Target Group's truck-mounted fracturing equipment maintained the first in the industry in terms of sales and market share for two consecutive years, and the sales of drilling, workover and automated pipe handling equipment, such as monkey board pipe handling manipulator, drill floor pipe handling manipulator and hydraulic station, also held leading positions in the industry. Major products for sale by the Target Group are as follows:

Product name	Representative models	Product illustrations	Product description
Mechanical fracturing truck	2500HP mechanical fracturing truck		● For continuous fracturing operation under harsh working condition in shale gas and tight oil ● Independently developed oilfield-specific chassis and unibody plunger pump housing ● Maximum pressure 140MPa, with high strength stainless steel fluid end as standard, more suitable for harsh working condition
Hydraulic fracturing truck	1500HP hydraulic fracturing truck		● For pressure test, water injection, coil tubing drilling and grinding and accurate working condition ● Hydraulic transmission with no-gearshift impact and continuously adjustable displacement ● Multiple engines can back up each other and the number of start/stop units can be freely selected according to working conditions, making it highly adaptable

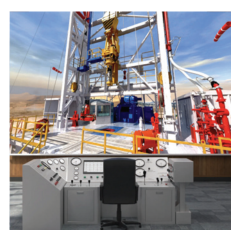
Product name	Representative models	Product illustrations	Product description
Electric frac pumper	6000HP electric frac pumper		• For unconventional oil & gas fracturing scenarios such as shale gas, shale oil, tight oil and tight sandstone gas • Equipment is compact in structure, small in size and light in weight, fully meet the transportation standards • Frequency variable electric drive, stepless speed regulation, precise and continuously adjustable displacement
Fracturing blender truck	130BBL fracturing blender truck		• For mixing, stirring and conveying sand-fluid for fracturing operations • Highly accurate densimeter and mass flowmeter for precise measurement, eliminating the influence of different liquids such as viscosity and density on measurement • Sufficient power with total installed power of 903KW, high safety and reliability

Product name	Representative models	Product illustrations	Product description
Hydration truck	75 BPM hydration truck		• Used in scenarios such as continuous fracturing operation with hydroxypropyl guar gum or polymers as fracturing-fluid for shale gas, tight oil, coal bed methane, and conventional oil well production increase, etc. • Large volume of mixing the gel powder and water operation, with a maximum volume of more than 5,000m^3 in a single day • Timely mixing, ready to use, uniform and excellent mixing results
Intelligent data truck	Type-C intelligent data truck		• For continuous fracturing operation under harsh working condition in shale gas and tight oil • Visual management of the frac spreads, one-click configuration of the unit's IP address and real-time monitoring • Statistical analysis of key information on fracturing trucks and fracturing blender trucks, providing predictive assessments and maintenance reminders

Product name	Representative models	Product illustrations	Product description
Coil tubing truck	LGC630 coil tubing truck		● For acidizing, sand-flushing operation, gas-lift drainage, fishing, drilling and grinding, well-logging and other scenarios ● Highly compatible modular design of the main components, which can be mixed and matched according to customer requirements ● Customised drum capacity design for a wide range of tubing sizes and different drums
Cementing truck	600GPM cementing truck		● For the slurry mixing and high-pressure pumping scenarios ● Hydraulic stepless speed regulation for automatic control mode, precise and continuously adjustable flowrate ● Independently developed hydraulic transmission plunger pump, eliminating sudden load changes caused by gearshift in conventional products

Product name	Representative models	Product illustrations	Product description
Monkey board pipe handling manipulator	/		● For tubing string of workover & pipe operation on monkey board ● It reduces safety risks and labour intensity by enabling unmanned operation on racking platform ● Multiple interlock, no leakage at high altitude, safe and reliable ● Instead of derrick workers, arrange and place drilling tools automatically
Drilling manipulator	/		● For tubing string of workover & pipe operation on drill floor ● Replaces drillers with intelligent discharge at the touch of a button, with no manual work in between ● Automatic linkage with monkey board pipe handling manipulator to improve drilling and tripping efficiency

Product name	Representative models	Product illustrations	Product description
Mobile centralized-hydraulic station	/		• Applied to the scenarios of centralized supply of hydraulic oil for well pad hydraulic system • Solve the issues of resources waste, high energy consumption and handling difficulties caused by separate hydraulic stations for individual machine under traditional operating conditions • Accurate fluid supply in real time according to the needs of the machines, reducing pressure loss of hydraulic systems, improving hydraulic fluids heat management performance and the efficiency of hydraulic station
Automated power tong	/		• For automatic loading and unloading operation of drilling and workover pipes • Non-stop auto-shifting, fast and automatic matching, one-key makeup and breakout • Mechanical self-energizing, no damage to drill pipes, drill collars or tubing

Product name	Representative models	Product illustrations	Product description
Power catwalk	/		● Developing for automatic transport of the drilling tools between the ground and drill floor ● Controls the automatic back and forth operation of drill pipe from pipe rack to drill floor with a single button, reduces the complexity of operation and prevent faulty operation through preset pathway
Integrated drilling control system	/		● Developing to realize intelligent remote control for drilling & workover pipe handling operation ● Integrated control, fault diagnosis, data monitoring, optimal path planning, multi-machine synergy and overall efficiency improvement

Target Group Investment Highlights

(i) Protecting energy security through the development of unconventional oil & gas and penetrating the market of solid pressure equipment

China imports a relatively high proportion of oil and gas resources. According to public data, in 2022, China's crude oil imports account for more than 70%, and natural gas imports account for more than 40%. Besides, China is rich in unconventional oil & gas resources reserves, of which shale gas reserves are the first in the world and shale oil reserves are the third in the world. Currently, relevant policy support has increased domestic oil and gas exploration and development, and in the context of "stabling the supply of oil and increasing the supply of gas" policy, the development of unconventional oil & gas is increasingly important. In addition, since 2020, oil price has remained at a high level, which is expected to boost upstream capital expenditures for oil and gas exploration and production. In 2023, the total expected capital expenditures of CNPC, Sinopec and CNOOC are expected to exceed RMB500 billion, driving the continuous improvement of the prosperity of the oil and gas exploration and production industry, and the fracturing equipment will have vast market space. The market size of China's fracturing equipment market is expected to exceed RMB10 billion in 2025.

(ii) With high barriers to competition in the industry, the Target Group's competitive advantages continue to grow

The fracturing equipment industry has high barriers to competition and a high degree of industry concentration, with the top five companies in the fracturing equipment industry accounting for a combined market share of over 75% in 2022. Therefore, the profit margin of the fracturing equipment industry is higher than the average level of the special equipment industry. The barriers to competition of the fracturing equipment industry are mainly reflected in the following areas:

(a) High capital requirements — as a capital-intensive industry, the demands for operating capital and capital investment in R&D are relatively high. Therefore, it's difficult for ordinary industry players to meet the capital requirements.

(b) High technical requirements — due to various operating environments and operating habits of customers, industry players are required to produce customized products, which required stronger R&D and design capabilities.

(c) High reliability requirements — there is a wide variety of fracturing equipment that requires high levels of safety and reliability, and any issues with the equipment during operation could result in wellbore abandoned and economic losses.

(d) High entry barriers — customers tend to procure products from established industry players with excellent reputation and high credibility, making it more difficult for new entrants to gain market to downstream customers.

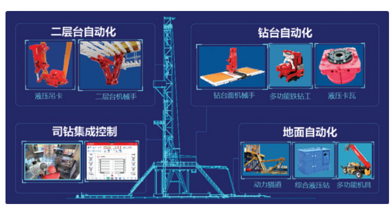
The Target Group has launched a number of competitive products to solidify its industry position. The Target Group's sale of truck-mounted fracturing equipment from 2020 to 2022 were 131, 224 and 181 units, respectively, with market shares of 17.10%, 29.83% and 26.89%, respectively, ranking first in terms of sales and market share in 2021 and 2022. In particular, in 2022, the market share of the Target Group's fracturing trucks was 25.35%, the market share of its fracturing blender truck was 33.33% and the market share of its intelligent data truck was 39.02%. The main features of the Target Group's superior products are as follows:

Product Type | **Illustrations** | **Key features**

Frac spreads

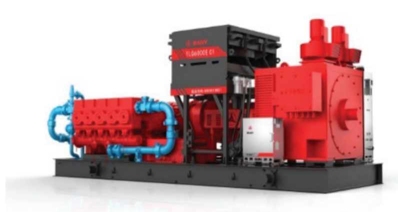
- Industry-exclusive AT automatic chassis
- Remote control for easy start/stop, over 10 times more efficient than similar products in the industry
- Apply adaptive fuel saving technology and reduce the use of fuel by more than 5%

Automated pipe handling system

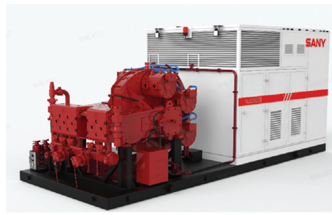


- Multi-machine synergy for over 30% increase in overall efficiency
- Reduction in the number of drillers by more than 25%
- Machine vision technology enhances well site safety management

High power electric frac pumper



- All-round six-fold protection with dual IP54 design inverter skids for further protection
- Inverter with IGCT (Insulated Gate Commutated Thyristor) technology route with high power capacity
- Intelligent maintenance system, fault code visualisation analysis system, real-time online diagnosis of equipment information

Product Type	Illustrations	Key features
Distributed electric frac pumper		• Distributed multi-motor drive, easy to achieve continuous high load operation, 36% lower investment cost, single machine operating cost savings of at least RMB300,000/year • Greater reliability with IP68 protection rating, which could far exceed the conventional rating IP44 • Permanent magnet synchronous motor with wider speed range and higher efficiency
Hybrid crawler-mounted rig		• Diesel-electric hybrid powered with more than 15% increase in total power • Ultra-powerful powerhead with 278kW powerhead • Independently developed automatic pressure adjustment technology • Multiple interlocking, patented floating device, safe and convenient
Hybrid crawler-mounted pipework unit		• Variable gauge chassis, good load stability, safe and reliable • 360-degree view system for full vehicle monitoring without blind spot • Two-stage electric leakage protection for on-site electrical safety

(iii) Innovative application of digital production mode to lead the smart manufacturing revolution

The traditional oil and gas equipment industry is facing pain points such as low flexibility in production, low efficiency in information transfer, and hidden safety hazards in production. The Target Group is committed to improving manufacturing capabilities in various aspects including automation of production lines, digitalization of operations, networked collaboration and intelligent decision making, and solving difficulties in the traditional production process.

(a) The automation of production lines is enhanced by the establishment of flexible production lines, standardised work processes and automatic distribution systems. The Target Group's production lines are highly automated and can be quickly adjusted to fit different product types.

(b) Digital operation management is achieved by establishing the IVS (Intelligent Vision Surveillance), PMC (Production Material Control) and AMS (Asset Management Solutions). On one hand, the timeliness and accuracy of data collection are improved, and the visualisation of data throughout the entire process smoothens information sharing, which in return improves decision-making and work efficiency. On the other hand, AI visual recognition technology is applied to achieve all-round monitoring of personnel safety, equipment safety and material safety, and production safety is safeguarded by the real-time alerts of the safety supervision system.

(c) Synergies among various operations are enhanced through internal systems integration, equipment interconnection and the use of the "Production Dash-board" system.

(d) Through the application of big data technology, the Target Group will soon launch the APS (Advanced Planning and Scheduling), MES (Manufacturing Execution System) and QCS (Quality Control System) to achieve intelligent decision-making.

The Target Group has achieved high quality yet cost reduction development during manufacturing by applying digital production modes. By compared with the period prior to the completion of the smart factory construction, the overall production cycle has been shortened by 12%, the manufacturing cost has been reduced by 13%, the failure rate has been reduced by 28%, while the monthly production capacity has been increased by 20% and the inventory turnover rate of work-in-progress has been increased by 39%.

(iv) Excellent R&D capabilities that empower continuous innovation and sustainable development

Focusing on improving its R&D capabilities, the Target Group has continued to bring in high-end talents and improve the incentive mechanism. The scale of its R&D team has expanded rapidly and an established R&D team is in place. In terms of research organization structure, the Target Group's research group has 15 research institutes, including 9 major product development institutes, 5 major technology enabling institutes and 1 international institute. The Target Group has four R&D bases in Changsha, Zhuzhou, Beijing and Chengdu, and has realised product R&D synergy and digital management through off-site collaboration and digital R&D management platforms. Its Research Group has over 200 R&D staff, with over 99% of them possessing bachelor's degree and 42% with master's degree or above. In addition, the Target Group places high importance on the cooperation with universities and other enterprises to strengthen its cutting-edge technology research, and has established good cooperation with six universities including Harbin Institute of Technology, China University of Petroleum, Huazhong University of Science and Technology, Southwest Petroleum University, Yanshan University and National University of Defense Technology.

The Target Group has strong independent research and development capabilities as well as complete experimental and testing capabilities, and has developed integrated R&D capabilities in planning, simulation, testing and trial production:

(a) In terms of planning, the Target Group has a comprehensive and well-developed planning system with a product planning committee and a product planning department, consisting of a number of planners with experienced professional backgrounds, who are responsible for planning management in areas from demand management to product definition. Every year, the planning system implements at least 20 strategic plans and industry analyses, 2 plans in new products and 5 plans in top-selling products.

(b) In terms of simulation, the Target Group has been equipped with various simulation capabilities such as vehicle reliability test, multidisciplinary collaborative simulation, thermal management, secondary development of simulation software and digital twin, etc. It has a high-performance computing platform and a simulation management platform, and has achieved online simulation process, as well as over 90% coverage of simulation capabilities and over 50% of mechanics-experiment alternatives ratio. In addition, the Target Group has developed a digital twin model for the all modules of skid-mounted fracturing equipment, enabling fault diagnosis and online monitoring of core products such as plunger pump.

(c) In terms of testing, the Target Group has abundant testing resources, and has the largest fracturing-test site in China, as well as a special vehicle test site, a 140MPa class special purpose test site and a well-mechanization test site in the Zhuzhou campus. The relevant test sites are equipped with sophisticated data measurement equipment.

(d) In terms of trial production, the Target Group has independent trial production systems, including a specialised trial production workshop and a comprehensive production equipment management system. The Target Group's trial production system ensures efficient trial production. It can shorten the trial production time by 10%–15%, achieving full coverage of prototype acceptance and prototype management.

Since its establishment, the Target Group has highly focused on the investment and experience accumulation of R&D in core technologies and products. From 2020 to 2022, the Target Group's average R&D expense ratios were approximately 10%, which is in leading levels among the participants in the industry. Through continuous independent R&D, the Target Group has obtained 678 valid patents and 42 software copyrights. Benefiting from the Target Group's rich talent pool, its substantial investment in R&D and the strategy which is in line with its development, the Target Group's R&D capability has been at the leading position in the industry, which results in high quality and reliability of its products and a leading position in the industry. In addition, the Target Group has obtained a number of honorary awards, including the Second Prize of Beijing Science and Technology Progress, Beijing Specialized and New "Small Giant" Enterprise, Hunan Innovative SMEs, Zhuzhou City Gazelle Enterprise in Science and Technology, etc. In the future, the Target Group will continue to increase its investment in R&D to empower innovation and sustainable development.

(v) Equipped with a top-notch digitally integrated procurement platform

Relying on its mature management experience and comprehensive supply chain system, the Target Group has built a leading digitalized integrated procurement platform, effectively reducing procurement costs. In addition, the key components used in the Target Group's products, such as automobile chassis, engines, oil pumps and plunger pumps, are all either manufactured independently or having a safe and controllable supply chain. The Target Group's supply chain system has achieved industry leadership in:

(a) The Target Group adopts digitalization management throughout its procurement process, and achieves visualization of materials management throughout the whole process through systems. For traditional routine purchasing, systems are digitally upgraded to facilitate management. For strategic procurement that requires global optimisation of the supply chain to achieve integration of resources and total cost reduction, the optimal solutions are identified through digitalized system to achieve intelligent procurement.

(b) The Target Group has strengthened intra-group synergies in its procurement process and has achieved industry leading position in terms of procurement efficiency.

(c) The Target Group's procurement system provides comprehensive and in-depth analysis and intelligent calculation of the cost data, and applies global procurement layout reasonably in order to achieve optimal cost control.

(d) The Target Group has a flexible supply chain system, which can realize the early alert of inventory shortage, online risk warning and integrated production and sales collaboration, thus avoiding the problem of inventory backlog caused by the traditional procurement system.

