**Bohai Harvest RST (Shanghai) Equity Investment Fund Management Co., Ltd. (the “Company”)**

**the twelfthBoard Meeting Conference Documents**

**Date:** February 1, 2018, Thursday (9:30AM - 12:30PM)

**Location:** Beijing Office

**Board Attendees:**  All Board Members

**Other Attendees:** Supervisor and Management Team Representatives

**AGENDA**

1. Follow-up Issues from Previous Board Meeting
2. Review of 2017 Operations
3. Review of 2018 Business Plan
4. Review of 2017 Financial Reports and 2018 Annual Budget
5. Guidelines for Determination and Distribution of Annual Employee Bonuses
6. 2017 Bonus Pool Determination and Allocation

**Follow-up Issues from Previous Board Meeting**

1. **Share Transfer by Rosemont Seneca Bohai to Ulysses and Skaneateles; Payment of Remaining Capital Commitments**

Relevant governmental registrations and filings for share transfer by Rosemont Seneca Bohai (RSB) to Ulysses and Skaneateles have been completed.

Up till now, we have received payment of all outstanding registered capital commitments. We are in the process of preparing the capital verification report for submission to Bohai Capital.

1. **The First Strategy Committee Meeting**

According to the requirements of the Eleventh Board Meeting, the Company established a Strategy Committee composed of five members: Mr. Zhou Bing, Chairman, Mr. Lu Changqi, Vice Chairman, Mr. Jiang Ming, Director, Mr. James J. Bulger, Director, and Mr. Xiang Hong, Venture Partner.

The First Strategy Committee Meeting was held in Beijing on August 17, 2017. The meeting discussed the Company’s current business status and conducted a SWOT analysis. For details of the meeting, please refer to the Strategy Meeting Minutes circulated to all directors on August 30, 2017.

1. **BHR Subsidiaries and SPV Registration**

Since the Tenth Board Meeting held on January 18, 2017, the Company has registered the following PRC and non-PRC entities:

**PRC entities:** five tax-efficient entities, in Gongqing City, Jiangxi Province.

**Non-PRC entities:** six limited partnership entities in the Cayman Islands, one limited liability company in the Cayman Islands and four BVI limited liability companies.

The full list of BHR’s registered entities (including subsidiaries and affiliated funds) as of the date hereof are summarized below:

**Summary of BHR Subsidiaries and Managed Funds**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Legal Form** | **Nature / Purpose of Entity** | **Shareholder / General Partner** | **Place of Registration /**  **Incorporation** | **Total** | **Comment** |
| **Onshore** | Companies | Direct and indirect wholly-owned subsidiaries of BHR established in Shanghai, Shenzhen and Chengdu  . | Shareholder: BHR directly or indirectly through its Shenzhen subsidiary | Shanghai, Shenzhen (Qianhai), Chengdu (Tianfu) | 4 |  |
| Limited Partnerships | Deal Funds established in Shanghai, Chengdu and Wenzhou | GP: BHR, BHR Ruiyun, BHR Ruila, BHR Chengdu  Original LP: Angju | Shanghai, Chengdu (Tianfu), Zhejiang (Wenzhou) | 16 |  |
| Limited Partnerships | These fund vehicles will serve as General Partners of Deal Funds | GP: BHR Ruiyun, BHR Ruila  LP: relevant Gongqingcheng Investment Management L.P. entity | Shanghai | 2 |  |
| Limited Partnerships | Carried Interest Entities | GP: Angju  LP: BHR employees | Gongqingcheng, Jiangxi | 6 |  |
| Employee Co-investment Entity | Gongqingcheng Huamei Qixin Investment Management L.P. | GP: Angju  LP: BHR employees | Gongqingcheng, Jiangxi | 1 | Will serve as LP and co-invest in deal funds with other investors. |
| **Offshore** | Direct Subsidiaries | BHR Investment Management Limited BHR Investment Consulting Limited | Shareholder: BHR | Hong Kong | 2 |  |
| Indirect subsidiaries | BHR (Cayman) Management Limited BHR (Cayman) GP I, L.P. BHR (Cayman) GP II, L.P. BHR (Cayman) GP III, L.P. | Shareholder: BHR Investment Management Limited | Cayman | 4 | Will serve as Manager/GP of shell funds in Cayman Islands. |
| Limited liability companies | Special purpose vehicles for cross-border M&A transactions | Shareholder: Jonathan Li / Onshore Deal Fund | Hong Kong | 4 | Will serve as SPVs in overseas M&A projects where Jonathan Li serves as the sole initial shareholder and upon registration transfers all his shares to the deal fund as necessary. |
|  | Shareholder: Mr. Jonathan Li/Onshore Deal Fund | BVI | 9 |
| Limited partnerships | Shell funds for future use. | GP：BHR (Cayman) GP I, Limited  BHR (Cayman) GP II, Limited  LP：BHR New Energy Limited | Cayman Islands | 10 |  |
| Limited liability companies\ | To serve as tax-efficient carried interest distribution entities | Shareholder: employees | BVI |  | In overseas projects with carried interest distribution, the sole shareholder of the deal funds in Cayman Islands (a.k.a. BHR Investment Management Limited) will transfer 30% of its shares of GP I/GP II/GP III to the carried interest distribution entity. |

**Work Report for 2017**

Since the last Board Meeting, the Management has made in-depth consideration to implement the requirements of the Board of Directors on enhancing investment capability, and has selected two areas on which to focus our resources: (i) Intelligent Transportation and (ii) artificial intelligence. For these two areas, the Company successfully completed two investments in 2017: in the intelligent transportation sector, the Company, together with China Molybdenum, closed the acquisition of 24% interest in Tenke Fugurume Mining in the Democratic Republic of Congo; in the artificial intelligence sector, the Company participated in Series C fundraising of Face++ with a total investment of USD 30 million. As of the date hereof, the Company’s aggregate assets under management has reached RMB15.5 billion.

