

**Shandong Linglong Tyre Co.
Offshore (Serbia) investment in the
construction of a project with an
annual capacity of 13.62 million
high-performance radial tyres**

Feasibility study

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Chapter I. Name of the project and status of the investor

I. Project title

Shandong Linglong Tyre Co., Ltd. overseas (Serbia) to invest in the construction of annual production capacity of 13.62 Million High Performance Radial Tyre Project

II. Basic Information of Investors

1. Unit name: Shandong Linglong Tyre Co.
2. Residence: No. 777, Jinlong Road, Zhaoyuan City
3. Type: Joint Stock Company (Taiwan, Hong Kong, Macau and Domestic Joint Venture, Listed)
4. Legal representative: Wang Feng
5. Registered Capital: RMB 1.22 billion yuan
6. Date of establishment: 06 June 1994
- 7, the scope of business: tyres, rubber products, rubber reinforcement, steel wire production and sales and import and export business; tyre chemical materials (except hazardous chemicals) additives, wholesale and import and export business (involving quota licensing management, special management of goods in accordance with the relevant state regulations) tyre production technology services and promotion; tyre production plant design and construction management (according to the laws of the projects subject to approval. Only after the approval of the relevant departments can carry out business activities,

the validity period shall be subject to the licence)

8、Enterprise Profile

Shandong Linglong Tire Co., Ltd. is a professional, large-scale technology-based tyre production enterprise, the company's registered capital of 1.2 billion yuan, the company's tyre production exceeded 50 million sets in 2017, after years of innovation and development, has grown into a well-known domestic tyre enterprise with assets of more than tens of billions of dollars, revenues of more than tens of billions of dollars, and more than 10,000 employees, and for many years, it has been ranked in the world's top 20 tyres, China's top five tyres. In July 2016, the company successfully landed on the A-share market and was listed on the Shanghai Stock Exchange with stock code 601966.

The company has a national enterprise technology centre and nationally accredited laboratory, and has built a line of The industry's first noise laboratory and low rolling resistance laboratory, mastered the industry's cutting-edge R & D and testing and inspection means, undertake the National 863 Programme, Torch Plan and many other national It has led and participated in the formulation and modification of more than 60 national and industrial projects.

The company has obtained more than 500 patents at home and abroad, among which a number of new products and technologies have filled the gaps in the domestic market. The company independently researched and developed "low cross-section anti-slip low noise ultra-high-performance car radial tyre", won the "Second Prize of National Scientific and Technological Progress", independently researched and developed "design and preparation key technology of high-performance rubber nano-composite materials for fuel-saving tyres", won the "Second Prize of National Technological Invention", is so far the only one in the tyre industry. The independently researched and developed "design and preparation key technology of high-performance rubber nanocomposites for fuel-saving tyres" won the "Second Prize of National Technological Invention", which is the only national scientific invention award in the tyre industry so far, and it is also the highest award. The trademark "Linglong" is recognised by the State Administration for Industry and Commerce as China Well-known Trademark, with a brand value of 30.562 billion

yuan in 2017.

In terms of quality control, the company has established a strict self-inspection, mutual inspection and special inspection system. Stable and reliable product quality and full traceability of products have won the recognition of global consumers, and passed a series of domestic and international certifications, such as China CCC, U.S. DOT, Europe ECE, Arab countries GCC, Brazil INMETRO, Uruguay LATU, U.S. SMARTWAY, and so on. Our products are exported to more than 180 countries and regions around the world, and have passed the quality management system qualification assessment of the top ten global automobile manufacturers, and have successfully entered the global supporting system of GM, Ford, Volkswagen, Tata, Renault-Nissan, Fiat, Hyundai and other global automobile suppliers in India, Brazil and other countries. It has become the main supplier and excellent supplier of more than 60 domestic and foreign OEMs, such as China FAW, Shaanxi Heavy Duty Truck, Dongfeng Motor, Beiqi Foton, Chongqing Hongyan, SAIC Wuling, Jinan Heavy Duty Truck, Xiamen Golden Dragon, etc.

9. Brief description of similar projects in domestic and overseas investment

Shandong Linglong Tyre Co., Ltd. has built three factories in China, namely Zhaoyuan in Shandong, Dezhou in Shandong and Liuzhou in Guangxi, and the project of Jingmen factory in Hubei is in the process of being completed.

In the process of construction; 1 factory is being built in Thailand.

Chapter II. Investment destinations

I. Investment destinations

The project construction site is located in the Free Trade Zone in the municipality of Zrenjanin in south-eastern Serbia.

II. Investment climate in investment destinations

1. Geographical location

Serbia is located in the centre of the Balkan Peninsula in South-East Europe and shares borders with Croatia, Bosnia and Herzegovina, Montenegro, Albania, Macedonia, Bulgaria, Romania and Hungary. It has a land area of 77,474 square kilometres (excluding the Kosovo region) In the north is the famous alluvial plain of the Danube in Vojvodina, which is known as the breadbasket because of its flat terrain and fertile soil. The centre, east, west and south are hilly and mountainous. Serbia belongs to the time zone 1 East.

It is seven hours behind Beijing time. Daylight saving time is observed from the end of March to the end of October each year, during which time the following days are observed.

6 hours behind Beijing time.

2. Administrative divisions

According to the administrative division, Serbia has 2 autonomous provinces (Autonomous Province of Vojvodina and Autonomous Province of Kosovo) 29 administrative districts and the capital Belgrade District. There are 24 municipalities, 197 counties (districts) 193 towns and 6,158 villages. The

Autonomous Province and the Regions are the highest level of local administration in Serbia. The capital city of Belgrade is the political, economic, cultural and scientific centre of the country, the largest city in the former Yugoslavia and the fourth largest city in South-East Europe after Istanbul, Athens and Bucharest. Other notable cities in Serbia include Novi Sad, Niš, Kragujevac and others.

3. Serbia's investment promotion policy

(1) Serbia's market access for foreign investment

Attracting foreign investment with the main aim of developing production, increasing employment and strengthening infrastructure Construction. The regulations guiding foreign investment are mainly the Law on Attracting Foreign Investment and the favourable and incentive policies granted to foreign investment.

① Provisions for investment industries

[Restricted Industries] Gaming and military industries.

[Sectors encouraged] The key investment sectors encouraged in Serbia are: automotive industry; agriculture and livestock; infrastructure development; communications and information technology industry; electronics and home appliances industry; and clean energy industry.

②Provisions for the manner of investment

Serbia's capital account is open and free for foreign investment. Serbia welcomes and supports the participation of foreign investors in privatisation projects of state-owned enterprises or in equity participation, mergers and acquisitions of private enterprises. For projects involving state-owned enterprises, the investor is generally required to promise to guarantee and create a certain number of new jobs. Due to the poor economic situation in Serbia, Chinese enterprises should do market research in advance, consult multinational financial consulting services institutions with rich experience in Serbia (such as the International Finance Corporation (IFC) under the World Bank, etc.), and properly deal with all potential risks when making decisions.

(2) Serbian regulations on corporate taxation

① Tax system and regime

Serbia has established a tax system centred on income tax and value-added tax (VAT), which is uniform throughout the country and is divided into eight main tax categories. According to Serbian law.

The enforcement authority for operations such as tax estimation, collection and refund is limited to 10 years, but tax offences are traceable for life.

② Major Taxes and Rates

A. Payroll tax: the rate is 10 per cent;

B. Other personal income tax: 20 per cent;

C. Tax on annual income from high wages: 10-15 per cent (10 per cent for non-residents of Serbia whose annual wage income exceeds five times the average annual wage income of residents of Serbia).

(Annual income tax of 15 per cent is levied on annual wage income exceeding more than eight times the average annual wage income of the population of Serbia)

D. Value-added tax (VAT): 20 per cent (10 per cent for agricultural products, essential goods and children's products)

E. Corporate income tax: the rate is 15 per cent;

F. Corporate withholding tax: 20 per cent;

G. Taxes on social security benefits: a total of 37.8 per cent, of which 19.9 per cent (including 14 per cent for pension and disability insurance, 5.15 per cent for health insurance, and 0.75 per cent for unemployment insurance) ~~by~~ the employees themselves and 17.9 per cent is borne by the employers (including 12 per cent for pension and disability insurance, 5.15 per cent for health insurance, and 0.75 per cent for unemployment insurance)

H. Property tax: 0.4-3 per cent (progressive tax, 0.4 per cent on property up to 10 million dinars, 0.6 per cent on 10-25 million dinars, 1 per cent on 25-50 million dinars ~~and~~ 1 per cent on more than 50 million dinars)

(3) customs (i.e. border crossing inspection)

[Tariff rates] According to the tariff code, the customs registration tax is 0.5 per cent of the declared base. The average

tariff rate in Serbia is 12 per cent, with a range of 0-30 per cent. The average tariff rate is generally adjusted by product category:

(i) Tariffs on raw materials, spare parts and equipment that are not produced in Serbia are 0-1 per cent;

② Tariffs on raw materials, spare parts and equipment for production in Serbia are 3-5 per cent;

(iii) Tariffs are 8-10 per cent for equipment produced and owned in sufficient quantities in Serbia;

(iv) Tariffs on industrial and agricultural products produced in large quantities in Serbia are 15-30 per cent;

The tariff rate is 10-20 per cent for products that are not produced in Serbia and that are both consumer goods and recycled materials at the same time;

(vi) For imported commodities for daily use, where shortages will affect the standard of living of the population, tariff duties

The rate is 15-20 per cent;

(vii) The tariff rate for daily necessities that Serbia has the capacity to produce is 18-25 per cent;

(viii) The tariff rate for luxury consumer goods is 30 per cent.

[Tariff exemptions and reductions] In accordance with the provisions of the Customs Tariff Law and the Foreign Investment Law, tariff exemptions and reductions are granted to foreign-invested equipment, components, and items required under the regulations. The main ones are:

① Except for small cars, game machines and gambling machines, the import of equipment in which foreign investors have invested as equity is exempted from import tariffs;

② equipment not produced in Serbia (subject to certification by the Chamber of Commerce) imported for the following reasons, can be exempted from import duties: a. to replace equipment destroyed in natural disasters, fires, explosions, armed conflicts or traffic accidents; b. for direct service in scientific research, education and cultural activities, health care, professional training and employment of disabled people; c. for the purpose of direct protection of the human environment; d. for the purpose of completing long-term production cooperation contract with a foreign businessman. (d) Raw materials, semi-finished products, components and finished products imported for the purpose of fulfilling a long-term

production cooperation contract with a foreign investor shall be entitled to full exemption from customs duties or a reduction of customs duties by 50 per cent, provided that the Chamber of Commerce of Serbia certifies that the said products are not produced in Serbia or are produced in a limited number of units or that the quality of the products is not up to the prescribed requirements.

