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 stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China High Speed Transmission Equipment Group Co., Ltd., you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

中國高速傳動設備集團有限公司*
China High Speed Transmission Equipment Group Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 658)

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO CAPITAL INCREASE AND DEEMED DISPOSAL OF EQUITY INTEREST IN NANJING HIGH SPEED

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

Alliance Capital Partners Limited
同人融資有限公司

A letter from the Board is set out on pages 4 to 20 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on pages 21 to 22 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 23 to 37 of this circular.

This circular is despatched to the Shareholders for information purpose only, and a written Shareholder's approval has been obtained in lieu of holding a general meeting of the Company pursuant to the Listing Rules.

* *for identification purposes only*

Hong Kong, 24 December 2020

CONTENT

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

"Alliance Capital" or "Independent Financial Adviser"	Alliance Capital Partners Limited, a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Capital Increase Agreement and the Capital Increase
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"AVISTA" or "Valuer"	AVISTA Valuation Advisory Limited, an independent valuer
"Board"	the board of Directors of the Company
"business day"	a business day other than statutory holiday(s) in the PRC
"Capital Increase"	the capital contribution by the Employee Partnership Enterprise in an aggregate amount of RMB150 million to the registered capital of Nanjing High Speed pursuant to the Capital Increase Agreement
"Capital Increase Agreement"	the capital increase agreement dated 4 December 2020 and entered into among the Employee Partnership Enterprise, Nanjing High Speed and Nanjing Gear in relation to the Capital Increase
"Company"	China High Speed Transmission Equipment Group Co., Ltd., a company incorporated in the Cayman Islands, the issued Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 658)
"Conditions Precedent"	the conditions precedent set out in the Capital Increase Agreement, details of which are set out under the paragraph headed "II. THE CAPITAL INCREASE – The Capital Increase Agreement – Conditions Precedent" in this circular
"Director(s)"	the director(s) of the Company

"Employee Partnership Enterprise"	Shanghai Shifu Enterprise Management LLP* (上海醞福企業管理合夥企業(有限合夥)), a limited liability partnership enterprise established in the PRC and the general partner and limited partners of which are Shanghai Shiji and the eight partnership enterprises, respectively
"Fullshare"	Fullshare Holdings Limited (豐盛控股有限公司), a company established in the Cayman Islands, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 607)
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent committee of the Board, comprising all the independent non-executive Directors to advise the Independent Shareholders in relation to the Capital Increase
"Independent Shareholder(s)"	any Shareholder(s) that is not required to abstain from voting at a general meeting of the Company, if necessary, to approve a connected transaction
"Independent Third Party(ies)"	a person or company who or which is, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, not a connected person of the Group
"Latest Practicable Date"	18 December 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Nanjing Gear"	Nanjing Gear Enterprise Management Co., Ltd.* (南京高齒企業管理有限公司), a company established in the PRC with limited liability, an indirect wholly-owned subsidiary of the Company and the sole Shareholder of Nanjing High Speed immediately prior to the Capital Increase
"Nanjing High Speed"	Nanjing High Speed Gear Manufacturing Co., Ltd.* (南京高速齒輪製造有限公司), a company established in the PRC with limited liability, a direct wholly-owned subsidiary of Nanjing Gear and an indirect wholly-owned subsidiary of the Company immediately prior to the Capital Increase
"PRC"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shanghai Shiji"	Shanghai Shiji Enterprise Management Consultancy Co., Ltd.* (上海釃吉企業管理諮詢有限公司), a company established in the PRC with limited liability on 11 August 2020, which is principally engaged in investment holding business and is wholly-owned and controlled by Mr. Hu Yueming
"Share(s)"	ordinary share(s) of US$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

* *for identification purposes only*

中國高速傳動設備集團有限公司*
China High Speed Transmission Equipment Group Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 658)

Executive Directors:
Mr. Hu Jichun *(Chairman and Chief Executive Officer)*
Mr. Hu Yueming
Mr. Chen Yongdao
Mr. Wang Zhengbing
Mr. Zhou Zhijin
Ms. Zheng Qing
Mr. Gu Xiaobin
Mr. Fang Jian

Independent Non-Executive Directors:
Dr. Chan Yau Ching, Bob
Ms. Jiang Jianhua
Mr. Jiang Xihe
Mr. Nathan Yu Li

Registered Office:
4th Floor, Harbour Place
103 South Church Street
George Town
Grand Cayman, KY1-1002
Cayman Islands

Principal place of business in Hong Kong:
Room 1302, 13th Floor, COFCO Tower
No. 262 Gloucester Road
Causeway Bay
Hong Kong

24 December 2020

To the Shareholders,

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO CAPITAL INCREASE AND DEEMED DISPOSAL OF EQUITY INTEREST IN NANJING HIGH SPEED

I. INTRODUCTION

The Board refers to the announcement of the Company dated 4 December 2020 in relation to the Capital Increase and the relevant transactions contemplated thereunder. The purpose of this circular is to provide you with: (i) the further information regarding the Capital Increase; (ii) the recommendation of the Independent Board Committee; (iii) the advice of the Independent Financial Adviser; and (iv) the valuation report of Nanjing High Speed.

* *for identification purposes only*

II. THE CAPITAL INCREASE

On 4 December 2020 (after trading hours of the Stock Exchange), the Employee Partnership Enterprise entered into the Capital Increase Agreement with Nanjing High Speed and Nanjing Gear, pursuant to which the Employee Partnership Enterprise agreed to make the capital contribution in an aggregate amount of RMB150 million in cash to the registered capital of Nanjing High Speed. Immediately upon completion of the Capital Increase, the Employee Partnership Enterprise will own as to approximately 6.98% of the equity interest in Nanjing High Speed.

The Capital Increase Agreement

Date: 4 December 2020 (after trading hours of the Stock Exchange)

Parties: (1) Employee Partnership Enterprise

(2) Nanjing High Speed

(3) Nanjing Gear

As at the Latest Practicable Date, the Employee Partnership Enterprise is a limited partnership managed and controlled by the general partner, being Shanghai Shiji. Mr. Hu Yueming is the sole director and sole shareholder of Shanghai Shiji. Mr. Hu Yueming is an executive director of the Company and thus a connected person of the Company under Chapter 14A of the Listing Rules. The Employee Partnership Enterprise is an associate of Mr. Hu Yueming and thus a connected person of the Company under Chapter 14A of the Listing Rules.

Pursuant to the Capital Increase Agreement, the Employee Partnership Enterprise agreed to make the capital contribution in an aggregate amount of RMB150 million in cash to the registered capital of Nanjing High Speed. Immediately upon completion of the Capital Increase, the Employee Partnership Enterprise will own as to approximately 6.98% of the equity interest in Nanjing High Speed. Nanjing High Speed will no longer be wholly-owned by the Company but continue to be a subsidiary of the Company.

Conditions Precedent

Pursuant to the Capital Increase Agreement, the Employee Partnership Enterprise shall make capital contribution of RMB150 million to Nanjing High Speed within 30 days after fulfilment of the Conditions Precedent including:

(1) written Shareholders' approval or Shareholders' approval at the general meeting for the Capital Increase Agreement and the transactions contemplated thereunder have been obtained; and

(2) all necessary approvals, confirmations, waivers or consents of the relevant authorities (including but not limited to the Stock Exchange) for the Capital Increase Agreement and the transactions contemplated thereunder have been made, fulfilled or obtained and such approvals, confirmations, waivers and consents remain in full force and effect.

Neither party can waive any of the Conditions Precedent. In the event that any of the Conditions Precedent are not fulfilled on or before 31 March 2021 (or any later date agreed by the parties in writing), the Capital Increase Agreement will be automatically terminated.

Anti-dilution

Pursuant to the Capital Increase Agreement, Nanjing Gear shall use its best endeavour to procure Nanjing High Speed that in the event that any third party invests in Nanjing High Speed, the equity interest in Nanjing High Speed held by the Employee Partnership Enterprise shall not be less than 5.6% of the enlarged share capital of Nanjing High Speed. Such anti-dilution clause will cease to have effect from 31 December 2023 onwards (or other date agreed by the parties in writing).

The designated employees

The Employee Partnership Enterprise has been established to incentivise the core employees of the Group through holding the equity interest in Nanjing High Speed for and on behalf of the designated employees of the Group. The Capital Increase involves a contribution of an additional registered capital in an aggregate amount of RMB150 million to Nanjing High Speed. Immediately after completion of the Capital Increase, 277 designated employees of the Group will be together interested in approximately 6.98% equity interest in Nanjing High Speed through the Employee Partnership Enterprise.

The designated employees of the Group under the Capital Increase are all core members that serve important functions for the Group including management, production, sales and research. On average, they have worked for the Group for approximately 15.49 years and details of which are set out below:

Function	**Headcount**	**Approximate percentage of equity interest in Nanjing High Speed immediately upon completion of the Capital Increase**	**Average years of service in the Group**	**Average years of industry experience**
Key management staff	9	2.60%	23.56	32.45
Sales	34	0.47%	15.83	18.16
Research	50	0.89%	12.54	13.98
Production	87	1.17%	14.89	16.20
Management of major subsidiaries	7	0.63%	18.02	19.45
Management of human resources, finance, information technology and other departments	90	1.21%	16.58	22.11
Total	277	6.98%	15.49	18.57

Note: The discrepancies between total and sums of amounts in the table above are due to rounding.

The respective percentage of equity interest in Nanjing High Speed that each designated employee under the Capital Increase owned is determined with reference to their respective job responsibilities and their respective level of contribution to the Group's business development. The average percentage of equity interest in Nanjing High Speed each designated employee owned is approximately 0.025%.

Among the capital contribution of RMB150 million to be made to the registered capital of Nanjing High Speed, approximately 15.19%, 25.5% and 59.31% will be contributed by the four executive Directors, the 17 directors of the subsidiaries of the Company (together with the four executive Directors, the "**Connected Person(s)**") and the remaining designated employees of the Group, respectively, representing approximately 1.06%, 1.78% and 4.14% of the enlarged registered capital of Nanjing High Speed immediately after completion of the Capital Increase. Each of the designated employees of the Group will contribute to the registered capital of Nanjing High Speed at a consideration of RMB1 per one unit of the registered capital (i.e. one unit of the registered capital equals to RMB1 of the registered capital). The respective equity interest in Nanjing High Speed held by each of the designated employees (including the Connected Persons) of the Group is in proportion to the amount of their respective capital contribution to the registered capital of Nanjing High Speed. Details of the equity interest held by the Connected Persons after completion of the Capital Increase are set out below:

No.	**Name of the Connected Persons**	**Approximate percentage of equity interest in Nanjing High Speed immediately upon completion of the Capital Increase**	**Details of connected relationship**
1.	Hu Yueming	0.028%	executive Director
2.	Wang Zhengbing	0.344%	executive Director
3.	Zhou Zhijin	0.344%	executive Director
4.	Gu Xiaobin	0.344%	executive Director
5.	He Aimin	0.344%	director of a subsidiary of the Company
6.	Zhu Quansheng	0.344%	director of a subsidiary of the Company

No.	Name of the Connected Persons	Approximate percentage of equity interest in Nanjing High Speed immediately upon completion of the Capital Increase	Details of connected relationship
7.	Zhou Jingjia	0.337%	director of a subsidiary of the Company
8.	Wang Jiong	0.279%	director of a subsidiary of the Company
9.	Zhang Baoxiang	0.140%	director of a subsidiary of the Company
10.	Ding Yuanxing	0.119%	director of a subsidiary of the Company
11.	Kong Lingzuo	0.047%	director of a subsidiary of the Company
12.	Fang Fang	0.028%	director of a subsidiary of the Company
13.	Li Shuang	0.023%	director of a subsidiary of the Company
14.	Wang Haibin	0.023%	director of a subsidiary of the Company
15.	Zhang Xueyong	0.023%	director of a subsidiary of the Company
16.	Sun Guanwen	0.019%	director of a subsidiary of the Company
17.	Xiong Ning	0.019%	director of a subsidiary of the Company
18.	Cheng Xuefeng	0.012%	director of a subsidiary of the Company

No.	Name of the Connected Persons	Approximate percentage of equity interest in Nanjing High Speed immediately upon completion of the Capital Increase	Details of connected relationship
19.	Wang Yijuan	0.009%	director of a subsidiary of the Company
20.	Lu Xiuzhong	0.007%	director of a subsidiary of the Company
21.	Ruan Qingming	0.002%	director of a subsidiary of the Company

In determining employees' eligibility for the Capital Increase, the Board has taken the following factors into consideration: (i) whether the employees are directors, supervisors or senior management of the Group; (ii) whether the employees are core technical personnel of the Group; (iii) whether the employees are core and key employees of the Group and have made significant contributions to the operation and development of the Group; and (iv) length of service of employees in the Group.

Basis of consideration

The aggregate amount of capital contribution to be made to Nanjing High Speed by the Employee Partnership Enterprise is RMB150 million.

The capital contribution under the Capital Increase is determined with reference to (i) the appraised value of equity interest of Nanjing High Speed as at 31 October 2020, being RMB5,740,000,000 (approximately RMB2.67 per one unit of the enlarged registered capital); (ii) the arm's length negotiations with the designated employees of the Group; (iii) the long-term services provided by the designated employees of the Group in the past; (iv) the reasons for and benefits of the Capital Increase as stated under the paragraph headed "IV. REASONS FOR AND BENEFITS OF THE CAPITAL INCREASE"; and (v) the relatively low liquidity of the shares of Nanjing High Speed. Details of the above factors are set out as below.

To achieve the objectives of (i) rewarding the contribution of the employees of the Group; (ii) retaining talents; and (iii) aligning the employees' interests with the Group's long-term performance, the Directors decided to offer an opportunity to the employees to subscribe the equity interest in Nanjing High Speed. Bearing in mind that the Capital Increase is to 'award' employees' contribution, the Directors are mindful of the subscription price should be at a discount rather than at a market price. In determining the fairness and reasonableness of the discount rate, the Directors have considered the following factors:

(i) the valuation report prepared by AVISTA in appraising the value of 100% equity interest in Nanjing High Speed as at 31 October 2020, a copy of the valuation report is enclosed in this circular as Appendix I;

(ii) the employees of the Group entitled to subscribe for the equity interest in Nanjing High Speed based on a number of criteria, including their length of employment with the Group, performances, functions, expertise, contribution made to the Group in the past and their potential;

(iii) the discount rates adopted for the share incentive granted to employees of the comparable listed companies in similar industry, the details of which are set out in the paragraph headed "II. THE CAPITAL INCREASE – The Capital Increase Agreement – Basis of consideration – Discount rate adopted for the share incentive granted to the designated employees of the Group";

(iv) at arm's length negotiation with the designated employees of the Group and the attractiveness of the arrangement and the level of eagerness of the designated employees of the Group participating in it;

(v) the relatively low liquidity of the shares of Nanjing High Speed; and

(vi) that the Capital Increase should be in compliance with the PRC laws and regulations.