In term of project-based funds, the overseas mergers and acquisitions market has recovered somewhat with encouraging policies, and the Company experienced a significant increase in project executions in the second half of 2017. Unfortunately, three of the projects which reached final stages of the sales process failed to be completed due to various reasons (such as losing the bid to competing bidders or where the seller aborted the sale process due to low bids). Through the deal-focused executions in the second half of 2017, the Company has developed a number of pipeline projects for 2018. What is more important is that the Company has further accumulated and cooperated with strategic partners, thereby laying a solid foundation for the operations in 2018.

The details of the report are as follows:

**I. Fundraising Preparation for the Intelligent Transportation Fund**

At the last Board Meeting, the Directors suggested that the proposed rail transit fund may be restricted by its narrow industry-focus and desirable investment opportunities may be few. In consideration of such suggestions, the Company’s management readjusted our blind pool fundraising strategy to focus on intelligent transportation and expanded the fund’s investment scope to include opportunities related to intelligent transportation particularly in the automotive industry. Management selected Intelligent Transportation for a number of reasons: (i) the transit industry has stable demand; (ii) Intelligent Transportation covers a wide range of vertical manufacturing and servicing industries with high volume of M&A potential; (iii) with the advent of new technologies, new energy sources, and new materials, intelligent transportation is in the midst of the collision and integration of old and new industries, and is on the eve of revolutionizing change, for which there exists many investment opportunities. Under this strategy, the team, the Company continues their fundraising efforts.

The automobile industry, especially new energy vehicles and autonomous driving technologies, has been a long-term research field of the team, with investments in Chery Automobile, Henniges Automotive, Didi Chuxing, CATL, and Tenke Fugurume Mining among others, as well as project screening in more than 100 companies including NEXTEV, Quanergy, the team has accumulated certain knowledge in the industry and has gained certain market visibility and reputation. Notwithstanding which, we still lack the in-depth insight of our industrial partners. In an effort to strengthen our position, the Company is cultivating alliances with CRSC in the field of rail transit and COMAC Capital in the field of aviation as strategic partners. These partners plan to serve as shareholders of the management company of the intelligent transportation fund with 5% shareholding for each.

In terms of project pipeline, the Team, in cooperation with a number of industry partners including CHSR, conducted a large-scale screening of domestic and overseas projects. At present, the Company has developed 12 projects with an investment size of RMB35 billion, including: (i) Project FUSION: a British company that provides customized polymer and metal development and design solutions, with focus on research and development in polymers and nylon; (ii) Project FFT: a domestic professional R&D and production company for Polymer composite materials and rubber products, designated by the National Railway Administration for R&D and production of wear reduction, vibration damping and sealing technology; (iii) Project MINT: a world's leading paint stripping service provider from Germany, which provides customers with chemical stripping paint, heat treatment stripping paint, and paint stripping services; (iv) Project ACI: A Spanish company (a major supplier to Airbus) specializing in the design, manufacturing and assembly of high-tech aviation structures, engine components and structures; (v) Project SHIM: a British global market leader in commercial and military aerospace for manufacturing and supply of metal and composite gasket parts.

In terms of fundraising, the total size of the Intelligent Transportation Fund is projected to be RMB10 billion, with a first closing target of RMB5 billion. The realigned focus on general intelligent transportation-related investments has been positively received by the market. Shenzhen Qianhai Financial Holdings plans to contribute RMB1 billion and has signed a letter of intent to reflect its commitment. The Shenzhen municipal government has initiated a grant of RMB2 to 2.5 billion for the fund that is now being submitted for approval. The Company will be responsible for raising RMB2 to 3 billion before first closing may be had. The Company is currently working with CNIC, China Cheng Tong and other large state-owned institutional investors for fundraising purposes.

In the meantime, the Hungarian government intends to participate the intelligent transportation fund with an initial commitment of US$200 million in consideration of investments into Hungary. A memorandum of understanding was signed at the “16 + 1 Summit” in Budapest on November 26 between BHR and the Hungarian Export and Import Bank in respect of the latter’s proposed contribution to the intelligent transportation fund.

**II. Research and Investment in New Economies**

New Economies as a sector is currently the hottest and most concentrated area of investment in the capital market. The Company continues to focus its attention, especially in the artificial intelligence space, where the team has spent considerable time researching and sourcing deals. In the second half of 2017, the Company successfully bid for and invested in Face++, a much sought after investment, signifying our first venture into the artificial intelligence space.

Face++ is one of China’s leading artificial intelligence companies, which focuses on computer vision and deep learning, offering both cloud based and end-user based AI solution in facial recognition, human body recognition, text recognition, vehicle recognition, and other applications. The company has a leading market position in the financial technology, security services, commercial business, and smartphone industries. Face++ realized total sales of RMB78.46 million in FY2016 and expects to generate sales of approximately RMB600 million in FY2017.

In October 2017, the Company, though its offshore investment vehicles, BHR Investment Fund II and BHR Investment Fund VI, successfully invested USD30 million into Face++. The investment period is 3 years, with total management fees of approximately RMB3.96 million.

**III. Fundraising Arrangements with Local Government**

In order to support local economic development, many local governments have set up funds in cooperation with specialized investment institutions. In the past, the Company has explored the establishment of joint investment funds with governments in Yunnan, Shandong, Jilin, Xinjiang and Longgang District of Shenzhen, however, the limitations on investments of such funds which focus on local industrial planning and investment in local enterprises may be difficult for a market-oriented investment institution such as BHR to accommodate. The Company will continue to prudently review these opportunities according to the resources which may be made available by the local governments and project pipelines.