(e) The Target Group has established a comprehensive supply chain ecosystem with efficient collaboration with upstream and downstream partners, facilitating real time online interaction with suppliers to solve procurement problems efficiently.

(vi) Industry leader in electrification and intelligentisation with a promising future

Capitalising on the trend of electrification and intelligentisation in the industry, the Target Group has continued to develop cutting-edge technologies in energy-efficiency, automation, unmanned and intelligent oil and gas field centralization, and has now become the industry leader in electrification and intelligentisation.

(a) Electrification

The prospect for electrically driven fracturing equipment market is promising. Equipment for fracturing consists of two main categories: traditional energy-driven and new energy-driven. The traditional energy-driven equipment is mainly diesel-driven, while new energy-driven equipment is mainly electric-driven powered by grid or by gas turbine generator sets. The demand for new energy fracturing equipment will continue to grow both domestically and globally. The market penetration rate of new energy fracturing equipment in China will continue to increase.

The Target Group expects that "replacing diesel with electricity" will become a trend in the petroleum equipment industry and the proportion of electric equipment will continue to increase. The Target Group attaches great importance to the R&D of electrification technology for various products. It has achieved a number of technological breakthroughs, such as: 1) in terms of electric drive fracturing equipment, it has achieved multiple-motor group control coordination to optimise efficiency, and has mastered multiple core technologies such as automatic voltage regulation and integration of power transformation and distribution; 2) for monkey board pipe handling manipulator, it has achieved complete electric-driven with the application of servo drive technology; 3) for electric drilling manipulator, it has adopted the one-key positioning control technology; and 4) for mobile centralized-hydraulic station, it has adopted the dynamic refuelling and powering control technology to solve the problem of high hydraulic fluid temperature. In the future, the Target Group will continue to make efforts in the development of technologies such as energy-saving electric drive fracturing, electrification of piping equipment and electrification of automation products.

In 2022, the Target Group completed the development and upgrade of 11 electric drive fracturing products, and its electric drive fracturing products have been commercialised. The 6000HP electric frac pumper and substation and distribution kits launched by the Target Group in the third quarter of 2022 are highly intelligent, with two times higher power density, one time higher construction efficiency, 46% lower energy consumption and 29% lower noise compared to the 2500HP diesel-driven fracturing equipment. With these advantages, the product became an instant hit in the market, achieving an operating income of RMB377 million in the same year. Because of the technology development, the independent research and development of core components, such as substation, distribution and converter, the improvement of the product quality and the reduction of costs, the gross profit margin of the product was over 40% in 2022. In addition, the Target Group has also completed model projects with its electric drive fracturing products while cooperating with customers.

The Target Group is also actively developing cutting-edge products for electric drive fracturing equipment: 1) the development and market launch of the 1000HP electric frac pumper with an APU (Auxiliary Power Unit) can solve the problem of no electricity supply at the construction site, which improves the operation efficiency significantly. 1000HP distributed electric frac pumper has achieved full localisation for the components, and has adopted the use of new energy motors for commercial vehicles, providing stable performance and high cost-performance ratio. 2) The 8000HP & 10000HP electric frac pumpers are currently under development. Being the industry's leading high power electric fracturing equipment, it applies IGCT which has larger power capacity ensuring higher reliability with application of AI recognition technology to realise automatic construction.

(b) Intelligentisation

The Target Group aims to create integrated intelligent solutions through two major directions: product intelligentisation and operation intelligentisation. On the one hand, the Target Group applies technologies such as the Internet of Things and artificial intelligence to replace manpower and enhance product capabilities, while on the other hand, the Target Group insists on empowering intelligent network connectivity and O&M with software and empowering business operations with intelligent system platforms.

In the area of product intelligentisation, the Target Group has achieved: 1) remote control of fracturing operation — the intelligent data trailer can remotely control the hydration trailer and realise the dual transmission of monitoring data and control signals, and is equipped with an operation management system to monitor the operating parameters of the whole group of equipment, and an operation fault diagnosis system to statistically analyse the key data of fracturing trucks and sand blending; 2) data visualization — through a data dashboard to monitor equipment information in real time and could be accessed by various devices simultaneously, such as mobile phones, PCs and tablet devices; 3) remote data transmission — with the application of remote data transmission technology to speed up production deployment and perform remote fault diagnosis by means of wireless base stations;

4) compatibility technology — which enables the network operation of different brands of equipment to be activated with single-button to enhance efficiency; 5) visual recognition technology — with visual recognition technology for group of equipment to identify abnormalities in a timely manner; and 6) the pipe handling intelligent control technology and one-key collaboration technology.

In the area of business operation intelligence, the Target Group is committed to building an intelligent operation management platform, including an operation data dash-board system, an oil & gas field intelligent supervision system, an operation management system and a site operation management system, etc., supplemented by hardware devices such as intelligent sensors, to carry out operation management and support site execution according to the three major process flows of "decision support — operation management — site execution". With the help of intelligent operation and management platforms, the Target Group has formed a positive interaction with customers, equipment suppliers, technical service providers, logistics providers and engineering service providers, establishing a win-win ecosystem.

The Target Group's intelligent integrated solution has achieved the following results: 1) intelligent operation of products: improve operation efficiency and reduce safety risks; 2) operational cost reduction: reduce expenses such as manpower cost; 3) standardised management of the complete business flow and the significant improve of digitalisation of the equipment management business; 4) operational quality and efficiency improvement: improve business flow efficiency and performance management, for example, the end-to-end business flow efficiency of closed-loop handling of equipment abnormalities has been improved by over 15%.

The Target Group will continue to develop core technologies such as intelligent equipment collaboration, AI recognition and intelligent algorithms in the future to gradually achieve breakthroughs in operation modes from complex auxiliary operations, semi-automatic operations, highly automated operations to fully automated operations, and ultimately providing a full range of intelligent oil & gas field services and solutions.

(vii) New products and new business contributed to second growth curve

The Target Group adheres to the development strategy of new products and new businesses, continues to expand its product spectrums and deepens the layout of its oil services business by leveraging its own advantages. New products and new businesses will expand the growth potentials for the Target Group and constitutes its second growth curve.

(a) New Products

The Target Group will expand drilling and extraction automation, oilfield engineering equipment and natural gas engineering segments, and rely on its products to enhance engineering operation and service capabilities. In the drilling automation segment, considering the current industry trend of energy saving and emission reduction in petroleum industries, the Target Group has developed hybrid crawler-mounted rig for coal bed methane and geothermal drilling, which are currently in commercial testing stage, and will also be deeply engaged in electrified truck-mounted well repair. In addition, the Target Group will bring in cooperation resources in electric control of drilling rigs and intelligent technology, while enhancing its brand image with high-quality products such as monkey board pipe handling manipulator, hydraulic station and drill floor pipe handling manipulator. In the oilfield engineering equipment segment, the Target Group has completed the development of welding engineering vehicles, which can achieve remote driving, high efficiency and fuel saving. In the future, the Target Group will focus on intelligent pipe handling equipment and automatic welding equipment to further improve the product spectrum of oilfield pipeline construction. In the natural gas engineering segment, the Target Group will take natural gas liquefaction plant as the starting point to form a business structure of equipment, engineering and operation, with R&D focusing on fracturing equipment, natural gas gathering and transmission equipment, natural gas liquefaction equipment and hybrid crawler-mounted pipework unit. Engineering services will be laid out in the field of gathering and transmission engineering EPC and liquefaction engineering EPC. In terms of operation, it will deepen the industrial layout with the dual modes of cooperative development and independent development.

(b) New Businesses

Relying on its own advantages and capabilities, the Target Group will continue to develop new businesses in oil services. Industry drivers for China's oil services market include the continued growth of energy demand, the growth potential of unconventional oil & gas exploration, the support of high oil prices, strong support from government policies and the Belt and Road Initiative. China's oil services industry has high entry barriers, including adequate capitalization, efficient operations and cost control, technical infrastructure, good brand recognition and customer relationships and so on. The Target Group has successfully entered the China oil services market with multiple advantages including strong capital capabilities, leading supply chain management capabilities, advanced manufacturing capabilities, excellent R&D capabilities, the Sany brand name effect and quality customer resources. It will continue to deepen its oil services business layout in the future.

(viii) A visionary and experienced management team

The Target Group has established a visionary and professional management team, with a number of industry experts with rich experience in machinery manufacturing, oil & gas technical services and other related fields. The management team steadily implements the development strategies, timely adjusts its market strategies, and improves R&D capabilities and operational vitality in the course of business management. Under the leadership of the management team, the Target Group has continued to explore promising business areas and built a business layout of "equipment + oil services", creating a corporate culture conducive to innovation, setting out the prospective layout of digital intelligence and electrification, and defining a clear direction of future development. In the process of product development, the management team has selected the route of advanced technology and has established outstanding product advantages. Owing to the excellent leadership of the management team, the Target Group has achieved rapid growth and will continue to create value for shareholders.

Future Development Strategies of the Target Group

(i) Diversified new product layout

In addition to its current mature products, the Target Group will continue to develop new products in various fields of oil and gas equipment to enhance product competitiveness. The major new products planned to be developed include:

(a) In terms of complete sets of electric equipment, investments in R&D in electric frac spreads will be increased to build the leading brand of frac spreads nationwide.

(b) In terms of hybrid crawler-mounted pipework unit, the Target Group will break through the field with products such as welding workstations and pipe handlers, and is gradually developing into the businesses of pipeline inspection, subsea pipeline laying equipment and engineering services.

(c) In terms of well logging and test equipment, the Target Group is entering the field through products such as electric well-logging trucks.

(d) In terms of drilling, workover and automated pipe handling equipment, the Target Group has been expanding from automated pipe handling equipment such as monkey board pipe handling manipulator to automated drilling & workover pipe handling systems and complete sets of automated well drilling and workover equipment, focusing on building hybrid crawler-mounted and truck-mounted rig as well as electric well workover equipment.

(e) In the area of natural gas liquefaction equipment and engineering, it focuses on the development of small and medium-sized LNG equipment, and will gradually develop in oil and gas gathering and transmission engineering, and expand into the international business of oil and gas engineering and new areas such as offshore oil and gas processing equipment.

(ii) Focusing on expanding the customer base of state-owned enterprise customers and overseas customers to promote continued growth in revenue

The Target Group has adopted a development strategy focusing on increasing state-owned enterprise customers and overseas customers in order to drive sales and increase market share. The Target Group's revenue of state-owned enterprise customers rose from approximately RMB154 million in 2020 to approximately RMB596 million in 2022, representing a CAGR of approximately 97%, with revenue share increased from approximately 17% to approximately 29%. It is expected that state-owned enterprise customers will remain at a level between 30% and 40% for the Target Group in the future. In addition, the Target Group is committed to developing new markets for overseas customers and has already reached intentional orders with customers in countries and regions including Central Asia, Japan, the Middle East, Africa and Latin America. It also aims at entering the European and American markets in the future, and achieving overseas business growth with supportive policies of the Belt and Road Initiative.

(iii) Overall layout of internationalisation

The international market space for oil and gas services and equipment is vast. The Target Group plans to launch its flagship products such as fracturing equipment for the international market and to develop international oil service business at the same time, forming a two-pronged advance in equipment as well as in services. In addition, the Target Group will establish international marketing companies, international product research institutes, and a R&D centre in the United States, and build an international R&D, marketing and service team. In the short term, the Target Group will create benchmark projects to penetrate through Asian, African and Latin American markets; in the medium term, it will continue to promote the construction of an international team and establish an international brand image; and in the long term, it will benchmark with international oil service companies, to promote customer stickiness and complete its in-depth layout of international markets.

(iv) Deepening its efforts in the four major areas to enhance comprehensive competitiveness

In 2022, the Target Group's oil and gas equipment business recorded an operating revenue of RMB1,854 million, and its oil service business recorded an operating revenue of RMB226 million. In the future, the Target Group will deepen its efforts in the four major fields: oil and gas equipment, oil and gas services, oil and gas engineering and oil and gas investment, to enhance its comprehensive competitiveness and improve its revenue and profitability. The Target Group will continue to adhere to the two-pronged development strategy of equipment and oil and gas services, by strengthening the three foundations of digitalization, electrification, intelligentisation, by relying on the four R&D capabilities of planning, simulation, trial production and testing, by depending on the five core pillars of manufacturing, commerce, quality assurance, technology and services, and by resorting to the six core businesses of diesel-driven fracturing, complete sets of electric equipment, oil and gas gathering and transmission, pipeline engineering, intelligent drilling rigs and oil & gas technical services and spare parts, it aims to maintain its No. 1 position in terms of market share of frac spreads and to become the No.1 brand of oil and gas equipment in China.

(v) Becoming a world-leading provider of products and services in oil & gas field

The Target Group's strategic objective is to become the world's leading provider of integrated oil and gas solutions. Its short-term goal is to expand its product portfolio of oil and gas equipment horizontally to fully cover the oil and gas field equipment segment, including geophysical exploration equipment, drilling rig and workover rig, completion & stimulation equipment, oil and gas gathering and transmission equipment and decarbonizing equipment, and at the same time to expand into the international market. Its medium-term goal is to deepen the vertical layout of its technology and engineering services to fully cover the oil and gas services segment, including geophysical exploration services, drilling services, oil & gas field technical services, oil & gas engineering services and oil & gas field digitalization services, while establishing a global sales network at the same time. In the future, the Target Group will continue to contribute to the development of China's oil and gas equipment and services industry and strive to build in-depth strategic partnerships with both global and domestic giants in energy industry to become a first-class global provider of integrated oil and gas solutions.

The Board believes that the Acquisition is strategically attractive and will bring the following benefits:

(i) Creation of synergies by continued diversification of industrial layout and expansion into various energy equipment business segments

Before the Acquisition, the Company's business can be divided into three major sectors: the mining equipment sector covering coal machinery, non-coal mining, mining vehicles and smart mine products business; the logistics equipment covering container equipment, bulk material equipment and general equipment business; and the robotics sector covering robotic system integration, mobile robot and electric forklift business. The Target Group is deeply engaged in the R&D, production and sales of complete sets of equipment and spare parts for oil and gas field, as well as oil and gas field cementing and stimulation technical services. After the Acquisition, the Company will further expand its coal mining machinery and other energy equipment business, to achieve a diversified industrial layout, enhance its business scale, and add revenue drivers. The Company and the Target Group will be able to create synergies in their businesses, especially in coal bed methane mining. The Company's coal mining machinery business and the Target Group's oil and gas equipment business will be able to achieve synergies in terms of integrated business development, customer resource sharing and market scale expansion.

(ii) Resource integration to enhance intelligent manufacturing capabilities and to improve equipment manufacturing capacity

Before the Acquisition, the Company's Lighthouse Factory projects, namely widebodied vehicles, hydraulic supports, small port machinery and large port machinery, have successively commenced operation. The completion of the Lighthouse Factory Projects has increased the production automation rate, shortened the manufacturing cycle, achieved a significant increase in production capacity and less manual operation in the manufacturing and assembly process, all fulfilling a rapid growing demand for the Company's products. The Target Group has completed the Zhuzhou Intelligent Manufacturing Centre, achieving improved manufacturing capabilities in terms of automation of production lines, digitalisation of operations, networking of collaboration and intelligent decision-making. Upon completion of the Acquisition, the Company and the Target Group will integrate the automation of production lines and enhance the flexibility of production capacity, thereby effectively improving production efficiency and reducing production costs. Besides, the integration of the Company and the Target Group will promote the rapid improvement of equipment manufacturing capacity, thus increasing their competitiveness in the market.

(iii) Complementary technologies and R&D capabilities in electrification and intelligentisation to accelerate product commercialization and incubation

The Company has made significant achievements in intelligentisation and electrification. For the mining equipment segment, sales of intelligent roadheaders doubled, and the development of integrated mining intelligent control system based on digital twin technology has been aligned with leading national standard, achieving full spectrum coverage of intelligent coal mining machine types. The unmanned operating mileage of smart mining exceeded 300,000 kilometres, and the integrated operation efficiency reaches 88%. For the logistics equipment segment, the Company secured nearly RMB1 billion worth of orders for automated Rail-Mounted Gantry, all equipped with advanced design such as automatic scanning of cargo area, and the operation aligned with leading national standard. The Company delivered 14 automated rubber-tyred cranes to Tianjin Port, breaking its record for operating efficiency. The Company has also completed its first successful operation of automated rail-mounted gantry cranes project in China, which was regarded as an industry innovated model. For robotic products, the Company has continuously launched new products that lead the development in the industry, such as the development of the flagship product C6 electric forklift equipped with intelligent system.