With regard to (vi) above, as advised by the PRC legal adviser of the Company, one unit of the registered capital of the limited liability companies established in the PRC shall be RMB1, and that it shall not be lower than RMB1.

Against this backdrop, and in order to conduct the Capital Increase in a legal manner, the Board has explored the possibility of fixing the subscription price at RMB1 per one unit of the registered capital of Nanjing High Speed. It was transpired that the discount rate for the capital contribution will be approximately 62.56% should one unit of the registered capital of Nanjing High Speed is subscribed for at RMB1. The Board is of the view that that such discount rate is fair and reasonable because it is:

(i) within the market range (or lower than the discount rate of a majority of listed companies adopting similar scheme, which stands at around 100%), having made reference to the market research conducted by the Company;

(ii) attractive enough to retain the designated employees of the Group to participate, having at arm's length negotiation with the employees;

(iii) fair and reasonable and suffices to serve the purpose of rewarding the designated employees of the Group with regard to their contribution to the Group, their experience, expertise, and loyalty; and

(iv) in compliance with the PRC laws and regulations, as advised by the PRC legal adviser of the Company.

The appraised value of the equity interest of Nanjing High Speed as at 31 October 2020

The Company has engaged AVISTA to prepare the valuation report in respect of the value of the entire equity interest of Nanjing High Speed as set out in Appendix I of this circular.

The Directors have reviewed and enquired AVISTA's qualifications and experience in relation to the performance of the valuation. The Directors believe upon making reasonable enquiries that AVISTA is a professional valuation company experienced in performing valuation. Based on the information provided by AVISTA (i.e. company brochure and previous experience) and after making reasonable enquires, the Directors are of the view that AVISTA possesses the necessary competence and independence in preparing the valuation report. AVISTA has also confirmed that it is an Independent Third Party.

The Directors discussed the valuation report with AVISTA and understand that AVISTA has adopted the following valuation methodology, key assumptions and Valuation Period (as defined below):

Valuation methodology

The Directors were given to understand that AVISTA intended to adopt one of the three approaches, namely the income approach, cost approach and market approach, in determining the value of the equity interest of Nanjing High Speed. After due and careful consideration, AVISTA adopted market approach over the other two approaches. As advised by AVISTA, income approach is being considered as inappropriate as plenty of assumptions have to be taken into account in formulating the financial projection of Nanjing High Speed, and the assumptions might not be able to reflect the uncertainties in the future performance of Nanjing High Speed. No precise and concrete financial projection on the business could be provided by the management of the Company due to the evolving uncertainties of market environment. Moreover, the cost approach is not suitable as it assumes the assets and liabilities are separable and can be sold separately, which would only be applicable to those companies which their assets are highly liquid. On the contrary, fair value arrived from market approach is able to reflect the market expectations over the corresponding industry as the price multiples of the comparable companies were arrived from market consensus. Since there are sufficient publicly listed companies in similar nature and business to that of Nanjing High Speed, their market values are good indicators of the industry. As a result, AVISTA is of the view and the Directors concur that market approach is the most optimal approach.

Key assumptions

The Directors noted that AVISTA has made the following assumptions for the valuation of the equity interest in Nanjing High Speed, including but not limited to (i) there will be no major change in the existing political, legal, fiscal or economic conditions, which might adversely affect the business of Nanjing High Speed; (ii) there was no material change in terms of business operation and financial position of Nanjing High Speed between 30 June 2020 and 31 October 2020; and (iii) there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported values.

The Directors have not identified any major factors which would cause the fairness and reasonableness of the above basis and assumptions adopted for the valuation of the equity interest in Nanjing High Speed in doubt.

Adoption of 1 July 2019 to 30 June 2020 as the financial period for the valuation of equity interest in Nanjing High Speed (the "**Valuation Period**")

In determining the Valuation Period, the following factors has been taken into account:

(i) the financial information of Nanjing High Speed for the Valuation Period have been reviewed by the reporting accountant of the Company. As the review of the financial information of Nanjing High Speed consists of making enquiries with the persons responsible for financial and accounting matters of the Group, and applying analytical and other review procedures, AVISTA is of the view, and the Directors, having discussed the valuation report with AVISTA and understand the valuation methodology and key assumptions adopted, concur that the use of the financial information for the Valuation Period would be more accurate and reliable for the valuation of Nanjing High Speed compared with the use of the financial information which have not been reviewed by the reporting accountant of the Company; and

(ii) the exclusion of the period from 1 July 2020 to 31 October 2020 was mainly due to the non-recurring revenue of Nanjng High Speed gained during the same period. Such an increase in revenue subsequent to the Valuation Period was due to an increase in market demand for the gearbox manufactured by Nanjing High Speed in view of the expiration date of the incentive policy as set out in the Notice of the National Development and Reform Commission on Improving the Policies for On-Grid Wind Power Prices* (國家發展改革委關於完善風電上網電價政策的通知) (the "**Notice**") promulgated by the PRC government in May 2019. According to the Notice, the PRC government proposed that the government subsidy on onshore wind power would be phased out. In particular, the subsidy on onshore wind power projects which have been approved in 2018 but have not accomplished grid connection before the end of 2020 will cease to be in effect after the end of 2020. As a result, it has driven a large number of enterprises to complete the construction of wind power projects before the end of 2020 to enjoy the preferential policy. In view of the expiration date of the preferential policy, there was a great demand for wind turbines as well as the components and parts of wind turbines between July 2020 and October 2020. The sales revenue of the gearbox, which forms one of the parts of wind turbine, manufactured by Nanjing High Speed increased and reached approximately RMB3.75 billion during the above four months period with a growth of approximately 57.53% compared with the corresponding period in 2019. The actual figures are still subject to the audit of the Company.

The Directors believe that adopting the Valuation Period would provide a more accurate and reliable valuation compared with the other financial period and better reflect the recent business performance of Nanjing High Speed.

Based on the above, the Directors are of the view that the valuation methodology, key assumptions and Valuation Period adopted in the valuation report prepared by AVISTA as set out in Appendix I of this circular are fair and reasonable.

*Discount rate adopted for the share incentive granted to the designated employees of the Group ("**Share Incentive Discount Rate**")*

To determine the Share Incentive Discount Rate and ensure such discount rate is fair and reasonable, the Company has made reference to the discount rates adopted by the comparable companies and selected comparable companies in accordance with the following selection criteria: (i) the companies share similar businesses with the Company; (ii) the companies are listed on Main Board of the Stock Exchange; and (iii) the companies adopted share incentive schemes to employees.

The following comparable companies have been identified based on the above selection criteria:

	Name of company	**Stock code**	**Nature of scheme** *(Note)*	**Discount rate**
1	Boer Power Holdings Limited	1685	Share award scheme	100%
2	Huazhang Technology Holding Limited	1673	Share award scheme	100%
3	Shanghai Prime Machinery Company Limited	2345	Share award scheme	100%
4	VPower Group International Holdings Limited	1608	Share award scheme	100%
5	Xingye Alloy Materials Group Limited	505	Share award scheme	100%
6	CIMC Enric Holdings Limited	3899	Share award scheme	50%
7	Fullshare	607	Share award scheme	50%
8	Dongfang Electric Corporation Limited	1072	Share award scheme	40%
	Maximum			**100%**
	Minimum			**40%**
	Average			**80%**
	Median			**100%**
	Nanjing High Speed			62.56%

Note: The below share award schemes were adopted during 2011 to 2019.

The purposes and objectives of the share incentive schemes adopted by the above comparable companies are to (i) recognise the contribution by the employees; (ii) provide them with incentives in order to align their interests with their companies; and (iii) retain them for the continual operation and development. Despite the share capital in Nanjing High Speed to be subscribed by the designated employees of the Group are not tradable listed securities, the purposes and objectives of the Capital Increase are the same as the share incentive schemes adopted by the above comparable companies. Hence, the Board considered it is appropriate to make reference to the discount rates adopted by the above comparable companies.

The Directors noted that the discount rates adopted by the comparable companies are ranged from 40% to 100%, with an average of 80% and a median of 100%. The discount rate adopted by the Company for the capital contribution is 62.56% and thus such discount rate adopted by the Company falls within the range of the discount rates adopted by the above comparable companies. Therefore, the Directors consider that the Share Incentive Discount Rate is fair and reasonable.

As disclosed in the paragraph headed "II. THE CAPITAL INCREASE – The Capital Increase Agreement – The designated employees", Mr. Hu Yueming, Mr. Wang Zhengbing, Mr. Zhou Zhijin and Mr. Gu Xiaobin will together hold an aggregate of approximately 1.06% of the equity interest in Nanjing High Speed upon completion of the Capital Increase, accordingly, Mr. Hu Yueming, Mr. Hu Jichun (son of Mr. Hu Yueming), Mr. Wang Zhengbing, Mr. Zhou Zhijin and Mr. Gu Xiaobin have abstained from voting on the resolutions of the Board to approve the Capital Increase. Save for Mr. Hu Yueming, Mr. Hu Jichun, Mr. Wang Zhengbing, Mr. Zhou Zhijin and Mr. Gu Xiaobin, none of the Directors have a material interest in the Capital Increase Agreement.

Completion

Pursuant to the Capital Increase Agreement, Nanjing High Speed shall complete the business registration in relation to the Capital Increase within 15 business days after the payment of the capital contribution by the Employee Partnership Enterprise to Nanjing High Speed. Completion of the Capital Increase shall take place upon the completion of business registration.

III. APPLICATION OF THE CAPITAL CONTRIBUTION

The capital contribution of RMB150 million to be made by the Employee Partnership Enterprise will be applied by Nanjing High Speed to expand its (i) wind power gear transmission equipment business and (ii) industrial gear transmission equipment business and replace the necessary machinery and equipment.

IV. REASONS FOR AND BENEFITS OF THE CAPITAL INCREASE

The Capital Increase is a share award scheme adopted by the Company at a subsidiary level. In deciding to adopt the share award scheme at a subsidiary level rather than at a listed issuer level, the Board considered the following factors: (i) the difficulties or impracticalities for 277 designated employees of the Group, who are mainly PRC residents, to hold the Shares in their personal capacities by opening their respective securities accounts in Hong Kong and such an arrangement may incur extra costs and has complicated tax implications; (ii) the adoption of the share award scheme at a listed issuer level will involve the engagement of trustee and the set-up of a trust to hold the Shares for the designated employees of the Group and such an arrangement will incur costs in appointing trustee and setting up the trust and ongoing administrative fees and other expenses in maintaining the trust; and (iii) except Mr. Hu Yueming, an executive Director, the remaining designated employees of the Group are the employees of Nanjing High Speed. Such a subscription will allow (a) Nanjing High Speed to recognise their contribution and (b) the designated employees of Nanjing High Speed to benefit from the company they worked for.

The purposes and objectives of the Capital Increase are to recognise the contribution by the designated employees of the Group and to provide them with incentives in order to align their interests with the Group and to retain them for the continual operation and development of the Group.

The Capital Increase will provide a source of capital for Nanjing High Speed to enhance its business in development and production of gear, gear box and fittings.

V. FINANCIAL IMPACT OF THE CAPITAL INCREASE

Following completion of the Capital Increase, the equity interest of Nanjing Gear in Nanjing High Speed will be diluted from 100% to approximately 93.02%. Nanjing High Speed will become an indirect non-wholly owned subsidiary of the Company and its financial results will continue to be consolidated with the Group's results. The Capital Increase constitutes a deemed disposal and a share-based payment transaction. The deemed disposal is accounted for as equity transaction and it is expected that there will have no gain or loss arising from the deemed disposal for the Company. The expenses in relation to share-based payment to be recognised in profit or loss is subject to audit.

Considering the positive effect of the Capital Increase on the Company's operation and development, which will stimulate the enthusiasm of the management and business team and improve operating efficiency of the Group, the Board considers that the Capital Increase will play a positive role in the performance of the Group in the long run.

VI. INFORMATION OF THE GROUP, NANJING GEAR AND THE EMPLOYEE PARTNERSHIP ENTERPRISE

The Group is principally engaged in the research, design, development, manufacture and distribution of various types of mechanical transmission equipment for a broad range of applications in wind power generation and industrial use.

Nanjing Gear is principally engaged in investment holding business.

The Employee Partnership Enterprise is a limited liability partnership established under the laws of the PRC to incentivise the core employees of the Group through holding the equity interest in Nanjing High Speed for and on behalf of the designated employees of the Group and the general partner of which is Shanghai Shiji. Mr. Hu Yueming is the sole director and sole shareholder of Shanghai Shiji. The limited partners of the Employee Partnership Enterprise are eight partnership enterprises. Each of the eight partnership enterprises is a limited liability partnership established under the laws of the PRC and the general partner of which is Shanghai Shiji. The limited partners of each of the eight partnership enterprises are the designated employees of the Group. The limited partners of the eight partnership enterprises consist of 276 natural persons. Hence, the Employee Partnership Enterprise is an associate of Mr. Hu Yueming and thus a connected person of the Company under Chapter 14A of the Listing Rules as at the Latest Practicable Date.

VII. INFORMATION OF NANJING HIGH SPEED

Immediately before the completion of the Capital Increase, Nanjing High Speed is a direct wholly-owned subsidiary of Nanjing Gear and an indirect wholly-owned subsidiary of the Company. Nanjing High Speed has a registered capital of RMB2,000,000,000 as at the Latest Practicable Date, all of which are contributed by Nanjing Gear. Nanjing High Speed is principally engaged in manufacturing and sale of gear, gear box and fittings.

Upon completion of the Capital Increase, the equity interest of Nanjing Gear in Nanjing High Speed will be diluted from 100% to approximately 93.02%.