At present, The Chengdu Rail Transit Fund jointly launched by the Company and Chengdu Industrial Investment Group is the only government cooperation fund under preparation. The Fund’s management company has completed commercial registration, with BHR’s shareholding of 80%, Chengdu Industrial Investment Group of 10%, Jinniu District Government Platform Company of 10%. RMB200 million has been pledged by the government’s platform entities including Chengdu Industrial Investment Group. The RMB800 million to be raised by the Company will come from non-governmental investors. However, given that the typical size of rail transport projects are large, it is difficult to find growth projects that are tailored to the size of this Fund. Although the funding is secured, the Chengdu Fund is still in its preparation stages.

**IV. Project-based Funds**

**XAIRCRAFT**

XAIRCRAFT is China’s leading company for agricultural UAV (Unmanned Aerial Vehicle) systems. With its strong technical accumulation and R&D strength, XAIRCRAFT is committed to the development and manufacturing of agricultural and technology products such as agricultural plant protection UAVs, flight control systems, geographical surveying and plant protection monitoring. Benefitting from the maturity and cost reduction of UAV technologies, agricultural UAV plant protection industry has entered into a breaking point. With reference to the popularization of other agricultural machinery products, we expect the industry to reach a market of nearly RMB10 billion in the next 3 to 5 years.

XAIRCRAFT completed Series A and Series B fundraising in 2014 and 2016 respectively. Series C fundraising is scheduled to be completed in the first quarter of 2018 with a total investment of RMB200 to 300 million and at an estimated valuation of RMB2 billion. The unaudited revenue for 2017 is RMB146 million. BHR has signed an exclusivity agreement with the target company. Both due diligence and fundraising work are underway.

**PIAB**

Founded in 1951 and headquartered in Sweden, PIAB is the world's leading provider of automated process and robotic application solutions. Its main business areas include robot capture, vacuum automation, and automated vacuum transfer. The company generates revenues of SEK1 billion (approximately USD125 million), of which about 40% is recurring income. The company has maintained an annual growth rate of 16% for the past three years and its EBIT margin is about 30% (approximately USD37.5 million). The company has a light asset operating model and has established an operating platform with potential for expansion with more than 700 distributors and more than 50,000 customers worldwide.

The target company’s shareholder EQT is considering selling its shares, and the bidding process will be officially launched in the near future. BHR has reached a cooperation agreement with the largest shareholder of a listed company in China and will bid jointly when the selling process starts.

**Chang Yuan Lithium**

Chang Yuan Lithium is a China Minmetals Corporation subsidiary engaged in efficient battery materials research and production. Its main products include lithium cobalt oxide, lithium manganese oxide and ternary composite lithium-ion cathode material. The company now has 16,000 tons/year of cathode material capacity, which is expected to reach 26,000 tons/year in 2018. Benefitting from the downstream demand for new energy vehicles and consumer electronics growth, the ternary battery cathode material market has room for expansion in the foreseeable future.

The target company was originally listed under China Minmetals Corporation’s listed subsidiary, China Minmetals Capital. In the short term, it is expected that the target company will be spun off from the listed company as part of China Minmetals’ effort to promote reform of mixed ownership. The company will be integrated with Jinchi Technology, another company to be simultaneously divested of, and financed by industrial and financial investors in the amount of RMB 1 to 1.5 billion. As of June 2017, Chang Yuan Lithium achieved an income of approximately RMB440 million. BHR has conducted multiple rounds of communications with China Minmetals and Chang Yuan Lithium’s management, awaiting the formal process of the mixed ownership reform to carry out corresponding work.

**H. C. STARCK**

The company is the world's leading manufacturer of high performance powders made from metals and advanced ceramics. Its products are mainly used in the production of downstream carbide cutting tools and high performance capacitors. The company's 2017 forecast sales and adjusted EBITDA are EUR555 million and EUR70 million respectively. The controlling owners, Advent International and Carlyle, launched a public bidding process at the end of last year. China Tungsten High-tech, a listed subsidiary of China Minmetals Corporation and as an industrial investor, will join BHR for this acquisition. China Tungsten High-tech is the leading manufacturer of carbide cutting tools in China. If completed, the acquisition will greatly improve the upstream industry chain of China Tungsten High-tech, and lay a solid foundation for China Tungsten High-tech’s competitiveness to expand into the high-end market with global giants such as Sandvik.

At present, the transaction is in a non-binding offering stage. BHR and China Tungsten High-tech are conducting close communication on the transaction structure design and due diligence. Formal completion is expected in the second quarter of 2018.

**DairyWest Group**

DairyWest Group Holdings Pty Ltd is one of the oldest and most iconic dairy companies in Australia and its main brand is Brownes, which ranks No.1 in local brand awareness. Its fresh milk products have a local market share of 48%, which makes it Western Australia's largest fresh milk supplier. The operating income of FY2017 is AUD186 million, EBITDA is AUD15.4 million. The transaction contemplates a 100% acquisition of the Target at a valuation equivalent to 7.1x of 2017 EBITDA, translating into an acquisition amount of AUD110 million, which is well below the 12 to 15 EBITDA multiples of similar transactions in Australia and New Zealand in recent years.

The ultimate controlling shareholder of a listed Chinese company completed the acquisition on December 22, 2017. BHR is working with the ultimate controlling shareholder to set up a fund in China to replace the current investment structure. BHR’s equity investment will amount approximately RMB446 million in preferred shares. The preferred share investor is in the process of applying for its funding approval.

**Hungarian Wastewater Treatment Facility**

SPA has been signed with Veolia in respect of the sale of their 25%+1 shareholding in the Budapest wastewater company, however, one of the closing conditions being the approval of the sale by the Budapest Municipality remains pending as we continue to negotiate the terms of the transfer with the municipal government. The funds for the transaction comprise of equity funded by a third party (through one of BHR’s HK special purpose entity) and a target-level financing the terms of which are being reviewed by the Bank of China Budapest Branch. According to the agreement with the investors, the 2017 EUR 200,000 management fee has been received.