Import tariffs on major commodities in Serbia

Product Name	Tariff rate (per cent)	Product Name	Tariff rate (per cent)
Alcohol, tobacco	10-30	Pulp, paper products	1-20
Mineral raw materials	1-5	fabrics	0-22
Chemical products	1-30	hats	5-30
Plastic and rubber products	1-20	machinery and equipment	1-15
Raw hides and skins, wool, leather	1-10	Cars, aircraft	1-20
wood product	1-10	Arms and armaments	1-25

(4) Serbia's favourable treatment of foreign investment

National treatment for foreign enterprises; foreign capital may invest in any industry; capital, assets,

The free transfer of profits, shares, dividends, etc.; the possibility for foreign investors to purchase real estate under reciprocal conditions and to lease building land for a period of up to 99 years; the possibility for investment projects to be guaranteed by the main national credit institutions, international credit institutions in Serbia, and Serbia's export credits; and the possibility for foreign investors to be further protected by the Bilateral Investment Protection Agreements (BIPAs) (referring to the 32 countries that have signed an BIPA with Serbia, and with China as well).

Foreign investments are further protected by bilateral investment protection agreements (meaning 32 countries with which Serbia has signed investment protection agreements, and China)

[Policy on financial support for investment projects] Serbia provides budgetary support for foreign direct investment, the amount of which is determined on the basis of the investment industry, the region and the number of new jobs created. For major investment projects, if the investment amount exceeds 200 million euros and at least 1,000 jobs are created within 10 years, the Government of Serbia will reward them with 17 per cent of the investment amount; for medium and large investment projects, if the investment amount exceeds 50 million euros and at least 300 jobs are created within 10 years, the Government of Serbia will reward them with 20 per cent of

the investment amount; if the investment amount exceeds 50 million euros and at least 150 jobs are created within 10 years, the Government of Serbia will reward them with 20 per cent of the investment amount. For medium-sized and large investment projects, the Government of Serbia shall award incentives up to a maximum of 20 per cent of the investment amount if the investment exceeds 50 million euros and creates at least 300 jobs within 10 years; for small investment projects, the Government of Serbia shall award incentives up to a maximum of 10 per cent of the investment amount if the investment exceeds 500,000 euros in the manufacturing sector in economically underdeveloped regions of Serbia or if the investment is made in Serbia.

Other parts of Asia in an amount exceeding 1 million euros, or in the field of tourism in an amount exceeding

The Serbian Government will not be able to provide the necessary financial support for the creation of at least 50 jobs within three years for a total of 5 million euros, and the creation of at least 50 jobs within three years.

The government will reward 4,000-10,000 euros for each new job created; if in the case of the export of clothing, the government will reward 4,000-10,000 euros for each new job created.

investments of more than €500,000 in the business sector and the creation of at least 10 jobs over a three-year period.

The Government of Serbia will provide incentives in the amount of €4,000 - €10,000 for each new job created. The

above incentives are intended for greenfield investments and cross-border M&A projects, and are paid by the Government of Serbia from

The allocation is made from the budget, and UNDP is responsible for managing the disbursement. To date, SIDA has distributed 15 per cent of the funds.

Incentives totalling €224 million were granted to investment projects. These investment projects totalled 40,088 new jobs were created, with an average incentive per new job of about

5588 EUR. After the announcement of the incentive by UNDP Serbia, the enterprises concerned can submit the application materials as required, and the Agency will evaluate and score the applicants in eight aspects, such as enterprise qualification, relationship with local suppliers, continuity of investment, introduction of technology and transfer of intellectual property rights for local suppliers, human resource management, international sales, economic impact of the project, social impact of the project, etc., so as to determine which enterprises will be given the incentive and the amount of the incentive. and the amount of the incentive. Investment projects in basic agriculture, hospitality, retail trade, and synthetic fibre and coal production are excluded from the application. In addition, for major investment projects, incentives are agreed directly between the Government and the enterprises concerned.

[Industry incentives] Since 2007, the Government of Serbia, in order to promote foreign direct investment, has been offering preferential arrangements to large strategic investors investing more than EUR 50 million. The Serbian Government grants preferential loans with an interest rate of 1 per cent to investors who meet the conditions after approval by the Serbian Development Agency. The main areas of investment encouragement include: road construction, health and environmental protection, economic development and construction (increasing employment, promoting business production, energy and transport, agriculture, water, science

and technology, tourism) and public administration construction. Local government financial support mainly consists of exemptions and reductions of some local taxes, favourable land prices or free land for investors, and facilitation of approvals and fee reductions and exemptions related to the use of land for infrastructure construction and the development of enterprise production. Specific incentives and tax exemptions are granted to foreign enterprises:

Incentives for new employees】 ①Production enterprises:

minimum investment 100-500

The Government provides a one-off incentive of EUR 10,000 and a minimum of 50 new jobs.

2000-5000 euros per person; ② international marketing services: minimum investment of 500,000 euros.

The government will give a one-time bonus of 2,000-1,000,000 yuan to any new employee with a minimum of 10 new jobs.

(iii) R&D enterprises: minimum investment of €250,000 and new employment.

For a minimum of 10 employees, the Government provides a one-time incentive of 5,000 to 10,000 euros per employee.

The Government of Serbia has established a special preferential credit fund.

The fund is used to finance the development of foreign and domestic enterprises, mainly for developmental and merger and acquisition purposes.

Investment projects. The interest rate on concessional credits is 1 per cent.

① Funding areas: industrial production, international marketing and services, trade and tourism and services, agricultural research and development.

② Funding Criteria: a. The investor is involved in the production of the final product in Serbia and the local investment project is effective; b. The investment project is sustainable and implementable; c. The investment project is effective in research and development; d. The investment project makes effective use of local human resources; e. The investment project is environmentally friendly; f. The investment project is in line with the internationalisation strategy of the marketing; g. The investment project contributes to the development of the local society; h. The investment project is supported by the local government and receives local tax exemptions. h. The investment project is supported by the local government and receives local tax exemption.

(iii) Fund application and disbursement modalities: The investor submits the application form to UNDP Serbia. The declared investment project is evaluated and, based on the number of ratings obtained, the amount of the Fund to be granted is

determined, which is disbursed by the Foreign Investment Promotion Agency (FIPA) several times during the validity period of the foreign investment project.

[Tax breaks and exemptions]

(i) Investment in fixed assets amounting to €8 million, with the creation of new jobs during the investment period.

Foreign-funded enterprises with more than 100 employees are exempted from enterprise income tax for 10 years. Exemption of enterprise income tax for 10 years for foreign-funded enterprises with more than 100 employees in the form of leasing.

Five-year corporate income tax exemption for large investments in infrastructure projects.

(ii) A high level of tax exemption and credit for foreign investment in specific areas. The amount of tax credit can be up to 80 per cent of the amount of foreign investment in fixed assets. The tax credit can be retained for a maximum of 10 years. Specific investment areas include: agriculture, fishery, textile production, garment production, leather production, primary metal processing, metal standard parts manufacturing, machinery and equipment, office equipment, electrical equipment, radio and television broadcasting and communication equipment, medical equipment, automobiles, renewable resources, and video products.

(iii) Equipment, fixed assets, scientific research equipment, building materials, sanitary and hygienic facilities under foreign investment.

Import duties are waived for raw and environmentally friendly equipment and goods that cannot be produced in Serbia.

④ Exemption from VAT on exports of goods and exports of services.

⑤ Enterprises with newly employed workers are exempted from payroll tax and social insurance tax for newly employed workers for two years.

(6) If a company hires new employees for an indefinite period of time (the minimum period of employment is one year) the employer is exempted from paying payroll tax on the new employees for a period of 1-3 years.

(7) Enterprises that create new jobs are also exempted from paying social insurance tax for new employees for a period of 2-3 years, depending on the type of employment.

(viii) The enterprise's tax refund gain or loss can be carried forward and can be offset against the enterprise's pre-tax profit (reduction of income tax base) next 10-year period.

Enterprises have the right to increase the depreciation rate of their fixed assets by 25 per cent over the prescribed depreciation base. The incentive to increase the depreciation rate of fixed assets is limited to investments in fixed assets in the fields of environmental protection, scientific research, education, human resources training and computer hardware.

(3) Regional incentives

Currently, the Serbian side attaches great importance to the economic development of underdeveloped regions, and the

current Government has established a Ministry of Public Administration and Local Self-Government, which is responsible for coordinating local development, as well as a number of cross-regional coordination mechanisms. At the same time, the Government was endeavouring to promote a national strategy aimed at eradicating poverty through investment, education and other means.

(5) Special economic zone provisions

In order to accelerate the construction of FTZs and promote Serbia's economic development, the Ministry of Finance and other relevant ministries of Serbia have enacted the Customs Law and the Law on FTZs, and have been continuously improving other relevant laws on trade and business management, so as to ensure that investing enterprises can enjoy the prevailing preferential policies for attracting foreign investment and business advantages in Serbia, and at the same time, they are also provided with more special preferences and facilitations for investing in the FTZs.

[FTA Preferential Policies] Mainly include:

① Free Trade Zone users enjoy freedom of import and export of goods and services without quantitative restrictions and the control of ordinary commercial policy measures.

② for incoming processing, outgoing processing or testing, certification, repair and market introduction, etc., FTZ users can transfer goods to other tariff zones in Serbia or other FTZs within a specified period of time and are exempted from import taxes such as tariffs and value-added tax (VAT).

(iii) Exemption from customs duties and import taxes, such as value-added tax (VAT), for goods imported by users of the FTZ (such as raw materials for the production of export commodities and equipment, machinery and construction materials required for the construction of the FTZ) for the purpose of commercial activities and the construction of facilities in the FTZ.