The Target Group has become a leader in the domestic petroleum equipment industry in terms of electrification and intelligentisation. The Target Group has completed the R&D and iterative upgrade of 11 electrified mainframe products, and the 6000HP electric fracturing equipment it launched has become a popular product in the market by virtue of its high power density, low energy consumption, low noise and other product features. The Target Group provides integrated intelligent solutions in the field of oil equipment, which include two major aspects such as product intelligence and business operation intelligence. In terms of product intelligentisation, the Target Group has mastered a number of intelligent technologies such as remote operation control, data visualisation and compatibility control, which to improve operational efficiency and reduce safety risks. In terms of business operation intelligentisation, the Target Group aims to build an operation management platform for oil fracturing business, which supports intelligent operation in various aspects including decision support, operation management and site execution, so as to achieve improved quality and cost reduction in operation. The new energy fracturing equipment market has huge potential both domestically and globally, and the penetration rate will continue to increase. In the future, the Target Group will continue to deepen its electrification layout, continue to increase the proportion of electrified products, and enhance the level of product intelligentisation as well as business operation intelligentisation.

After the completion of the Acquisition, the Company and the Target Group can share their R&D results in electrification and intelligentisation, integrate their R&D capabilities, promote R&D innovation of whole product lines and accelerate commercialization.

(iv) Jointly promote internationalization strategy and integrate and expand sales channels

The Company's strategy of digitalisation, electrification and internationalization achieved outstanding results. In 2022, the Company's revenue from overseas sales continued to grow, with a year-on-year increase of 101.5%. The Target Group has continued to increase its revenue from state-owned enterprise customers in recent years, promoted the commercialisation of new products and gradually expanded into overseas markets, and has now achieved intentional orders in Central Asia, Japan, the Middle East, Africa, Latin America and other regions.

Upon completion of the Acquisition, the Company and the Target Group can further improve their market development capabilities, enhance product diversity and international coverage, meet the needs of domestic and international customers and achieve a steady increase in sales scale through the integration of sales networks and channels.

(v) Increase the revenue scale and profitability of the Group

From 2020 to 2022, the Target Group's revenue was RMB894 million, RMB1,740 million and RMB2,087 million, respectively, with net profits of RMB70 million, RMB304 million and RMB386 million, respectively. The Target Group will actively develop new products in the drilling and extraction automation segment, natural gas engineering and other business segments, expand new businesses such as professional and technical services for oil and gas, and create new growth drivers by penetrating the international market.

Upon completion of the Acquisition, the Target Group will become a wholly-owned subsidiary of the Company. The integration of the Target Group and the Company will further enhance the comprehensive competitiveness of the Company in the field of energy equipment, drive revenue growth and enhance overall competitiveness of the Company.

The Directors (excluding the independent non-executive Directors, whose views will be provided after taking into account the opinion and advice from the Independent Financial Adviser) consider that the terms of the Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

BOARD APPROVAL

At the Board meeting held to approve the Agreement, due to Mr. Liang, Mr. Tang Xiuguo and Mr. Xiang Wenbo's equity interests (directly or indirectly) in the Vendor, each of Mr. Liang Zaizhong, who is the son of Mr. Liang, Mr. Tang Xiuguo and Mr. Xiang Wenbo has abstained from voting on the relevant board resolutions of the Company. Save as disclosed above, none of the other Directors has or is deemed to have a material interest in the Agreement and is required to abstain from voting on the relevant Board resolutions approving the Agreement.

LISTING RULES IMPLICATIONS

The Acquisition

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition exceeds 5% but all of which are less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Mr. Liang is a controlling shareholder of the Company who is entitled to exercise or control the exercise of approximately 66.34% voting rights in the ordinary share capital of the Company and indirectly holds 479,781,034 Convertible Preference Shares which represent approximately 13.11% issued share capital of the Company (as enlarged) upon full conversion. As the Vendor is ultimately and beneficially owned as to 43.167% by Mr. Liang, the Vendor is an associate of Mr. Liang and therefore a connected person of the Company under the Listing Rules. Accordingly, the entering into of the Agreement also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

EGM

The EGM will be convened and held at Conference Room 103, Research and Development Building, Sany Heavy Equipment Co., Ltd., No. 25, 16 Kaifa Road, Shenyang Economic of Technological Development Zone, Shenyang, Liaoning Province, PRC at 10:00 a.m. on Friday, 9 June 2023, at which ordinary resolutions will be proposed for the Independent Shareholders to consider, and, if thought fit, to approve the Agreement.

Any Shareholders with a material interest in the Agreement or the transaction as contemplated thereunder or their respective associates shall abstain from voting at the EGM. The relevant interested Shareholders, namely, Sany HK, Mr. Liang, Mr. Tang Xiuguo, Mr. Xiang Wenbo, Mr. Yi Xiaogang and their respective associates, together held 2,121,956,688 Shares, representing approximately 66.74% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting on the resolution approving the Agreement at the EGM. Save as disclosed above, as at the Latest Practicable Date, and to the best knowledge, belief and information of the Directors having made all reasonable enquiries, no other Shareholder is required under the Listing Rules to abstain from voting at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed form of proxy in accordance with the instructions printed thereon, and deposit it with the Company's share registrar 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 less than 48 hours before the time appointed for the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment of it if you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting of the Company must be taken by way of poll. Accordingly, the resolutions to be considered and, if thought fit, approved at the EGM will be voted on by way of poll by the Independent Shareholders. After conclusion of the EGM, the poll results announcement will be published on the respective websites of the Stock Exchange and the Company.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining Shareholders' entitlement to attend and vote at the EGM (or at any adjournment thereof), the register of members of the Company will be closed from Wednesday, 7 June 2023 to Friday, 9 June 2023 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Tuesday, 6 June 2023.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 41 to 42 of this circular and the letter of Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders set out on pages 43 to 70 of this circular in connection with the Agreement and the transaction contemplated thereunder and the principal factors and reasons considered by Somerley Capital Limited in arriving at such advice.

The Independent Board Committee, having taken into account the advice of Somerley Capital Limited, considers that the Agreement and the transaction contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve the Agreement and the transaction contemplated thereunder at the EGM as set out in the notice of the EGM.

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

Yours faithfully
By order of the Board
Sany Heavy Equipment International Holdings Company Limited
Liang Zaizhong
Chairman

The English translation of Chinese names or words in this circular, where indicated by "", are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

SANY HEAVY EQUIPMENT INTERNATIONAL HOLDINGS COMPANY LIMITED
三一重裝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 631)

23 May 2023

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY

We refer to the circular of the Company dated 23 May 2023 (the "**Circular**") of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders in respect of the terms of the Agreement and the transactions contemplated thereunder. Somerley Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement.

We wish to draw your attention to the letter from the Board on pages 5 to 40 of the Circular, which sets out details of the Agreement and the transactions contemplated thereunder. We also wish to draw your attention to the letter from the Independent Financial Adviser set out on pages 43 to 70 of the Circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Agreement and the transactions contemplated thereunder.

Having taken into account the terms of the Agreement, the advice of the Independent Financial Adviser and the principal factors and reasons taken into consideration by them in arriving at their advice, we consider that the terms of the Agreement and the Acquisition are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and although the Acquisition is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution which will be proposed at the EGM to approve the Agreement and the transaction contemplated thereunder.

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

Mr. Ng Yuk Keung **Mr. Poon Chiu Kwok** **Mr. Hu Jiquan**
Independent non-executive Directors

The following is the letter of advice from Somerley Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

23 May 2023

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY

INTRODUCTION

We refer to our appointment to advise the independent board committee and the independent shareholders of Sany Heavy Equipment International Holdings Company Limited (the "**Company**") in relation to the acquisition of the entire issued share capital of Sany Oil Technology Hongkong Limited (the "**Acquisition**"). Details of the Acquisition are set out in the "Letter from the Board" (the "**Board Letter**") contained in the circular of the Company dated 23 May 2023 (the "**Circular**"), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 12 April 2023, the Company and the Vendor entered into the Agreement pursuant to which the Company has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, the Sale Shares, representing the entire issued share capital of the Target Company at the Consideration of RMB2,980 million.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition exceeds 5% but all of which are less than 25%, the Acquisition constitutes a discloseable transaction for the Company under the Listing Rules. In addition, the Vendor is ultimately and beneficially owned as at 43.167% by Mr. Liang, being a controlling shareholder of the Company, the Vendor is an associate of Mr. Liang and therefore a connected person of the Company. Accordingly, the Acquisition also constitutes a connected transaction of the Company under the Listing Rules. The Acquisition is therefore subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Ng Yuk Keung, Mr. Poon Chiu Kwok and Mr. Hu Jiquan, has been formed to advise the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder. We, Somerley Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard (the "**Engagement**").

As at the Latest Practicable Date, Somerley Capital Limited does not have any relationships or interests with the Company that could reasonably be regarded as a hindrance to the independence of Somerley Capital Limited as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders for the Engagement. In the past two years, there has been no other engagement between the Company and Somerley Capital Limited. During the past two years preceding the Latest Practicable Date, apart from normal professional fees paid or payable to us in connection with the Engagement, no arrangement exists whereby we will receive any fees or benefits from the Company.

In formulating our advice, we have reviewed, among other things, the Agreement, the annual reports of the Company for each of the two years ended 31 December 2020 and 2021, the annual report of the Company for the year ended 31 December 2022 (the "**2022 Annual Report**"), and the Valuation Report (being a valuation report of the Target Company prepared by the Beijing Guo Rong Xing Hua Assets Appraisal Co., Ltd. ("**the Independent Valuer**")) as set out in Appendix I to the Circular. We have also discussed the businesses and future prospects of the Group with the management of the Group (the "**Management**"). We have relied on the information as contained in the Circular and the information and facts supplied, and the opinions expressed, by the Directors and the Management, and have assumed that they are true, accurate and complete in all material aspects at the time they were made and will remain so up to the time of the EGM. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted or withheld from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our opinion and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Group, the Target Group, the Vendor and their respective associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the Acquisition, we have taken into account the following principal factors and reasons:

1. Information on the Group

(i) Business of the Group

The Group is principally engaged in the manufacture and sale of mining equipment, logistics equipment, robotic and smart mined products and spare parts and the provision of related services in the PRC. The Group divides its products into three categories as follows:

(1) mining equipment: This includes coal mining machinery products, such as roadheaders (all types of soft rock, hard rock roadheaders and integrated excavation, bolting and self-protection machine) and mining equipment (shearer, hydraulic support system, scraper conveyor etc.); non-coal mining machinery products, such as tunnel roadheader and mining machine; mining vehicle products, such as mining transport equipment (mechanical drive off-highway dump truck and electric drive off-highway dump truck) and widebodied vehicle and other relevant products; and smart mine products, such as unmanned driving, automated integrated mining and smart mine operation systems;

(2) logistics equipment: This includes container equipment (including small-scale port machinery such as front loader, stacking machine, etc., and large-scale port machinery such as quayside gantry crane, etc.), bulk material equipment (gripper, elevated hoisting arm, etc.) and general equipment (heavy-weight forklift, telehandler, etc.); and

(3) robotics, such as robot system integration, mobile robots and electric forklifts.

(ii) Financial information of the Group

The table below summarises the financial information of the Group for each of the three years ended 31 December 2020 ("**FY2020**"), 2021 ("**FY2021**") and 2022 ("**FY2022**") (together, the "**Relevant Periods**") as extracted from the Company's 2020 annual report, 2021 annual report and the 2022 Annual Report respectively.

	For the year ended 31 December		
	2020	**2021**	**2022**
	(audited)	**(audited)**	**(audited)**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	7,363,859	10,194,616	15,536,716
Segment revenue *(note)*:			
— Mining equipment	4,846,103	6,895,856	10,942,517
— Logistics equipment	2,517,756	3,298,760	4,594,199
Gross profit	1,960,772	2,389,640	3,628,344
Profit for the year	1,051,549	1,309,158	1,669,074
Profit attributable to owners of the parent	1,045,144	1,259,071	1,664,911

Note: Including sales to external customers only

	As at 31 December		
	2020	**2021**	**2022**
	(audited)	**(audited)**	**(audited)**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	5,448,218	6,568,046	7,762,582
Current assets	12,015,943	14,217,076	17,190,687
Non-current liabilities	1,666,797	2,832,163	4,013,717
Current liabilities	7,938,463	9,169,811	10,835,778
Non-controlling interests	20,167	82,092	63,795
Equity attributable to owners of the parent	7,838,734	8,701,056	10,039,979

(a) *Financial performance*

FY2021 vs FY2020

Revenue of the Group increased from approximately RMB7.4 billion in FY2020 to approximately RMB10.2 billion in FY2021, representing an increase of approximately 38.4%. The increase in revenue was mainly due to the increase in revenue from both the mining equipment segment and the logistics equipment segment, among which revenue generated from each of the mining equipment segment and the logistics equipment segment increased by approximately 42.3% and approximately 31.0% respectively. As disclosed in the 2021 annual report of the Company, the increase in revenue was mainly due to (1) growth in the Group's sales of computerised and electric products, such as intelligent excavators, electric front loaders, electric stacking machines and electric widebodied vehicles which were widely recognised by the market; (2) significant increase in sales from widebodied vehicles and telehandlers in the international market; and (3) increase in the Group's robotics business. Gross profit of the Group increased from approximately RMB2.0 billion in FY2020 to approximately RMB2.4 billion in FY2021, and the Group's gross profit margin decreased by approximately 3.2 percentage points from approximately 26.6% in FY2020 to approximately 23.4% in FY2021. Such decrease in gross profit margin was mainly attributable to a change in product mix, an increase in international freight charges and an increase in purchase price for raw materials such as steel. The Group's net profit margin (calculated as dividing profit for the year by revenue) was approximately 12.8% in FY2021, representing a decrease of approximately 1.5 percentage points from approximately 14.3% in FY2020. Such decrease was mainly due to lower gross profit margin as explained above and the increase in research and development investments for new businesses for the year.

FY2022 vs FY2021

For FY2022, the Group recognised revenue of approximately RMB15.5 billion, representing an increase of approximately 52.4% as compared to FY2021. Revenue from the mining equipment segment increased by approximately 58.7% to approximately RMB10.9 billion in FY2022, and revenue from logistics equipment segment increased by approximately 39.3% to approximately RMB4.6 billion in FY2022, both as compared to FY2021. As set out in the 2022 Annual Report, the increase in revenue was mainly due to (1) an increase in the revenue for the Group's roadheaders, integrated mining equipment, widebodied vehicles and logistics equipment products due to the quick launch of products with intelligentization and electrification; and (2) a significant increase in the international sales of mining equipment and logistics equipment as a result of the successful expansion into overseas markets. The gross profit margin of the Group for FY2022 was approximately 23.4%, which remained at a similar level as compared to that of FY2021. The Group's net profit margin (calculated as dividing profit for the year by revenue) was approximately 10.7% in FY2022, representing a decrease of approximately 2.1 percentage points from FY2021. Such decrease was mainly due to the lack of one-off gain on the disposal of all the equity interests in Xinjiang Sany Heavy Equipment Co., Ltd. in FY2022 as compared to FY2021.

(b) Financial position

The Group had equity attributable to owners of the parent of approximately RMB7.8 billion, RMB8.7 billion and RMB10.0 billion as at 31 December 2020, 2021 and 2022 respectively. Such changes were mainly due to the increase as a result of the net profits generated by the Group during the Relevant Period which was partly offset by the payment and declaration of dividends.

As at 31 December 2022, major assets of the Group include property, plant and equipment of approximately RMB4.1 billion, right-of-use assets of approximately RMB1.3 billion, goodwill of approximately RMB1.1 billion, inventories of approximately RMB3.3 billion, trade receivables (both current and non-current) of approximately RMB7.3 billion, bills receivables of approximately RMB1.0 billion, financial assets at fair value through profit or loss of approximately RMB2.1 billion and cash and cash equivalents of approximately RMB2.7 billion.

As at 31 December 2022, major liabilities of the Group include trade and bills payables of approximately RMB6.6 billion, other payables and accruals of approximately RMB2.8 billion, interest-bearing bank and other borrowings (both current and non-current) of approximately RMB3.6 billion and government grants of approximately RMB1.3 billion.