Set out below is a summary of the unaudited pro forma consolidated financial information of Nanjing High Speed and its subsidiaries for the two years ended 31 December 2018 and 31 December 2019:

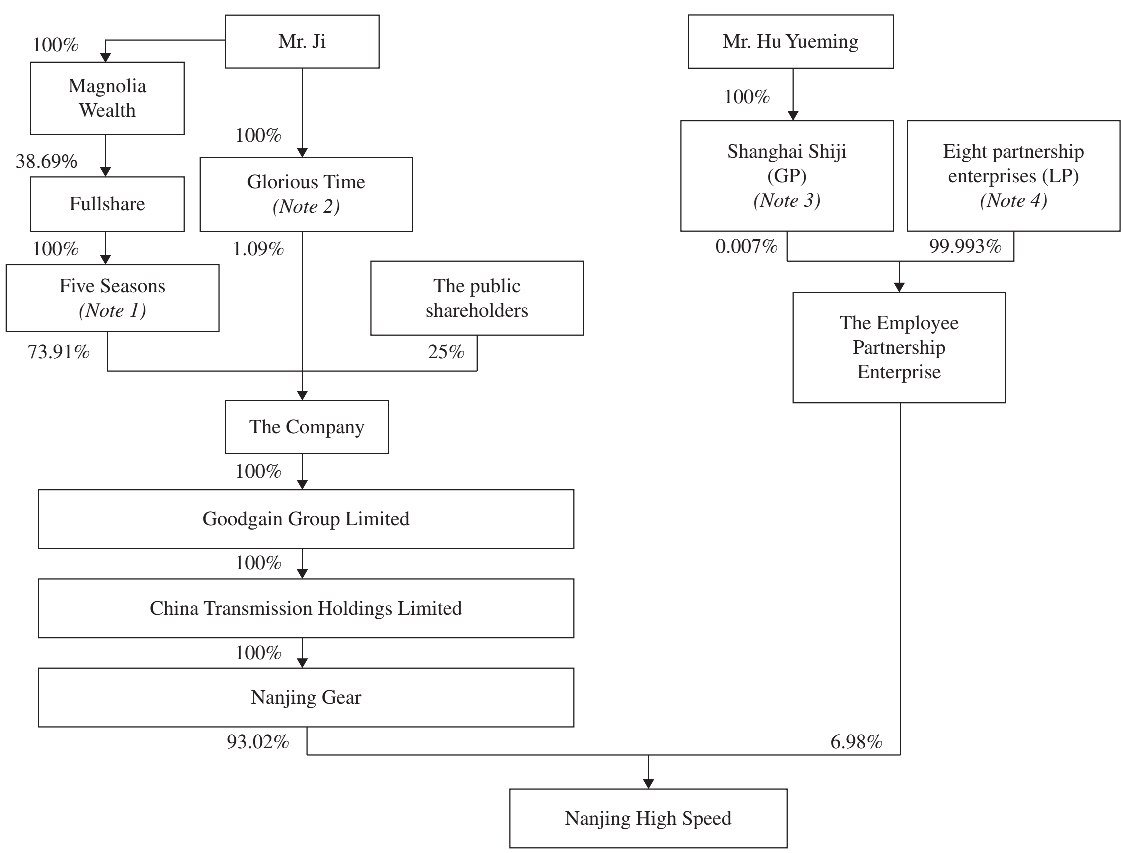
	For the year ended 31 December 2018 *(RMB'000)* (unaudited) *(Note 1)*	**For the year ended 31 December 2019** *(RMB'000)* (unaudited) *(Note 1)*
Turnover	8,018,085	9,444,821
Profit before tax	121,241	345,072
Profit after tax	87,225	207,544

Note:

1. The Group underwent an internal restructuring in May 2020.

The unaudited consolidated net assets of Nanjing High Speed as at 30 June 2020 was approximately RMB4,063,739,000.

Set out below is the shareholding structure of Nanjing High Speed upon completion of the Capital Increase:



Notes:

1. Five Seasons XVI Limited ("**Five Seasons**"), a company incorporated in the British Virgin Islands, is wholly-owned by Fullshare, while the issued share capital of Fullshare is owned as to 38.69% by Magnolia Wealth International Limited ("**Magnolia Wealth**"), as at the Latest Practicable Date, a company incorporated in the British Virgin Islands, which is wholly and beneficially owned by Mr. Ji Changqun ("**Mr. Ji**"). Accordingly, Fullshare, Magnolia Wealth and Mr. Ji are considered to have interests in 1,208,577,693 Shares, representing approximately 73.91% of the issued Shares.

2. Glorious Time Holdings Limited ("**Glorious Time**"), a company incorporated in the British Virgin Islands, is wholly and beneficially owned by Mr. Ji. Accordingly, Mr. Ji is considered to have interests in 17,890,000 Shares, representing approximately 1.09% of the issued Shares.

3. The general partner of the Employee Partnership Enterprise is Shanghai Shiji. Mr. Hu Yueming, an executive Director, is the sole director and sole shareholder of Shanghai Shiji.

4. Apart from Shanghai Shiji, the Employee Partnership Enterprise is owned as to approximately 23.58% by Shouguang Dingchuang Information Consultancy Services LLP* (壽光鼎創信息諮詢服務合夥企業(有限合夥)), 14.75% by Shouguang Ruiding Information Consultancy Services LLP* (壽光瑞鼎信息諮詢服務合夥企業(有限合夥)), 10.56% by Shouguang Jiding Information Consultancy Services LLP* (壽光吉鼎信息諮詢服務合夥企業(有限合夥)), 10.06% by Shouguang Dingwang Information Consultancy Services LLP* (壽光鼎旺信息諮詢服務合夥企業(有限合夥)), 12.06% by Shouguang Dingying Information Consultancy Services LLP* (壽光鼎盈信息諮詢服務合夥企業(有限合夥)), 15.84% by Shouguang Dingneng Information Consultancy Services LLP* (壽光鼎能信息諮詢服務合夥企業(有限合夥)), 6.68% by Shouguang Dingjian Information Consultancy Services LLP* (壽光鼎健信息諮詢服務合夥企業(有限合夥)) and 6.47% by Shouguang Dingmin Information Consultancy Services LLP* (壽光鼎敏信息諮詢服務合夥企業(有限合夥)), all of which are limited partners. Each of the eight partnership enterprises is a limited liability partnership established under the laws of the PRC and the general partner of which is Shanghai Shiji. The limited partners of each of the eight partnership enterprises are the designated employees of the Group. The limited partners of the eight partnership enterprises consist of 276 natural persons.

VIII. IMPLICATIONS UNDER THE LISTING RULES

(I) Connected Transactions

As at the Latest Practicable Date, the Employee Partnership Enterprise is a limited partnership managed and controlled by the general partner, being Shanghai Shiji. Mr. Hu Yueming is the sole director and sole shareholder of Shanghai Shiji. Mr. Hu Yueming is an executive Director and thus a connected person of the Company under Chapter 14A of the Listing Rules. The Employee Partnership Enterprise is an associate of Mr. Hu Yueming and therefore a connected person of the Company under Chapter 14A of the Listing Rules.

As more than one of the percentage ratios (as defined under Rule 14.07 of the Listing Rules) applicable to the Company in respect of the transactions contemplated under the Capital Increase Agreement exceed 5% but all are less than 25%, the Capital Increase constitutes a non-exempted connected transaction for the Company and is, therefore, subject to the reporting, announcement, circular (including independent financial advice) and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.37 of the Listing Rules, the Stock Exchange may waive the general meeting requirement and accept a written shareholders' approval on the conditions that (i) no Shareholder is required to abstain from voting if a general meeting of the Company is held to approve the Capital Increase Agreement and the transactions contemplated thereunder; and (ii) an approval has been given by a Shareholder or a closely allied group of the Shareholders who together hold more than 50% of the Shares in issue giving the right to vote at general meetings of the Company to approve the Capital Increase Agreement and the transactions contemplated thereunder.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of the designated employees of the Group are interested in the Shares. As such, no Shareholders or any of their respective associates have any material interest in the Capital Increase Agreement and the transactions contemplated thereunder and thus none of the Shareholders is required to abstain from voting if the Company was to convene a general meeting for the approval of the Capital Increase Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, Five Seasons, a Shareholder, which holds 1,208,577,693 Shares in issue (representing approximately 73.91% of the issued share capital of the Company) has given its approval to the Capital Increase Agreement and the transactions contemplated thereunder. The Company has applied for, and the Stock Exchange has granted, a waiver from the requirement to convene a Shareholders' meeting for approving the Capital Increase Agreement, such that the written approval from Five Seasons would be accepted in lieu of convening a general meeting under Rule 14A.37 of the Listing Rules. Accordingly, no Shareholders' meeting will be convened by the Company to approve the Capital Increase Agreement and the transactions contemplated thereunder.

(II) Deemed Disposal

Upon completion of the Capital Increase, the equity interest of Nanjing Gear in Nanjing High Speed will be reduced from 100% to approximately 93.02%, the Capital Increase contemplated under the Capital Increase Agreement therefore constitutes a deemed disposal under Rule 14.29 of the Listing Rules for the Company.

As more than one of the percentage ratios (as defined under Rule 14.07 of the Listing Rules) applicable to the Company in respect of the Capital Increase exceed 5% but all are less than 25%, the Capital Increase constitutes a discloseable transaction for the Company and is, therefore, subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

IX. ADDITIONAL INFORMATION

Although there will be no Shareholders' meeting convened for the purpose of approving the Capital Increase Agreement and the transactions contemplated thereunder, your attention is drawn to the advice of the Independent Board Committee and the Independent Financial Adviser on their opinion and bases of the reasonableness of the Capital Increase Agreement and the transactions contemplated thereunder set forth on pages 21 to 37 of the circular.

Your attention is also drawn to the general information set out in Appendix II of this circular.

X. RECOMMENDATION

The Board (including its independent non-executive Directors) is of the view that (i) the terms of the Capital Increase Agreement (including the capital consideration payable by the Employee Partnership Enterprise) are fair and reasonable; (ii) the Capital Increase Agreement is on normal commercial terms or better; and (iii) the entering into of the Capital Increase Agreement is in the best interest of the Company and its Shareholders as a whole. The Board would recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Capital Increase Agreement and the transactions contemplated thereunder if the Company were to convene a general meeting for the approval of the same.

XI. MISCELLANEOUS

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

Yours faithfully
By Order of the Board
China High Speed Transmission Equipment Group Co., Ltd.
HU Jichun
Chairman

The following is the full text of the letter from the Independent Board Committee to the Independent Shareholders which was prepared for the purpose of inclusion in this circular.

中國高速傳動設備集團有限公司*
China High Speed Transmission Equipment Group Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 658)

24 December 2020

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO CAPITAL INCREASE AND DEEMED DISPOSAL OF EQUITY INTEREST IN NANJING HIGH SPEED

We refer to the circular of the Company dated 24 December 2020 (the "**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed by the Board to form the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the Capital Increase and the relevant transactions contemplated thereunder, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Alliance Capital Partners Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same respect.

We wish to draw your attention to the letter from the Board set out on pages 4 to 20 of the Circular which contain information in connection with the Capital Increase and the relevant transactions contemplated thereunder, and the letter from the Independent Financial Adviser set out on pages 23 to 37 of the Circular which contains its advice and recommendation in the same respect.

Having considered the terms of the Capital Increase Agreement, the advice and recommendation of the Independent Financial Adviser and the relevant information contained in the letter from the Board, we are of the opinion that the terms of the Capital Increase Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

* *for identification purposes only*

As stated in the letter from the Board, the Stock Exchange has granted its approval to waive the physical general meeting requirement.

We would recommend the Independent Shareholders to vote in favour of the Capital Increase if a physical general meeting were to be convened for the purpose of considering and, if thought fit, approving the Capital Increase Agreement and the transactions contemplated thereunder.

Yours faithfully,
for and on behalf of
Independent Board Committee of
China High Speed Transmission Equipment Group Co., Ltd.

Dr. Chan Yau Ching, Bob **Ms. Jiang Jianhua** **Mr. Jiang Xihe** **Mr. Nathan Yu Li**
Independent non-executive Directors

The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the independent Shareholders in respect of the Capital Increase for the purpose of incorporation into this circular.

Alliance Capital Partners Limited
同 人 融 資 有 限 公 司

24 December 2020

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO CAPITAL INCREASE AND DEEMED DISPOSAL OF EQUITY INTEREST IN NANJING HIGH SPEED

A. INTRODUCTION

We refer to our appointment as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Capital Increase Agreement are fair and reasonable, and the Capital Increase is on normal commercial terms and in the interests of the Company and its shareholders as a whole. Details of the Capital Increase Agreement and the transactions contemplated thereunder are contained in the letter from the Board (the "**Letter from the Board**") as set out in the circular of the Company dated 24 December 2020 (the "**Circular**"). Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Board announced on 4 December 2020 (after trading hours of the Stock Exchange), the Employee Partnership Enterprise entered into the Capital Increase Agreement with Nanjing High Speed and Nanjing Gear, pursuant to which the Employee Partnership Enterprise agreed to make the capital contribution in an aggregate amount of RMB150 million in cash to the registered capital of Nanjing High Speed. Immediately upon completion of the Capital Increase, the Employee Partnership Enterprise will own as to approximately 6.98% of the equity interest in Nanjing High Speed.

The Employee Partnership Enterprise is an associate of Mr. Hu Yueming and thus a connected person of the Company under Chapter 14A of the Listing Rules. As more than one of the percentage ratios (as defined under Rule 14.07 of the Listing Rules) applicable to the Company in respect of the transactions contemplated under the Capital Increase Agreement exceed 5%, the Capital Increase constitutes a non-exempted connected transaction for the Company and is subject to the reporting, announcement, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.37 of the Listing Rules, the Stock Exchange may waive the general meeting requirement and accept a written shareholders' approval on the conditions that (i) no Shareholder is required to abstain from voting if a general meeting of the Company is held to approve the transactions contemplated under the Capital Increase Agreement; and (ii) approval has been given by a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the Shares in issue giving the right to vote at general meetings to approve the transactions contemplated under the Capital Increase Agreement.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholders or any of their respective associates have any material interest in the Capital Increase Agreement and the transactions contemplated thereunder and thus none of the Shareholders is required to abstain from voting if the Company was to convene a general meeting for the approval of the Capital Increase Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, Five Seasons, a Shareholder, which holds 1,208,577,693 Shares in issue (representing approximately 73.91% of the issued share capital of the Company) has given its approval to the Capital Increase Agreement and the transactions contemplated thereunder. The Company has applied for, and the Stock Exchange has granted, a waiver from the requirement to convene a Shareholders' meeting for approving the Capital Increase Agreement, such that the written approval from Five Seasons would be accepted in lieu of convening a general meeting under Rule 14A.37 of the Listing Rules. Accordingly, no Shareholders' meeting will be convened by the Company to approve the Capital Increase Agreement and the transactions contemplated thereunder.

The Independent Board Committee (comprised of all independent non-executive Directors of the Company, namely Dr. Chan Yau Ching, Bob, Ms. Jiang Jianhua, Mr. Jiang Xihe and Mr. Nathan Yu Li) has been established and will provide advice on the Capital Increase Agreement and the transactions contemplated thereunder to the Independent Shareholders.