④ Goods entering the FTZ, as well as transport, storage and other services related to such goods, are exempted from VAT, and purchasers of goods and recipients of transport, storage and other services are entitled to input tax credits.

[FTA incentives] Mainly include:

(i) Users use the FTA infrastructure and services provided by the host government below market prices;

② construction within the FTZ can be exempted from certifying users of land development compensation; maximum reduction of municipal fees and charges for connection to the infrastructure network; reduction of value-added tax for the use

of water, electricity, gas, etc. within the zone;

(iii) 10-year exemption from public utility taxes, land use fees, and utility usage fees, etc. for FTZ users;

④ FTA users can receive financial subsidies from the local government based on the number of new jobs created.

[FTA Investment Facilitation Measures] Mainly includes:

The FTZ adopts a one-stop management model. The FTZ Administration of the Ministry of Finance of Serbia, the competent authority, provides foreign investors with one-stop services such as project consultancy, research, feasibility analysis and entry into the FTZ. Users can enjoy transport, loading and unloading,

Freight forwarding, insurance, banking transactions and other services.

Customs offices are located in each trade zone

The room provides customs clearance services such as import and export tax exemption, tax refund, and tax reimbursement for enterprises in the park.

(ii) The Government of Serbia accords national treatment to enterprises investing in Serbia, liberalises foreign investment in the industrial sector, allows the free transfer of capital, assets, profits, shares and dividends of foreign enterprises, and provides relevant facilities and concessions in terms of land for construction and so on.

(6) Serbian regulations on priority sectors for investment encouragement

The Regulation on Investment Authorities and Investment Sectors in Serbia states that the key investment sectors encouraged in Serbia are: (i) automotive industry; (ii) agriculture and livestock farming; (iii) infrastructure development; (iv) communication and information technology industry; (v) electronics and home appliances industry; and (vi) clean energy industry.

The high-performance radial tyre products produced by this project will certainly indirectly drive the development of the local automobile industry, and will be included in the key industries encouraged by Serbia.

Chapter III. Background to the project

I. Background to project construction

1, China's tyre industry is facing a very serious trade friction situation, a variety of anti-dumping investigations one after another, encountered trade barriers began to expand from regional to global. In the process of global economic integration, China to become a tyre power by the tyre power to tyre power

If China is to become a market-oriented, resource-consuming country, it must change from a market-led to a technology-driven mode of development, and it must solve the problem of technical barriers in international competition. Since China's accession to the WTO, foreign governments on China's tyre boycott has not stopped, from 1996 Brazil on China's bicycle tyres levied anti-dumping duties to start, the United States, Australia, Brazil, Peru, Egypt, Argentina, Turkey, South Africa, India, Colombia, Mexico and other nearly 20 countries are imported from China tyres anti-dumping investigations, and the results of the

On 11 September 2009, the United States also announced the results of the six-month-long special protection case on passenger tyres, deciding to impose punitive tariffs of 35 per cent, 30 per cent and 25 per cent on Chinese passenger tyres exported to the United States for three years, which came into effect on 26 September.

These unjust results have been firmly opposed by China and have attracted worldwide attention. The EC issued an announcement on 7 May 2018, and on 8 May 2018, the European Commission

The European Union has officially started to impose anti-dumping duties on certain truck and bus tyres originating in China. The provisional anti-dumping duties, which range from €52.85 to €82.17 per tyre, are aimed at new or retreaded truck and bus tyres with a load index of more than 121.

On 18 July 2017, the Anti-Dumping Investigation Bureau of India's Ministry of Commerce and Industry issued a pre-final disclosure in the anti-dumping investigation case against China's new pneumatic radial truck tyres: India will impose anti-dumping duties ranging from 0-40% on Chinese imports of truck tyres .

In view of the above situation, in order to promote the enhancement of the international competitiveness of enterprises, in addition to promoting the export of products from the quantitative to technological and efficiency changes, broaden the scope of the market, the implementation of the famous brand.

Strategy, to carry out system certification and foreign product certification exports, the use of technology, capital superiority The trend to invest or co-operate to build factories abroad has become a positive move to improve competitiveness and prevent foreign anti-dumping trade risks.

2、 In order to respond to the national "going out" tyre industry development orientation, the company implements

The international development strategy of producing tyres in Serbia for direct export sales will greatly increase the competitive advantage of the products and improve the economic efficiency of the enterprise.

Chinese tyre enterprises to build factories overseas have two major driving forces, one is able to circumvent international trade barriers, to maintain the healthy development of enterprises, especially export trade. Currently China's tyre industry suffered from foreign anti-dumping, anti-subsidy and special protection and other trade friction frequently, especially the United States of America on China's tyre special protection case on China's tyre enterprises hit very big, overseas factory can be "curved development", to avoid some international trade barriers. Secondly, the recovery of the European automotive industry has led to the development of automobile-related industries, the European market demand for tyres is growing year by year, the European tyre market outlook. These factors for Chinese tyre enterprises overseas factory formed a huge attraction.

In order to meet the growing market demand, respond to the national "going out" tyre industry development orientation, implement the company's international development strategy, adjust the company's product structure status quo, and increase the proportion of high value-added products, Shandong Linglong Tyre Company Limited, after extensive research and selection, proposed to invest in the construction of high-performance radial tyre project in Zrenjanin FTZ, south-east of Serbia. After extensive research and selection, Shandong Linglong Tyre Co. Serbia free trade zone tariff income and other tariff areas with different economic policies of the special area, especially suitable for export-oriented enterprises stationed. The Customs Law was enacted by the Ministry of Finance and other relevant authorities in Serbia,

The Law on FTZs and the improvement of other relevant laws on trade, business management and other related laws, while guaranteeing that investing enterprises enjoy the general preferential policies and business advantages of Serbia in attracting foreign investment, also provide more special preferences and facilities for investing in enterprises in FTZs. Construction of a tyre production project in the Zrenjanin FTZ in south-eastern Serbia for direct export from Serbia.

sales, will greatly increase the competitive advantage of our products and improve economic efficiency.

3、 Serbia is the first country in Central and Eastern Europe to establish a strategic partnership with China, with outstanding advantages in the investment environment, which will play a positive role in promoting the production and sales of high-performance radial tyres.

Serbia is the first country in Central and Eastern Europe to establish a strategic partnership with China. In terms of the attractiveness of the investment environment, the advantages of investment in Serbia are in five aspects (1) the economy in general is showing restorative growth, and although the GDP fell in 2014 due to the floods, the long-term trend is favourable, and it is expected to join the European Union around 2025, so it has a certain investment prospect (2) Serbia has signed free-trade agreements with the European Union, the member countries of the Central and Eastern European Free Trade Area (CEEFTA), the Russian-Belarusian-Harbinian Customs Union (RBKU), and Turkey. (2) Serbia has signed free trade agreements with the EU, CEFTA member countries, the Russian-Belarusian-Harbinian Customs Union and Turkey, and enjoys the most-favored-nation status granted by the U.S., and Serbian commodities exported to the above regions and countries enjoy preferential treatment of tariff- and quota-free (3) it has a superior geographic location, and is the land hub connecting Southeastern Europe with Western Europe and

the Eurasian continent(4) it has a high quality of labour force, and the cost of labour is lower than that of Western Europe and most of the neighbouring countries(5) it has a comparatively lower tax rate in Central and Eastern Europe, and implements tax concessions and incentives(6) the Serbian government's leading economic policy is to vigorously attract foreign investment, create jobs, reform and revise investment regulations, and focus on investment in infrastructure development and labour-intensive industries. Re-establishment of 4 industrial centres in the cities of Niš, Zaječar, Koraljevo and Novi Bazar. Strengthening of free trade zones and three national industrial parks.

The World Economic Forum's Global Competitiveness Report 2015-2016 shows that Serbia is ranked 94th out of 140 most competitive countries and territories in the world. Doing Business 2016, published by the World Bank, shows that Serbia ranks 59th out of 189 countries and regions in terms of ease of doing business.

In terms of the investment environment, the competitive advantages of Serbia are outstanding and are an important reason for the location of this project in Serbia.

II. Market analysis

1. Market analysis

(1) International tyre market analysis

Automobile is the main supporting field of tyres, new automobile production determines the capacity and demand of the automobile original tyre market, and automobile ownership determines the capacity and demand of the automobile replacement tyre market.

The overall trend of global automobile production and sales has been steadily increasing over the past decade.

In 2006-2016 Compound annual growth rate of global automotive production, 2006-2016 (CAGR) was 2.89%, and the compound annual growth rate (CAGR) of global automobile sales was 3.00%. By the end of 2016, the total global automobile production reached 92,032,600 units and the total sales volume reached 91,412,500 units. In 2017, the total global automobile production reached 97,302,500 units and the total sales volume reached 93,600,000 units, of which the sales volume of the Chinese market almost accounted for the total

China's car sales have been the world's largest for nine consecutive years, reaching 28.879 million units, one-third of the world's total.

With the rapid development of economic globalisation, the automobile market in developed countries is becoming increasingly

saturated, but due to the rapid development of the national economy, the consumption structure of residents in developing countries is in the stage of upgrading, which has led to the sustained and rapid growth of the global automobile industry. In the global automotive industry, international automotive giants and local automotive enterprises have increased their investment in the production capacity of developing countries, which has contributed to the increasing market position of developing countries in the global automotive industry, and the global automotive production centre has gradually shifted from Europe, America and other developed countries to developing countries represented by China. According to a research report by PricewaterhouseCoopers, global automobile production will reach 108 million units by 2018, with an average annual growth rate of 5.6%. Developing markets will be the main growth driver, accounting for 83 per cent of the increase in production. Of these, China will account for 40.4 per cent, India for 12.3 per cent, Brazil for 6.8 per cent and Russia for 4.5 per cent.

Thanks to the ever-expanding automobile production and car ownership worldwide, in the last few years

The global automotive tyre industry has been growing at a CAGR of 3.3% over the years. The global demand for automotive tyres is expected to grow at a CAGR of 2.3% during the forecast period from 2018 to 2021, driven by continued growth in the downstream automotive industry. Sales of semi-steel radial tyres are expected to grow at a faster rate of 3.9% CAGR due to the strong growth of the passenger car market, while sales of all-steel radial tyres and bias tyres are expected to grow at a CAGR of 2.7% and 1.7%, respectively, during the period. Sales of semi-steel radial tyres are expected to grow at a faster rate of 2.8% CAGR during the forecast period from 2018 to 2021, while sales of all-steel radial tyres and bias tyres are expected to grow at a CAGR of 2.8 % during the same period. Demand for all-steel radial and bias tyres is expected to grow at a CAGR of 2.8% and 1.8%, respectively, during the same period.