**V. Post-Investment Management**

**SMC**

In 2017, Sinopec Marketing Company (“**SMC**”) operated smoothly with stable performance with (i) total income in the first three quarters of RMB990.2 billion, an increase of 18.8% over the same period of last year and (ii) accumulated net profit of RMB19.1 billion, an increase of 3.2% over the same period of last year. Given approval difficulties in the equity capital market in 2017, Sinopec plans to re-complete valuation and start its listing process in 2018. This timeline, if achieved, will involve at least a one-year delay of the original IPO timeline, and will give us a 6-month period to exit after the expiry of the 6-month lockup period.

The term of the Sinopec fund is five years expiring in February 2020, in the event of any further delay of the IPO process, we risk delayed exit for the LPs. In light of new asset management regulations, current LPs are mostly not in favor of extending the maturity of the fund. At present, on the one hand, the Company continues to pressure Sinopec Group to push the listing process together with other investors, on the other hand, the Company is actively coordinating with Sinopec Group to jointly look for potential alternative investors.

**Henniges**

For the first three quarters of 2017, Henniges Automotive realized sales revenue of USD681 million, representing 1.3% growth from last year. Asia market contributed the main growth, an increase of 7.5%, thanks to strong orders from Shanghai GM. European market, however, remains flat compared with last year. North American market was dragged behind because of slower than expected production ramp up of Tesla Model 3 and GM NA. EBTIDA of Henniges Automotive for the same period reached USD89.7 million, representing a 5.96% growth YoY. The EBITDA margin increased to 13.2% from 12.6% of last year. Net profit was USD22.2 million, back to normalized level. Customers in North America and Europe are relatively stable. In the third quarter, the company successfully developed Geely Automobile and Volvo as new customers in China, laying a better foundation for the company's future growth in China.

The exit plan of this project fund was significantly delayed due to leadership transition within AVIC Group, which is still undergoing and offers no clear visibility yet. The team has been constantly communicating this important topic with AVIC Auto but so far little progress has been made. The company is under considerable pressure from our LPs, and also face increasing uncertainty from government regulations on China’s asset management industry. There is also the burden of mandatory interest payments to one of the LPs which significantly impacts the Company’s cash flow.

**CATL**

The IPO application of CATL was formally accepted by China Securities Regulatory Commission on November 8, 2017 and disclosed on the website of the CSRC. The company has entered the "Silent Period" of the IPO stipulated by the CSRC and cannot improperly disclose or make public any information during such period.

**Tuniu**

Tuniu has seen solid results for the first three quarters of 2017. In Q3 2017, net revenues was RMB806.1 million, an increase of 53.5% YoY. Gross profit was RMB440.9 million, an increase of 73.5% YoY. Non-GAAP net income in the third quarter of 2017 was RMB39.7 million, the first time to reach positive number in the company’s history. Tuniu continues to make progress with its core strategies of expanding offline sales presence, implementing its own local tour operators and improving technology infrastructure.

**Wanda**

Wanda Commercial Real Estate is undergoing its China A-share listing process, although the progress is slow due to various regulatory restrictions on real estate sector. There are market rumors regarding the company and we are communicating regularly with our LPs regarding different news as we continue to negotiate with Wanda on alternative arrangements including a potential buy back arrangement.

**Yancoal Australia**

Watagan Mining generated revenue of AUD282 million for the first 8 months of 2017, with a net loss of AUD71.2 million (excluding net FX gain of 66.7 million Australian dollars) and EBITDA of AUD180 million. It is expected to incur a net loss of AUD97.7 million for the full year, which is consistent with the budget’s forecast numbers. Interest due on our bonds has been timely paid.

All in all, the Company has achieved its initial goal of transformation from investment banking model to professional investor focusing on intelligent transportation and new economies, management is further defining our strategic development direction for 2018.

**Business Plan for 2018**

In 2018, the strategic direction of the Company is to (i) continue to deepen research and accumulation of industry know-how and build reserves of quality projects, (ii) strengthen and broaden our alliances with industrial investors.

In terms of revenue, the Company plans to increase its management fee income by RMB30 million in 2018.

**I. Complete Blind Pool Fundraising Within the Fiscal Year**

The Intelligent Transportation Fund has laid a solid foundation for project pipeline and fundraising. The Company is expanding fundraising targets to large institutional investors including CNIC, China Cheng Tong, and Silk Road Funds. High-quality project resources form the premise of successful fundraising, the Company will therefore continue to increase investment, track in-depth research, and cultivate first-hand project resources through various channels. At the same time, the Company will carry out more extensive and closer cooperation with leading enterprises in all sub-sectors, and execute deal sourcing that is tailored to the practical needs of these partners.

Although fundraising for a blind pool fund remains a challenging objective, we remain determined to overcome such challenges in order to mitigate the issues presented by deal funds (the dilemma of lack of secured funding when bidding for projects) and to pave the way for the company’s long-term development. First closing of the Intelligent Transportation Fund is a key priority and objective for 2018.

**II. Continue to play the advantages of overseas mergers and acquisitions**

After four years, the Company has cultivated a capable team of professionals in overseas mergers and acquisitions, obtained market recognition and gradually accumulated resources of industrial investors. In the second half of 2017, the State Council, the NDRC, and other Departments promulgated favorable new policies on overseas mergers and acquisitions and encouraged investments in areas including the Belt and Road Initiative as well as high-tech and advanced manufacturing industries. As a result, the overseas M&A market has significantly recovered during the second half of 2017. Based on our deal experience in the second half of 2017, we note that the enthusiasm of domestic industrial investors in outbound acquisitions remain strong and as Chinese companies become more experienced in outbound investments and as arbitraging from valuation differential become less likely, Chinese investors have become more rational in terms of valuation.