B. BASIS OF OUR OPINION

In formulating our opinion, we have relied solely on the statements, information, opinions and representations for matters relating to the Group contained in the Circular and the information and representations provided to us by the Group and/or its management staff and/or Directors or professional advisers of the Group. We have assumed that all such statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular or otherwise provided or made or given by the Group and/or its management staff and/or Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular, and have been reasonably made after due and careful enquiry. We have been advised by the Group and/or its management staff and/or Directors that no material facts have been omitted from the information provided and referred to in the Circular. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group and/or its management staff and/or Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Group.

As at the Latest Practicable Date, we were independent from, and were not associated with the Company or any other party to the Capital Increase Agreement, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules and accordingly, are considered eligible to give independent advice on the Capital Increase. We received a fee from the Company for our role as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Capital Increase Agreement. Alliance Capital has not acted as the independent financial adviser to the Company's other transactions in the last two years. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Capital Increase Agreement or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors:

1. Information of Nanjing High Speed

Nanjing High Speed, established under the laws of the PRC with limited liability, is principally engaged in manufacturing and sale of gear, gear box and fittings.

Set out below is a summary of the unaudited pro forma consolidated financial information of Nanjing High Speed and its subsidiaries for the two years ended 31 December 2018 and 31 December 2019:

	For the year ended 31 December 2018 *(RMB'000)* (unaudited)	**For the year ended 31 December 2019** *(RMB'000)* (unaudited)
Turnover	8,018,085	9,444,821
Profit before tax	121,241	345,072
Profit after tax	87,225	207,544

As advised by the Directors, (i) Nanjing High Speed's turnover increased by approximately RMB1.4 billion or 17.8% from approximately RMB8.0 billion for the year ended 31 December 2018 to approximately RMB9.4 billion for the year ended 31 December 2019 which was primarily due to the increase in the market demand of wind gear transmission equipment which led to the increase of delivery; (ii) Nanjing High Speed's profit after tax increased by approximately RMB120.3 million or 137.9% from approximately RMB87.2 million for the year ended 31 December 2018 to approximately RMB207.5 million for the year ended 31 December 2019 which was primarily due to the increase in the gross profit margin that partially offset by the increase in selling and distribution expenses of approximately RMB66.9 million or 23.8% from approximately RMB280.7 million for the year ended 31 December 2018 to approximately RMB347.6 million for the year ended 31 December 2019.

Other details of the information of Nanjing High Speed are set out in the paragraph headed "VII. INFORMATION OF NANJING HIGH SPEED" in the Letter from the Board.

2. Principal terms of the Capital Increase Agreement

According to the information as set out in the paragraph headed "II. THE CAPITAL INCREASE – The Capital Increase Agreement – The designated employees" in the Letter from the Board, the respective equity interest of each of the connected persons who made the capital contribution in Nanjing High Speed is in proportion to the capital contribution. Other details of the terms of the Capital Increase Agreement are set out in the paragraph headed "II. THE CAPITAL INCREASE – The Capital Increase Agreement" in the Letter from the Board.

2.1 Evaluation of the basis of the consideration amount of the capital contribution by the Employee Partnership Enterprise (the "Consideration")

As advised by the Directors, the Consideration was determined with reference to among other things, the appraised value of 100% equity interest of Nanjing High Speed as at 31 October 2020 (the "**Valuation Benchmark Date**") in the valuation report made by AVISTA Valuation Advisory Limited (the "**Valuer**") using the market approach (the "**Valuation Report**"), and the Consideration is determined by the formula below:

	Adjusted net profit of Nanjing High Speed during 1 July 2019 to 30 June 2020	RMB614,027,254
x	Adopted price-to-earnings ratio	approximately 11.77
x	(1 – discount for lack of marketability (the "**DLOM**")) *(Note 1)*	79.4%
=	Appraised value of equity interest of Nanjing High Speed	RMB5,739,514,518
x	Designated equity interest of the Employee Partnership Enterprise in Nanjing High Speed decided by the Company	6.98%
x	(1 – discount rate adopted for share incentive granted to the designated employees ("**Share Incentive Discount Rate**")) *(Note 2)*	approximately 37.44%
=	Consideration	RMB150,000,000

Note 1: DLOM of 20.6% was adopted for the valuation of Nanjing High Speed.

Note 2: Share Incentive Discount Rate of 62.56% was adopted for the valuation of Nanjing High Speed.

In assessing the fairness and reasonableness of the Consideration, we have performed below analysis or assessment of the Valuation Report.

2.1.1 Assessment on the valuation approaches

According to our discussion with the Valuer on the methodologies underlying the Valuation Report, we understood that the Valuer has considered three generally accepted approaches, namely the income approach, cost approach and market approach. In determining the value of the equity interest of Nanjing High Speed, the Valuer considered that the market approach is the most appropriate one. As advised by the Valuer, the income approach is considered as inappropriate as plenty of assumptions were involved in formulating the financial projection of Nanjing High Speed, and the assumptions might not be able to reflect the uncertainties in the future performance of Nanjing High Speed. No precise and concrete financial projection on the business due to the evolving uncertainties of market environment could be provided by the management of the Company. Besides, the cost approach is not appropriate as it assumes the assets and liabilities are separable and can be sold separately, which would be appropriate for the industry that their assets are highly liquid. Whereas, fair value arrived from market approach reflects the market expectations over the corresponding industry as the price multiples of the comparable companies were arrived from market consensus. Since there are sufficient public companies in similar nature and business to that of Nanjing High Speed, their market values are good indicators of the industry. In light of the above, the Valuer is of the view and we concur that market approach is the most optimal approach.

2.1.2 Assessment on the assumptions in the Valuation Report

In assessing the fairness and reasonableness of the principal basis and assumptions adopted for the Valuation Report, we noted that the Valuer has made various basic and general assumptions for the valuation of the 100% equity interest in Nanjing High Speed, including but not limited to (i) there will be no major change in the existing political, legal, fiscal or economic conditions, which might adversely affect the business of Nanjing High Speed; (ii) there was no material change in terms of business operation and financial position of Nanjing High Speed between 30 June 2020 and the Valuation Benchmark Date; and (iii) there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported values.

The outbreak of COVID-19 has been inevitably affecting the global economy. As advised by the Company, the production volume of main product of Nanjing High Speed was decreased by approximately 19.9% in February 2020 due to temporary suspension of production during the outbreak of COVID-19 as compared to February 2019. However, the production resumed promptly in March 2020 and the production volume since March 2020 up to October 2020 was greater than that in the corresponding period in 2019. In addition, the sales volume of main product of Nanjing High Speed was increased by approximately 24.7% for the first half of 2020 as compared to the first half of 2019 while it was increased by approximately 23.0% for the period from July to October 2020 as compared to the corresponding period in 2019. In this regard, we have obtained and reviewed the operational information such as production volume and sales volume and we concur with the Directors' view that the outbreak of COVID-19 does not have a material impact on Nanjing High Speed's business considered (i) the valuation has taken the adjusted net profit attributable to owners of Nanjing High Speed during 1 July 2019 to 30 June 2020 into account and the impact of COVID-19 on production level in February 2020 is not material and (ii) subsequent to the temporary suspension of production in February 2020, the production resumed promptly since March 2020 and the revenue of Nanjing High Speed for the period from July to October 2020 has increased by approximately RMB1.5 billion when compared to the corresponding period in 2019, which represents that the operation has resumed to normal.

In light of the discussion of the methodology, basis and assumptions of the Valuation Report above, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for the Valuation Report.

Besides, pursuant to note 1(d) to Rule 13.80(2)(b) of the Listing Rules, we have performed the followings steps regarding the appraisal value of Nanjing High Speed prepared by the Valuer:

(1) With regard to the experience and expertise of the Valuer, based on our review and discussion with the Valuer of the qualifications, experience, expertise and relevant track record of the Valuer, we are satisfied that the Valuer has experience and expertise to compile the Valuation Report. In particular, the Valuer has experience and expertise in valuation on companies in manufacturing industry. For instance, the Valuer conducted a business valuation in connection with the 100% equity interest of Jiangsu Shunfeng Photovoltaic Technology Co., Ltd. as at 30 June 2018, according to the announcement dated 30 June 2019 of Shunfeng International Clean Energy Limited (stock code: 01165.HK);

(2) We have confirmed with the Valuer and its affiliates that save for the engagement of (i) appraisal in relation to the Capital Increase; (ii) advisory on environmental, social and governance report to the Company and Fullshare; and (iii) appraisal of investment property to a subsidiary of Fullshare in normal business relationship, it is not connected with the Company, Fullshare, Nanjing High Speed and the parities to the Capital Increase Agreement or their respective core connected persons;

(3) We have reviewed the terms of engagement and the scope of work of the Valuer and considered that the scope of work is appropriate to the opinion required to be given and without any limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuation Report, opinion or statement;

(4) We were not aware any of the Company, Fullshare, Nanjing High Speed and the parities to the Capital Increase Agreement have made any other formal or informal representations to the Valuer respectively, that are not in accordance with our knowledge; and

(5) We have reviewed, and discussed with the Valuer, the underlying assumptions used for the valuation and the valuation approaches used by the Valuer and are satisfied that the assumptions and the market approach are the optimal and objective in such circumstances.

*2.1.3 Assessment on the valuation period of 1 July 2019 to 30 June 2020 (the "**Valuation Period**")*

In determining the Valuation Period, the following factors have been considered:

(i) the financial information of Nanjing High Speed for the Valuation Period have been reviewed by the reporting accountant of the Company. As the review of the financial information consists of making enquiries with the persons responsible for financial and accounting matters of the Group, and applying analytical and other review procedures, the financial information for the Valuation Period would be more accurate and reliable for the valuation of Nanjing High Speed compared with the use of the financial information which have not been reviewed by the reporting accountant of the Company; and

(ii) subsequent to the Valuation Period, the increment in the revenue for the period from July to October 2020 was mainly due to the customers would like to capture the relevant incentive granted by the PRC government before its expiration on 31 December 2020. Considered the above, the Directors are of the view that such increment for the period from July to October 2020 is non-recurring in nature and should be excluded when determining the valuation period of Nanjing High Speed.

In order to assess whether the Valuation Period could reflect the recent business performance of Nanjing High Speed, we have discussed with the reporting accountant of the Company and the Valuer the basis of preparation of the financial information of the Valuation Period, and we noted that there are some non-recurring and one-off items excluded in the Valuation Period and underlying financial information of Nanjing High Speed was reviewed by the reporting accountant of the Company. Hence, the financial information for the Valuation Period provided a more accurate and reliable basis for the valuation. In addition, we have obtained operational information and discussed with the Directors the factors led to the increase in revenue subsequent to the Valuation Period, and noted that the increment in the revenue subsequent to the Valuation Period is non-recurring in nature. The Directors are of the view and we concur that adopting the Valuation Period would provide a more accurate and reliable valuation and could reflect the recent business performance of Nanjing High Speed.

2.1.4 Assessment on the basis of preparation of the financial information of the Valuation Period

The financial information of Nanjing High Speed adopted in the valuation was derived based on the financial statements of Nanjing High Speed for the year ended 31 December 2019, for the six months ended 30 June 2019 and 30 June 2020, respectively, of which the financial statements have been reviewed by the reporting accountant of the Company. As advised by the Valuer, certain one-off items, including foreign exchange gain arisen from intercompany balances, net impairment losses on financial assets, impairment losses on property, plant & equipment, fair value gain, investment gain, and losses on disposal of assets, were excluded to arrive at the adjusted net profit attributable to the owner of Nanjing High Speed during the Valuation Period, as these items were deemed as non-recurring and one-off in nature.

We have obtained and reviewed the breakdown of the adjustment made to the net profit attributable to the owners of Nanjing High Speed for the Valuation Period and discussed with the Valuer the calculation of adjusted net profit. In light of the above, the Valuer is of the view and we concur that the adjustment are non-recurring and one-off in nature which should be excluded from the basis of valuation and the basis of preparation of the financial information of the Valuation Period is appropriate.

2.1.5 Assessment on the adopted price-to-earnings ratio

Valuer has considered whether to conduct a price-to-book value and price-to-revenue analysis to be adopted in the Valuation Report, however, given the nature of business operations of Nanjing High Speed has its fair value being determined based on its abilities to generate future income streams rather than the costs of replacement of its assets and liabilities, and thus, price-to-book value ratio is considered to be not an appropriate price multiple in applying the Valuation Report. On the other hand, since revenues may not consider the cost structure and profitability (which considered primary factors affecting the value of a company of the same kind), the price-to-revenue ratio is also considered to be not an appropriate price multiple in the Valuation Report. Valuer has employed the price-to-earnings ratio based on publicly available information including Bloomberg database and the financial statements and announcements of respective comparable companies, because it relates the business value of a company to its profitability.

The Valuer selected comparable companies which must be satisfied all of the following selection criteria to determine an appropriate price multiple:

(i) the companies being in industry of (a) electrical equipment; or (b) industrial conglomerates; or (c) industrial machinery, under Global Industry Classification Standard, as extracted from S&P Capital IQ;

(ii) the principal business of the companies is provision of the manufacturing and sales of energy generation equipment;

(iii) the principal business activities of companies are mainly conducted in the PRC;

(iv) the companies are listed in all major exchange markets in the United States of America or Hong Kong;

(v) the companies are profit-making in the trailing 12-month as of the Valuation Benchmark Date; and

(vi) the financial information of the companies is available to the public.

As disclosed in the Valuation Report, the selection of the comparable companies was based on the comparability of the overall industry sector. Although no two companies are ever exactly alike, behind the differences there are certain business universals such as required capital investment and overall perceived risks and uncertainties that guided the market in reaching the expected returns for companies with certain similar attributes.

Although the business scale of the Valuation Comparable Companies varied from Nanjing High Speed in terms of the revenue, business size and asset base, given the uniqueness of the principal business activities of Nanjing High Speed, the Valuer advised and we concur that given that there are only a limited number of comparable companies engaged in the manufacturing and sale of energy generation equipment in the PRC, it is common to consider a comprehensive set of comparable companies that engaged in similar businesses instead of stripping down the sample size to a very minimal, which may adversely affect the accuracy of the valuation due to the lack of representativeness of the sample.

We have reviewed the relevant information of all the Valuation Comparable Companies selected by the Valuer, including their respective principal businesses, principal operating locations and operating histories as disclosed in their respective published annual reports and noted that (i) the selection criteria of the Valuation Comparable Companies are fair and reasonable considering that such factors are similar to those of the operation of Nanjing High Speed in terms of business operation and operating locations; and (ii) all Valuation Comparable Companies fall under the selection criteria. The Valuer is of the view and we concur that the Valuation Comparable Companies represent an exhaustive list identified on a best-effort basis.