As at 31 December 2022, the gearing ratio (calculated as dividing the net debt (comprising interest-bearing bank and other borrowings, trade and bills payables, other payables and accruals, less cash and cash equivalents) by the sum of net debt and equity attributable to owners of the parent) of the Group was approximately 50.9%, which was similar to that as at 31 December 2021 of approximately 51.4%.

2. Reasons for and benefits of the Acquisition

As discussed in this letter above, the Group is principally engaged in the manufacture and sale of mining equipment, logistics equipment, robotic and smart mined products and spare parts and the provision of related services in the PRC. We have reviewed the financial information of the Group during the Relevant Periods and noted that the Group has recorded increases in both revenue and net profit during the Relevant Periods. As set out in the 2022 Annual Report, the Company considers that there are still uncertainties in the global economy, but at the same time there is broad room for development in the advanced equipment manufacturing industry as a result of the implementation of the "dual carbon" strategy and building of the "dual circulation" pattern by the state. In addition, the process of building smart mines, smart ports and smart factories will bring huge market potential and room for growth to the Group. The Group will accelerate the implementation of the digital intellectualization, electrification and international transformation strategy when opportunities and challenges arise.

The Target Group is principally engaged in the research and development, production and sales of frac spreads and spare parts for oil and gas fields, as well as oil and gas field cementing and stimulation technical services. The Target Group has been profit making during the Relevant Periods, and has recorded revenue of approximately RMB2.01 billion and profit attributable to owners of the Target Company of approximately RMB384.0 million for FY2022. Further details of the information of the Target Group, including the financial information, are set out in the section headed "3. Background and financial information of the Target Group" of this letter below.

As set out in the Board Letter, the Company considers that the Acquisition will bring in the following benefits:

(i) Creation of synergies by continued diversification of industrial layout and expansion into various energy equipment business segments

Before the Acquisition, the Company's business can be divided into three major sectors: the mining equipment sector covering coal machinery, non-coal mining, mining vehicles and smart mine products business; the logistics equipment covering container equipment, bulk material equipment and general equipment business; and the robotics sector covering robotic system integration, mobile robot and electric forklift business. The Target Group is deeply engaged in the research and development ("**R&D**"), production and sales of complete sets of equipment and spare parts for oil & gas field, as well as oil and gas field cementing and stimulation technical services. After the Acquisition, the Company will further expand its coal mining machinery and other energy equipment business, to achieve a diversified industrial layout, enhance its business scale, and add revenue drivers. The Company and the Target Group will be able to create synergies in their businesses, especially in coal bed methane mining. The Company's coal mining machinery business and the Target Group's oil and gas equipment business will be able to achieve synergies in terms of integrated business development, customer resource sharing and market scale expansion.

(ii) Resource integration to enhance intelligent manufacturing capabilities and to improve equipment manufacturing capacity

Before the Acquisition, the Company's lighthouse factory projects, namely widebodied vehicles, hydraulic supports, small port machinery and large port machinery, have successively commenced operation. The completion of the lighthouse factory projects has increased the production automation rate, shortened the manufacturing cycle, achieved a significant increase in production capacity and less manual operation in the manufacturing and assembly process, all fulfilling a rapid growing demand for the Company's products. The Target Group has completed the Zhuzhou Intelligent Manufacturing Centre, achieving improved manufacturing capabilities in terms of automation of production lines, digitalisation of operations, networking of collaboration and intelligent decision-making. Upon Completion, the Company and the Target Group will integrate the automation of production lines and enhance the flexibility of production capacity, thereby effectively improving production efficiency and reducing production costs. Besides, the integration of the Company and the Target Group will promote the rapid improvement of equipment manufacturing capacity, thus increasing their competitiveness in the market.

(iii) Complementary technologies and R&D capabilities in electrification and intelligentisation to accelerate product commercialization and incubation

The Company has made significant achievements in intelligentisation and electrification. For the mining equipment segment, sales of intelligent roadheaders doubled, and the development of integrated mining intelligent control system based on digital twin technology has been aligned with leading national standard, achieving full spectrum coverage of intelligent coal mining machine types. The unmanned operating mileage of smart mining exceeded 300,000 kilometres, and the integrated operation efficiency reaches 88%. For the logistics equipment segment, the Company secured nearly RMB1 billion worth of orders for automated Rail-Mounted Gantry, all equipped with advanced design such as automatic scanning of cargo area, and the operation aligned with leading national standard. The Company delivered 14 automated rubber-tyred cranes to Tianjin Port, breaking its record for operating efficiency. The Company has also completed its first successful operation of automated rail-mounted gantry cranes project in the PRC, which was regarded as an industry innovated model. For robotic products, the Company has continuously launched new products that lead the development in the industry, such as the development of the flagship product C6 electric forklift equipped with intelligent system.

The Target Group has become a leader in the domestic petroleum equipment industry in terms of electrification and intelligentisation. The Target Group has completed the R&D and iterative upgrade of 11 electric drive fracturing products, and the 6000HP electric frac pumper since its launch has become a popular product in the market by virtue of its high power density, low energy consumption, low noise and other product features. The Target Group provides integrated intelligent solutions in the field of oil and petroleum equipment, which include two major aspects such as product intelligence and business operation intelligence. In terms of product intelligentisation, the Target Group has mastered a number of intelligent technologies such as remote operation control, data visualisation and compatibility control, which improve operational efficiency and reduce safety risks. In terms of business operation intelligentisation, the Target Group aims to build an operation management platform for oil fracturing business, which supports intelligent operation in various aspects including decision support, operation management and site execution, so as to achieve improved quality and cost reduction in operation. The new energy fracturing equipment market has huge potential both domestically and globally, and the penetration rate will continue to increase. In the future, the Target Group will continue to deepen its electrification layout, continue to increase the proportion of electrified products, and enhance the level of product intelligentisation as well as business operation intelligentisation.

After the Completion, the Company and the Target Group can share their R&D results in electrification and intelligentisation, integrate their R&D capabilities, promote R&D innovation of whole product lines and accelerate commercialization.

(iv) Jointly promote internationalization strategy and integrate and expand sales channels

The Company's strategy of digitalisation, electrification and internationalization achieved outstanding results. In 2022, the Group's revenue from overseas continued to grow, with a year-on-year increase of 101.5%. The Target Group has continued to increase its revenue from state-owned enterprise customers in recent years, promoted the commercialisation of new products and gradually expanded into overseas markets, and has now achieved intentional orders in Central Asia, Japan, the Middle East, Africa, Latin America and other regions.

Upon Completion, the Company and the Target Group can further improve their market development capabilities, enhance product diversity and international coverage, meet the needs of domestic and international customers and achieve a steady increase in sales scale through the integration of sales networks and channels.

(v) Increase the revenue scale and profitability of the Group

From 2020 to 2022, the Target Group's revenue was approximately RMB894 million, RMB1,740 million and RMB2,087 million, respectively, with net profits of approximately RMB70 million, RMB304 million and RMB386 million, respectively. The Target Group will actively develop new products in the drilling and extraction automation segment, natural gas engineering and other business segments, expand new businesses such as professional and technical services for oil and gas, and create new growth drivers by penetrating the international market.

Upon Completion, the Target Group will become a wholly-owned subsidiary of the Company. The integration of the Target Group and the Company will further enhance the comprehensive competitiveness of the Company in the field of energy equipment, drive revenue growth and enhance overall competitiveness of the Company.

Having considered the benefits of the Acquisition as mentioned above and that the Acquisition is in line with the Group business strategy to accelerate the implementation of the digital intellectualization, electrification and international transformation as mentioned in the 2022 Annual Report, we consider that although the Acquisition is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.

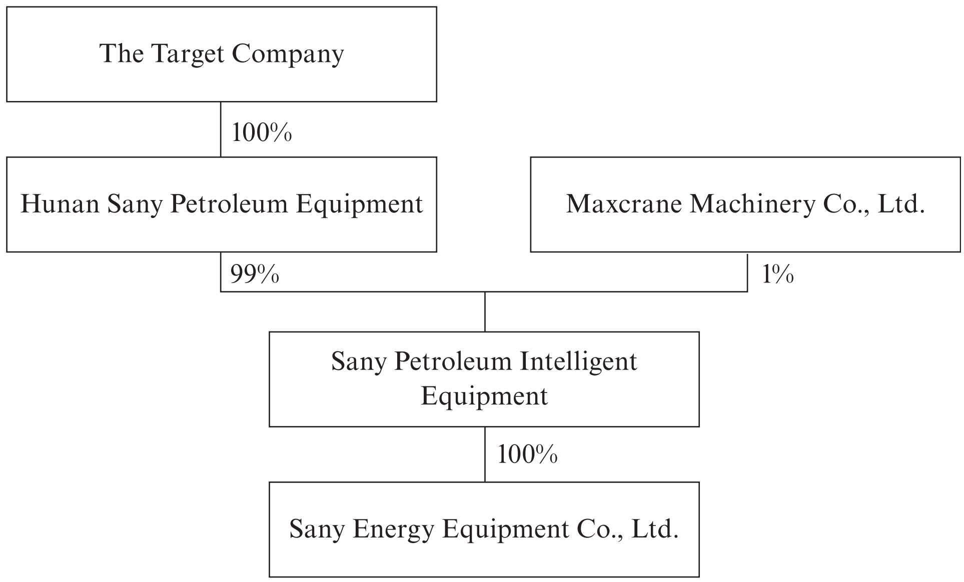
3. Background and financial information of the Target Group

(i) Information on the Target Group

The Target Company is a company incorporated in Hong Kong with limited liability and is wholly owned by the Vendor. It is principally engaged in investment holding.

The Target Group is principally engaged in the research and development, production and sales of frac spreads and spare parts for oil and gas fields, as well as oil and gas field cementing and stimulation technical services. Its principal businesses are operated by Sany Petroleum Intelligent Equipment and its subsidiaries. The main business types of the Target Group can be classified into: (i) research and development, production and sales of frac spreads and spare parts; (ii) research and development, production and sales of drilling, workover and automated pipe handling equipment; and (iii) after-market business and oil & gas field technical services.

Set out below is a group structure of the Target Group as at the Latest Practicable Date:



Further details of the background of the companies of the Target Group are set out in the Board Letter.

(ii) Business model and competitive advantage of the Target Group

The Target Group has all series of frac spreads (mechanical transmission, hydraulic transmission and electric drive) and industry-leading drilling, workover and automated pipe handling equipment and possesses the relevant core technologies. The competitive advantages of the Target Group are discussed below.

— *Innovative application of digital production mode*

The Target Group is committed to improving manufacturing capabilities in various aspects including automation of production lines, digitalization of operations, networked collaboration and intelligent decision making, and solving difficulties in the traditional production process. The Target Group has achieved high quality yet cost reduction development during manufacturing by applying digital production modes. As compared with the period prior to the completion of the smart factory construction, the overall production cycle has been shortened by 12%, the manufacturing cost has been reduced by 13%, the failure rate has been reduced by 28%, while the monthly production capacity has been increased by 20% and the inventory turnover rate of work-in-progress has been increased by 39%.

— *Excellent R&D capabilities*

The Target Group has strong independent research and development capabilities as well as complete experimental and testing capabilities, and has developed integrated R&D capabilities in planning, simulation, testing and trial production. Since its establishment, the Target Group has highly focused on the investment and experience accumulation of R&D in core technologies and products. Through continuous independent R&D, the Target Group has obtained 678 valid patents and 42 software copyrights. Benefiting from the Target Group's rich talent pool, its substantial investment in R&D and the strategy which is in line with its development, the Target Group's R&D capability has been at the leading position in the industry, which results in high quality and reliability of its products and a leading position in the industry.

— *Equipped with a top-notch digitally integrated procurement platform*

Relying on its mature management experience and comprehensive supply chain system, the Target Group has built a leading digitalized integrated procurement platform, effectively reducing procurement costs. In addition, the key components used in the Target Group's products, such as automobile chassis, engines, oil pumps and plunger pumps, are all either manufactured independently or having a safe and controllable supply chain.

— *Industry leader in electrification and intelligentisation*

Capitalising on the trend of electrification and intelligentisation in the industry, the Target Group has continued to develop cutting-edge technologies in energy-efficiency, automation, unmanned and intelligent oil and gas field centralization, and has now become the industry leader in electrification and intelligentisation.

The Target Group expects that "replacing diesel with electricity" will become a trend in the petroleum equipment industry and the proportion of electric equipment will continue to increase. The Target Group attaches great importance to the R&D of electrification technology for various products. It has achieved a number of technological breakthrough for various products. In the future, the Target Group will continue to make efforts in the development of technologies such as energy-saving electric drive fracturing, electrification of piping equipment and electrification of automation products.

The Target Group aims to create integrated intelligent solutions through two major directions: product intelligentisation and operation intelligentisation. On the one hand, the Target Group applies technologies such as the Internet of Things and artificial intelligence to replace manpower and enhance product capabilities, while on the other hand, the Target Group insists on empowering intelligent network connectivity and operation and maintenance with software and empowering business operations with intelligent system platforms. The Target Group's intelligent integrated solution has achieved the following results: 1) intelligent operation of products: improve operation efficiency and reduce safety risks; 2) operational cost reduction: reduce expenses such as manpower cost; 3) standardised management of the complete business flow and the significant improve of digitalisation of the equipment management business; 4) operational quality and efficiency improvement: improve business flow efficiency and performance management, for example, the end-to-end business flow efficiency of closed-loop handling of equipment abnormalities has been improved by over 15%. The Target Group will continue to develop core technologies such as intelligent equipment collaboration, artificial intelligence recognition and intelligent algorithms in the future to gradually achieve breakthroughs in operation modes from complex auxiliary operations, semi-automatic operations, highly automated operations to fully automated operations, and ultimately providing a full range of intelligent oil & gas field services and solutions.

— *A visionary and experienced management team*

The management team of Target Group comprises a number of industry experts with rich experience in machinery manufacturing, oil & gas technical services and other related fields. The management team steadily implements the development strategies, timely adjusts its market strategies, and improves R&D capabilities and operational vitality in the course of business management. Under the leadership of the management team, the Target Group has continued to explore promising business areas and built a business layout of "equipment + oil services", creating a corporate culture conducive to innovation, setting out the prospective layout of digital intelligence and electrification, and defining a clear direction of future development. In the process of product development, the management team has selected the route of advanced technology and has established outstanding product advantages. Owing to the excellent leadership of the management team, the Target Group has achieved rapid growth and will continue to create value for shareholders.

For further details of the Target Group, including its major products, investment highlights and future development strategy, please refer to the Board Letter.

(iii) Financial information of the Target Group

We have reviewed and discussed with the Management the financial information of the Target Group including the audited consolidated financial statements of the Target Group for the Relevant Periods prepared in accordance with International Financial Reporting Standards ("**IFRSs**"). As set out above and in the audited consolidated financial statements of the Target Group, Sany Petroleum Intelligent Equipment was acquired by Hunan Sany Petroleum Equipment, a company wholly owned by the Target Company, in 2022. Pursuant to such reorganisation, the Target Company became the holding company of the companies now comprising the Target Group, and the companies now comprising the Target Group were under the common control of the controlling shareholders before and after the reorganisation. Accordingly, the consolidated financial statements of the Target Group have been prepared by applying the principles of merger accounting as if the reorganisation had been completed at the beginning of the Relevant Periods.

(a) Financial performance

Set out below is a summary of the consolidated statements of profit or loss and other comprehensive income of the Target Group for the Relevant Periods.

	For the year ended 31 December		
	2020	**2021**	**2022**
	(audited)	**(audited)**	**(audited)**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	894,491	1,740,325	2,087,007
Cost of sales	(637,832)	(1,120,991)	(1,346,409)
Gross profit	256,659	619,334	740,598
Other income and gains	36,476	54,923	52,317
Selling and distribution expenses	(48,115)	(104,558)	(121,229)
Administrative expenses	(155,445)	(186,201)	(198,107)
Impairment on financial and contract assets, net	(963)	(8,706)	(7,221)
Other expenses	(2,912)	(12,714)	(31,114)
Finance costs	(14,389)	(14,028)	(7,542)
Net profit before taxation	71,311	348,050	427,702
Income tax expense	(1,808)	(43,645)	(42,068)
Net profit after taxation	69,503	304,405	385,634
— attributable to owners of the Target Company	69,503	304,405	384,007
— attributable to non-controlling interests	—	—	1,627

Revenue and gross profit

As advised by the Management, revenue of the Target Group during FY2020, FY2021 and FY2022 was mainly generated from sale of industrial products (such as equipment and accessories for oil and gas fields including fracturing equipment) and provision of oilfield services. Revenue of the Target Group increased significantly by approximately 94.6% from approximately RMB0.9 billion in FY2020 to approximately RMB1.7 billion in FY2021, and further increased by approximately 19.9% to approximately RMB2.1 billion in FY2022. As advised by the Management, such increase in revenue was mainly due to (i) the increase in sales of industrial products as a result of the strong demand of the petroleum industry, including the recovery from the impact of COVID-19 pandemic, the increase in sales of new automated products in FY2021 and the sales of new electric driven fracturing equipment in FY2022; (ii) the increase in revenue generated from the provision of oilfield services which was a newly set up business segment which achieve revenue growth during both FY2021 and FY2022.