The demand for tyres is expected to grow at a compound annual growth rate of 1.8 per cent and 0.3 per cent, respectively. It is expected that by 2020, the annual demand for tyres could exceed 2.5 billion.

② Car tyres dominate the world tyre market

Automobile tyre is the leading product of the tyre industry, car tyre occupies the main output of the global automobile tyre, the main reason is: on the one hand, in Europe and the United States and other mature and developed regions, the car is a necessary tool for people to travel, there is a huge private car consumer market, belongs to the rigid demand; on the other

hand, in China, India and other Asia-Pacific countries and regions, along with the rapid growth of the region's economy, the income level of the population has gradually increased, the car has changed from luxury goods to consumer durables. On the other hand, in Asia-Pacific countries such as China and India, with the rapid economic growth in the region and the gradual increase in the income level of the residents, the car has changed from a luxury product to a durable consumer product, and there is a huge space for the future potential private car consumption market.

③ Large scale and grouping of tyre enterprises

The development of the global tyre market is to a large extent guided by large international tyre manufacturers, especially the "First Army" of Bridgestone, Michelin and Goodyear, despite the decline in market share in recent years, still relies on its strong financial strength, advanced R&D technology and strong brand influence to lead other tyre manufacturers by far. In 2016, the sales of the world tyre industry amounted to US\$151 billion, and the sales of the top 10 companies amounted to US\$98.423 billion, accounting for 65.2% of the world's total tyre sales, representing a slight increase of 0.8 percentage points compared with the previous year, and the industry's degree of concentration is rising

④ Research and development efforts continue to be strengthened, and innovative results continue to emerge

In order to enhance the ability to innovate, the world's major tyre manufacturers are constantly increasing scientific research efforts, research and development funding is also increasing, the tyre industry, new products, new technologies continue to emerge, research and development and promotion of the fruit of the application of the tyre industry's productivity and product quality can be improved; tyre load-bearing performance, high-speed performance, ride comfort performance, safety performance and so on continue to improve.

⑤ World tyre giants focus on branding

In order to improve the competitiveness and influence of their products, the world's leading tyre manufacturers attach great importance to the construction and promotion of their brands, and actively promote their tyre products through participation in global automotive exhibitions and rubber product exhibitions, sponsorship of top F1 races and other means, thus establishing a good brand image. In the global tyre market competition, the world's leading tyre manufacturers rely on brand influence to occupy the high-end market and obtain excessive profits.

(2) European tyre market analysis

Europe is home to a number of globally renowned tyre companies, including Michelin (France), Ma (Germany), Pirelli (Italy) and Noki (Finland). Europe is also the world's most

important automobile market, Mercedes-Benz, BMW, Audi, Volkswagen and other European cars are well-known all over the world. Therefore, the European market occupies an important position in both the original and replacement tyre markets.

① Tyre industry layout

According to the statistics of the European Tyre Manufacturers' Association (ETMA), its member companies have 86 tyre manufacturing plants, 16 R&D centres and 11 headquarters in Europe. Most of these factories are located in Western Europe, such as the United Kingdom, Spain and Italy, which is also closely related to the development of the local automotive industry, followed by Central and Eastern Europe, where Finland's Noki Tyre stands out in the Nordic countries. In the European market, the world's top ten tyre companies also firmly occupy a large part of the market share, in 2000, the world's top ten tyre companies accounted for the entire European tyre market share of up to 83%, in recent years there has been a decline, in 2016 was 65.2%. 2007

European-made tyres accounted for 81% of all European tyre sales, compared to around 71% in 2016. This also shows that more tyre companies are continuing to enter and develop the European market and are beginning to compete for market share with the top 10 global tyre companies.

② Economy and Employment

Statistics from the European Tyre Manufacturers Association (ETMA) show that in 2017 the association's member companies sold 289 million tyres (car and light truck tyres) representing 20% of the total sales on the global market. approximately 300 million passenger car tyres and 18 million truck tyres left European tyre factories in 2017. The European tyre industry provides around 200,000 jobs in Europe directly and many more indirectly. Europe is the region with the highest concentration of advanced tyre technology in the world, and every year tyre companies invest heavily in technological research and development, and every year new tyre technologies and products are first presented in Europe. According to statistics, investment in the European tyre industry is growing at an annual rate of 3.5%, and more and more tyre companies will join the European market in the future.

Members of the European Tyre Manufacturers Association (ETMA) include: Apollo Tyres (India), Bridgestone (Japan), Ma (Germany), Michelin (France), Goodyear (USA), Goodyear (USA), Hankook (Hankook), Pirelli (Pirelli), Noki (Noki), Trelleborg, etc.

(3) Imported Chinese tyres are losing ground in the European market

Eurostat data shows that the number of tyres imported into Europe from China increased by 11% year-on-year to 3.838 million in 2015, and continued to grow by 15% to 4.423 million in 2016

million units. European truck tyre production, on the other hand, rose by 3.7% year-on-year in 2015 to 9.522 million units, and by only 1.1% in 2016 to 9.626 million units. Therefore, the European market Chinese tyre advantage is obvious. However, in recent years, inexpensive Asian tyres are gradually losing their advantage in Europe. Several industry veterans said that this situation, related to the price of Asian tyres. At present, Europe from China's imports of tyres, prices rose by about 20% over the same period last year. This prompted many European road transport operators, are considering whether to continue to

Buy Chinese tyres.

In addition, the EU In August 2017, in response to complaints from
EU tyre manufacturers, the
European Commission decides to investigate truck and bus tyres
from China, 5 May 2018

On 8 January, the European Commission (EC) announced its
decision to impose a ban on imports of truck tyres from China.
Imposition of anti-dumping duties. And in November 2018, the full
findings will be published. China's tyre exports to Europe are
encountering great challenges, and building factories overseas
is imperative.

III. Need for project construction

1, effectively avoid the European anti-dumping trade risk,
reduce the impact of enterprise risk. In recent years,
China's tyre exports are growing rapidly, in addition to the
traditional sales to the Middle East and
Southeast Asia market, but also into Europe, America and Australia and
other developed markets, and won a certain degree of credibility.
However, since 2001, the United States, Brazil, India, Russia,
Argentina, South Africa and Peru and many other countries on
China's tyre products have launched anti-dumping investigations,
especially in 2009, the United States of China passenger car tyres
launched a "special protection case" investigation, causing
many countries to follow suit, resulting in China's tyre products, the export
market continues to shrink. The export market of our tyre products has
been shrinking. In July 2017, India's Ministry of Commerce and

Industry, Anti-Dumping Investigation Bureau issued a 0-40% anti-dumping duty on Chinese imports of truck tyres; in August, the European Union began to enter the anti-dumping investigation process on imports of truck tyres from China. "Anti-dumping" has also become the most heard words in the domestic tyre industry. Therefore, the use of technology, capital advantages to foreign investment or co-operation to build factories has become an effective way to avoid the European anti-dumping trade risks inevitable.

2. Accelerate the co-operation process with famous vehicle brands and promote overseas supporting business.

In 2016, Linglong Tire passed the evaluation of potential suppliers of Volkswagen Group and became the first Chinese local tyre supplier of German Volkswagen Group. In order to accelerate the process of cooperation with Volkswagen Group of Germany, the company decided to build a tyre production plant in Serbia, i.e. this project. The establishment of this plant not only significantly improves the German, Czech and other

The supply time of Volkswagen plant in Europe (Volkswagen requires supply within 72 hours) and at the same time, it also promotes the construction and improvement of the overseas marketing channel network, and facilitates the development of the company's overseas supporting business.

3. Enhance the competitiveness of enterprises and further develop the European market.

With the increase of domestic labour cost, logistics cost and environmental protection pressure, China's labour cost, transportation cost and raw material cost have no advantage over some Central and Eastern European countries. Choosing a lower-cost country to build a factory in Europe not only helps to cope with the EU's anti-dumping and high tariffs in some countries, but also reduces the cost of raw materials and logistics, which is conducive to the further development of the European market. After research, there are a lot of raw material manufacturers around the site, the cost of raw materials, logistics and tariffs are more advantageous, in addition, the high quality of labour in Serbia and the cost of labour is lower than most of the countries in Western Europe and the surrounding countries, the cost of energy is lower than other countries in the European Union and China, the tax rate in Central and Eastern Europe is relatively low, the project site is located in the scope of the FTZ, and will enjoy the FTZ's land, tax incentives and cash incentives. The project site is located within the FTZ, and will enjoy land, tax incentives and cash incentives. In addition, Serbia has signed an FTA with countries

that impose high tariffs on Chinese tyres (e.g. Russia, EU, Turkey, etc.) Investing and building a factory in the FTA not only effectively avoids the risk of high tariffs, but also expands the market of neighbouring countries with high tariffs and enhances the company's competitiveness.

IV. Project target market analysis

The target market of the project is mainly oriented to the developed and developing countries and regions of Shandong Linglong Tyre Co., Ltd, among which, the focus is on expanding the European market and increasing the market share in Europe.

At present, the company's products sell well in more than 180 countries and regions around the world, successfully supporting the through the

It is one of the world's top 20 tyre manufacturers and one of the top three tyre manufacturers in China, with more than 60 famous domestic and foreign automobile enterprises, such as Automobile, Ford, Volkswagen, China FAW, China National Heavy Duty Truck, and so on.

Geographically. Linglong tyre sales market is divided into two domestic and overseas

Markets. Overseas markets have accounted for more than 50 per cent of sales for many years, with the United States, the United Arab Emirates, the United Kingdom, the Netherlands, Australia, Brazil, Russia, Saudi Arabia, Belgium and other countries and regions accounting for the largest number of sales.