Given the above selection criteria, the following comparable companies have been identified for comparison purpose (the "**Valuation Comparable Companies**"):

Name of company	**Stock code**	**Price-to-earnings ratio**
The Company	658	16.45
China Nature Energy Technology Holdings Limited	1597	8.22
Xinjiang Goldwind Science & Technology Co., Ltd.	2208	58.15
Dongfang Electric Corporation Limited	1072	18.69
Harbin Electric Company Limited	1133	3.87
Chongqing Machinery & Electric Co., Ltd.	2722	8.60
Shanghai Electric Group Company Limited	2727	14.80
Maximum		**58.15**
Minimum		**3.87**
Mean		**18.40**
Median		**14.80**

	Excluding Xinjiang Goldwind Science & Technology Co., Ltd. from the analysis *(Note)*
Maximum	**18.69**
Minimum	**3.87**
Mean	**11.77**
Median	**11.70**

Note: To avoid distortion of selected multiples by abnormal data, companies with price-to-earnings ratio of more than one standard deviation below/above the average ratio are considered as "outlier" and have been excluded for analysis purpose.

As per above table, the Valuer takes the mean of the price-to-earnings ratio of the Valuation Comparable Companies as the price multiple in the Valuation Report, which is approximately 11.77 times. We have reviewed the financial statements and market capitalisations of the Valuation Comparable Companies available to the public which are consistent with those presented by the Valuer. We concur with the Valuer that the Valuation Comparable Companies are engaged in business that is similar to Nanjing High Speed, and fulfil the selection criteria as described above.

2.1.6 Assessment on lack of marketability discount

As advised by the Valuer, marketability is defined as the ability to convert an investment into cash quickly at a known price and with minimal transaction costs. DLOM is the valuation adjustment with the largest single monetary impact on the final determination of value. DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability. DLOM reflects the fact that there is no ready market for shares in a closely held company. As the shares of Nanjing High Speed are not being listed in any stock exchange or not marketable in any over-the-counter market, it is not readily marketable. However, the price-to-earnings ratio adopted in the Valuation Report was calculated from public listed companies, which represents marketable ownership interest. Thus, DLOM was adopted to adjust such marketable interest market value to market value of equity interest that is not publicly tradeable.

In determining a reasonable marketability discount, the Valuer made reference to the "Stout Restricted Stock Study Companion Guide (2020 edition)" published by Stout Risius Ross, LLC which is based on 759 private placement transactions of unregistered common shares issued by publicly traded companies from July 1980 through December 2019, a discount for lack of marketability of 20.6% was adopted for the valuation of Nanjing High Speed.

As set out in the paragraph headed "II. THE CAPITAL INCREASE – The Capital Increase Agreement – Basis of consideration" in the Letter from the Board, the Directors have considered factors in determining the fairness and reasonableness of the discount rate and we have performed the followings steps to assess the factors:

(i) obtained and reviewed the Valuation Report as enclosed in the circular as Appendix I and discussed with the Valuer the same, and have performed the assessment of the Valuation Report as mentioned above;

(ii) obtained and reviewed the list of designated employees of which fulfills the criteria for entitlement to subscribe for the equity interest in Nanjing High Speed;

(iii) Obtained and reviewed the internal records of the Company, showing that the negotiation between the Company and designated employees are at arm's length and the designated employees are willing to participate into the Capital Increase;

(iv) as the shares of Nanjing High Speed are not publicly traded, we concur with the Directors' view that the liquidity of the shares of Nanjing High Speed is relatively low;

(v) according to our assessment as set out in the paragraph "2.2 Assessment on the Share Incentive Discount Rate" in the Letter from Alliance Capital, we concur with the Directors' view that the Share Incentive Discount Rate is fair and reasonable; and

(vi) discussed with and as advised by the PRC legal adviser of the Company that the Capital Increase is in compliance with the PRC laws and regulations.

In light of the above, we concur with the Directors' view on considering the factors determining the fairness and reasonableness of the discount rate.

Having considered the above assessment of (i) valuation approaches, (ii) assumptions in the Valuation Report, (iii) the Valuation Period, (iv) the basis of preparation of the financial information of the Valuation Period, (v) adopted price-to-earnings ratio, and (vi) lack of marketability discount, we considered the appraised value of equity interest of Nanjing High Speed is fair and reasonable.

2.2 Assessment on the Share Incentive Discount Rate

To assess whether the Share Incentive Discount Rate is fair and reasonable, we, based on our best endeavor and as far as we are aware, selected comparable companies which must be satisfied all of the following selection criteria:

(i) the companies being in industry of (a) electrical equipment; or (b) industrial conglomerates; or (c) industrial machinery, under Global Industry Classification Standard, as extracted from S&P Capital IQ;

(ii) the companies are listed on Main Board of the Stock Exchange; and

(iii) the companies adopted share award scheme to employees since their shares were listed on the Main Board of the Stock Exchange.

Given the above selection criteria, the following comparable companies have been identified for comparison purpose (the "**Share Incentive Comparable Companies**"):

	Name of company	**Stock code**	**Discount rate**	*Notes*
1	Boer Power Holdings Limited	1685	100%	*1*
2	CIMC Enric Holdings Limited	3899	50%	*2*
3	Dongfang Electric Corporation Limited	1072	40%	*3*
4	Fullshare	607	50%	*4*
5	Huazhang Technology Holding Limited	1673	100%	*1*
6	Jiangnan Group Limited	1366	97%	*5*
7	Shanghai Electric Group Company Limited	2727	40%	*6*
8	Shanghai Prime Machinery Company Limited	2345	100%	*1*
9	Techtronic Industries Company Limited	669	100%	*1*
10	TK Group (Holdings) Limited	2283	100%	*1*
11	VPower Group International Holdings Limited	1608	100%	*1*
12	Xingye Alloy Materials Group Limited	505	100%	*1*
	Maximum		**100%**	
	Minimum		**40%**	
	Average		**81.4%**	
	Median		**100%**	
	Nanjing High Speed		62.56%	

Note 1: Shares are awarded at no consideration to eligible employees of the relevant schemes.

Note 2: The subscription price was determined based on the highest of: (a) 50% of the average closing price of the share as quoted on the Stock Exchange for the five consecutive trading days immediately before the date of the announcement; (b) 50% of the closing price of the share as quoted on the Stock Exchange the trading day immediately before the date of the announcement; and (c) the net asset value per share.

Note 3: The grant price of the reserved restricted shares shall be determined according to principle of fair market price, and shall not be lower than the higher of the following prices: (1) 60% of the average trading price of the underlying shares of the company on the last trading day immediately preceding the date of announcement of the board resolution on the grant of the reserved restricted shares; (2) 60% of one of the average trading prices of the underlying shares of the company for the last 20 trading days, 60 trading days or 120 trading days immediately preceding the date of announcement of the board resolution on the grant of the reserved restricted shares.

Note 4: The grant price being 50% of the amount of valuation of the award shares, and such amount of valuation representing the highest of: (i) the closing price of HK$2.56 per share as quoted in the daily quotation sheet of the Stock Exchange on the date of grant; (ii) the average closing price of approximately HK$2.556 per share as quoted in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of HK$0.01 per share.

Note 5: The board may grant such number of awarded shares to any selected employee at a nominal consideration of HK$0.01 per awarded share to be paid on vesting. Using 52-week low of stock price HK$0.39 per share, the discount would be at least 97%.

Note 6: The grant price of restricted shares shall be 60% of the fair market value of the shares of the company, which shall be the highest of: (1) the average trading price of the A shares of the company on the last trading day immediately preceding the date of announcement of the draft scheme; (2) the average trading price of the A shares of the company for the last 20 trading days immediately preceding the date of announcement of the draft scheme; (3) the closing price of the A shares of the company on the last trading day immediately preceding the date of the announcement; (4) the average closing price of the A shares of the company for the last 30 trading days immediately preceding the date of the announcement.

The purpose and objective of share award schemes adopted by the Share Incentive Comparable Companies to the designated employees are the same as the Company, which are to recognise the contribution by the designated employees and to provide them with incentives in order to align their interests with their companies and to retain them for the continual operation and development, which normally apply certain discount to subscribe for shares. The scheme adopted by the Company is not offering the subscription to tradable listed securities, but nevertheless the purpose and objective of the scheme are the same for their designated employees, and therefore the Company provided a discount for the designated employees to subscribe for the shares in Nanjing High Speed is an appropriate assessment.

With reference to the above table, we note that the discount rate of grant price of the share incentive scheme is ranged from 40% to 100%, with an average of 81.4% and a median of 100%. The Share Incentive Discount Rate adopted by the Company is 62.56%, which falls within the range of Share Incentive Comparable Companies.

Taking into account, particularly, (i) the adopted Share Incentive Discount Rate falls within the range of discount rate of the Share Incentive Comparable Companies; and (ii) the intention of the share-based incentive is to provide incentives to the core employees of the Group to ensure the achievements of the development strategies and operation objectives of the Group rather than to purely raise fund, we consider the Consideration applying the Share Incentive Discount Rate to be acceptable and thus is fair and reasonable, and in the interests of the Company and its shareholders as a whole.

2.3 Reasons for and benefits of the Capital Increase

As mentioned in the Letter from the Board, the Directors considered certain factors in deciding to adopt the share award scheme at a subsidiary level rather than at a listed issuer level. In this regard, we discussed with the Directors and were advised that (i) not all designated employees hold or intend to open overseas securities accounts for holding the Shares of the Company; and (ii) additional costs would be incurred for appointing a trustee to hold the Shares of the Company which is not cost effective. Having considering the above factors, we concur with the Directors' view that the Capital Increase, being a share award scheme adopted by the Company at a subsidiary level, would serve as an alternative to allow the Group to recognise contribution of the designate employees, who benefit from the company they worked for.

As advised by the Directors, the purpose and objectives of such the Capital Increase is to recognise the contribution by the designated employees of the Group and to provide them with incentives in order to align their interests with the Group and to retain them for the continual operation and development of the Group. In addition, the Capital

Increase will provide a source of capital for Nanjing High Speed to enhance its business in development and production of gear box and fittings. In light of the above, we concur to the Director that the share-based incentive can align employees' interests with the Group and retain them for the continual operation and development of the Group as well as providing a source of capital for Nanjing High Speed for further business development, are fair and reasonable, and is in the interests of the Company and its shareholders as a whole.

D. RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that the terms of the Capital Increase Agreement and the transactions contemplated thereunder are on normal commercial terms, which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and its shareholders as a whole.

Accordingly, despite the Company has applied for, and the Stock Exchange has granted, a waiver from the requirement for the Company to convene a general meeting for the approval of the Capital Increase Agreement and the transactions contemplated thereunder under Rule 14A.37 of the Listing Rules, we would have advised the Independent Board Committee to recommend and we ourselves recommend, the Independent Shareholders to vote in favor of the resolution in relation to the Capital Increase Agreement and transactions contemplated to be proposed if a physical general meeting was to be convened for the purpose of consideration and if thought fit, approving the Capital Increase Agreement and transactions contemplated.

Yours faithfully,
For and on behalf of
Alliance Capital Partners Limited
Ray Chan
Director

The following is the valuation report prepared for the purpose of inclusion in this circular by AVISTA Valuation Advisory Limited, an independent valuer, on its valuation of the entire equity interest in Nanjing High Speed Gear Manufacturing Co., Ltd. (南京高速齒輪製造有限公司) as at 31 October 2020 in connection with the proposed capital increase in Nanjing High Speed Gear Manufacturing Co., Ltd. (南京高速齒輪製造有限公司) by Shanghai Shifu Enterprise Management LLP (上海釃福企業管理合夥企業(有限合夥)).*

AVISTA Valuation Advisory
艾 華 迪 評 估 諮 詢

23rd Floor, Siu On Centre, No. 188 Lockhart Road,
Wan Chai, Hong Kong

TEL：(852) 3702 7338 FAX：(852) 3914 6388
info@avaval.com
www.avaval.com

24 December 2020

The Board of Directors
China High Speed Transmission Equipment Group Co., Ltd.
Room 1302, 13th Floor, COFCO Tower
No. 262 Gloucester Road
Causeway Bay
Hong Kong

Dear Sirs/Madams,

Re: Valuation of 100% Equity Interest of Nanjing High Speed Gear Manufacturing Co., Ltd.

In accordance with your instructions, AVISTA Valuation Advisory Limited ("**AVISTA**" or "**we**") has conducted a fair value valuation in connection with the fair value of the 100% equity interest of Nanjing High Speed Gear Manufacturing Co., Ltd. ("**Nanjing High Speed**" or the "**Target**"), a wholly-owned subsidiary of China High Speed Transmission Equipment Group Co., Ltd. (the "**Company**", "**CHS**" or "**you**"), as of 31 October 2020 (the "**Valuation Date**"). We understand that the Company intends to enter into a capital increase agreement with Shanghai Shifu Enterprise Management LLP (the "**Employee Partnership Enterprise**") to incentivise the core employees of CHS and its subsidiaries, in which certain equity interest of the Target will be issued to the Employee Partnership Enterprise in form of capital increase (the "**Proposed Transaction**").

It is our understanding that this appraisal is strictly addressed to the directors of the Company (the "**Directors**") and used for the Proposed Transaction solely for your internal reference purpose. This report (the "**Report**") does not constitute an opinion on the commercial merits and structure of the Proposed Transaction. We are not responsible for unauthorized use of the Report.

We accept no responsibility for the realisation and completeness of any estimated data, or estimates furnished by or sourced from any third parties which we have used in connection with this Report. We assumed that financial and other information provided to us are accurate and complete.

This Report presents the summary of the business appraised, describes the basis of analysis and assumptions and explains the analysis methodology adopted in this appraisal process to calculate the value.

BASIS OF ANALYSIS

We have appraised the fair value of 100% equity interest of the Target.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

COMPANY BACKGROUND

CHS is principally engaged in the research, design, development, manufacture and distribution of various types of mechanical transmission equipment for a broad range of applications in wind power generation and industrial use in the People's Republic of China (the "**PRC**") and distributes the products domestically and internationally.

Nanjing High Speed is a wholly-owned subsidiary of CHS. The Target is principally engaged in the manufacturing and sales of wind power generation equipment, including gear, gearbox and fittings, in the PRC.

We understand that the Company intends to enter into a capital increase agreement with the Employee Partnership Enterprise to incentivise the core employees of CHS and its subsidiaries, in which certain equity interest of the Target will be issued to the Employee Partnership Enterprise in form of capital increase.