Gross profit of the Target Group amounted to approximately RMB256.7 million, RMB619.3 million and RMB740.6 million in FY2020, FY2021 and FY2022 respectively. The gross profit margin of the Target Group was approximately 28.7% in FY2020 and increased to approximately 35.6% in FY2021. As advised by the Management, the increase in gross profit margin of the Target Group in FY2021 was mainly due to the increase in proportion of sales of newly launched automated products in FY2021, which have a higher gross profit margin as compared to other products of the Target Group. Gross profit margin of the Target Group remained relatively stable at approximately 35.5% in FY2022.

Selling and distribution expenses and administrative expenses

As set out in the table above, selling and distribution expenses of the Target Group increased significant by approximately 117.3% from approximately RMB48.1 million in FY2020 to approximately RMB104.6 million in FY2021, and further increased by approximately 15.9% to approximately RMB121.2 million in FY2022. As advised by the Management, the increases in selling and distribution expenses were mainly due to the increases in sales activities of the Target Group during the Relevant Periods.

Administrative expenses of the Target Group were approximately RMB155.4 million, RMB186.2 million and RMB198.1 million for each of FY2020, FY2021 and FY2022 respectively, representing an increase of approximately 19.8% in FY2021 and approximately 6.4% in FY2022. Research and development costs of the Target Group amounted to approximately RMB130.2 million, RMB128.9 million and RMB143.2 million during each of FY2020, FY2021 and FY2022 respectively, and represented major part of the Target Group's administrative expenses during each of the relevant period. As advised by the Management, the increases in administrative expenses were mainly due to the expansion in headcount and other expenses as a result of the expansion of operation scale of the Target Group.

Net profit after taxation

The Target Group recorded a net profit after taxation for each of FY2020, FY2021 and FY2022. The net profit after taxation of the Target Group increased from approximately RMB69.5 million in FY2020 to approximately RMB304.4 million in FY2021, and increased further to approximately RMB385.6 million in FY2022, representing an increase of approximately 3.4 times in FY2021 and approximately 26.7% in FY2022. As advised by the Management, the increase in net profit after taxation was mainly due to the increase in revenue and gross profit of the Target Group as discussed above.

(b) *Financial position*

Set out below is a summary of the consolidated statements of financial position of the Target Group for the Relevant Periods.

	As at 31 December		
	2020	**2021**	**2022**
	(audited)	**(audited)**	**(audited)**
	RMB'000	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	203,916	251,765	308,096
Right-of-use assets	11,020	11,252	23,629
Intangible assets	229	577	15,894
Trade receivables	36,638	98,779	60,118
Contract assets	496	1,463	2,828
Deferred tax assets	26,334	10,281	7,509
Total non-current assets	278,633	374,117	418,074
CURRENT ASSETS			
Inventories	258,615	262,882	329,251
Trade receivables	307,943	407,323	929,531
Contract assets	53,487	37,951	30,610
Bills receivable	79,868	74,973	57,945
Prepayments, other receivables and other assets	79,553	95,991	176,111
Pledged deposits	100	44	—
Cash and cash equivalents	252,748	404,122	359,795
Total current assets	1,032,294	1,283,286	1,883,243

	As at 31 December		
	2020	**2021**	**2022**
	(audited)	**(audited)**	**(audited)**
	RMB'000	*RMB'000*	*RMB'000*
CURRENT LIABILITIES			
Trade payables	265,504	510,479	636,805
Other payables and accruals	347,856	346,614	335,913
Dividend payable	—	—	434,565
Interest-bearing bank and other borrowings	371,775	161,833	253,101
Tax payable	465	4,409	23,137
Provision for warranties	7,203	8,471	9,402
Total current liabilities	992,803	1,031,806	1,692,923
NET CURRENT ASSETS	39,491	251,480	190,320
TOTAL ASSETS LESS CURRENT LIABILITIES	318,124	625,597	608,394
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	3,813	4,328	22,194
Deferred tax liabilities	7,298	9,410	19,566
Total non-current liabilities	11,111	13,738	41,760
NET ASSETS	307,013	611,859	566,634
EQUITY			
Equity attributable to owners of the Target Company			
Issued capital	800	800	290,720
Reserves	306,213	611,059	271,362
	307,013	611,859	562,082
Non-controlling interests	—	—	4,552
Total equity	307,013	611,859	566,634

Assets

As at 31 December 2022, major assets of the Target Group include property, plant and equipment of approximately RMB308.1 million, trade receivables (both current and non-current) of approximately RMB989.6 million, inventories of approximately RMB329.3 million, prepayments, other receivables and other assets of approximately RMB176.1 million and cash and cash equivalents of approximately RMB359.8 million.

As set out in the table above, the Target Group's total assets (comprising non-current assets and current assets) amounted to approximately RMB1.3 billion, RMB1.7 billion and RMB2.3 billion as at 31 December 2020, 2021 and 2022 respectively. The increase in total assets of the Target Group was mainly due to the increase in property, plant and equipment, inventories and trade receivables during the Relevant Periods. We have discussed the above increases with the Management and understand that (1) the increase in property, plant and equipment was mainly due to the increase in capital expenditure for expansion of the operation scale of the Target Group; (2) the increase in inventories was mainly due to the increase in operation scale of the Target Group; and (3) the increase in trade receivables was mainly due to the increase in sales during the Relevant Periods and also the longer credit period granted to customers during the Relevant Period including the customers of oilfield services.

Liabilities

As at 31 December 2022, major liabilities of the Target Group include trade payables of approximately RMB636.8 million, other payables and accruals of approximately 335.9 million, dividend payable of approximately RMB434.6 million and interest-bearing bank and other borrowings (including both current and non-current) of approximately RMB275.3 million.

The Target Group's total liabilities (comprising non-current liabilities and current liabilities) maintained at similar level at approximately RMB1.0 billion as at 31 December 2020 and 2021, while the amount increased to approximately RMB1.7 billion as at 31 December 2022. As advised by the Management, such increase was mainly due to (1) an increase in trade payables of approximately RMB126.3 million as a result of increase in operation scale; (2) an amount of dividend payable of approximately RMB434.6 million as at 31 December 2022 which represented the remaining balance of dividend being approved by the shareholders' resolution of the Target Company on 31 March 2022; and (3) increase in interest-bearing bank and other borrowings (both current and non-current) of approximately RMB109.1 million which was mainly due to the increase in funding needs as a result of the expansion of operation scale of the Target Group.

Net assets

Net assets value of the Target Group amounted RMB307.0 million, RMB611.9 million and RMB566.6 million as at 31 December 2020, 2021 and 2022 respectively. The changes in net assets value of the Target Group were mainly attributable to the net profits of the Target Group during the Relevant Periods and the distribution of dividends of RMB435 million during FY2022.

4. Principal terms of the Agreement

The Agreement was entered into between the Company and the Vendor on 12 April 2023. Set out below are the principal terms of the Agreement, further details of which are set out in the Board Letter.

(i) Subject matter

Pursuant to the Agreement, the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company.

(ii) Consideration

The Consideration shall be RMB2,980 million, which shall be payable by the Company to the Vendor in cash in RMB or other foreign currency in equivalent value (due to fluctuation in exchange rates, the actual amount will be based on the central parity rate of the RMB exchange rate in the inter-bank foreign exchange market announced by the People's Bank of China on the date of payment), in the following manner:

(a) as to RMB894 million, being 30% of the Consideration, shall be payable in cash by the Company to the Vendor within 60 days after the Completion Date; and

(b) as to RMB2,086 million, being 70% of the Consideration, shall be payable in cash by the Company to the Vendor on or before 31 December 2023.

As set out in the Board Letter, the Consideration was determined after arm's length negotiations between the Company and the Vendor on normal commercial terms after taking into account of, among other things, (a) the valuation of the Target Company in the amount of RMB4,281 million as at 31 December 2022 by the Independent Valuer using market approach, details of which are set out in Appendix I to the Circular; (b) cash settlement for the Consideration; and (c) that the shareholders of the Vendor are optimistic about the long-term development prospects of the enlarged Group and the synergistic effect brought by the Acquisition. Further analysis on the Consideration is set out in the section headed "5. Evaluation of the Consideration" of this letter below.

(iii) Conditions precedent and completion

Completion is conditional upon the fulfilment (or, if applicable, the waiver) of a number of conditions precedent as set out in the Board Letter, including, among others, the following:

(1) the Company having complied with the Listing Rules in respect of the Agreement, including but not limited to the reporting to the Stock Exchange, publication of announcement and obtaining the Independent Shareholders' approval in relation to the Agreement and the transactions contemplated thereunder at the EGM;

(2) the Company having been satisfied with the results of the due diligence in respect of the Target Group;

(3) all necessary consents, permissions, approvals, licenses, waivers, orders, reliefs or notices from government and regulatory authorities or any other third parties required to be obtained by the Target Group in respect of the Agreement and the transactions contemplated thereunder having been obtained and having not been withdrawn prior to the Completion Date; and

(4) from the date of the Agreement till the Completion Date, there being (i) no material adverse changes to the Target Group; and (ii) no material adverse changes to the Target Group due to the applicable laws of the jurisdictions in which the Target Group operates.

The conditions precedent to the Agreement (except for conditions precedent (1) and (3) above which are not waivable) may be waived in part or in whole by the Company by notice in writing to the Vendor. As at the Latest Practicable Date, none of the conditions precedent to the Agreement had been fulfilled or waived (as the case may be). In the event that any of the conditions precedent to the Agreement is not fulfilled (or waived, if applicable) prior to the Long Stop Date, then the Company shall not be bound to proceed with the Acquisition and the Agreement shall cease to be of any effect.

Completion shall take place after, among others, all the conditions precedent under the Agreement have been fulfilled or waived by the Company (as the case may be), or such other date as agreed by the parties to the Agreement. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial statements of the Target Group will be consolidated into the financial statements of the Company.

5. Evaluation of the consideration

(i) Valuation of the Target Company

The Consideration shall be RMB2,980 million, which will be settled by the Company partly by internal resources and partly by external financing. As set out in the Board Letter, the consideration was arrived after arm's length negotiation between relevant parties by reference to the valuation of the Target Company prepared by the Independent Valuer.

We have reviewed the Valuation Report prepared by the Independent Valuer, details of which are set out in Appendix I to the Circular, and have discussed with the Independent Valuer regarding the valuation of the Target Company with details set out below.

(a) Scope of work and qualifications of the Independent Valuer

The Independent Valuer was engaged to prepare the Valuation Report which set out independent valuations on the market value of 100% equity interest in the Target Company as at 31 December 2022 as reference for the Acquisition. The Valuation Report has been prepared in compliance with the relevant professional standards issued by China Appraisal Society. We have discussed the expertise of the Independent Valuer with its relevant staff members. We understand that the Independent Valuer is certified with the relevant PRC qualifications required to perform this valuation exercise and the signing persons of the Valuation Reports have over 15 years' industry experience in conducting valuation exercises. We have also reviewed the terms of the Independent Valuer's engagement letter and noted that the purpose of the valuation is to provide an opinion of value of the Target Company. The Independent Valuer's engagement letter also contains standard valuation scopes that are typical of company valuations carried out by independent valuers.

In the course of our review, we have discussed with the Independent Valuer the methodologies, bases and assumptions adopted in the Valuation Report, further details are set out below.

(b) Valuation methodologies

Based on our discussion with the Independent Valuer and review of the Valuation Report, it is noted that the final valuation of equity of the Target Company was based on the market approach. We understand that the Independent Valuer has considered the three commonly used valuation approaches for valuation of a company, namely the asset-based approach, the market approach and the income approach:

(i) The Independent Valuer considers that the income approach is not considered appropriate for determining the valuation of the Target Company, mainly due to the uncertainties in estimating the future profit of the Target Group after considering the significant growth in operation scale of the Target Group in recent three years and the application of new technology in developing new products by the Target Group.

(ii) We understand from the Independent Valuer that the asset-based approach is not considered appropriate as this approach could not reflect all the values of the competitive edge of the Target Group's brand name, technology, product and customer resources.

(iii) The market approach provides an indication of value by comparing the asset with identical or comparable assets for which price information is available, and valuation is made by the comparable company method or the comparable transaction method. We understand from the Independent Valuer that the market approach is considered appropriate for determining the final valuation of the Target Company as there are sufficient comparable companies identified under the stock market of PRC and Hong Kong which are active and developed stock markets, and sufficient data are available for the purpose of valuation using the market approach.

Based on the above, and taking into account our discussions with the Independent Valuer regarding their selection of valuation approach as set out above, we consider that the use of market approach in valuing the Target Company to be reasonable. In addition, as other valuation methodologies are not appropriate for valuing the Target Company, we did not cross-check the valuation with other methodologies.

(c) Valuation assumptions

We have reviewed the Valuation Report and discussed with the Independent Valuer in respect of the key assumptions adopted for performing the valuation under market approach. The key assumptions of the valuation, in general, are set out as follows:

- there are orderly transactions in the market;
- the subject company is an ongoing business, and will continue to operate continuously and legally;
- assets of the subject company will continue to be used in the same way as that on the Valuation benchmark date;

- no significant change to existing relevant laws, regulations and policies, the country's macroeconomic conditions, political, economic and social environment in the regions where the subject company operates;

- no significant change in the accounting policies, interest rates, tax rates, exchange rates etc. of the subject company;

- the management of the subject company is conscientious and is fully complying with all relevant laws and regulations relating to its operations; and

- no other force majeure or unforeseen factors occur which would have significant adverse impact on the business of the Target Company.

We understand from the Independent Valuer that the assumptions are commonly adopted in other valuations of similar assets and there is no unusual assumption which has been adopted when valuing the Target Company. We also consider the assumptions adopted in the Valuation Report are general in nature and are not aware of any material facts which lead us to doubt the assumptions adopted by the Independent Valuer.

(d) Details of valuation

We have discussed with the Independent Valuer their valuation methodologies under the market approach and understand that valuation based on comparable companies and comparable transactions are common under the market approach. As advised by the Independent Valuer, comparable transaction analysis was not feasible due to a lack of recent similar transactions in the market and therefore there was insufficient market information available for valuation purpose. As such, the Independent Valuer has adopted the comparable company analysis in valuing the Target Company.

As set out in the Valuation Report, the Independent Valuer would review the basic information of the Target Company, including but not limited to, the industry and scope of business, product and business model. The comparable companies ("**Comparable Companies**") would be selected based on different areas, among others, their respective principal business activities, stock market and financial performance. The appropriate valuation multiple would be determined and the valuation result would be computed based on the valuation multiple(s) of the Comparable Companies and the relevant financial information of the Target Company. Details of the valuation are set out below.

(e) Sample section

The fair value of the Target Company was determined with reference to the business nature and operational information of publicly listed companies that are considered to be comparable to the Target Company. We have discussed with the Independent Valuer its selection criteria and assessed the appropriateness of the Comparable Companies selected. The Independent Valuer identified four Comparable Companies which: (i) are principally engaged in oil and gas equipment and services with major products of fracturing products and drilling equipment; (ii) are listed in the stock exchange of the PRC or on the Stock Exchange for 2 years or more; (iii) have operation mainly in the PRC (with 50% of revenue generating within the PRC based on latest financial statements prior to valuation reference date of 31 December 2022); and (iv) recorded net profits for two years prior to the valuation reference date of 31 December 2022. For details of the Comparable Companies please refer to the Valuation Report and relevant further information as set out in Appendix I and Appendix II to the Circular.