BHR will continue to focus on cross-border M&A opportunities. We will leverage our relationships with existing industrial investors that the Company has cultivated in the past for continued cooperation. Additionally, we will continue to strengthen our relationship with the Bank of China and its overseas branches to cultivate quality M&A opportunities.

**III. Investment in New Economies**

Investment opportunities in new economic sectors (“**New Economies**”), including artificial intelligence and new energy vehicles, continue to emerge. Deals such as CATL and FACE++ received positive market feedback. In 2018, the Company will closely monitor, through the Bank of China’s extensive networks, internet industry giants such as Tencent, Alibaba, Baidu and JD for investment opportunities in the technological space.

The Company will continue to seek and cultivate relationships with leading technological companies in the new economies sectors with the view of accumulating know-how, industry insight in order to seize rising opportunities in these sectors.

2018 will be a key year for the Company's transformation and development. Firstly, the Company will make use of its own accumulated advantages and resources to transition from project-based funds to Blind Pool funds for independent decision-making in its long-term development; secondly, the Company will continue to increase its investment in New Economies and overseas M&A projects, thereby increasing management fees and carry; thirdly, the Company will remain vigilant in post-investment management matters and strive for exits of SMC and Henniges as soon as possible.

**2017 Financial Reports and 2018 Annual Budget**

Up till now, including the completion of Project China Molybdenum and Project FACE++ in 2017, the Company has delivered a total of 11 deal closings and has signed an agreement to acquire the Hungarian Wastewater treatment facility in Budapest. The company has assets under management of RMB15.5 billion. Management fees newly generated this year include RMB30 million (or less than RMB30 million if advance exit occurs) for Project China Molybdenum, RMB3.96 million for Project FACE++, and RMB6.22 million for Project Hungarian Wastewater facility. As of the end of 2017, the total amount of management fees received amount to RMB260 million and RMB124 million will be receivable in the remaining years.

In 2017, the Company's income from management fees is RMB87.27 million. Together with the investment proceeds of RMB4.81 million from Project Didi and Project Sinopec Marketing Company, the total income is RMB92.08 million. Excluding the fundraising agency fees and employee bonuses, the operating expenses (not including extraordinary items) is RMB48.88 million. In addition, Henniges’ interest payment (fixed interest due to Bank of China in exchange of higher percentage of carried interest) of RMB25.68 million, employee bonuses and extraordinary items bring the total operating expenses to RMB89.87 million. The total profit before tax for 2017 is RMB4.01 million (adding back RMB1.8 million reimbursable expenses from deal funds).

For 2018, the total amount of management fee income for existing projects is RMB71.57 million, which is a decrease from that in 2017 mainly due to the fact that we will cease collecting management fee on Project Sinopec (as agreed in the relevant agreements) after February 2018. Meanwhile the management fee generated by newly added projects in 2018 is budgeted at RMB30 million. The Company's basic operating expense is budgeted to be RMB49.28 million, a slight increase of RMB400,000 from actual expenses incurred in 2017. The estimated net operating gain is budgeted to be RMB16.24 million in 2018. In addition, based on the Pre-IPO valuation of CATL, the carry interest to the Company will be RMB52.12 million, translating into an estimated net operating gain of RMB68.36 million.

**PART I: 2017 Financial Reports**

The Company's revenue and expense in 2017, as compared with the budget, are as follows:

In 2017, management fee income of the Company is RMB87.27 million and investment revenue is RMB4.81 million, bringing the total revenue is RMB92.08 million, which is in line with the budget as shown in the following table:

|  |  |  |  |
| --- | --- | --- | --- |
| **2017 Annual Revenue** | | | |
| Unit: CNY ‘000 |  |
| Sinopec | 21,680 |
| Hanson | 29,100 |
| Tuniu | 6,800 |
| CATL | 2,170 |
| Wanda | 2,860 |
| Wenzhou Jidian | 820 |
| Yancoal | 16,140 |
| CMOC | 5,830 |
| Hungary | 1,450 |
| [China Reinsurance](http://www.baidu.com/link?url=fUyUK8rl4JqwQMyUfLUqrC0Ar1IGx4synWz-Ysaq5Yw3SjPCRlShOSEDf0KK6FdAmgN5pl5jlxdSORLpVAWleF6V4U13LCqUZTNrXsw822cKt4nxbTkKomcTCMB1sG47) | 230 |
| Face++ | 200 |
| Didi dividend | 4,730 |
| Sinopec dividend | 70 |
| **Subtotal** | **92,080** |

The operating expense totals RMB89.87 million, which is an increase of RMB7.16 million over the budgeted amount of RMB82.71 million. The increase is mainly due to the advance interest payment of RMB25.68 million to Bank of China under Project Hanson, which was RMB9.68 million higher than the originally budgeted RMB16 million.

The total operating expenses of RMB89.87 million consist of the following:

1. RMB6.38 million of Co-GP management fee paid to CATL under Project Sinopec,
2. RMB25.68million of interest payment to the Bank of China under Project Hanson,
3. RMB4.46 million of administrative expenses,
4. RMB36.98 million of payroll expenses (including RMB27 million in basic salary, RMB9 million in 2016 bonuses, and RMB980,000 in employee benefits),
5. RMB8.49 million of project development (including RMB1.8million reimbursable expenses from deal funds),
6. RMB4.98 million of legal and advisor fees,
7. RMB830,000 of venture partnership fees,
8. RMB730,000 of board and committee expenses, and
9. RMB1.34 million of asset amortization and other fees.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **2017 annual comparison of actual expenditure and budget** | | | | |
| Unit: CNY ‘000 | **2017 Actual** | **2017 budget** | **difference** | **Note** |
| **Operating Expense** |  |  |  |  |
| **1. Office & Admin Expense** | 4,460 | 4,950 | -490 |  |
|  |  |  |  |  |
| **2. Payroll Cost** |  |  |  |  |
| Basic Payroll and Staff Insurance | 27,000 | 26,970 | 30 |  |
| Staff Benefit | 980 | 740 | 240 | staff supplementary medical insurance 580 thousand, team building expense 400 thousand |
| 2017 Bonus | 9,000 | 9,050 | -50 |  |
|  |  |  |  |  |
| **Total Payroll Cost** | 36,980 | 36,760 | 220 |  |
|  |  |  |  |  |
| **3. Board & Committee Expense** | 730 | 450 | 280 |  |
|  |  |  |  |  |
| **4. Intermediary expense** | 4,980 | 4,530 | 450 | mainly include Sinopec Lawyer Service Fee 2.74 million, SPV Set up and maintenance expenses 1.86 million, and Audit expense 380 thousand. |
| **5. Project Development Expense** | 8,490 | 8,120 | 370 | the actual expenses borne by the company is 6.62 million excluding 1.8 million reimbursable expenses from deal funds |
|  |  |  |  |  |
| **6. Placement Fees and Other Expenses** | 32,050 | 25,950 | 610 | Co-GP management fee split with CATL 6.38 million, Project Hanson interest payment 25.68 million exceeded the budgeted 16 million by 9.68 million |
|  |  |  |  |  |
| **7. IT Expenses** | 1,120 | 1,120 |  |  |
|  |  |  |  |  |
| **8. Company Partner Expense** | 830 | 830 |  | Venture Partner fee for Antonio and Xianghong |
|  |  |  |  |  |
| **9. Other Expenses** | 230 | 0 | 230 |  |
|  |  |  |  |  |
| **Subtotal** | **89,870** | **82,710** | **7,160** |  |

In 2017, the Company’s total revenue and expenses are RMB92.08 and RMB89.87 million respectively, with total operating gain of RMB2.21 million, which, adding back the RMB1.8 million reimbursable expenses from deal funds, bring 2017 total profit before tax to RMB4.01 million. Had we not had to pay the advance the interest payment of RMB25.68 million to the Bank of China under Project Hanson, our operating profit before taxes would have been RMB29.69 million. The cash balance at the end of 2017 is RMB25.02 million.

**PART II: 2018 Annual Budget**

**A. Notes to Expense Budget**

**Office and Administrative Expenses:** According to the 2018 budget, the Company will maintain the existing office lease, total office and administrative expenses is slightly increased to RMB5.4 million.

**Payroll Expenses:** According to the 2018 personnel planning, there are 25 current employees including the CEO, with plans to make 2 to 3 new hires. The payroll expense will include (i) fixed payroll expense of RMB29.3 million, (ii) 2017 bonuses of RMB7 million, and welfare expense of RMB1.08 million. The total payroll expense will be RBM37.38 million.

**Project Development Expenses:** project-related deal sourcing, due diligence, business development expenses for 2018 is budgeted at RMB8 million, which is decreased from the 2017 actual number of RMB8.49 million.

**Interest Expense of Hanson:** Taking into account the dividends receivable of Project Hanson for 2017, the Company expects to pay an interest of RMB19.71 million in 2018 (interest of RMB25.68 million will actually be paid, offset by the 2016 dividends of RMB5.97 million to be received).

**Deal-Related Fundraising Agency/Referral Fees and other Prepayments:** (i) RMB7.31 million prepayment to CATL, our co-GP in Project Sinopec, (ii) RMB380,000 of fundraising agency fees for Project Wanda, (iii) RMB960,000 Standby Letters of Credit payment to Bank of China in Australia for Project Yancoal. Total fundraising agency/referral fees and prepayments amount to RMB8.65 million.

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| --- | --- | --- | --- |
| **2018 Annual Expenses Budget** Unit: CNY ‘000 | | | |
| **2018 Operating Expense** |  |
| **1. Office & Admin Expense** |  |
| Rental & Property Expense | 3,240 |
| Office Expense | 2,160 |
| **Total Office & Admin Expense** | **5,400** |
|  |  |
| **2. Payroll Cost** |  |
| Basic Payroll **&** Staff Insurance | 29,300 |
| Staff benefit | 1,080 |
| 2017 Bonus | 7,000 |
| **Total Payroll Cost** | **37,380** |
|  |  |
| **3. Depreciation & Amortization** |  |
| Fixed Asset Depreciation | 40 |
| Intangible Asset Amortization | 60 |
| **Total Depreciation & Amortization** | **100** |
|  |  |
| **4. Board & Committee Expense** |  |
| **Total Board & Committee Expense** | **800** |
|  |  |
| **5. IT Expense** |  |
| **Total IT Expense** | **1,200** |
|  |  |
| **6. Project Development Expense** |  |
| **Total Project Development Expense** | **8,000** |
|  |  |
| **7. Company Partner Expense** | **1,200** |
| **Total Company Partner Expense** |  |
|  |  |
| **Total Operating Expense** | **54,080** |
|  |  |
| **8. Placement, Referral & Other Expense** | **28,360** |
|  |  |
| **9. Other Expenses** |  |
| Audit fee | 400 |
| Consulting fee & SPV Set up Expense | 1,800 |
| **Total Other Expense** | **2,200** |
|  |  |
| **Grand Total Operating Expense** | **84,640** |

**B. Notes to 2018 Income Budget**

The total amount of management fee income for existing projects in 2018 is RMB71.8 million, investment income from Project Sinopec will be RMB80,000, further including new budgeted management fee of RMB30 million, it is expected that total income for 2018 will amount to RMB101.88 million.