In terms of functional requirements. Linglong tyre sales market is divided into replacement market and supporting market. Among them, the replacement market adopts the dealer sales model. Up to now, the company has more than 200 first-tier dealers domestically, basically forming a perfect marketing network covering tyre county-level regions across the country. Overseas, the company will be subdivided into the Americas, Europe, the Middle East, Africa and Asia-Pacific and other markets for regional management, has more than 300 overseas first-class distributors, product sales cover most of the countries and regions in the world. The supporting market adopts direct sales mode. Up to now, the company's domestic direct sales customers include China FAW, China National Heavy Duty Truck Corporation (CNHTC), Shaanxi Heavy Duty Truck Corporation (SHHDTC), Foton, Dongfeng Motor, Changan Ford, BYD, Geely, Chery, SGW, Xiamen Jinlong, Doosan Infracore, etc.; the foreign direct sales customers include Volkswagen of Germany, Hyundai of Brazil, General Motors of Uzbekistan, Renault Nissan of Russia, Tata of India, Hino of Iran, Kaiser Permanente Holland, and Hino of Pakistan. Hino Pakistan and other vehicle manufacturers.

The chart below shows the markets now developed by Linglong

Tyre Co:



Distribution of the project contractor's main overseas sales outlets

V. Status of work already undertaken in previous periods

Shandong Linglong Tyre Co., Ltd. has made several visits to the Serbian region, and communicated in detail with the President of Serbia and the representatives of UNDP and the Agency for the Promotion of Development for the construction of the project, and received strong support from the Serbian government.

Chapter IV. Main elements and scope of the project

I. Construction content and scale

(i) Location of the project

The construction site of the project is located in the Free Trade Zone of the Municipality of Zrenjanin in the south-eastern part of Serbia.

(ii) Project construction content

The construction of this project mainly includes civil engineering works and the purchase of equipment.

1. Civil engineering

The project site has a planned land area of 130 hectares, with a planned gross floor area of 393,660 square metres.

square metres, of which: Phase I has a total construction area of 185,234 square metres, Phase II has a total construction area of 185,234 square metres, Phase III has a total construction area of 185,234 square metres. The total floor area of the three phases is 91,286 square metres and the total floor area of the three phases is 97,140 square metres.

List of buildings

serial number	name (of a thing)	unit (of measure)	building area
-	Phase I	m ²	185234
1	PCR Plant	m ²	55356
2	TBR Factory	m ²	52672

3	Semi-steel smelting workshop	m2	46483
4	Raw materials warehouse	m2	7708
5	Finished goods warehouse	m2	10047
6	office development	m2	8074
7	Utilities (air pressure station, power station, refrigeration station, boiler room, etc.)	m2	4894
stupid (Beijing g dialec t)	phase two project	m2	111286
1	PCR Plant	m2	21998
2	TBR Factory	m2	25050
3	All-steel refining workshop	m2	46483
4	Raw materials warehouse	m2	7708
5	Finished goods warehouse	m2	10047
surname San	Phase III	m2	97140
1	cryptocrystalline	m2	9565
2	office development	m2	5396
3	Finished goods warehouse	m2	10047
4	PCR Plant	m2	35357
5	OTR/AGR	m2	36775
	add up the total	m2	393660

2. Acquisition of equipment

Project plant planning to purchase 948 sets of new equipment, the total value of equipment for the 61603.12 million U.S. dollars (equivalent to 410400.00 million yuan)
Of which: planning for the acquisition of new

537 sets of semi-steel production equipment and 337 sets of all-steel production equipment for engineering tyres,
74 units (sets) of production equipment for the Nongzi tyre project.

(iii) Product programme and scale of construction

The project is mainly engaged in the production and processing of various types of high-performance radial tyres, with an annual output of 13.62 million sets of various types of high-performance tyres, including: 12 million sets of PCR tyres and TBR tyres.

There are 1.6 million sets of tyres and 20,000 sets of engineering tyres and agricultural radial tyres. The specific product programme and scale are as follows:

Product Solution Sheet

serial number	Representative specifications	unit (of measure)	annual production
-	PCR (semi-steel radial tyres)	Sets/year	12000000
stupid (Beijing dialect)	TBR (Total Steel Radial Tyre)	Sets/year	1600000
surname San	Engineering and agricultural radial tyres	Sets/year	20000
(grand) total		Sets/year	13620000

(iv) Supply of raw materials

Raw materials will be procured globally in accordance with the principle of cost optimisation based on the technical

requirements of production, combined with the requirements of local FTZs on the localisation ratio of raw materials and the environmental standards of raw materials.

(v) Sources of technology

Shandong Linglong Tyre Co., Ltd. has built 4 tyre production bases at home and abroad, with rich technology and experience, this project determines to adopt the more reasonable high-performance radial tyre manufacturing process improved by Shandong Linglong Tyre Co., Ltd. with actual production experience, and at the same time to build with the standard of intelligent production line to lay a foundation of building a digital workshop and intelligent manufacturing factory.

(vi) Organizational structure, labour force and personnel training

1. Business organisation

The project contractor is Shandong Linglong Tire Co., Ltd. and this project is included in the unified management of the company's organisational structure, the president is responsible for the implementation of the presidential responsibility system, the persons in charge of all levels of administrative and management institutions are responsible for the implementation of the system of responsibility at each level, and the president of the enterprise is appointed by the board of directors. The setting of project organisation should reduce the management level as much as possible, set the management radius reasonably, and make the ratio of management personnel and production personnel of the whole company optimized.

The project's specific corporate organisational set-up is set out below:

Shandong Linglong Tyre Co.									
op era te	stu dy	dir ect or	ma n	rus e	hos tag e	val uab les	plu ck	reg ulat e	prof ess fai th in rest ing
me lt (m eta l) fat her -in- law	aft er all	aff air	str en gth	dra w (a line) tak e car e (of)	me asu re wor d tak e car e (of)	affa ir	pur cha se	ma ke	ma ke into
	gat her	be sur e to	su ppl y			cla ssif ier for wor ks of liter atu re, film s, car s or lan d line tele pho nes	cla ssifi er for wor ks of liter atur e, film s, car s or lan d line tele pho nes	clas sifie r for wor ks of liter atur e, film s, car s or lan d line tele pho nes	
de par tm ent (un der a mi nist ry)	inst ituti on	go ab out	so urc e	intri nsi c ord er	intri nsi c ord er				up to
		fat her -in- law	up to	up to	cla ssif ier for				wor k

[illegible]

			literature, films, cars or land line telephones	take care (of) grain (of wood)							
--	--	--	---	---	--	--	--	--	--	--	--

2. System of work

- (1) A labour contract system is in place. The conclusion of a labour contract is reported to the personnel department for the record.

(2) The wages of employees are determined by the Company with reference to the relevant State regulations and are reflected in the labour contract. The wages of employees may be appropriately increased in accordance with the development of the company and the individual employee's business ability and technical level.

Working days throughout the year: 300 days

Working hours per shift: 8 hours

Work system: three shifts

Annual working hours: 7200 hours

3. Labour fixing

According to the production programme, in line with the principle of reflecting the plant's labour productivity and competitiveness, and with reference to the project's current employment system, the project's labour force is set at 1,500, of which 1,200 will be recruited locally and 300 dispatched from within the country.

4. Labour sources and training

(1) Source of labour

After the completion of the project, in addition to some management personnel and technical personnel deployed by the company, other personnel will be recruited mainly from the local personnel recruitment policy in Serbia.

(2) Staff training

① Training Targets

The project's training targets are mainly production workers and

technicians.

② Training Objectives and Training Principles

In order to improve the competitiveness and comprehensive strength of the company, improve the work skills of the staff, and achieve the common development and progress of the company and the staff. The company will implement the unified arrangement of training according to the development strategy and business needs, taking into account the benefits of training.

(iii) Training modalities and content

Pre-employment training: mainly to understand the company's corporate culture, development strategy, business management concepts, rules and regulations, safety responsibilities and related professional knowledge of the position. Through

Pre-employment training, so that employees can grasp the company's various policies and codes of conduct, with complete
Become the basic knowledge necessary for this job and adapt to the work and position as soon as possible.

On-the-job training: In order to improve the efficiency and effectiveness of each employee's work, the Company encourages each employee to attend training programmes related to the Company's business and to establish training records. These records will be used as part of the assessment of the employee's ability to perform his or her job.

Comprehensive judgement on the theoretical examination results and practical ability of the participants, and the evaluation results can be used as an important basis for assessment

④ Requirements met by training

After training, production workers should be able to master the technical skills, use and maintenance techniques of production process equipment, and be able to independently complete the work under their charge.

Technicians should be trained to achieve: master the technical requirements of the production process of this process, correctly and promptly deal with the production process of process technology and product quality problems; require employees to have basic operational knowledge, especially on mechanical equipment to understand, will be operated, and master a variety of accident handling techniques; understanding of the

quality standards of the product and the means of testing.

Shandong Linglong Tyre Co., Ltd. has mastered the mature radial tyre production process, and personnel training can be completed within the enterprise.

(vii) Project construction period and schedule

The project is proposed to commence formal construction from April 2019 to March 2025 for completion. Construction The period is six years. The schedule is as follows:

1. Preliminary work (2018.08-2019.4)

Implement the land, infrastructure, planning policies and other conditions of the construction site, carry out project feasibility studies and engineering design, and at the same time complete the relevant procedures such as domestic approvals for the project, registration of overseas companies and signing of agreements with the local government.

2. Phase I construction phase (2019.4-2021.3)

Construction operations for civil works and acquisition of equipment for the project are carried out as planned, a

Phase I of the project is to construct civil engineering and equipment installation for the production line with an annual output of 3.5 million sets of semi-steel radial tyres and 800,000 sets of full-steel radial tyres, and to construct related utilities, and at the same time to make good preparations for operation such as recruitment and training of staff, organisational preparations, material preparations and technical preparations, etc. The completion of Phase I of the project is expected by March 2021, and the project will be completed by the end of March 2021.

3. Phase II construction phase (2021.04-2023.03)

According to the plan, the civil engineering and equipment installation of the semi-steel production line with an annual output of 3.5 million sets and the all-steel production line with an annual output of 0.8 million sets will be carried out, and at the same time, the production of the first phase of the project will be reasonably arranged, and the construction of the second phase will be finished at the end of March 2023. Combined with the first phase of the project, it will reach the scale of annual output of 7 million sets of semi-steel radial tyres and 1.6 million sets of all-steel radial tyres.