We have further discussed with the Independent Valuer as regards the selection criteria set out above. We understand from the Independent Valuer that the first criteria above would help to identify companies with operating in the similar industry of the Target Group. At the same time, given that the Target Group is operating in the PRC and the Company is listed on the Stock Exchange, it is appropriate to identify companies with main operations in the PRC and were listed in the stock exchange of the PRC or the Stock Exchange. We also understand from the Independent Valuer that Comparable Companies would only be selected if they have been listed for 2 years or more such as to reduce the impact of instability of trading in the beginning of new listing. Also, in order to reduce the impact of the short-term changes in the performance of the Comparable Companies on the valuation results, the Independent Valuer has only selected Comparable Companies which recorded net profit for two years prior to the valuation reference date.

In view of the above, we consider that the selection criteria adopted by the Independent Valuer in identifying the Comparable Companies are appropriate.

(f) Valuation multiple

For the selection of the valuation multiple, the Independent Valuer opted for the measure of enterprise value to earnings before interests, taxes, depreciation, and amortization ("**EV/EBITDA**") in deriving the fair value of equity interest of the Target Company. The Target Group is profit making and the Independent Valuer considers that valuation shall be reflected with earnings related valuation multiples. Also, the Independent Valuer have reviewed the details of the Comparable Companies and the Target Group, and note that there are differences in the capital structure among them. In addition, the Target Group has carried out its production on production plant leased from related parties. Accordingly, there would be differences among the Comparable Companies and the Target Group in terms of the level of interests, depreciation and amortisation expenses. As such, the Independent Valuer considered the EV/EBITDA Ratio of the Comparable Companies to be the most appropriate valuation multiple. In this regard, we consider the use of the EV/EBITDA Ratio as valuation multiple to be reasonable.

The EV/EBITDA Ratios of the Comparable Companies in valuing the Target Company range from approximately 7.12 times to approximately 19.14 times, with an average of approximately 13.54 times.

*(g) Discount for lack of marketability ("**DLOM**")*

As the Target Company is a privately held company, the Independent Valuer has applied a DLOM of 30.47% to reflect downward adjustment to the value of an investment due to reduced level of marketability of a privately held company. We have discussed with the Independent Valuer the concept of the DLOM and noted that the DLOM was commonly applied in valuation exercise on unlisted companies. We understand from the Independent Valuer that they have estimated the DLOM with reference to the put option pricing model, which is a commonly used method in the market in estimating the DLOM. The DLOM is resulted from the inability to exercise a right to sell and the cost of the put option reflects the DLOM of the shares as the shareholder is assumed to lose the ability to sell the shares at this price during the entire restriction period regardless of volatility. Under the put option pricing model, the DLOM is represented by the put option value divided by the stock price. We have obtained the supporting document from the Independent Valuer and noted that the Independent Valuer has calculated the DLOM of the four Comparable Companies based on the put option pricing model. The DLOMs of the four Comparable Companies ranged from approximately 29.19% to 32.88% with an average DLOM of approximately 30.47%, which has been adopted by the Independent Valuer. We also noted that the concept of the DLOM was also adopted by other professional valuers in business valuation of unlisted target companies. Having considered (i) that the use of option pricing method in estimating DLOM is common in the market; and (ii) the use of the DLOM by other professional valuers in similar valuation exercises, we consider that the DLOM of 30.47% applied to be reasonable.

(h) Other adjustments

To arrive at the valuation of the equity value of the Target Company, the Independent Valuer has also adjusted for (1) interest-bearing debts; (2) cash and cash equivalents; (3) non-operating assets and liabilities; and (4) non-controlling interests. We understand from the Independent Valuer that the adjustments were made based on the figures of the audited financial statements of the Target Group as at 31 December 2022.

(i) Conclusion

Considering all the variables to the valuation, the appraised value of the 100% equity interest of the Target Company is valued to be RMB4,281 million.

Having discussed with the Independent Valuer and reviewed with them the reasons for adopting the various valuation methodologies, the bases and assumptions used for valuing the Target Company and the valuation result, we are of the opinion that the chosen valuation methodologies, bases and assumptions in establishing the appraised value as at the valuation benchmark date are in line with the industry practice. In assessing the fairness of the Consideration, we consider it is appropriate to refer to the independent valuation conducted by the Independent Valuer in respect of the appraised value of the Target Company.

(ii) Evaluation of the Consideration

The Consideration of RMB2,980 million represents a discount of approximately 30.4% to the valuation of the Target Company. On this basis, we are of the view that the Consideration is fair and reasonable as far as the Independent Shareholders are concerned.

6. Financial effects of the Acquisition

Upon Completion, the Target Company will become a subsidiary of the Company and the financial statements of the Target Group will be consolidated into the financial statements of the Company.

As set out in the section headed "3. Background and financial information of the Target Group" of this letter above, the Target Group recorded revenue of approximately RMB2.1 billion and profit attributable to owners of the Target Company of approximately RMB384.0 million in FY2022. As advised by the Management, it is expected that the revenue and profits of the Enlarged Group will increase upon completion of the Acquisition as a result of the consolidation of financial performance of the Target Group.

As advised by the Management, the total assets and liabilities of the Group will increase upon completion of the Acquisition as enlarged by the assets and liabilities of the Target Group.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that (i) the terms of the Acquisition are on normal commercial terms and are fair and reasonable; and (ii) although the Acquisition is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution(s) in relation to the Agreement and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Clifford Cheng
Director

Mr. Clifford Cheng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over ten years of experience in the corporate finance industry.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent valuer, Beijing Guorong Xinghua Assets Appraisal Co., Ltd., in connection with their valuation of the Target Company as at 31 December 2022.

Valuation Report

of the Entire Equity Interest in

Sany Oil Technology Hongkong Limited

Involved in the Proposed Acquisition of Equity Interests by

Sany Heavy Equipment International Holdings Company Limited

Guo Rong Xing Hua Zi Bao Zi [2023] No. 020027
(Volume One of One Volume)

Valued by: Beijing Guo Rong Xing Hua Assets Appraisal Co., Ltd.
Date of valuation report: 12 April 2023

CONTENT OF VALUATION REPORT

DISCLAIMER

I. The client or other users of the valuation report shall use the valuation report within the scope of use as set out in this valuation report. The valuation institution and its appraisers take no responsibility for any non-compliance with the above-mentioned requirements for the use of the valuation report by the client or other users of the valuation report.

II. This valuation report shall only be used by the client, other users of the valuation report as agreed in the Valuation Business Agreement and users of the valuation report as required by laws and administrative regulations. Save for the above, no other institution or individual shall be the user of this valuation report.

III. We and the appraisers advise that users of the valuation report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

IV. The list of assets and liabilities and business operation information of the valuation target involved should be declared by the client and the appraised entity and certified by signature, seal or other means permitted by laws. The client and other relevant parties shall be responsible for the truthfulness, completeness and legality of the materials provided by them in accordance with laws.

V. The appraisers have conducted on-site inspection on the valuation target and the assets involved in the valuation report, and gave necessary consideration to the legal ownership status of the valuation target and the assets involved, conducted verification on the relevant information regarding the legal ownership of the valuation target and relevant assets, made proper disclosure in respect of the issues identified, and requested the client and other relevant parties to improve the property rights to meet the requirements for issuing the valuation report.

VI. We and the appraisers have no existing or expected relationship of interests with the valuation target as set out in the valuation report or any existing or expected relationship of interests with the relevant parties, and have no prejudice against the relevant parties.

VII. The analyses, judgments, and conclusions in the valuation report issued by us are subject to the assumptions and restrictions in the valuation report. The users of the valuation report shall take into full consideration of the assumptions, restrictions and special notes specified in the valuation report and their impact on the valuation conclusion.

Valuation Report of the Entire Equity Interest in Sany Oil Technology Hongkong Limited Involved in the Proposed Acquisition of Equity Interests by Sany Heavy Equipment International Holdings Company Limited

Guo Rong Xing Hua Zi Bao Zi [2023] No. 020027

To Sany Heavy Equipment International Holdings Company Limited:

Beijing Guo Rong Xing Hua Assets Appraisal Co., Ltd. has been engaged by the Company to estimate the value of the entire equity interest in Sany Oil Technology Hongkong Limited and issue a valuation report thereon. The asset valuation is reported as follows:

1. THE CLIENT, THE APPRAISED ENTITY AND OTHER USERS OF THE VALUATION REPORT AS AGREED IN THE ENGAGEMENT LETTER

The client of this valuation is Sany Heavy Equipment International Holdings Company Limited, and the appraised entity is Sany Oil Technology Hongkong Limited Except for the client, other users of the valuation report as agreed in the engagement letter are the regulatory authorities.

(1) Overview of the client

1. Registration Status

Name: Sany Heavy Equipment International Holdings Company Limited
Company number.: F0017187
Chairman: Liang Zaizhong
Share capital: 500,000,000 HKD
Type of company: Registered non-Hong Kong company
Date of establishment: 22 October 2009
Stock Code: 00631.HK

2. Corporate Profile

Sany Heavy Equipment International Holdings Company Limited is a Hong Kong-based investment holding company principally engaged in coal mining equipment and port machinery businesses. The Company's two core businesses include mining equipment manufacturing and logistics equipment manufacturing. Currently, the Company's mining equipment mainly covers mining road headers, underground and surface mining transport equipment and engineering, and non-ferrous metal mining equipment. In the field of logistics equipment, it mainly covers complete sets of port machinery with advanced technology.

(2) Overview of the appraised entity

1. Registration Status

Name: Sany Oil Technology Hongkong Limited
Company number.: 2306464
Type of company: Private joint stock company with limited liability
Date of establishment: 11 November 2015

2. Corporate Profile

Sany Oil Technology Hongkong Limited is a company incorporated in Hong Kong with limited liability. It and its wholly-owned subsidiary, Hunan Sany Petroleum Equipment Co., Ltd., are investment holding companies and have no business or operation. The main business of the appraised entity is concentrated in Sany Petroleum Intelligent Equipment Co., Ltd., a holding subsidiary of Hunan Sany Petroleum Equipment Co., Ltd. (holding 99% equity interest), and its subsidiaries, which are principally engaged in the research and development, production and sale of frac spreads and spare parts for oil and gas field, as well as oil and gas field cementing and stimulation technical services. The main business could be classified to: 1) research and development, production and sales of frac spreads and spare parts, 2) research and development, production and sales of drilling, workover and automated pipe handling equipment, and 3) after-market business and oil and gas field technical services.

3. Information on long-term equity investees

As at the valuation benchmark date, the investees of Sany Oil Technology Hongkong Limited are as follows:

No.	Name of investee	Date of establishment	Shareholding proportion attributable to the appraised entity		Principal operating activities
			Direct	Indirect	
1	Hunan Sany Petroleum Equipment Co., Ltd.	2016/3/18	100%		Holding company with no actual operating activities
2	Sany Petroleum Intelligent Equipment Co., Ltd.	2015/8/10		99%	Research and development, production and sale of frac spreads and spare parts for oil and gas field, as well as oil and gas field cementing and stimulation technical services
3	Sany Energy Equipment Co., Ltd.	2014/9/5		99%	Research and development, production and sale of frac spreads and spare parts for oil and gas field

No.	Name of investee	Date of establishment	Shareholding proportion attributable to the appraised entity Direct	Indirect	Principal operating activities
4	Sichuan Energy Investment Jinshi Engineering Equipment Leasing Co., Ltd.	2021/4/12		39.60%	Oil and gas services and related equipment leasing

4. Assets, liabilities, equity and operating results of the enterprise in the past two years and as at the valuation benchmark date (on a consolidated basis)

Unit: RMB10 thousand

Financial Indicators	31 December 2020	31 December 2021	31 December 2022
Total assets	131,092.70	165,740.30	230,131.70
Total liabilities	100,391.40	104,554.40	173,468.30
Equity	30,701.30	61,185.90	56,663.40
Operating results	**Year 2020**	**Year 2021**	**Year 2022**
Operating revenue	89,449.10	174,032.50	208,700.70
Total profit	7,131.10	34,805.00	42,770.20
Net profit	6,950.30	30,440.50	38,563.40

The financial data for 2020–2022 has been audited by Ernst & Young Hua Ming LLP Guangzhou Branch.

Note: Subsidiaries included in the scope of consolidation include: Hunan Sany Petroleum Equipment Co., Ltd., Sany Petroleum Intelligent Equipment Co., Ltd. and Sany Energy Equipment Co., Ltd.; Sichuan Energy Investment Jinshi Engineering Equipment Leasing Co., Ltd. was not included in the scope of consolidation.

(3) Relationship between the client and the appraised entity

The client intends to acquire the equity interest in the appraised entity.

2. PURPOSE OF VALUATION

Sany Heavy Equipment International Holdings Company Limited intends to acquire the equity interest in Sany Oil Technology Hongkong Limited. Therefore, it is necessary to conduct a valuation on the value of the entire shareholders' equity of Sany Oil Technology Hongkong Limited involved in the acquisition, so as to provide a reference for the value of the above acquisition as at the benchmark date.

3. VALUATION TARGET AND SCOPE OF VALUATION

(1) Subject of valuation

The subject of this valuation is the value of the entire shareholders' equity of Sany Oil Technology Hongkong Limited.

(2) Scope of valuation

The scope of valuation covers all assets and related liabilities as at 31 December 2022. At the level of consolidated statements: Total assets amounted to RMB2,301,317 thousand, of which current assets amounted to RMB1,883,243 thousand and non-current assets amounted to RMB418,074 thousand; total liabilities amounted to RMB1,734,683 thousand, of which current liabilities amounted to RMB1,692,923 thousand, non-current liabilities amounted to RMB41,760 thousand; total owners' equity amounted to RMB566,634 thousand. See the table below for details:

Balance sheet as at 31 December 2022 (on a consolidated basis)

Unit: RMB10 thousand

Item Name	Carrying amount
Non-current assets	
Property, plant and equipment	30,809.60
Right-of-use assets	2,362.90
Intangible assets	1,589.40
Trade receivables	6,011.80
Investments in joint ventures	—
Contract assets	282.80
Deferred tax assets	750.90
Total non-current assets	41,807.40
Current assets	
Inventories	32,925.10
Trade receivables	92,953.10
Contract assets	3,061.00
Bills receivable	5,794.50
Prepayments, other receivables and other assets	17,611.10
Cash and cash equivalents	35,979.50
Total current assets	188,324.30
Current liabilities	
Trade payables	63,680.50
Other payables and accruals	33,591.30
Dividend payable	43,456.50
Interest-bearing bank and other borrowings	25,310.10
Tax payable	2,313.70
Provision for warranties	940.20
Total current liabilities	169,292.30

Unit: RMB10 thousand

Item Name	Carrying amount
Net current assets	19,032.00
Total assets less current liabilities	60,839.40
Non-current liabilities	
Interest-bearing bank and other borrowings	2,219.40
Deferred tax liabilities	1,956.60
Total non-current liabilities	4,176.00
Net assets	56,663.40
Equity	
Issued capital	29,072.00
Convertible preferred shares	—
Reserves	27,136.20
Controlling interests	56,208.20
Non-controlling interests	455.20
Total equity	56,663.40

The subject and scope of valuation of the engagement are consistent with the subject and scope of valuation involved in economic activity. The carrying amount of assets and liabilities within the scope of valuation has been audited by Ernst & Young Hua Ming LLP Guangzhou Branch.

(3) Major assets within the scope of valuation

Physical assets included in the scope of valuation include: inventories, structures, machinery and equipment, transportation equipment, electronic equipment, construction-in-progress. The types and characteristics of physical assets are as follows:

1. Inventories: including raw materials, work-in-progress, finished goods and delivered goods, mainly representing accessories for production of fracturing equipment, self-manufactured semi-finished products and main body of finished fracturing equipment, which are concentrated in Sany Petroleum Intelligent Equipment Co., Ltd., Kelamayi Branch and Sany Energy Equipment Co., Ltd.;

2. Structures: mainly production and ancillary facilities in the factory area of Sany Petroleum Intelligent Equipment Co., Ltd. and Sany Energy Equipment Co., Ltd.;

3. Machinery and equipment: necessary equipment and facilities required in the production process, which are concentrated in Sany Petroleum Intelligent Equipment Co., Ltd., Kelamayi Branch and Sany Energy Equipment Co., Ltd.;

4. Transportation equipment: vehicles for daily administrative travel, forklifts and lifts distributed in Sany Petroleum Intelligent Equipment Co., Ltd., Kelamayi Branch, Sichuan Branch and Sany Energy Equipment Co., Ltd., all of which are in normal use;

5. Electronic equipment: mainly computers, printers and office furniture, which are all in the office areas and production areas of various enterprises under the appraised entity and its sub-divisions and are all in normal use;

6. Construction-in-progress: equipment foundation projects which have not been completed in parks and equipment installation projects which have not been converted into fixed assets.