The Proposed Transaction constitutes a non-exempted connected transaction for the Company and is subject to the reporting, announcement, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Proposed Transaction also constitutes a discloseable transaction for the Company and is, therefore, subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As such, the Company engaged us as an independent valuer to assess the fair value of the 100% equity interest of the Target as of the Valuation Date.

SCOPE OF WORK

In conducting this valuation exercise, we have

- Co-ordinated with the Company's representatives to obtain the required information and documents for our valuation;
- Gathered the relevant information of the Target, including the legal documents, financial statements, etc. made available to us;

- Discussed with the Company and the Target to understand the history, business model, operations, business development plan, etc. of the Target for valuation purpose;

- Carried out researches in the sector concerned and collected relevant market data from reliable sources for analysis;

- Studied the information of the Target made available to us and considered the bases and assumptions of our conclusion of value;

- Selected an appropriate valuation method to analyze the market data and derived the estimated fair value of the Target; and

- Compiled this Report on the valuation, which outlines our findings, valuation methodologies and assumptions, and conclusion of value.

When performing our valuation, all relevant information, documents, and other pertinent data concerning the assets, liabilities and contingent liabilities should have been provided to us. We relied on such data, records and documents in arriving at our opinion of values and had no reason to doubt the truth and accuracy of the information provided to us by the Company, the Target and their authorized representatives.

ECONOMIC OVERVIEW

Overview of the PRC economy

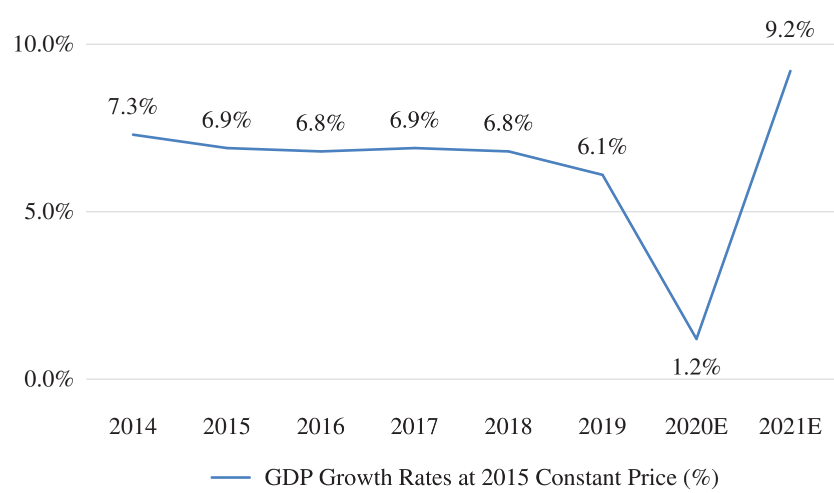
The PRC is the second-largest economy in the world in 2019, with an annual gross domestic product ("**GDP**") of USD14,343 billion, according to the World Bank. Despite the increase in GDP, the GDP growth rate of 6.1% in 2019 marked the slowest pace since 1990, due to weak domestic demand and deteriorating external environment. Domestically, industrial output and retail sales are slowing and high levels of debt have begun to weigh on economic performance, according to Economist Intelligence Unit ("**EIU**"). Externally, the Sino-US trade war, global economic slowdown and geopolitical tensions post an uncertain outlook for the PRC.

The PRC's GDP recorded a 6.8% contraction in the first quarter of 2020, primarily due to a severe blow to economic activity in connection with the Coronavirus Disease 2019 (the "**COVID-19**"). As reported by the National Bureau of Statistics of China ("**NBS**") in August 2020, fixed asset investment was down 1.6% year-on-year in July while private sector investment dropped 5.7%; retail sales were down 1.1% year-on-year. Nonetheless, monetary easing such as cutting interest rates and the nominal reserve ratio and fiscal resources through the issuance of bonds to fund public investment have been mobilized. EIU expects the annual GDP to expand by around 1.2 to 2.0%, signalling optimism on a faster-than-expected recovery and policy support. A rebound is expected to follow in 2021, with a GDP growth rate of 9.2%, as forecasted by International Monetary Fund ("**IMF**").

The PRC is entering a period of higher structural inflation, owing to an upward cycle in pork prices driven by the African swine fever outbreak. EIU expects inflation to top at its highest level since 2011. Upward pressures on prices are likely to remain in the near future due to strengthened regulations over food imports and large-scale flooding in the PRC, despite some offset resulted from plummeting global oil prices.

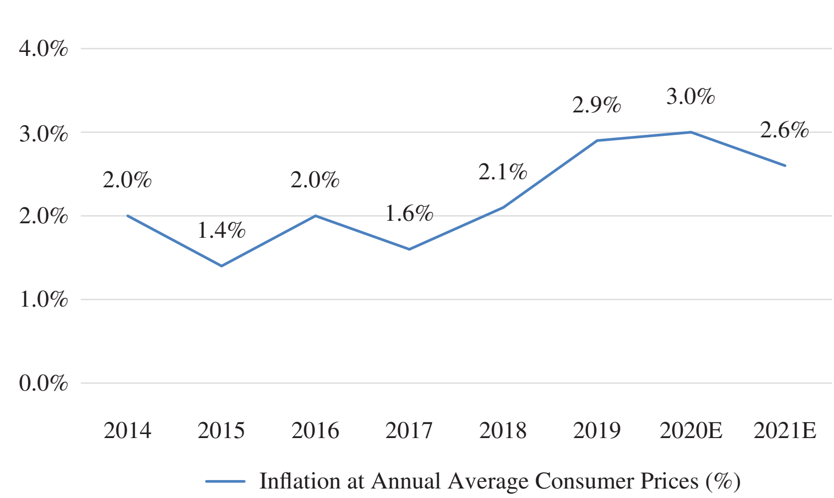
Moving forward, the external conditions are gloomy, notwithstanding that the current account is expected to remain in surplus at an average of 0.8% of GDP in 2020-22. The Sino-US trade war will intensify in the areas of technology, finance, security and investment. In response, trade policy will continue to centre on diversification. Meanwhile, EIU expects services imports to contract by 32.9% in 2020 owing to global travel restrictions and health concerns dragging demand for outbound tourism. The value of goods exports will contract by 14% as a result of disruption to global supply chains and demand.

Annual GDP Growth Rate of the PRC



(Source: World Economic Outlook, IMF, April 2020)

Annual Inflation Rate of the PRC



(Source: World Economic Outlook, IMF, April 2020)

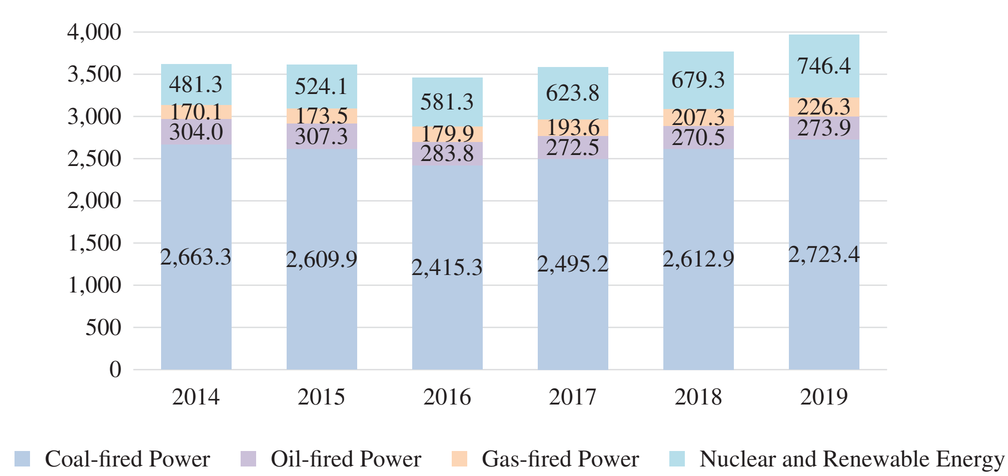
INDUSTRY OVERVIEW

Overview of the PRC power generation market

As a result of the economic uptrend of the PRC in previous years, the PRC has been establishing an increasingly diversified energy portfolio and has been shifting the centric of energy sources to clean and renewable energy. Total annual power generation in the PRC has increased from 3,618.7 million tonne-coal-equivalent ("**Tce**") in 2014 to 3,970.0 Tce in 2019, representing a compound annual growth rate ("**CAGR**") of 1.9% across the period. Among the national composition, percentage of fired power to the total power generation has decreased from 86.7% in 2014 to 81.2% in 2019. Annual nuclear energy and renewable energy generation in total have increased from 481.3 Tce in 2014 to 746.4 Tce in 2019 with a CAGR of 9.2%. The PRC government is keen to drive the development in renewable energy via principle policies such as the 13th Five-year Plan of the Development Energy issued by the National Development and Reform Commission. Practical measures, including but not limited to subsidies to related corporations, efficient market regulations and public investment in critical infrastructure, have been put in place.

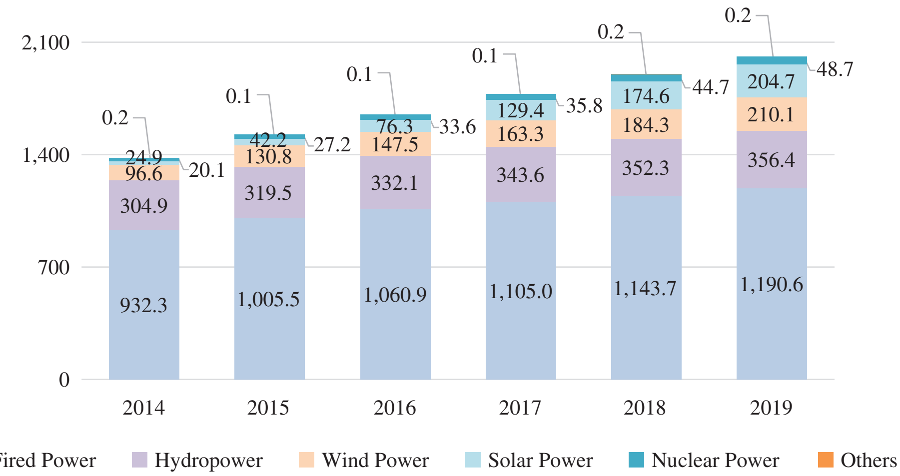
Further expansion of renewable energy generation, in particular hydropower, wind power and solar power, is expected in shed of the enlarged installed capacity. According to NBS, newly installed capacity of hydropower has increased by 16.9% from 304.9 gigawatt ("**GW**") in 2014 to 356.4 GW in 2019; that of wind power has increased by 117.5% from 96.6 GW in 2014 to 210.1 GW in 2019; and that of solar power has increased by 722.1% from 24.9 GW in 2014 to 204.7 GW in 2019. Total capacity of national renewable generation is growing more rapidly due to technology advancement and advantageous commercial environment for the related industry. The PRC government has issued the Notice on Building and Improving the System of Ensuring the Renewable Energy Consumption in May 2019 and the Action Plan of Clean Energy Consumption (2018-2020) in October to support the completion and maintenance of public power grid and thus to signal a more promising and reliable income stream for the renewable power plant operators. Lower cost of efficient power generators and solar panels shall further enhance the profitability of the industry.

Power Generation by Different Energy Sources in the PRC (in million Tce)



(Source: National Bureau of Statistics of China)

Newly Installed Capacity of Power Generation in the PRC (in GW)



(Source: National Bureau of Statistics of China, National Energy Administration of the PRC)

LIMITATIONS OF THE REPORT

The Report is addressed strictly to the Directors for their internal reference only. Accordingly, the Report may not be used nor relied upon in any other connection by, and are not intended to confer any benefit on, any person (including without limitation the respective shareholders of the Company and the Target).

The Report does not constitute an opinion on the commercial merits and structure of the Proposed Transaction. The Report does not purport to contain all the information that may be necessary or desirable to fully evaluate the Proposed Transaction. We are not required to and have not conducted a comprehensive review of the business, technical, operational, strategic or other commercial risks and merits of the Proposed Transaction and such remain the sole responsibility of the Directors and the management of the Company.

We have assumed and relied upon, and have not independently verified the accuracy, completeness and adequacy of the information provided or otherwise made available to us or relied upon by us in the Report, especially for the historical financial information of the Target from FY2018 up to 30 June 2020, whether written or verbal, and no representation or warrant, expressed or implied, is made and no responsibility is accepted by us concerning the accuracy, completeness or adequacy of all such information.

Moreover, our valuation has also relied upon other information obtained from public sources which we believe to be reliable. We accept no responsibility for accuracy and reliability of any information obtained from public sources.

The outbreak of COVID-19, as declared by the World Health Organization as a global pandemic on 11 March 2020, has been adversely affecting the global economy as well as the financial markets. As such, the subsequent impact due to COVID-19 has imposed an unprecedented set of circumstances on which to base a valuation judgement as of the Valuation Date. In particular, the increased volatilities in political, legal, fiscal, economic conditions and/or other market situations as a result of COVID-19 would bring higher uncertainties to the underlying assumptions. Consequently, higher degree of caution should be attached to our valuation than would normally be the case.

VALUATION ASSUMPTIONS OF BUSINESS ENTERPRISE VALUE ANALYSIS

In arriving at our opinion of value, we have considered the following principal factors:

- the economic outlook for the region operated by the Target and specific competitive environments affecting the industry;
- the business risks of the Target;
- the comparable companies are engaging in business operations similar to the Target;
- the experience of the management team of the Target and support from its shareholders; and
- the legal and regulatory issues of the industry in general.

A number of general assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation include:

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target;
- There was no material change in terms of business operation and financial position of the Target between 30 June 2020 and the Valuation Date; and
- We have assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported values. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

VALUATION APPROACH

General Valuation Approaches

There are three generally accepted approaches to appraise the fair value of the equity value of the Target, namely Income Approach, Cost Approach and Market Approach. All three of them have been considered regarding the valuation of the Target:

Income Approach — The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset.

The fundamental method for income approach is the discounted cash flow ("**DCF**") method. Under the DCF method, the value depends on the present value of future economic benefits to be derived from ownership of the enterprise. Thus, an indication of the equity value is calculated as the present value of the future free cash flow of a company less outstanding interest-bearing debt, if any. The future cash flow is discounted at the market-derived rate of return appropriate for the risks and hazards of investing in a similar business.

Cost Approach — The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history.

Market Approach — The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the assets that are considered to be comparable to the subject asset.

Under the market approach, the comparable company method computes a price multiple for publicly listed companies that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset. The comparable transaction method computes a price multiple using recent sales and purchase transactions of assets that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset.