4. Phase III construction phase (2023.04-2025.3)

Construction of all remaining works as planned, including an annual production capacity of 5 million sets of semi-stainless steel
Civil construction and equipment installation of radial tyre production line, engineering and agricultural tyre production line

with an annual output of 20,000 sets. the project will be completed in March 2025, and the overall project will reach the scale of an annual output of 12 million sets of semi-steel radial tyres, 1.6 million sets of all-steel radial tyres, and 20,000 sets of engineering and agricultural tyres. **II. Implementation of relevant supporting conditions**

1. The project is located within the Zrenjanin Municipal Free Trade Zone in south-eastern Serbia, the site is 50 kilometres from the Belgrade bypass and is in the process of expanding the peripheral road into a
With a 4-lane road and access to 2 main airport routes, the site has good geographical accessibility.

2. The project site has complete infrastructure facilities, and has been connected to water, electricity, natural gas, optical fibre cable and other pipeline networks. Among them, electricity is mainly supplied by 1.7km away from the plant and 1.4km of two 110kV substations to introduce electricity, line power supply voltage is 35kV; natural gas is mainly from Russia, at present, Serbia and Russia signed a preferential agreement price, and promised to provide preferential prices to Linglong tyre.

3. The project requires 130 hectares of land, which, according to the local Law on Construction and the Law on Construction, will be used for the construction of a new building.

The Land Decree requires that the industrial land of Linglong Tyre's subsidiary in Serbia be used for this purpose.

100 per cent ownership.

4, the general design of the project in order to facilitate production, easy to manage, to facilitate the connection between the workshops, the factory neat and clean and in line with the building fire, health, environmental protection, greening and urban planning requirements for the principle of the overall layout, so that the factory in the near future and the long-term development of the factory tends to be reasonable.

5. During the design and construction of this project, the "three simultaneous" is strictly implemented to ensure environmental quality, reduce pollution and make the emission concentration of all harmful substances comply with local emission standards. In terms of labour safety, industrial hygiene and building fire prevention, the project will be designed in strict accordance with locally required standards to ensure the safety of the enterprise and the labour safety and health of the workers.

6. The project requires a total of 1,500 people, of which about 1,200 are to be recruited locally. The personnel will be recruited in accordance with the regulations of the local labour and personnel department of Serbia, with the workers mainly recruited by the society, partly solved by internal deployment of the enterprise, and the technical personnel can be solved through recruitment.

Linglong has mastered mature radial tyre production

technology, and personnel training can be carried out within the enterprise.

7, the project according to the technical requirements of the production of priority selection of advanced equipment with excellent performance, so that the main equipment to reach the international advanced level, advanced technology and equipment so that the quality of the product is reliably guaranteed.

8. The main raw materials required for this project are procured globally to ensure that all raw materials meet the localisation requirements of the FTZ in compliance with the requirements of the production process. At present, the company has established a stable supplier system worldwide, and the supply of raw materials for the project is guaranteed.

Chapter V. Project investment and financing programme

I. Investment programmes

1. Investment estimates

The total investment of this project is US\$994,419,100 (equivalent to 662,482,000 yuan) of which: construction investment is US\$914,243,100 (equivalent to 609,068,300 yuan) interest during the construction period is US\$60,919,600 (equivalent to 405,846,600 yuan) and the bottoming working capital is US\$19,256,400 (equivalent to 1282.861 million RMB)

The total investment components are detailed in the table below:

Total Investment Composition Table Unit:
million yuan

serial number	Investment content	sum of money invested (in a currency or bond) (US\$ million)	sum of money invested (in a currency or bond) (RMB 10,000)	Percentage of total project investment (per cent)
	Total project investment	99441.91	662482.00	100.00 per cent
1	construction investment	91424.31	609068.73	91.94 per cent
2	Interest during construction	6091.96	40584.66	6.13 per cent
3	underfloor liquidity	1925.64	12828.61	1.94 per cent

Note: Exchange rate 1 USD = 6.662 RMB.

(1) Estimated construction investment

The construction investment of the project is estimated to be US\$914,243,100 (equivalent to RMB 609,068,300) of which: the construction cost is RMB 561,723,400, other construction costs are RMB 183,426,400, and the reserve cost is RMB 29,002,400.

The composition of the construction investment is shown in the table below.

Analysis table of the composition of construction investment

serial number	investment	sum of money invested (in a currency or bond)	Proportion (%)
1	Engineering costs	561723.44	92.23 per cent
1.1	Cost of construction work	151323.44	24.85 per cent
1.1.1	Cost of construction work for phase I	79598.94	13.07 per cent

1.1.2	Cost of phase II construction work	32293.38	5.30 per cent
1.1.3	Cost of construction work for phase III	39431.12	6.47 per cent
1.2	Acquisition and installation of equipment	410400.00	67.38 per cent
1.2.1	Purchase and installation of equipment for phase I	174800.00	28.70 per cent
1.2.2	Purchase and installation of equipment for phase II	114600.00	18.82 per cent
1.2.3	Purchase and installation of equipment for phase III	121000.00	19.87 per cent
2	Other costs of construction	18342.64	3.01 per cent
3	preliminary	29002.64	4.76 per cent
4	Total figure	609068.73	100.00 per cent

(2) Estimated interest during the construction period

The calculation of interest during the construction period is estimated on the basis of the balanced development of the borrowing at the beginning of each year of the construction period or during each year, usually assuming that the borrowing is used in the middle of the year in which it occurs, with interest accruing semi-annually, and in subsequent years, with interest accruing throughout the year.

The construction period of the project is 6 years, the construction investment loan amount is 465,000.00 million RMB, 6-year loan, loan interest rate is 4.30% per annum, borrowing in six phases, respectively, for the first year of the calculation period loan 100,000.00 million RMB, the second year of borrowing 80,000.00 million RMB, the third year of borrowing

70,000.00 million RMB, the fourth year of borrowing 60000.00 million yuan, the fifth year of borrowing 80000.00 million yuan, the sixth year of borrowing 75000.00 million yuan. The interest during the construction period of the project is calculated to be USD 405,846,600 (equivalent to RMB 60,919,600)

(3) Estimation of underpinning liquidity

The project adopts the detailed indicator method to estimate the new working capital, and the project requires working capital of RMB 427,620,400 per year to reach production, and it is planned to invest RMB 78,277,600 in the second year of the project calculation period.

RMB, RMB 78,277,600 in the third year, and RMB 79,490,700 in the fourth year.

RMB 10,000,000, RMB 79,490,700,000 in the fifth year, and RMB 7,949,700,000 in the sixth year.

In the seventh year, it invested RMB 56,041,900, while in the fourth year, it invested RMB 56,041,900.

The base liquidity is 30 per cent of the total liquidity, amounting to \$128,286,100

(RMB 19,256,400). II.

Investment Composition and Financing

The total investment of this project is USD 994,419,100 (equivalent to RMB 662,482,000) of which:

(1) The enterprise's own capital is USD 296,430,500 (equivalent to RMB 197,482,000), accounting for 30% of the total investment;

(2) Bank loans amount to USD 697,988,600 (RMB 465,000,000), accounting for 70 per cent of the total investment.

III. Description of the use of investment funds

The funds invested in the project are mainly used for the construction of civil engineering works in Phases I, II and III (including the construction of the semi-steel main workshop and auxiliary rooms, the all-steel main workshop and auxiliary rooms, the densely refining workshop 1, the densely refining workshop 2, the mechanic workshop, the finished product storehouse, the office facilities and the construction of the public utility works) with a planned investment of RMB 151,323,440,000; the purchase of production and auxiliary equipment for Phases I, II and III; and the purchase of the production and auxiliary equipment for Phases I, II and III.

It is planned to invest RMB 410,400,000,000 in the construction of the

new building, and RMB 171,726,400,000 in other investment purposes (including land, cash incentive guarantee fee, construction management, survey and design, etc.)

IV. Financial evaluation of the project

(i) Basis and norms of analysis

1. Basis of analysis

(1) Methods and Parameters for Economic Evaluation of Construction Projects (Third Edition) issued by the National Development and Reform Commission and the Ministry of Construction

(2) Relevant tax policies in Serbia

(3) Information on prices and costs of related industries in Europe

(4) Conclusions of this report on technical programmes and investment estimates

2. Scope of analysis

The evaluation of the project's economic situation is based on the programme identified in this report, with the identified scale as the subject of the evaluation.

3. Data underlying the analysis

(1) The income tax rate for the project construction unit is calculated at 15 per cent.

(2) 1 euro = 7.77 yuan; 1 US dollar = 6.662 yuan.

(ii) Estimated operating income

1. Basis of estimation

(1) The selling price of the products is determined on the basis of information from current European market surveys and the characteristics of the products, taking into account price increases.

(2) Production load: The products of this project are PCR (semi-steel) TBR (all-steel) engineering tyres and agricultural radial tyres. The annual production capacity of the first phase of the project will reach 3.5 million sets of PCR and 0.8 million sets of TBR; the annual production capacity of the second phase of the project will reach 3.5 million sets of PCR and 0.8 million sets of TBR; and the annual production capacity of the third phase of the project will reach 5 million sets of PCR and 20,000 sets of engineering and agricultural radial tyres.

2. Estimation of operating income

The project is expected to reach production in the 7th year of

the calculation period and achieve annual sales revenue of 60320.02 per year.

USD 10,000 (equivalent to RMB 401852.00 million)

Statement of project operating income

serial number	Diethylammonium chloride	Annual production at capacity (10,000 sets)	Average annual production value (million yuan)
-	Phase I		
1	PCR	350	65450.00
2	TBR	80	84240.00
stupid (Beijing dialect)	phase two project		
1	PCR	350	65450.00
2	TBR	80	84240.00
surname San	Phase III		
1	PCR	500	93500.00
2	Engineering and agricultural radial tyres	2	8972.00
	add up the total		401852.00

(iii) Estimation of operating costs

1. Cost of raw and auxiliary materials

The raw and auxiliary materials required during the operation period of this project are mainly natural rubber, synthetic rubber, steel wire cord, bead steel wire, carbon black

and other auxiliaries, etc. The estimated amount of raw and auxiliary materials in a normal year is RMB 207,978,800,000.

2. Power costs

The power required during the operation period of this project is mainly water, electricity and natural gas, and the total normal annual power cost is 77,219,200 yuan.

3. Salary and welfare costs

The project will require a total of 1,500 l a b o u r e r s , taking into account the wage level and annual growth rate.