(4) Intangible assets recorded or unrecorded by the enterprise

1. Intangible assets recorded in the books reported by the enterprise

The intangible assets recorded in the books as reported by the appraised entity are the purchased software for office and production uses of Sany Petroleum Intelligent Equipment Co., Ltd. and Sany Energy Equipment Co., Ltd., all of which are in normal use.

2. Intangible assets not recorded in the books reported by the enterprise

The intangible assets not recorded in the books as reported are off-book software copyright, patent right and trademark exclusive right, etc.

(5) Type and quantity of off-balance sheet assets reported by the enterprise

The off-balance sheet assets reported by the enterprise are the aforesaid intangible assets not recorded in the books.

4. TYPE OF VALUATION AND ITS DEFINITION

According to the purpose of valuation, the type of value of the valuation target is determined as market value.

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

5. VALUATION BASIS DATE

The valuation benchmark date of this project is 31 December 2022. In accordance with the principle that the valuation benchmark date shall be as close as possible to the realization date of the acquisition to which the asset valuation is subject, the client and the asset valuation institution jointly negotiate and determine the valuation benchmark date.

6. VALUATION BASIS

(I) Ownership basis

1. Equipment purchase contracts and invoices;
2. Vehicle registration certificates;
3. Intellectual property certificates;
4. Other relevant title certificates.

(II) Pricing basis

1. Official website of the Ministry of Finance, iFinD;
2. On-site survey records and other relevant valuation information collected by appraisers;
3. Database of Beijing Guo Rong Xing Hua Assets Appraisal Co., Ltd.;
4. Other information related to this valuation.

(III) Other reference basis

1. Financial statements and audit reports for previous years provided by the Company;
2. List of assets and breakdown of valuation declaration provided by the Company.

7. VALUATION METHOD

This valuation adopted the market approach to estimate the value of the total shareholders' equity of Sany Oil Technology Hongkong Limited.

(I) Selection of Valuation Method

Basic valuation methods include: income approach, market approach and asset-based approach.

1. The income approach refers to the valuation method that determines the value of the valuation target by capitalizing or discounting the expected income, and should properly consider the applicability of the income approach in light of the historical operating conditions of the enterprise, the predictability of future income and the adequacy of the valuation information obtained.

2. The market approach refers to the valuation method that determines the value of the valuation target by comparing the valuation target with comparable listed companies or comparable transaction cases. Two specific methods commonly used in the market approach are listed company comparison method and transaction case comparison method.

   (1) The listed company comparison method refers to the specific method of obtaining and analyzing the operating and financial data of comparable listed companies, calculating the value ratio, and determining the value of the valuation target on the basis of comparison and analysis with the appraised entity.

   (2) The transaction case comparison method refers to the specific method of obtaining and analyzing the dealing, acquisition and merger cases of comparable enterprises, calculating the value ratio, and determining the value of the valuation target on the basis of comparison and analysis with the appraised entity.

3. The asset-based approach refers to the valuation method that determines the value of the valuation target by reasonably valuing the value of various on-and off-balance sheet assets and liabilities of the enterprise based on the balance sheet of the appraised enterprise as at the valuation benchmark date.

According to the interview with the appraised entity, the appraised entity gradually applied the electric drivetrain technology to the products for production and sales, and the replacement of the new technology will have certain impact on the product costs and expenses. Meanwhile, considering that Sany Hong Kong and its subsidiaries are in the initial period of rapid development in the recent three years, the impact on the Company's profits cannot be reasonably and reliably estimated in the future. Therefore, the income approach is not suitable for the valuation of the valuation target of this project.

In general, it is difficult for intangible assets such as brand advantages, technical advantages, customer resources and product advantages owned by the enterprise to be fully reflected in the valuation results of the asset-based approach, resulting in relatively poor completeness and reliability of the valuation results of the asset-based approach. Therefore, the asset-based approach is not suitable for the valuation of the valuation target for this project.

Considering the capital market and business area where the appraised entity is located, the appraisers analyzed that the current A-share and Hong Kong-share capital markets are fully developed and active capital markets. At the same time, there are sufficient number of reference enterprises in the above capital markets that are the same as or similar to the valuation target, and the market information, financial information and other relevant information of the reference enterprises can be collected and obtained. Therefore, the listed company comparison method in the market approach is suitable for the valuation of the valuation target. As there are fewer merger and acquisition transactions of subject companies in the same industry in the past two years and it is difficult to obtain relevant data, while the disclosure of transaction-related information is not as sufficient as the information disclosure of listed companies, it is not suitable to use the transaction case comparison method in the market method to value the valuation target.

Based on the above analysis, the listed company comparison method is adopted for the valuation of the valuation target.

(II) Selection process of comparable companies

1. By understanding the main business, products, profit model and other aspects of the appraised entity, the characteristics of the industry are determined as the basis for the selection of the selected industry;

2. Listed companies in the energy industry-oil and gas-oil equipment and service industry, oil and gas equipment and service industry are selected in Hong Kong shares and A shares, respectively;

3. Based on the main business and products of the appraised entity, the following selection indicators are set:

   (1) The main products are oil and gas fracturing or drilling equipment;

   (2) It has already been listed for 2 years or above;

   (3) More than 50% of the businesses are located in China;

   (4) It has been profitable for two consecutive years.

Through the selection of the above indicators, the comparable cases finally determined in this valuation include four companies, namely CMIC Ocean En-Tech Holding (0206.HK), Jereh (002353.SZ), Kingdream (000852.SZ) and Shenkai (002278.SZ).

(III) Selection of ratio multiplier

The listed company comparison method requires the determination of the ratio multiplier of the appraised entity by analyzing the ratio multiplier between the market value of the equity (owner's equity) and/or the total investment capital of the comparable company and the relevant parameters on the same basis, and then to estimate the value of its equity and/or the total investment capital based on the relevant parameters of the appraised enterprise. Therefore, an important step in using the market approach for valuation is to analyze the determination and calculation of the ratio multiplier. The ratio multipliers can generally be divided into four categories, namely, profit ratio multiplier, asset ratio multiplier, income ratio multiplier and other special ratio multiplier.

1. Profit ratio multiplier

The ratio multiplier calculated by comparing the equity (owner's equity) of the comparable company and the market value of total investment capital to income parameters is referred to as the profit ratio multiplier, which includes P/E, EV/EBIT, EV/EBITDA, etc.

2. Asset ratio multiplier

The ratio multiplier calculated by comparing the equity (owner's equity) of the comparable companies and the market value of total investment capital to asset parameters is referred to as the asset ratio multiplier.

Total investment to total assets ratio multiplier

Total investment can effectively avoid the impact of the capital structure of the enterprise, and total investment and total assets are also consistent in terms of analysis basis.

Equity to net assets multiplier

Equity to net assets ratio multiplier is a ratio multiplier that reflects the relationship between the market value of an enterprise's equity and its net assets, but it cannot avoid the impact of the enterprise's capital structure. In addition, P/B ratio is often used to evaluate enterprises with more physical assets and net assets. The production plant of the appraised entity is leased, which is quite different from other listed companies in the industry. Therefore, the equity to net assets ratio multiplier is not applicable to this valuation.

3. *Income ratio multiplier*

The ratio multiplier calculated by comparing the equity (owner's equity) of comparable companies with the income parameter is referred to as the income ratio multiplier. Price-to-sales ratio is a commonly used income ratio multiplier.

It is generally applicable where the sales scale of an enterprise plays a major role in the enterprise value, and the operating income margin of the comparable companies and the appraised entity is the same or similar. The sales revenue ratio multiplier is generally not applicable when the sales profit/net income and capital structure of the comparable companies are inconsistent with the appraised entity, and where the gross profit level varies significantly.

4. *Other special ratio multipliers*

The other ratio multiplier is a value ratio established between the asset value and certain specified non-financial indicators, such as the ratio multiplier for the recoverable volume of the mine, the ratio multiplier for the storage capacity of the warehouse, the ratio multiplier for the number of professionals and the market research rate.

Based on the information obtained in this valuation, combined with the financial data provided by the appraised entity, the Company's operating conditions and industry characteristics, we found that the appraised entity has good operating efficiency, and its value is better reflected in profit indicators, while the asset ratio multiplier cannot reasonably and reliably estimate its value; The income ratio multiplier is also affected by the capital structure and gross profit level, and the capital structure and gross profit level of the comparable companies and the appraised entity are different. Therefore, income ratio multiplier is not applicable in this valuation; Market research rate is greatly affected by the development stage of the enterprise, and it better reflects the prediction of future valuation level, so the market research rate indicator is excluded; At the same time, except for the market research rate, other special ratio multipliers are applicable to specific industries, and are not applicable to this valuation. Based on the above analysis, the profit ratio multiplier is selected.

The valuation professionals found that the comparable companies and the appraised enterprise may have a large difference in capital structure, which means that the comparable companies and the appraised enterprise may pay different interests. This difference will make our "comparison" less meaningful, so we must exclude the impact of this difference. The best method to eliminate the impact of such a difference is to adopt the total investment basis. The production factory area of the appraised entity is leased. Compared with other listed companies in the same industry, the difference and impact of fixed assets and size of intangible assets are relatively large, resulting in a large difference in depreciation and amortization between the Target Company and the comparable companies. Therefore, the earnings before tax, interest, depreciation and amortization (EBITDA) is finally selected as the comparable indicator.

Based on the above analysis, EV/EBITDA is selected as the ratio multiplier.

(IV) Calculation time of ratio multiplier

In this valuation, we obtained the EV and EBITDA data through searching in iFinD based on the accessibility and completeness of the data, among which, EV adopted the data as at 31 December 2022; EBITDA is calculated using the 12 months prior to 30 June 2022 (TTM).

The specific data are as follows:

Unit: RMB10 thousand

Stock Code	Stock Short Name	EV	EBITDA	EV/EBITDA
002353.SZ	Jereh	2,798,043.79	257,229.09	10.88
000852.SZ	Sinopec Oilfield Equipment	736,819.96	43,308.36	17.01
002278.SZ	Shenkai	194,971.92	10,186.50	19.14
0206.HK	CMIC Ocean En-Tech Holding	52,275.59	7,345.43	7.12
Average				13.54

Based on the above calculation, the average EV/EBITDA is 13.54.

(V) Calculation formula for valuation under the market approach

Value of total shareholders' equity of the appraised entity = (EV/EBITDA × EBITDA of the appraised entity — Value of interest-bearing debts + Cash and cash equivalents + Non-operating assets and liabilities — Value of minority interests) × (1–Discount for lack of marketability)

The details are tabled below (Unit: RMB10 thousand):

Item	Indicator Data
Average EV/EBITDA	13.54
EBITDA of the subject company	48,029.00
Operating enterprise value	650,312.66
Less: value of interest-bearing debts	26,741.40
Add: Cash and cash equivalents	35,979.50
Add: Net non-operating assets and liabilities	–43,358.82
Less: value of minority interests	455.20
Discount for lack of marketability	30.47%
Valuation (RMB10 thousand)	428,100.00

In conclusion, after adopting the market approach for valuation, the market value of the appraised entity is RMB4,281,000,000.

8. VALUATION ASSUMPTIONS

(1) Assumption of orderly transactions: orderly transactions refer to transactions in which the relevant assets have customary market activities for a period of time before the measurement date;

(2) Going concern assumption: it is assumed that the appraised entity will continue to operate legally in the foreseeable future on a going concern basis, based on the existing assets and resources conditions, and will not cease to operate for various reasons;

(3) Assumption of continuous use of assets: the valuation subject and the assets involved will continue to be used in the original site in accordance with the purposes and methods of use as at the valuation benchmark date;

(4) It is assumed that there will be no material changes in the prevailing relevant laws, regulations and policies of the country and the macro-economic situation of the country which the Company now complies with;

(5) It is assumed that there is no material change in the political, economic business and social environment of the regions where the parties to the transaction are located, and there is no material adverse impact caused by other unpredictable and force majeure factors;

(6) It is assumed that the operators of the Company are responsible, fully comply with all relevant laws and regulations, and the management of the Company is capable of performing their duties;

(7) It is assumed that the accounting policies to be adopted by the Company in the future are consistent with the accounting policies adopted in the preparation of this report in material aspects;

(8) It is assumed that the business scope and mode of the Company are consistent with the current direction on the basis of the existing management mode and management level;

(9) It is assumed that there will be no material changes in financial credit interest rates, tax bases and tax rates, foreign exchange rates and policy-based levies;

(10) It is assumed that there are no other force majeure factors and unforeseeable factors that may have a material adverse impact on the operating activities of Sany Oil Technology Hongkong Limited;

(11) The existing assets and new assets of the Company shall be depreciated and amortized in accordance with the current depreciation and amortization policies of the Company;

(12) The impact of inflation is not considered in this valuation. All the pricing standards in the valuation calculation are the price standards and the valuation system in effect on the valuation benchmark date;

(13) The relevant basic information and financial information provided by the appraised entity and the client are true, accurate and complete;

(14) The financial reports and transaction data of the comparable companies relied on by the appraisers are true and reliable;

(15) The scope of valuation is only based on the valuation declaration form provided by the client and the appraised entity.

The results of this valuation consultation will generally be invalid when events that are inconsistent with the above assumptions occur.

9. VALUATION CONCLUSION

As of 31 December 2022, the valuation benchmark date, on the premise of going concern, the value of the entire shareholders' equity of Sany Oil Technology Hongkong Limited was estimated by the market approach to be RMB4,281,000,000.

10. SPECIAL NOTES

The followings are relevant matters identified during the valuation process that may affect the valuation conclusion but cannot be assessed and estimated by the appraisers due to their practicing level and ability. Users of the report are advised to pay attention to:

(I) The valuation conclusion in this valuation report is the value under the valuation purpose stated in this report as at the valuation benchmark date, which reflects the continuous operation of the valuation target and the assumption that there is no change in the external macroeconomic environment.

(II) This valuation report is made on the basis of the valuation-related information provided by the client, the appraised entity and relevant parties. It is the responsibility of the client and the relevant parties to provide the necessary information and ensure the authenticity, legality and completeness of the information provided. It is the responsibility of the valuation professionals to analyze, estimate and express professional opinions on the value of the valuation target under the specific purpose as at the valuation benchmark date. The valuation professionals conduct necessary verification and disclosure of the information and its sources, and do not provide any guarantee on the authenticity, legality and completeness of the above information. The confirmation or opinions on the information and its sources is beyond the scope of practice of the valuation professionals.

(III) During the valuation process, when the valuation professionals conduct investigation on the assets, due to the limitations of testing methods and the fact that some assets are in operation, they mainly rely on the appearance observation by the appraisers, the recent testing materials provided by the appraised entity, and inquiries to relevant operators and users to make judgments.

(IV) In this valuation, we have made reference to and adopted the historical financial statements of the appraised entity and the financial statements of the appraised entity as at the valuation benchmark date, as well as the financial reports and transaction data of the comparable companies we found in IFIND. We have relied to a considerable extent on the above financial statement data and transaction data in our estimates, and have assumed that the above financial statement data and transaction data are true and reliable. The fact that our estimates rely on the data in these financial statements does not represent any assurance that we will give as to the correctness and completeness of such financial information or that there are no other requirements for such information to be in conflict with our use of such data.

(V) As of the valuation benchmark date, the status of the mortgage, pledge and guarantee of the appraised entity.

1. The appraised entity is unsecured;

2. Provision for financial guarantee contracts:

Financial guarantee contracts are guarantees given to financial institutions/finance lease companies in connection with facilities granted to customers. The appraised entity does not hold any collateral or other credit enhancements over these guarantees. All guarantees are approved by the head of credit control and the chief executive officer.

Financial guarantee contracts are measured at the higher of the expected credit loss allowance and the amount initially recognized less the cumulative amount of income earned. The expected credit loss allowance is measured by estimating the cash shortfalls, which are based on the expected payments to settle the credit losses less any amounts that the appraised entity expects to receive from the debtor. The amount initially recognized is the fair value on initial recognition of the financial guarantee which is not material. During the years ended 31 December 2020, 2021 and 2022, additional expected credit loss allowance of RMB1,002,000.00, RMB28,000.00 and RMB390,000.00 was provided by the appraised entity due to the increase in guarantee balances.

The credit risk of financial guarantee contracts is classified as stage 1 and there was no transfer between stages during the relevant periods.