Selected Valuation Approach

Each of the abovementioned approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature. In this appraisal regarding the fair value of the equity value of the Target, we applied the Market Approach due to the following reasons:

- Cost Approach is not appropriate in current appraisal as it assumed the assets and liabilities of the Target are separable and can be sold separately. This methodology is more appropriate for the industry that their assets are highly liquid, like property development and financial institution. Thus, Cost Approach is not adopted in this valuation.

- Income Approach is also considered inappropriate as plenty of assumptions were involved in formulating the financial projection of the Target, and the assumptions might not be able to reflect the uncertainties in the future performance of the Target. While the COVID-19 outbreak has significant impact on the global economy in general and there is no widely accepted consensus on potential influence in the future available, the management considers that they cannot provide a precise and concrete financial projection on the business due to the evolving uncertainties of market environment. Given that improper assumptions will impose significant impact on the fair value, Income Approach is not adopted in this valuation.

- Fair value arrived from Market Approach reflects the market expectations over the corresponding industry as the price multiples of the comparable companies were arrived from market consensus. Since there are sufficient public companies in similar nature and business to that of the Target, their market values are good indicators of the industry. Therefore, Market Approach has been adopted in this valuation.

There are two methods commonly used in performing market approach, namely comparable transactions and comparable companies.

The comparable transactions are selected with reference to the following selection criteria:

- The primary industry of the acquiree is being in industry of electrical equipment or industrial conglomerates, or sub-industry of industrial machinery, under Global Industry Classification Standard, as extracted from S&P Capital IQ;

- The principal business of the acquiree is provision of the manufacturing and sales of energy generation equipment;

- The principal business activities of the acquiree are mainly conducted in the PRC;

- The transaction was announced between November 2019 and October 2020; and

- The financial information of the companies is available to the public.

Based on the above selection criteria, there was one available comparable transaction with the acquiree engaging in similar businesses in the PRC as the Target during the selected period. Details of the transaction are illustrated as follows:

Announcement Date	29 November 2019
Acquiree	Harbin Steam Turbine Works Co., Ltd.
Acquirer	Harbin Electric Company Limited
Business Description of the Acquiree	Harbin Steam Turbine Works Co., Ltd. manufactures, installs, and overhaul power plant steam turbines, nuclear power steam turbines, industrial steam turbines, and gas turbines. The company is headquartered in Harbin, China. Harbin Steam Turbine Works Co., Ltd. operates as a subsidiary of Harbin Electric Company Limited.
% of Shareholding Acquired	26.96%
Consideration	RMB7,220,300
Implied Equity Value per Net Income Multiple	5.15x

Source: Hong Kong Exchanges and Clearing Limited and S&P Capital IQ

Given the fact that only one recent comparable transaction can be identified, we consider that the multiple derived based on comparable transactions may not be representable for our valuation, and thus, the comparable transactions method is not appropriated for this valuation.

Comparable company method is therefore selected as the primary method for this valuation. By adopting comparable company method, we have to select the appropriate comparable public companies. The selection of the comparable companies was based on the comparability of the overall industry sector. Although no two companies are ever exactly alike, behind the differences there are certain business universals such as required capital investment and overall perceived risks and uncertainties that guided the market in reaching the expected returns for companies with certain similar attributes.

The comparable public companies are selected with reference to the following selection criteria:

- The primary industry of the companies is being in industry of electrical equipment or industrial conglomerates, or sub-industry of industrial machinery, under Global Industry Classification Standard, as extracted from S&P Capital IQ;
- The principal business of the companies is provision of the manufacturing and sales of energy generation equipment;
- The principal business activities of the companies are mainly conducted in the PRC;
- The companies are listed in all major exchange markets in the United States of America ("**US**") or Hong Kong ("**HK**");
- The companies are profit-making in the trailing 12-months ("**LTM**") as of the Valuation Date; and
- The financial information of the companies is available to the public.

Details of the selected comparable companies are listed as follows:

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s)[(1)]
1)	China High Speed Transmission Equipment Group Co., Ltd.	SEHK: 658	HK	China High Speed Transmission Equipment Group Co., Ltd., together with its subsidiaries, engages in the research, design, development, manufacture, and distribution of a range of mechanical transmission equipment in the People's Republic of China. It offers wind gear transmission equipment; industrial gear transmission equipment for the metallurgy, construction materials, traffic, transportation, petrochemical, aerospace, and mining industries; and rail transportation gear equipment products. The company provides gears, gear boxes, and fittings. It also engages in the provision of financial leasing services; and engineering processing and manufacturing, and trading businesses. The company also exports products to the United States, India, Brazil, and Europe.	Wind Gear Transmission Equipment (84.12%); Industrial Gear Transmission Equipment (15.29%); Other Products (0.59%)

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s)[1]
2)	China Nature Energy Technology Holdings Limited ("**Nature Energy**")	SEHK: 1597	HK	China Nature Energy Technology Holdings Limited, an investment holding company, manufactures and sells pitch control systems and related components in the People's Republic of China. The company operates through Sales of Pitch Control Systems and Related Components; Sales of Wind Power; Wind Farm Operation and Maintenance Business; and Provision of Wind Energy Related Consultancy Services segments. It offers high-voltage pitch control systems for wind turbines. The company also generates and sells wind power through 13 wind turbines with total installed capacity of 19.5 MW. In addition, it provides wind farm operation and maintenance, upgrade, and modification services, as well as wind energy related consultancy services; and sells wind farm consumables.	Pitch Control System Related Integration, Manufacturing and Sales (80.95%); Wind Power Generation (9.07%); Wind Farm Operation and Maintenance (8.86%); Wind Energy Related Consultancy Services (1.12%)
3)	Xinjiang Goldwind Science & Technology Co., Ltd. ("**Goldwind**")	SEHK: 2208	HK	Xinjiang Goldwind Science & Technology Co., Ltd., together with its subsidiaries, provides wind power solutions in China and internationally. It operates through four segments: Wind Turbine Generator Manufacturing, Wind Power Services, Wind Farm Investment and Development, and Others. The company engages in the research and development, manufacture, and sale of wind turbine generators and wind power components; development, construction, maintenance, operation, and sale of wind farms; and provision of wind power related consultancy and maintenance services. It is also involved in the manufacture and sale of wind power equipment and accessories; development and operation of water treatment plants; provision of finance leasing services, which comprise direct finance leasing and sale-lease back; and development and operation of solar power generation projects.	Wind Turbine Generator Manufacturing and Sales (76.18%); Wind Farm Development (11.24%); Wind Power Services (9.43%); Others (3.15%)

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s)[(1)]
4)	Dongfang Electric Corporation Limited ("**Dongfang Electric**")	SEHK: 1072	HK	Dongfang Electric Corporation Limited engages in the energy equipment manufacturing in China and internationally. It operates through five segments: Clean and Efficient Energy Equipment, Renewable Energy Sources Equipment, Engineering and Trade, Modern Manufacturing Services, and Emerging Growth Industries. The company also offers engineering contracting and services. It produced power generation equipment with a total capacity of 18.83 million kilowatt; 4,124 MW hydro-generating unit; 13,960 MW steam turbine generators; 1,003 MW wind power units; 15,272 MW power station steam turbines; and 15,051 MW power station boilers. The company was formerly known as Dongfang Electric Machinery Co., Ltd. and changed its name to Dongfang Electric Corporation Limited in October 2007. The company was founded in 1993 and is based in Chengdu, the People's Republic of China. Dongfang Electric Corporation Limited is a subsidiary of Dongfang Electric Corporation.	High Efficiency and Clean Energy Equipment (78.31%); Renewable Energy Equipment (22.98%); Construction and Services (14.77%); Modern Service Industry (14.43%); New Energy (11.66%); Eliminations (-42.15%)

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s)[1]
5)	Harbin Electric Company Limited ("**Harbin Electric**")	SEHK: 1133	HK	Harbin Electric Company Limited, together with its subsidiaries, manufactures and sells power plant equipment in the People's Republic of China. It provides thermal power main equipment, including boilers, steam turbines, and steam turbine generators; hydropower main equipment, such as hydropower generators units; nuclear power main equipment comprising nuclear island and conventional island equipment; and a set of steam power equipment, including 9F/9H class gas turbine, and combined gas and steam cycle sets. The company also engages in the research and development, and production of clean energy products comprising solar energy, tidal power, and desalination products; and ancillary equipment for power stations, industrial boilers, industrial steam turbines, control devices, and AC/DC motors, as well as valves for power stations, pressure vessels, axial compressors, etc. In addition, it is involved in the construction of power station projects; servicing of thermal and hydropower equipment; import and export of equipment for power stations; provision of after sales service for power station equipment products; research and development of engineering technology for power equipment and its ancillary products; and provision of environmental protection engineering services, such as desulfurization, denitrification, and dust removal. The company also exports its products to Asia, South America, and Africa. Harbin Electric Company Limited is a subsidiary of Harbin Electric Corporation Co., Ltd.	Main Thermal Power Equipment (36.65%); Engineering Services for Power Stations (23.94%); AC/DC Motors and Others (15.61%); Main Hydro Power Equipment (11.78%); Nuclear Power (5.66%); Ancillary Equipment for Power Stations (5.22%); Interest Income (1.69%); Sales Tax and Surcharges (-0.55%)

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s)[1]
6)	Chongqing Machinery & Electric Co., Ltd. ("**Chongqing M&E**")	SEHK: 2722	HK	Chongqing Machinery & Electric Co., Ltd., together with its subsidiaries, designs, manufactures, and sells clean energy equipment and high-end smart manufacturing equipment. It manufactures and sells engines, hydroelectric generation equipment, electrical wires and cables, general machinery, machinery tools, high-voltage transformers, and other products. The company also designs, manufactures, and sells vehicle parts and components; industrial robots, intelligent equipment, etc.; processes electronic products; develops, produces, and leases laser, machinery, and testing equipment; turbines, governors, and auxiliary devices; gear processing machine tools and lathes; automation, intelligent equipment, and accessories; provides cotton picking services and maintains cotton machinery and spare parts; cutting tool; casting and forging of non-ferrous metal smelting and special metal smelting; electrical porcelain; agricultural machinery and accessories, special machine tools, spare parts, and special tooling; precision screw; multi-purpose CNC machine tools, roll grinders, and deep hole boring machines. In addition, it leases properties; engages in turbo mechanical product testing, equipment, and system maintenance and transformation; sewage collection, treatment, and operation management BOT business; other trade business; trades in machinery and raw materials; fan coolers; evaporative cooling, water-cooled, and air-cooled chillers; manufactures wind-power equipment, PPR\PPC tubular product, and gas compressors and components; sells network, environmental, and gas products; design and manufactures industrial pumps and parts, and pressure vessels; mechanical and electrical equipment technology; and sells steel, as well as provides loans. Chongqing Machinery & Electric Co., Ltd. is a subsidiary of Chongqing Machinery and Electronics Holding (Group) Co., Ltd.	Power Equipment (36.99%); All Other Segments (26.74%); General Machinery (23.64%); Machinery Tools (10.09%); Financial Services (1.40%); Material sales (1.15%)

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s)[(1)]
7)	Shanghai Electric Group Company Limited ("**Shanghai Electric**")	SEHK: 2727	HK	Shanghai Electric Group Company Limited, an equipment manufacturing conglomerate, provides clean energy, new energy and environmental protection, and industrial equipment, and modern services in the People's Republic of China. The company offers coal-fired power generation and corollary, gas-fired power generation, wind power, nuclear power, and energy storage equipment, as well as vessels for chemical industry. It provides elevators, escalators, electric motors and ramps, and industrial basic parts; intelligent manufacturing, traffic signal system, and construction industrialization equipment; blades, precision bearings, and fasteners; EPC project package services; and power grid and industrial intelligent power supply system solutions. The company offers energy, and environmental protection and automation engineering; industrial internet; financing leases and insurance brokerage; international trade; and property services. It provides turbine generators, gas turbines, and spare parts; power station and industry boilers; civil nuclear bearing, electrical and mechanical, and desulphurisation equipment; printing and packing machinery, artificial boards, air conditioners, welding materials, and engineering machinery; electrical switchgear and relevant services; turbines and auxiliary engines; building automation, management, and safety systems; technical consulting services; power transmission, distribution, and controlling equipment; electronic products; aircraft assembly lines equipment; blowers and transformer parts; diesel engine fuel pumps and components; wire and cable electrical equipment; and wire and cables. The company engages in the investment and asset management activities; real estate development and property management activities; and imports and exports of goods. Shanghai Electric Group Company Limited is a subsidiary of Shanghai Electric (Group) Corporation.	Industrial Equipment (35.38%); Energy Equipment (32.93%); Integrated Services (31.62%); Others (0.07%); Corporate and Other Unallocated (0.01%)

Source: S&P Capital IQ and Bloomberg

(1) Based on FY2019 financial data from Bloomberg.

As over 50% of revenue of the above comparable companies are generated from manufacturing and sales of energy generation equipment, these comparable companies, together with the Target, are considered to be similarly subject to fluctuations in the economy and performance of the energy generation equipment manufacturing and sales industry, among other factors. Thus, we consider they are confronted with similar industry risks and rewards.

After selecting the abovementioned comparable companies, we have to determine the appropriate valuation multiples for the valuation of the Target, in which we have considered price-to-earnings ("**P/E**"), price-to-book ("**P/B**"), price-to-sales ("**P/S**"), enterprise value/sales ("**EV/S**"), enterprise value/earnings before interests and taxes ("**EV/EBIT**") and enterprise value/earnings before interests, taxes, depreciation and amortization ("**EV/EBITDA**") multiples.

P/B multiple is considered not appropriate for this valuation because book value captures only the tangible assets of a company which, if a company creates any added market value (as reflected by a P/B ratio of larger than one), should have its own intangible competencies and advantages. These intangible company-specific competencies and advantages are not captured in the P/B ratio and so in general, the equity's book value has little bearing with its fair value. Thus, the P/B multiple is not a good measurement of the fair value of a company.

P/S and EV/S multiples are considered not appropriate for this valuation because they do not consider the profitability of the Target nor the comparable companies. As both P/S and EV/S multiples only focus on the sales amounts but not the margins, the result will be easily distorted if the cost structure is not being taken into account. Thus, P/S and EV/S multiples are not adopted in this valuation.

EV/S, EV/EBITDA and EV/EBIT multiples use the market capitalization of a company as the starting point, considering the inclusion of the value of debt, minority interest, preferred shares and the exclusion of any cash and cash equivalents to represent enterprise value, which is then divided by sales, EBIT and EBITDA amount, respectively. Enterprise value generally requires normalized adjustments on debts and/or non-operating assets/liabilities of the Target which may be subjective. Thus, EV-related multiples are not adopted in this valuation.