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| --- | --- | --- |
| **2018 Annual Revenue Budget** Unit: CNY ‘000 | | |
|  | |  |
| Sinopec | | 2,400 |
| Hanson | | 29,120 |
| Tuniu | | 6,790 |
| CATL | | 1,720 |
| Wanda | | 2,310 |
| Wenzhou Jidian | | 420 |
| Yancoal | | 16,140 |
| CMOC | | 9,430 |
| Budapest Water | | 1,190 |
| [China Reinsurance](http://www.baidu.com/link?url=fUyUK8rl4JqwQMyUfLUqrC0Ar1IGx4synWz-Ysaq5Yw3SjPCRlShOSEDf0KK6FdAmgN5pl5jlxdSORLpVAWleF6V4U13LCqUZTNrXsw822cKt4nxbTkKomcTCMB1sG47) | | 230 |
| Face++ | | 2,050 |
| Sinopec dividend | | 80 |
| New project income | | 30,000 |
| **Subtotal** | | **101,880** |
|  | |  |

**C. Forecast on Income Statement**

The estimated total income for 2018 is RMB101.88 million and the estimated operating expense is RMB54.08 million, further including fundraising expense, intermediary fees, and interest expense for Project Hanson, total operating expense is expected to reach approximately RMB84.64 million, translating into an estimated net operating gain of RMB17.24 million.

If CATL successfully lists in 2018, at our 2015 pre-money valuation of RMB20 billion and the current pre-IPO valuation of RMB131.2 billion, and without considering further increase in stock price after IPO, the carry interest to the Company will amount to approximately RMB52.12 million, thereby translating into an estimated net operating gain of RMB69.36 million for 2018.

**D. Cash Flow Forecast**

From the cash flow perspective, the 2018 beginning cash balance is RMB25.02 million. The Company expects a total cash inflow of RMB110.3 million consisting of (i) management fees of RMB107.27 million, (ii) remaining capital injection of RMB3.03 million; and a total cash outflow of RMB90.55 million. It is estimated that the Company’s net cash flow will be RMB19.75 million in 2018 with an estimated ending cash balance of RMB44.77 million.

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| --- | --- | --- |
| **2018 Annual Cash Flow Budget** Unit: CNY ‘000 | | |
| **Cash at the beginning of the period** | **25,020** |
| **Cash Income** |  |
| Management Fee & Performance | 77,270 |
| New added management fee | 30,000 |
| Capital Fund | 3,030 |
| **Total Cash Income** | **110,300** |
|  |  |
| **Cash Out** |  |
| Sinopec Co-GP consultant fee &Fund Amortization | 7,310 |
| Wanda Fund Amortization | 380 |
| Yancoal BOC Fee | 960 |
| VAT Tax | 3,000 |
| Payroll Cost | 29,300 |
| Staff benefit | 1,080 |
| 2017 Bonus | 7,000 |
| Interest of Hanson | 19,710 |
| Project Development Expense | 8,000 |
| Office Rental & Property | 3,600 |
| Office & Admin Expense | 1,800 |
| Board & Committee Expense | 800 |
| Company Partner Expense | 1,200 |
| Software Expense | 1,200 |
| Audit Fee | 400 |
| Enterprise Income Tax | 2,000 |
| Other Expense | 2,800 |
| **Total Cash Out** | **90,550** |
| **Net Cash Income** | **19,750** |
| **Cash at the end of period** | **44,770** |

**2018 Annual Cash Flow Budget**



**Guidelines for Determination and Distribution of Annual Employee Bonuses**

In order to achieve the multitudinous objectives of maximizing shareholder value, incentivizing and attracting talented professionals and encouraging benign competition within the Company, with due consideration to the Company's long-term success and financial viability, the Company submits the following guidelines for the determination and distribution of annual employee bonuses (the “**Bonus Guidelines**”) for review by the Board.

1. Determination of the Bonus Pool
2. in respect of any given financial year, Management shall, on the basis of the net profit (after accounting for prior years’ losses but before deduction of statutory reserves, the “**Distributable Profit**”, for the avoidance of doubt, Distributable Profit shall be deemed zero if it is a negative number) as reflected in the management financial reports prepared for such relevant year and as approved by the Board, after accounting for 15% per annum booked preferred return of the shareholders (calculated, for any given year, on the basis of actually contributed registered capital of such year, the “**Shareholder Preferred Return**”), be entitled to allocate fifty per cent. (50%) of the Distributable Profit for distribution as annual bonuses (the “**Bonus Pool**”), provided that any actual distribution or payment of the Bonus Pool, in whole or in part, shall be made in tandem with an actual distribution to the shareholders in a ratio of 2 (bonus payments) : 1 (dividends to Shareholders). For the avoidance of doubt, any undistributed Distributable Profit for any given year shall not be included in the calculation of the Distributable Profit of the following year;
3. the Company shall prepare annual management financial reports for submission to and approval by the Remuneration Committee and the Board. There may be differences between the management financial reports and the audited financial reports and in the event of any such differences, adjustments shall be made in the calculation of the following year’s Bonus Pool;
4. in the event the Distributable Profit for any given year, after accounting for the Shareholder Preferred Return, is negative, then the Board may, in its discretion, determine an amount of bonuses for such year provided that any amount thus distributed shall be deducted from the Bonus Pool of the following year or years;
5. upon the determination of the Bonus Pool for any given year, the distribution of the amounts within the Bonus Pool shall take into account the cashflow position of the Company at such time; in the event any amount of the Bonus Pool for any given year was deferred or not paid out in full due to cashflow or other considerations, any such unpaid amount shall be tacked onto and form part of the Bonus Pool of the following year;
6. the Company’s cumulative net profit / loss as of the end of 2016 is negative RMB3,470,000, the Company shall, retroactively apply the Preferred Shareholder Return for all prior years since the Company’s establishment (calculated on the basis of actually registered capital for such year, pro rated as applicable) and the Company projects that it shall be able to make whole past deficits of Shareholder Preferred Return in accordance with the foregoing guidelines by the end of 2019 (including 2019); and
7. the timing and schedule of distribution of the Bonus Pool shall be determined by the CEO.
8. Employee Performance Review and Bonus Allocation
9. In principle, in respect of any given year, the allocation of bonuses shall be subject to individual performance reviews and be determined by the Management with reference to and in consideration of the objectives set forth in the Board-approved annual business plan for such year and achievement of such objectives; in the event the Board did not specify any strategic objectives for such year, Management shall then assess each individual performance based on their contribution to the Company’s revenue with due consideration to other contributions;
10. for purposes of performance review and distribution approval procedures, the Company’s employees shall be separated into (i) the CEO and all managing partners (“**Officers**”); (ii) all Managing Directors and Executive Directors (“**Senior Professionals**”); (iii) all investment professionals below the Executive Director level, the “**Junior Professionals**”, together with the Officers and the Senior Professionals, the “**Front Office Employees**”); and (iv) Back Office Employees (consisting of administrative and other support staff, the “**Back Office Employees**”);
11. the Bonus Pool of any given year (or in the absence of a Bonus Pool for such year, the applicable discretionary bonus amount) shall, after deduction of the approved bonus for the CEO, be allocated, on the one hand to the other Front Office Employees, and on the other hand to the Back Office Employees;
12. prior to the end of each financial year, each Officer (excluding the CEO) and Senior Professional shall, for purposes of determining his / her individual bonus, undergo a quantitative performance review (by the CEO) based on his / her contribution (i) to the revenue of the Company for such year, (ii) to the fulfillment of the Company’s overall strategic objectives; and
13. prior to the end of each financial year, each Junior Professional and each Back Office Employee shall, for purposes of determining his / her individual bonus, undergo a qualitative performance review (for each Front Office Employee and each head of department Back Office Employee, by the CEO, and for each other Back Office Employee, by the head of their respective department) based on his / her competency, skills, work attitude, team spirit, personal development and such other criteria as may be applicable from time to time;
14. bonuses for the Officers shall be subject to review and approval by the Remuneration Committee and the Board, bonuses for the other employees shall be notified to the Remuneration Committee.