3. Pledged time deposits

At the end of each of the relevant periods, all cash and bank balances of the appraised entity were denominated in Renminbi. Renminbi is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the appraised entity is permitted to exchange Renminbi for other currencies through banks authorized to conduct foreign exchange business.

Pledged bank deposits represent balances pledged to banks for the issuance of bills payable and letters of credit of the appraised entity.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

As at 31 December 2020, 2021 and 2022, bank balances of RMB252,647,000, RMB383,522,000 and RMB297,864,000, were deposited in Hunan Sanxiang Bank Co., Ltd., a related company of the appraised entity, respectively.

(VI) Special explanations on legal, economic and other pending matters existing on the valuation benchmark date and the possible impact of such matters on the valuation conclusion.

As of the valuation benchmark date, there were no legal, economic and other pending matters.

(VII) This valuation report is not an asset valuation report as defined in the Asset Valuation Law of the People's Republic of China, nor has it been prepared in accordance with the China Asset valuation reporting Standards. Users of this report are hereby reminded to pay attention.

Users of the valuation report should pay attention to the impact of the above special matters on the valuation conclusion.

11. RESTRICTION ON THE USE OF THE VALUATION REPORT

(I) The valuation report can only be used by the users of the valuation report and for the purpose of valuation as specified in the valuation report.

(II) The validity period of this valuation conclusion is one year from the valuation benchmark date, i.e. from 31 December 2022 to 30 December 2023, and the valuation shall be conducted again after the validity period of one year.

(III) If all or part of the contents of the valuation report is extracted, quoted or disclosed in the public media, the relevant contents shall be reviewed by us and the written consent of the Company shall be obtained, unless otherwise provided by laws and regulations and agreed by the relevant parties.

(IV) Copy of this report is invalid, and failure to affix the Company's seal on the perforation makes this report invalid.

12. DATE OF VALUATION REPORT

The date of this valuation report is 12 April 2023.

Valuation professionals: Lv Jie

Valuation professionals: Liu Jingmin

Beijing Guo Rong Xing Hua Assets Appraisal Co., Ltd.
12 April 2023

ANNEX

Annex 1: Copies of the business licenses of the client and the appraised entity;

Annex 2: Financial statements of the appraised entity;

Annex 3: Major ownership certificates of the valuation target;

Annex 4: Announcement on the Filing of Change of Beijing Municipal Finance Bureau (No. 2020–0065);

Annex V: Copy of business license of the valuation institution.

Information on the comparable companies used in the Valuation Report

The list of comparable companies selected for this valuation is an exhaustive list of companies that meet the criteria for comparability. Through interviews with the valuation target on its business types, product types, and areas of operation, we understand that the Target Group is principally engaged in the research and development, production and sale of frac spreads and spare parts for oil and gas field, as well as oil and gas field cementing and stimulation technical services with its operating regions concentrated within China.

From the perspective of policy and business environment, the valuation personnel compared and analyzed all listed companies in Hong Kong stock market (energy industry — oil and gas — oil and gas equipment and services) and A-share market (GICS oil and gas equipment and services). Through public information search and comparative analysis and screening, four comparable companies including CMIC Ocean En-Tech Holding Co., Ltd., (0206. HK), Jereh Group (002353. SZ), Sinopec Oilfield Equipment Corporation (000852. SZ) and Shanghai Shenkai Petroleum Equipment Co. Ltd. (002278. SZ), have been identified to have high similarity and comparability with the evaluation target, and can be used as comparable cases.

Detailed information of the four comparable listed companies are as follows:

CMIC Ocean En-Tech Holding Co., Ltd. (華商國際海洋控股) (0206.HK):

Its main products are land-based drilling rigs and offshore drilling rigs, with business in China accounting for 69.95%; market capitalisation as at the benchmark date: RMB695,342,900; the revenue share of land drilling rigs and offshore drilling rigs business was 53.99% and the profit share was not disclosed.

Jereh Group (杰瑞股份) (002353.SZ):

Its main product is drilling and completion equipment, with business in China accounting for 64.42%; market capitalisation at the benchmark date: RMB28,662,256,600; revenue share of drilling and completion equipment was 80.03% and profit share was 79.75%.

Sinopec Oilfield Equipment Corporation (石化機械) (000852.SZ):

Its main products are drilling equipment, drill bits and drilling tools, with business in China accounting for 91.34%; market capitalisation at the benchmark date: RMB5,373,311,000; revenue share of drilling equipment, drill bits and drilling tools was 55.19% and profit share was 74.41%.

Shanghai Shenkai Petroleum Equipment Co. Ltd. (神開股份)(002278.SZ):

Its main product is oil drilling equipment, with business in China accounting for 87.88%; market capitalisation at the benchmark date: RMB1,903,475,000; revenue share of oil drilling equipment as the main business segment was 46.36%, while none of the other business segments accounted for more than 30%, and profit shares were not disclosed.

General background and the credential of iFinD

RoyalFlush iFinD (同花順金融數據終端) is an online real-time financial information portal launched in 2010 by Hithink RoyalFlush Information Network Co., Ltd. (浙江核新同花順網絡信息股份有限公司) (an A-share listed company in China), which provides contents including data on listed companies, macroeconomics, industrial economies, overseas economies, company operations, financial commodities, valuation and pricing tools, as well as data application tools. It is a common platform for valuation institutions to query and obtain valuation data in China, and is also the authoritative financial data information provision platform in the industry.

By making inquiries into relevant announcements of H-shares between January 2022 and March 2023 using RoyalFlush iFinD, sampling data obtained are listed below:

Beijing Jingcheng Machinery Electric Company Limited (京城機電) (stock code: 00187): Beijing Jingcheng Machinery Electric Company Limited's project in relation to the Asset Acquisition by Way of Share Issuance and Cash Payment;

Flat Glass Group Co. Ltd. (福萊特玻璃) (stock code: 06865): Flat Glass Group Co. Ltd.'s project on the valuation of the shareholders' equity of Anhui Sanli Mining Company Limited in relation to the Proposed Equity Acquisition by Flatt Glass Group Co. Ltd.;

Beijing Energy International Holdings Co. Ltd. (北京能源國際控股有限公司) (stock code: 00686): Acquisition of Equity Interests in Each of the Target Companies Owning Wind Power Projects in Shanxi Province, the PRC;

Shenzhen Investment Holdings Bay Area Development Company Limited (灣區發展) (stock code: 00737): Major Acquisition and Connected Transaction in relation to the Subscription of 51% Enlarged Equity Interest in Shenzhen Guangshen Coastal Expressway Investment Company Limited;

Yunnan Water Investment Co. Limited (雲南水務) (stock code: 6839): Very Substantial Disposal in relation to the Disposal of 100% Interest in the Target Company.

Beijing Guo Rong Xing Hua Assets Appraisal Co., Ltd.

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 Group. 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, there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors and the chief executives in the share capital and associated corporations of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (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) which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in Shares and underlying Shares:

Name of Director	Capacity	Number of Shares held	% of issued voting shares of the Company
Mr. Qi Jian(1)	Beneficial owner	6,746,706	0.21%
Mr. Fu Weizhong(2)	Beneficial owner	3,961,596	0.12%
Mr. Tang Xiuguo	Interest of spouse	3,462,000	0.11%
Mr. Xiang Wenbo(3)	Beneficial owner	2,858,000	0.09%
Mr. Poon Chiu Kwok(4)	Beneficial owner	1,000,000	0.03%
Mr. Ng Yuk Keung(5)	Beneficial owner	1,000,000	0.03%
Mr. Hu Jiquan(6)	Beneficial owner	1,000,000	0.03%

Notes:

(1) The 6,746,706 Shares in which Mr. Qi Jian is interested or deemed to be interested represent: (i) 5,290,000 Shares which may be issued to him upon the exercise of the share options granted to him on 29 December 2021 under the share option scheme adopted by the Company on 16 February 2013 (the "**Share Option Scheme**"); (ii) 550,615 Shares awarded to him on 18 December 2020, 315,352 Shares awarded to him on 2 September 2021 and 590,739 Shares awarded to him on 8 June 2022 under the restricted share award scheme adopted by the Company on 3 December 2019 (the "**Share Award Scheme**").

(2) The 3,961,596 Shares in which Mr. Fu Weizhong is deemed to be interested represent: (i) 500,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 December 2017 and 3,160,000 Shares which may be issued to him upon the exercise of the share options granted to him on 29 December 2021 under the Share Option Scheme; (ii) 152,683 Shares awarded to him on 18 December 2020; and (iii) 40,028 Shares awarded to him on 2 September 2021 and 108,885 Shares awarded to him on 8 June 2022 under the Share Award Scheme.

(3) Mr. Xiang Wenbo directly holds 2,858,000 Shares.

(4) The 1,000,000 Shares in which Mr. Poon Chiu Kwok is deemed to be interested represent the 1,000,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 December 2017 under the Share Option Scheme.

(5) The 1,000,000 Shares in which Mr. Ng Yuk Keung is deemed to be interested represent the 1,000,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 December 2017 under the Share Option Scheme.

(6) The 1,000,000 Shares in which Mr. Hu Jiquan is deemed to be interested represent the 1,000,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 December 2017 under the Share Option Scheme.

Long Positions in shares of Sany BVI (being the ultimate holding company of the Company):

Name of Director	Capacity	Number of shares held	% of issued share capital
Mr. Tang Xiuguo(1)	Beneficial owner	869.58	8.70%
Mr. Xiang Wenbo(1)	Beneficial owner	795.04	7.95%

Note:

(1) Each of Mr. Tang Xiuguo and Mr. Xiang Wenbo holds 8.70% and 7.95% of the issued share capital of Sany Heavy Equipment Investments Company Limited ("**Sany BVI**"), respectively, which in turn holds the entire issued share capital of Sany HK, a controlling shareholder of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company or any of their spouses or children under the age of 18 were interested, or were deemed to be interested in the long and short positions in the Shares, underlying Shares and debentures of the Company or any of its holding company, subsidiaries or other associated corporation (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required pursuant to the Model Code to be notified to the Company and the Stock Exchange. At no time had the Company or any of its holding company or subsidiaries been participated in any arrangements to enable the directors or chief executive (including their spouses or children under the age of 18) of the Company to acquire any interests and short positions of Shares or underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO).

(b) Interests and short positions of substantial Shareholders and other parties in the Shares and underlying Shares

As at the Latest Practicable Date, other than the interests and short positions of certain directors and chief executives as disclosed under the paragraph above, the interests and short positions of persons in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, 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 any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholder required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in Shares and underlying Shares:

Name of Shareholder	Capacity	Name of Shares/ underlying Shares held	Approximate % of the issued voting shares of the Company
Sany HK(1)	Beneficial owner	2,578,228,722	81.09
Sany BVI(2)	Interest of a controlled corporation	2,578,228,722	81.09
Mr. Liang(3)	Interest of a controlled corporation/ Beneficial owner	2,589,098,722	81.43

Notes:

(1) The 2,578,228,722 shares and underlying Shares consist of 2,098,447,688 ordinary Shares and 479,781,034 underlying Shares which may be issued pursuant to the conversion of the 479,781,034 Convertible Preference Shares issued to Sany HK.

(2) Sany BVI owns 100% of the issued share capital of Sany HK and is therefore deemed to be interested in all the Shares and underlying Shares held by Sany HK under the SFO.

(3) Mr. Liang is interested in 56.38% of Sany BVI. Mr. Liang is therefore deemed to be interested in all the Shares and underlying Shares held by Sany HK under the SFO. Mr. Liang also directly holds 10,870,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, no other person had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, 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 any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under section 336 of the SFO.

3. SERVICE CONTRACTS

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

4. DIRECTORS' INTEREST IN COMPETING BUSINESS

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

5. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACT OR ARRANGEMENTS

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors had any interest in any assets which have been, since 31 December 2022 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to any member of the enlarged group, or are proposed to be acquired or disposed of by or leased to any member of the enlarged group.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the enlarged group, which was subsisting and was significant in relation to the business of the enlarged group.

6. 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 2022, being the date to which the latest published audited financial statements of the Group were made up.

7. EXPERT'S QUALIFICATION AND CONSENT

The followings are the qualification of the experts who have given an opinion or advice contained in this circular:

Name	Qualification
Beijing Guorong Xinghua Assets Appraisal Co., Ltd.	independent valuer
Somerley Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

The experts above have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their report or letter or opinion as set out in this circular and references to their names in the form and context in which they appear in this circular.

As at the Latest Practicable Date, none of the experts above had any shareholding, directly or indirectly, 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.

As at the Latest Practicable Date, none of the experts above had any interest, direct or indirect, in any asset which since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up, 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.

8. GENERAL

The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

9. DOCUMENTS ON DISPLAY

The following documents are available on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (http://www.sanyhe.com) for a period of 14 days from the date of this circular:

(a) the Agreement;

(b) the valuation report of Beijing Guorong Xinghua Assets Appraisal Co., Ltd., the text of which is set out in Appendix I to this circular;

(c) further information to the valuation report of Beijing Guorong Xinghua Assets Appraisal Co., Ltd., the text of which is set out in Appendix II to this circular; and

(d) the written consents referred to in the paragraph headed "Expert's Qualification and Consent" in this appendix.

SANY HEAVY EQUIPMENT INTERNATIONAL HOLDINGS COMPANY LIMITED
三一重裝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 631)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Sany Heavy Equipment International Holdings Company Limited (the "**Company**") will be held at Conference Room 103, Research and Development Building, Sany Heavy Equipment Co., Ltd., No. 25, 16 Kaifa Road, Shenyang Economic of Technological Development Zone, Shenyang, Liaoning Province, PRC on Friday, 9 June 2023 at 10:00 a.m. for the purpose of considering, and if thought fit, passing the following ordinary resolution of the Company with or without modifications:

ORDINARY RESOLUTION

1. "**THAT:**

   (a) the Agreement (as defined in the circular of the Company dated 23 May 2023) dated 12 April 2023 entered into between the Company and Sany Perpetual Enterprise Holdings Company Limited in relation to the acquisition of the entire issued share capital of Sany Oil Technology Hongkong Limited (the "**Acquisition**") and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and

   (b) any one director of the Company ("**Director(s)**") be and is authorized to do all such things, to sign, execute and deliver (including under seal where applicable) all such documents and deeds, and take all such actions as he or she may consider necessary, appropriate, expedient or desirable to implement and/or give effect to the Agreement and the transactions contemplated thereunder and all other matters incidental thereto and/or in connection with the Acquisition, including (without limitation), the approval of any variation, amendment or the granting of waiver in connection therewith which, are, in the opinion of the Directors, not fundamental to the transaction contemplated thereby and are in the interests of the Company and its shareholders as a whole."

By order of the Board
Sany Heavy Equipment International Holdings Company Limited
Liang Zaizhong
Chairman

Hong Kong, 23 May 2023

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong:
Room 2010, 20th Floor, Landmark North
No. 39 of Lung Sum Avenue
Sheung Shui
N.T. Hong Kong

Notes:

(1) A member entitled to attend and vote at the above meeting may appoint one or, if he holds two or more shares, more proxies to attend and vote instead of him. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.

(2) Where there are joint holders of any share of the Company, any one of such joint holder may vote, either in person or by proxy, in respect of such share of the Company as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

(3) In order to be valid, a form of proxy together with the power of attorney (if any) or other authority (if any) under which it is signed or a certified copy thereof shall be deposited at the Company's Hong Kong share registrar, 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 appointed for the holding of the meeting or any adjournment thereof. The proxy form will be published on the website of the Stock Exchange.

(4) The completion of a form of proxy will not preclude you from attending and voting at the EGM in person should you so wish. If you attend and vote at the EGM, the authority of your proxy will be revoked.

(5) The register of members of the Company will be closed from Wednesday, 7 June 2023 to Friday, 9 June 2023 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the entitlement to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, 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 Tuesday, 6 June 2023.

(6) Pursuant to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, voting on the ordinary resolution as set out above will be conducted by way of poll.

(7) The Chinese version of this notice is for reference only. Should there be any discrepancies, the English version shall prevail.

As at the date of this circular, the executive directors of the Company are Mr. Liang Zaizhong, Mr. Qi Jian and Mr. Fu Weizhong, the non-executive directors of the Company are Mr. Tang Xiuguo and Mr. Xiang Wenbo, and the independent non-executive directors of the Company are Mr. Ng Yuk Keung, Mr. Poon Chiu Kwok and Mr. Hu Jiquan.