P/E multiple is one of the most commonly used valuation multiples. It relates the market value of the equity interest of the Target to its earnings, an important driver of shareholders' value. We consider that it is fair and reasonable to use the P/E multiple for assessing the value of the Target because net income is a more direct economic measurement of earning attributable to the Target's equity value. In addition, the Target has been profit making for at least two years since FY2018. Hence, the P/E multiple is adopted in the valuation of the Target.

The P/E multiples of comparable companies are as follows:

No.	Company Name	Reporting Currency	Market Capitalization as of 31 October 2020	LTM Net Profit(1)	P/E Multiple Before LOMD(1)	P/E Multiple Before LOMD (excluding outliers)(2)
		(in million)				
1	CHS	RMB	8,115	493	16.45	16.45
2	Nature Energy	RMB	393	48	8.22	8.22
3	Goldwind	RMB	46,778	804	58.15	N/A
4	Dongfang Electric	RMB	31,040	1,661	18.69	18.69
5	Harbin Electric	RMB	3,240	838	3.87	3.87
6	Chongqing M&E	RMB	1,336	155	8.60	8.60
7	Shanghai Electric	RMB	65,827	4,446	14.80	14.80
					Maximum	18.69
					Minimum	3.87
					Mean(2)	**11.77**
					Lack of Marketability Discount ("LOMD")(3)	**20.6%**

Notes:

(1) Data sourced from Bloomberg and the financial statements of the comparable companies. The equity values of the comparable companies are computed based on the market capitalization of the companies as of 31 October 2020. LTM net profit data are adjusted by non-recurring items as defined in Bloomberg database, based on the latest financial data of the comparable companies available as of the Valuation Date.

(2) To avoid distortion of selected multiples by abnormal data, companies with P/E multiples of more than one standard deviation below/above the average multiple are considered as "outliers" and have been excluded for analysis purpose. As the outlier of the P/E multiple is excluded after the standard deviation adjustment, we consider taking average of the available multiples is a fair and reasonable estimate of the P/E multiple for this valuation.

(3) LOMD reflects the fact that there is no ready market for shares in a closely held company. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company.

The P/E multiple adopted in the valuation was calculated from public listed companies, which represents marketable ownership interest. Fair value calculated using such P/E multiple, therefore, represents the marketable interest. Thus, LOMD was adopted to adjust such marketable interest fair value to non-marketable interest fair value.

The report "Stout Restricted Stock Study Companion Guide (2020 edition)" by Stout Risius Ross, LLC, a reputable research company, suggested an average marketability discount of 20.6% which is based on 759 private placement transactions of unregistered common shares issued by publicly traded companies from July 1980 through December 2019. A marketability discount of 20.6% is considered appropriate and suitable for this valuation as we understand that the Target is a group of privately held companies.

The value of non-marketable interest can be calculated from marketable interest using the following formula:

Fair Value of Non-Marketable Interest = Fair Value of Marketable Interest x (1 – LOMD)

Valuation Result

	RMB'000
Adjusted net Profit attributable to the Owners of the Target from July 2019 to June 2020[(1)(2)]	614,027
Adjusted Mean of P/E Multiple	11.77x
LOMD	20.60%
Estimated 100% Equity Value of the Target (rounded)	5,740,000

Notes:

(1) The net profit data is based on the consolidated financial statements of the Target provided by the Company for the year ended 31 December 2019 and the 6-month periods ended 30 June 2019 and 30 June 2020.

(2) Net profit attributable to the owners of the Target during July 2019 to June 2020 of RMB548,528k was adjusted by one-off foreign exchange gain arisen from intercompany balances of RMB61,292k and other one-off losses of RMB126,791k, of which these items are deemed to be non-recurring in nature according to the Company.

CONCLUSION OF VALUE

Based on our investigation and analysis method employed, it is our opinion that the fair value of the 100% equity interest of the Target as of the Valuation Date is RMB5,740 million.

The conclusion of the fair value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in China High Speed Transmission Equipment Group Co., Ltd. nor the value reported.

Yours faithfully,
For and on behalf of
AVISTA Valuation Advisory Limited

Vincent C B Pang
CFA, FCPA(HK), FCPA (Aus.), MRICS
Managing Director

Analysed and Reported by:
Ivan K K Lui
CFA, FCPA(HK), LL.M., MRICS
Director

Hugo T H Wong
FRM
Assistant Manager

Mankry Y L Cheung
Analyst

Note: Mr. Vincent Pang is a member of CFA Institute and CPA Australia, a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of Royal Institution of Chartered Surveyors (RICS) and a registered valuer of RICS. Vincent has over 20-year experience in financial valuation and business consulting in Hong Kong and the PRC.

APPENDIX – GENERAL LIMITATIONS AND CONDITIONS

This Report was prepared based on the following general assumptions and limiting conditions:

- All data, including historical financial data, which we relied upon in reaching opinions and conclusions or set forth in the Report are true and accurate to our best knowledge. Whilst reasonable care has been taken to ensure that the information contained in the Report is accurate, we cannot guarantee its accuracy and we assume no liability for the truth or accuracy of any data, opinions, or estimates furnished by or sourced from any third parties which we have used in connection with the Report.

- We also assume no responsibilities in the accuracy of any legal matters. In particular, we have not carried out any investigation on the title of or any encumbrances or any interest claimed or claimable against the property appraised. Unless otherwise stated in the Report, we have assumed that the owner's interest is valid, the titles are good and marketable, and there are no encumbrances that cannot be identified through normal processes.

- We have not verified particulars of property, including their areas, sizes, dimensions, and descriptions, which we have used or have referred to in connection with the preparation of this Report, unless otherwise stated in this Report. Any information regarding areas, sizes, dimensions, and descriptions of property mentioned in this Report are for identification purposes only, and no one should use such information in any conveyance or other legal document. Any plans or graphical illustrations presented in this Report are intended only for facilitating the visualization of the property and its surroundings and such plans or graphical illustrations should not be regarded as a survey or a scale for size.

- The value opinion presented in this Report is based on the prevailing or then prevailing economic conditions and on the purchasing power of the currency stated in the Report as of the date of analysis. The date of value on which the conclusions and opinions expressed apply is stated in this Report.

- This Report has been prepared solely for the use or uses stated. Except for extraction of or reference to the Report by the Company, its financial advisor and/or its independent financial advisor for their respective work in relation to the Proposed Transaction, it is not intended for any other use or purpose or use by any third parties. We hereby disclaim that we are not liable for any damages and/or loss arisen in connection with any such unintended use.

- Prior written consent must be obtained from AVISTA Valuation Advisory Limited for publication of this Report. Except for disclosure in the Circular in relation to the Proposed Transaction, no part of this Report (including without limitation any conclusion, the identity of any individuals signing or associated with this Report or the firms/companies with which they are connected, or any reference to the professional associations or organisations with which they are affiliated or the designations awarded by those organisations) shall be disclosed, disseminated or divulged to third parties by any means of publications such as prospectus, advertising materials, public relations, news.

- No environmental impact study has been carried out, unless otherwise stated in this Report. We assume all applicable laws and governmental regulations are being complied with unless otherwise stated in this Report. We have also assumed responsible ownership and that all necessary licenses, consents, or other approval from the relevant authority or private organisations have been or to be obtained or renewed for any use that is relevant to value analysis in this Report.

- Unless otherwise stated in this Report, the value estimate set out in this Report excludes the impact of presence of any harmful substances such as asbestos, urea-formaldehyde foam insulation, other chemicals, toxic wastes, or other potentially hazardous materials or of structural damage or environmental contamination. For purposes of evaluating potential structural and/or environmental defects, where their existence could have a material impact on value of the property, we would recommend that advices from the relevant experts, such as a qualified structural engineer and/or industrial hygienist, should be sought.

1. RESPONSIBILITY STATEMENT

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

2. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the following Directors or chief executive of the Company who held office had, or were deemed to have, interests or short positions in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the requirements for securities transactions by directors contained in the Listing Rules.

Interests in associated corporation

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Approximate amount of registered capital in the associated corporation	Approximate percentage of shareholding in the associated corporation
Mr. Hu Yueming	Nanjing High Speed	Interest in controlled corporation(1)(2)	RMB150,000,000	6.98%
Mr. Wang Zhengbing	Nanjing High Speed	Other(1)(3)	RMB7,400,000	0.344%
Mr. Zhou Zhijin	Nanjing High Speed	Interest in controlled corporation(1)(4)	RMB7,400,000	0.344%
Mr. Gu Xiaobin	Nanjing High Speed	Other(1)(5)	RMB7,400,000	0.344%

Notes:

(1) Nanjing High Speed is owned as to approximately 6.98% by the Employee Partnership Enterprise.

(2) The Employee Partnership Enterprise is a limited liability partnership controlled by Shanghai Shiji, the sole general partner of the Employee Partnership Enterprise. Mr. Hu Yueming is the sole director and sole shareholder of Shanghai Shiji. Hence, Mr. Hu Yueming is deemed to have the sole discretion to exercise 100% of the voting rights of the Employee Partnership Enterprise.

(3) The Employee Partnership Enterprise is owned as to approximately 15.84% by Shouguang Dingneng Information Consultancy Services LLP* (壽光鼎能信息諮詢服務合夥企業(有限合夥)) ("**Shouguang Dingneng**"), as one of the limited partners. Mr. Wang Zhengbing is one of the limited partners of Shouguang Dingneng and holds approximately 31.15% interest in Shouguang Dingneng.

(4) The Employee Partnership Enterprise is owned as to approximately 10.56% by Shouguang Jiding Information Consultancy Services LLP* (壽光吉鼎信息諮詢服務合夥企業(有限合夥)) ("**Shouguang Jiding**"), as one of the limited partners. Mr. Zhou Zhijin is one of the limited partners of Shouguang Jiding and holds approximately 46.70% interest in Shouguang Jiding.

(5) The Employee Partnership Enterprise is owned as to approximately 23.58% by Shouguang Dingchuang Information Consultancy Services LLP* (壽光鼎創信息諮詢服務合夥企業(有限合夥)) ("**Shouguang Dingchuang**"), as one of the limited partners. Mr. Gu Xiaobin is one of the limited partners of Shouguang Dingchuang and holds approximately 20.92% interest in Shouguang Dingchuang.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of SFO); (ii) required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) required, pursuant to the Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying shares of the Company, its group members and/or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long position in Shares

Name of Shareholder	Nature of interest	Number of Shares *(Note 1)*	Approximate percentage of shareholding in the Company
Five Seasons *(Note 2)*	Beneficial owner	1,208,577,693 (L)	73.91%
Fullshare	Interest of controlled corporation	1,208,577,693 (L)	73.91%
Magnolia Wealth	Interest of controlled corporation	1,208,577,693 (L)	73.91%
Glorious Time *(Note 3)*	Beneficial owner	17,890,000 (L)	1.09%
Mr. Ji Changqun *(Note 4)*	Interest of controlled corporation	1,208,577,693 (L)	73.91%
	Interest of controlled corporation	17,890,000 (L)	1.09%

Notes:

(1) The letter "L" denotes the person's long position in the Shares or the relevant Group member.

(2) Five Seasons, a company incorporated in the British Virgin Islands, is wholly owned by Fullshare (stock code: 607), while the issued share capital of Fullshare is owned as to 38.69% by Magnolia Wealth, a company incorporated in the British Virgin Islands, which is wholly and beneficially owned by Mr. Ji. Accordingly, Fullshare, Magnolia Wealth and Mr. Ji are considered to have interests in 1,208,577,693 Shares, representing approximately 73.91% of the issued Shares of the Company.

(3) Glorious Time, a company incorporated in the British Virgin Islands, is wholly and beneficially owned by Mr. Ji. Accordingly, Mr. Ji is considered to have interests in 17,890,000 Shares, representing approximately 1.09% of the issued Shares of the Company.

(4) Five Seasons is owned more than one-third of interest by Mr. Ji and Glorious Time is wholly-owned by Mr. Ji. Accordingly, Mr. Ji is considered to have interests in 1,226,467,693 Shares, representing approximately 74.99% of the issued Shares of the Company.

Save as disclosed above and so far as is known to the Directors and chief executive of the Company, as at the Latest Practicable Date, no person (other than the Directors or chief executive of the Company) had any interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or has, directly or indirectly, interested in 10% or more of the issued voting shares of any other members of the Group.

4. DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service contract or an appointment letter (subject to retirement by rotation and re-election at the annual general meetings and as the case may be) with the Company for an initial fixed term of three years commencing subject to retirement by rotation and re-election at the annual general meetings and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

5. OTHER INTERESTS OF THE DIRECTORS

Save as disclosed in this circular, as at the Latest Practicable Date:

(a) none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 December 2019, being the date of the latest published audited accounts of the Group, 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; and

(b) none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date and which is significant in relation to the business of the Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, save as aforesaid or as otherwise mentioned herein, none of the Directors nor his close associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

7. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, the date to which the latest published audited accounts of the Group was made up.

8. EXPERT'S QUALIFICATIONS AND CONSENT

The following are the qualifications of the expert who has given opinion or advice contained in this circular:

Name	Qualification
Alliance Capital Partners Limited	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
AVISTA Valuation Advisory Limited	an independent valuer

As at the Latest Practicable Date, the Independent Financial Adviser and AVISTA had no interest, direct or indirect, in any member of the Group nor any right or option (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, the Independent Financial Adviser and AVISTA had no interest, direct or indirect, in any assets which had been, since 31 December 2019, being the date of the latest published audited accounts of the Group, acquired or disposed of by, or leased to any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

The Independent Financial Adviser and AVISTA have given and have not withdrawn its written consent as to the issue of this circular with the inclusion herein of its letters and reference to their names in the form and context in which they respectively appear.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company's principal place of business in Hong Kong at Room 1302,13th Floor, COFCO Tower No. 262 Gloucester Road, Causeway Bay, Hong Kong during normal business hours (except for Saturdays and public holidays) from the date of this circular up to and including the date which is 14 days from the date of this circular:

(a) the memorandum and the articles of association of the Company;

(b) annual reports of the Group for the financial years ended 31 December 2018 and 2019 and the interim report of the Group for the six months ended 30 June 2020;

(c) the letter of advice from the Independent Board Committee of the Company to the Independent Shareholders as set out in this circular;

(d) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders as set out in this circular;

(e) the valuation report issued by AVISTA, the text of which is set out in Appendix I of this circular;

(f) the written consents of the Independent Financial Adviser and AVISTA referred to in the paragraph headed "Expert's Qualifications and Consent" in this appendix;

(g) the service contracts and letters of appointment referred to in the paragraph headed "Directors' Service Contracts" in this appendix;

(h) the Capital Increase Agreement; and

(i) this circular.