The annual payroll in a normal year is \$90.00 million.

4. Material costs

In a normal year, \$97,761,400 is spent on equipment and materials.

5. Other costs

Other expenses are the expenses after deducting salaries, depreciation and repairs from the administrative expenses and selling expenses. It is estimated to be \$90.00 million in a normal year.

6. Basic depreciation

The original value of the project's construction and installation works is RMB 151,323,444,000, and the depreciable life is determined as follows

The average annual depreciation expense is RMB 32,599,000 over 40 years; the purchase of machinery and equipment for the project and the installation of the equipment is RMB 1,000,000 per year.

The original value of the equipment is 410400.00 million yuan, the depreciation life is determined as 10 years, and the

average annual depreciation expense of the equipment is 28882.14; other expenses belonging to the fixed assets are 81862.95 million yuan, the depreciation life is 20 years, and the average annual depreciation expense is 3382.24 million yuan.

7. Amortisation charges

Production preparation costs and the purchase of office and living furniture are the costs of intangible and other assets. The original value of intangible and other assets is \$11.7 million, which is based on a 10-year period. The average annual amortisation charge is \$480,500.

8. Total cost costs

The total cost in a normal year is \$292,696.42 million (year 10).

Of which: fixed costs 76,995,720,000 yuan

Variable cost \$215,707,000

Operating costs \$2434,768,400

(v) Estimates of related taxes

1. Additional taxes

The project pays \$7,112,700 in sales tax and surtaxes in a normal year.

2. Value added tax

The project is located in the FTZ and will be subject to VAT in accordance with the relevant policies of the FTZ.

3. Income tax

Project income tax is levied on the taxable income of a project at a rate of 15 per cent.

(vi) Profit and distribution

The total normal annual profit of the project is \$1085,953,100 (in the tenth year of the calculation period) with an income tax rate of 15 per cent, a 10 per cent statutory provident fund for after-tax profits, and the rest being profit available for

distribution to investors.

(vii) Financial profitability analysis

Indicators reflecting financial profitability are divided into dynamic and static indicators. Dynamic indicators include the financial internal rate of return (FIRR) on project investment, the financial net present value of project investment, and the financial net present value of project investment.

(FNPV) Financial Internal Rate of Return (FIRR) on project capital, etc.

Static indicators

Including project payback period (Pt) total return on investment (ROI) and net profit margin on project capital (ROE).

1. Dynamic analysis

(1) Cash flow analysis of project investments

Calculated from the project investment cash flow table, it can be seen that: the project's financial internal revenue before income tax is 20.82%, and the financial net present value ($I_c=12\%$) is 207,884,380,000 yuan; after income tax, the financial internal revenue is 19.64%, and the financial net present value ($I_c=12\%$) is 171,055,690,000 yuan.

(2) Project capital cash flow analysis

From the calculation of the cash flow statement of the capital fund of the project, it can be seen that the financial internal rate of return (FIRR) of the capital fund of the project is 29.1 per cent.

2. Static analysis

(1) payback period

The project's payback period before income tax is calculated to be 7.55 ~~years~~ (including the construction period) and the payback period after income tax is 7.58 years (including the construction period).

(2) Total investment return

The average annual EBIT of the project is RMB 979,102,700, and the total project cost is RMB 1,050,000.

The funding (TI) is \$692,415.42
million.

EBIT

Total return on investment = $\frac{\text{EBIT}}{\text{TI}} \times 100\%$

TI

= 14.14 per cent

(3) Net project capital margin

The analysis of the financial profitability of the project capital fund is an analysis of the financial profitability of the financing, the It is an analysis of the profitability of the project's capital funds.

After calculation, the average annual net profit (NP) of the project during the calculation period is RMB 878,987,900, and the capital investment (EC) of the project is RMB 227,415,400.

NP

Net profit margin on project capital = $\frac{\text{NP}}{\text{EC}} \times 100$ per cent

EC

= 38.65 per cent

(viii) Debt service and financial viability analysis

1. Borrowing debt service programme

The debt service programme of the project borrowing is calculated and determined on the basis of the conditions and modes of repayment of the debt funds expected to be possible. The project is planned to borrow 465,000.00 million yuan, a six-year loan with an interest rate of 4.30 per cent, in six instalments, with a loan of 100,000.00 million yuan in the first year of the calculation period, 80,000.00 million yuan in the second year, and 80,000.00 million yuan in the third year of the calculation period.

In the fourth year, it borrowed RMB 70,000.00 million, and in the fourth year, it borrowed RMB 60,000.00 million.

Borrowing RMB 80,000.00 million in the fifth year, and RMB 75,000.00 million in the sixth year.

In the second, third, fourth, fifth and sixth years of the calculation period, it is

planned that the amount of the investment will be equal to the total amount of the investment.

Repayment in the 7th year, based on the maximum annual repayment of 313,959,200 yuan, 614,716,000yuan, 859,429,900 yuan, 110,982,900 yuan, 129,361,600 yuan, 144,402,630 yuan.

The amount of \$10,000,000 was repaid at the end of the seventh year of the calculation period.

2. Project solvency analysis

(1) Interest provision ratio

The interest provision ratio is the ratio of EBITDA over the repayment period of the borrowing to the interest payable in the current year, and is an indicator of the ability to pay interest on the debt from the perspective of the adequacy of the source of funds for interest payments. Years 2, 3, 4, 5 and 6 of the project calculation period.

The interest allowance ratios for years 6 and 7 are 3.9, 5.5, 7.5, 10.2 and 13.4, respectively, 30.2, with a high interest provision ratio and low debt service risk.

(2) debt service coverage

The debt service provision ratio is the ratio of the funds available for debt service calculations during the debt repayment period to the current year's debt service obligations, and is an indicator of the ability to pay debt service from the perspective of the adequacy of debt service funding sources. Year 2, Year 3, Year 4 of the project calculation period

The debt service provision ratios for years 1, 5, 6 and 7 are all 1.1, which are all greater than 1, and the project's debt service funds can pay off the current year's debt.

(3) gearing

The project gearing ratio is the ratio of total liabilities to total assets of an enterprise at a given point in time. Years 1, 2, 3, 4, 5 of the project's calculation period.

The asset and liability ratio of the project is 71%, 54%, 47%, 36%, 28%, 18% and 5% in the year, year 6 and year 7 respectively. The asset and liability ratio of the project is moderate, and the risk of the enterprise investors and creditors is small, and the project operation is safe, sound and effective, and it has a strong financing ability.

3. Financial viability analysis

Based on the analysis of the cash flow statement of the financial plan, the project's net cash flow and cumulative surplus

funds are not negative, and the project has sufficient net cash flow to maintain normal operations during the operational period, ensuring the financial sustainability of the project.

(ix) Uncertainty analysis

1. Sensitivity analysis

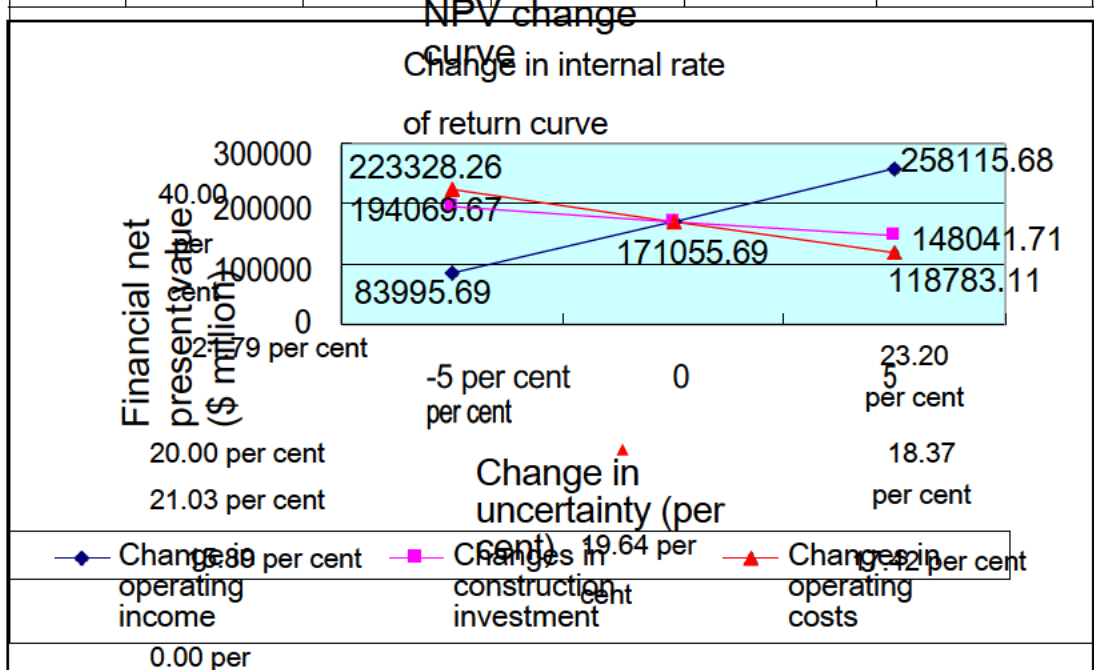
The project carries out a sensitivity analysis of the entire investment after income tax, and analyses the impact on the financial internal rate of return and the payback period when there is a change of $\pm 5\%$ in a single factor, such as operating income, construction investment and operating costs, respectively.

The sensitivity analysis table is shown in the table below:

Sensitivity analysis table

serial numb er	uncertainti es	uncertainti es	After-tax financial	Investment return after tax	Financial net after tax
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	constituent	rate of change of vegetation	earnings yield (finance)	Collection period (years)	Present value (\$ million)
	Basic programme		19.64 per cent	7.58	171055.69
1	Change in operating income	-5 per cent	15.89 per cent	8.29	83995.69
		+5 per cent	23.20 per cent	7.04	258115.68
2	Changes in construction investment	-5 per cent	21.03 per cent	7.35	194069.67
		+5 per cent	18.37 per cent	7.81	148041.71
3	Changes in operating costs	-5 per cent	21.79 per cent	7.24	223328.26
		+5 per cent	17.42 per cent	7.98	118783.11



Sensitivity analysis chart

As can be seen from the above table and figure, changes in all factors affect the financial internal rate of return and payback period to varying degrees, with changes in operating income being the most sensitive, followed by operating costs. Therefore, enterprises are required to strengthen the management of operating costs and increase sales.