The Bonus Guidelines shall take effect upon approval by the Board of Directors.

**2017 Bonus Pool Determination and Allocation**

Management notes two extraordinary items in 2017 which affected the overall 2017 profitability (i) payment of RMB11,24,000 in damages to Sinopec Marketing Company (“**SMC**”, as damages for BHR’s non-contribution of certain portions of our committed capital) was deducted in part (in the amount of RMB9,920,000) from SMC management fees collected in 2017, with the remaining to be deducted from the 2018 SMC management fees; if we exclude this extraordinary item, the 2017 adjusted revenue should be increased by RMB9,920,000; (ii) RMB25,680,000 quasi-interest payments were made to Bank of China under Project Hanson, this payment arrangement was agreed at set up of the Hanson Fund in return for a higher percentage of carry from the Bank of China (40% in lieu of the 20% from other LPs); the combined effect of these two extraordinary items amount to a total adverse impact of RMB35,600,000 to the operating profit of the Company.

The Company closed two transactions in 2017, contributing additional management fees of RMB3,000,000 (depending on time of exit, this amount will be reduced accordingly) from Project China Molybdenum and RMB 3,960,000 from Project FACE++. The Company proposes to distribute an aggregate of RMB7,000,000 as 2017 bonuses (the “**2017 Bonus**”), distributable as follows:

1. CEO shall receive an amount as approved by the remuneration committee and the Board (“**CEO 2017 Bonus**”),
2. the difference between the 2017 Bonus and the CEO 2017 Bonus shall be allocated on the one hand (by way of a certain percentage), to the other Officers and the Senior Professionals (“**Senior 2017 Bonus**”); and on the other hand (by way of a certain percentage), to the Junior Professionals and the Back Office Employees;
3. the formula for determining the bonus entitlement of each Officer (excluding the CEO) and each Senior Professional shall be:

SEB = SUM (EPP) / TR \* Senior 2017 Bonus

Where:

SEB = Senior Employee Bonus, being the bonus entitlement of such senior employee

EPP = the Employee Project Points, which, in respect of each project, is the revenue generated by such project for the relevant year, multiplied by the grade assigned to such employee out of a total project grade of 1.0 according to his / her contribution to deal origination, fundraising and/or execution of such project; and

TR = the total revenue of the Company for the relevant year;

Senior 2017 Bonus is the amount of bonus allocated to the Officers and the Senior Professionals from the 2017 Bonus in accordance with paragraph (b) above;

1. 2017 bonuses for each Junior Professional and Back Office Employee shall be determined by the CEO based on their performance reviews;
2. the total amount of 2017 bonuses for the Officers will be RMB1,800,000, of which, the CEO shall receive RMB500,00.

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| --- | --- |
| **2017 Management P&L** | |
| Unit: RMB thousands |  |
| **Revenue收入** |  |
| Management Fees管理费收入 | 87,280 |
| Dividend Income分红收入 | 4,800 |
| **Subtotal 收入小计** | **92,080** |
|  |  |
| **Operating Expenses运营开支** |  |
| Office Expenses办公室开支 | 4,460 |
| Personnel Expenses人事费用 | 27,980 |
| 2016 Bonus奖金 | 9,000 |
| Board Related Expenses董事会及其委员会支出 | 730 |
| Fundraising Expenses募集和筹备费用 | 4,980 |
| Deal Sourcing Expenses项目拓展费用 | 6,690 |
| Placement and Other Expenses募资代理及其他费用 | 32,050 |
| D&A资产摊销费用 | 1,120 |
| Venture Partner Expenses公司合伙人费用 | 830 |
| Other Expenses | 230 |
| **Expenses Subtotal运营开支合计** | 88,070 |
|  |  |
| **Operating Profit营业利润** | 4,080 |
| **Net Profit 净利润** | 1,874 |
|  |  |