2. Break-even analysis

The project was analysed for break-even on the design output and the break-even point was calculated using the formula calculation method.

$$\begin{aligned} & \text{Annual} \\ & \text{fixed costs} \\ \text{BEP} = & \frac{\text{Annual sales revenue} - \text{Annual variable costs} - \text{Annual business taxes and surcharges}}{\text{Annual sales revenue}} \times 100 \text{ per cent} \\ & 76995.72 \\ = & \frac{401852.00 - 215700.7 - 711.27}{401852.00} \times 100 \text{ per cent} \\ = & 41.52 \text{ per cent} \end{aligned}$$

The calculations show that the project will be capital preservation at 41.52 per cent of the design capacity, indicating that the project is highly risk-resistant.

(x) Conclusions of the financial analysis

After the completion of the project, the year of production will

achieve sales revenue of 603,202,000 U.S. dollars (discount). (RMB 4018.52 million) total profit of USD163.371 million (RMB 1085.9531 million, including subsidy income) The financial internal rate of return of the investment before income tax is 20.82%, the financial net present value is RMB 207884.38 million, and the payback period is 7.55 years (including construction period) the financial internal rate of return of the investment after income tax is 19.64%, the financial net present value is RMB 171,055.69 million, and the payback period is 7.58 years (including construction period) the financial internal rate of return of the project's capital is 29.1%, the return rate of total investment is 14.14%, and the net profit of the capital is 29.1%, and the return rate of total investment is 14.14%. The financial internal rate of return of the project capital is 29.1%, the total investment rate of return is 14.14%, and the net profit of the capital is

The rate is 38.65 per cent. The analysis of solvency and financial viability shows that the project has strong financing capacity and stable financial sustainability. In summary, the project is feasible from the perspective of financial analysis, but risk-avoidance measures should be actively taken based on the uncertainty analysis in order to adapt to market changes after project implementation.

On balance, the project is evaluated as viable from a financial analysis point of view.

Chapter VI. Main project risks and preventive and reactive measures

I. Social risk analysis

1、 Raw material price fluctuation risk

As an important strategic resource, natural rubber is a typical resource-constrained product; as a bulk commodity, its price is closely linked to trade policies, exchange rates and capital market conditions. In recent years by the influence of foreign commodity markets, natural rubber prices have fluctuated significantly. Natural rubber, synthetic rubber is the main raw material for the production of tyres, accounting for a larger proportion of the total production cost of tyres. As the prices of natural rubber and synthetic rubber have a certain degree of linkage, the price of natural rubber has a significant impact on the cost of tyres. the combined proportion of natural rubber and synthetic rubber in the Company's production costs was 35.68%, 30.03% and 35.93% in FY2014, FY2015 and FY2016, respectively. Therefore, the Company will be exposed to the risk of significant fluctuations in the price of natural rubber.

2. Environmental risks

Generally speaking, Serbia has a better investment environment. Its geographical location, convenient transport, connecting South-Eastern Europe and Western Europe, Eurasia, land hub, infrastructure is more complete; from the legal environment,

Serbia's legal system will be gradually standardised with the deepening of the process of accession to the European Union, and ultimately convergence with the European Union; from the economic environment, Serbia's economy has been on a general trend of growth in the post-war period, which creates a favourable condition for attracting investment. In addition, Serbia has certain relative advantages over other countries in the neighbourhood and the region.

In recent years, the relatively volatile political situation in Serbia has had an unavoidable impact on its investment environment. Firstly, political instability will affect the confidence of foreign investors, some of whom choose to wait and see or stop expanding their investment; secondly, due to the frequent changes in the top echelons of the government, the administrative efficiency is low, and the approval procedures for investment projects are complicated and the cycle is long. Therefore, in the event of local political instability, etc., which in turn affects the company's overseas business, the company's investment will be affected.

production and business activities, which will bring a certain degree of risk to the Company's operations.

3. Operational risk

Operational risk arises from the risk of a change in the level of profitability of the company as a result of errors in the management of the company by its decision makers and managers, resulting in a decrease in the expected return to investors, or a decrease in future earnings and an increase in costs as a result of changes in the exchange rate. It may arise in any department of an offshore enterprise and throughout the entire process of offshore investment.

II. Risk response analysis

Chinese enterprises' outbound investment is an inevitable trend under the interweaving of various economic factors at home and abroad, however, the development risks of enterprises' outbound investment always coexist with opportunities. How to cope with the risks of outbound investment and improve the efficiency of overseas enterprises has become the main problem faced by Chinese enterprises in outbound investment.

1. Countermeasures against the risk of raw material price fluctuations

(1) Timely adjustment of product prices

In the supporting market, the Company and some vehicle manufacturers have established a price linkage mechanism whereby the sales price fluctuates with the price of major raw

materials, thus partially transferring the risk of the impact of raw material price fluctuations on profit fluctuations to the client. In the replacement market, the Company established a pricing mechanism combining its own sales price and the market sales price, and adjusted the sales price by different ranges on a monthly basis in conjunction with the impact of major raw materials on the production cost, which offset the impact of rubber price fluctuations on the trading performance to a certain extent.

(2) Optimise suppliers and increase supply chain management

With the expansion of production capacity and the enhancement of market position, the Company's negotiation ability towards suppliers has gradually increased. In recent years, the Company has increased its negotiation efforts with rubber suppliers, comprehensively evaluated suppliers in terms of raw material prices, delivery periods and payment terms, and optimised its supplier team accordingly, which has reduced the impact of price fluctuations to a certain extent.

(3) Increase product research and development, adjust product structure, improve product competitiveness and bargaining power. The company has a national enterprise technology centre, an experimental testing centre and a tyre indoor noise laboratory accredited by China National Laboratory Accreditation Committee, a post-doctoral scientific research station and an academician's scientific research station. In recent years, aiming at the international level of similar products, the company has independently researched and developed the new product GREEN-Max UHP tyre series, which has improved the anti-slippery performance by 20%, and lowered the passing noise by 1 decibel, and the technical level of the product has reached the international advanced level, and it has the ability to take part in the competition in the international high-end market, and the improvement of the competitive advantage of the product makes the company's bargaining power to the customers strengthened.

2. Responses to investment climate risks

Offshore enterprises cannot determine the political and economic situation of the countries in which they invest, and therefore can only adopt avoidance methods for environmental risks and minimise their adverse effects:

(1) Do a good job of assessing the political and economic situation of the host country, and pay attention to the professional strength of large international investment consulting firms.

Enterprises should make a comprehensive assessment of the state of economic development, political stability and preferential policies for foreign investment in the host country through on-site inspections and expert consultation before investment, and after the establishment of an overseas enterprise, they should also ask their overseas managers to provide timely information on various local policy trends, which should be analysed by a special agency. The assessment work is highly professional, and since the strength of general enterprises is limited, attention should be paid to the expertise of such intermediary organisations as consulting firms. Since there is no mature overseas investment consulting company in China at present, for large overseas investment projects, although the consulting cost is relatively expensive, in order to reduce the investment risk, it is still necessary to entrust a large foreign investment consulting company to carry out the assessment.

(2) Changing investment methods, implementing localisation strategies for overseas enterprises and strengthening public relations strategies for the countries in which they invest.

Implementing the "win-win" strategy in overseas investment, implementing the strategy of localisation of overseas enterprises, in order to obtain a certain degree of national enterprise status, and strengthening the public relations strategy for the host country. For example

If the investing entity has brand, technology and management advantages, it can also take the same approach as McDonald's. Franchising is a way of saving capital, avoiding the risk of direct investment and capturing the market at the same time. Adopt a localisation strategy in the operation of foreign enterprises, employing more local staff on the one hand, and localising procurement as much as possible on the other. Overseas enterprises must pay attention to building a good local "public image", have a clear public relations strategy for the host country, and actively integrate their own development into the economic development of the host country.

(3) Reducing losses from environmental risks through insurance.

Enterprises can reduce the risk of outbound investment by joining insurance and other methods, such as the World Bank established the Multilateral Investment Insurance Agency in 1988, which together with multilateral treaties between countries provide treaty guarantees for systemic risks such as nationalisation in outbound FDI, and when TNCs become members of this convention or agency, some of the systemic risks in outbound investment can be controlled to a certain extent, and when the When losses occur, they can also apply for international compensation, providing international guarantees for the enterprise's outbound investment.

3. Countermeasures against business risks

Preventing business risks requires attention to the following

issues:

- (1) Offshore investment should be geared towards enhancing the core competencies of the investing entity.

Core competence refers to the organic integration of multifaceted skills, complementary assets and operational mechanisms that give an enterprise a competitive advantage in a particular operation, the organic organisation of different technological and management systems, and the knowledge system that identifies and improves competitive advantages. The strength of core competence is the primary constraint on the implementation of overseas investment by enterprises, and is also an important indicator for determining the ability of overseas enterprises to resist business risks. Regardless of the newly established enterprises abroad or direct acquisition of overseas equity, the key to the success of overseas investment lies in whether to play and enhance the core competence of the investment subject, if it is only blind mergers and acquisitions and diversification, which often leads to business failure. At present, many domestic enterprises only pay attention to the external effects of overseas investment, such as the concentration of capital and the expansion of scale, but seldom seriously analyse the essence of the core competence, especially the

Some companies that have the financial strength but not the competitive advantage equate offshore investments with

The offensive expansion has led to overbidding in the acquisition of foreign stakes, which has also affected the actual return on foreign investments.

(2) Implementing an internal diagnostic system to improve the governance and management structure of offshore enterprises.

Overseas operations without a sound competition mechanism and incentive and constraint mechanism are significantly more risky than domestic operations, so the formation of a sound governance and management structure is a prerequisite for overseas enterprises to cope with business risks. Firstly, the internal control mechanism should be improved by strengthening the financial supervision of overseas enterprises. Secondly, when the external governance mechanism of the country in which the overseas enterprise invests is sound, the parent company can arrange its internal governance with the help of the strong supervisory role of the external governance environment to realise effective governance and control of the overseas enterprise, for example, many multinationals have introduced the representatives of the local creditor banks and the independent directorships in the board of directors of the overseas enterprises to strengthen the supervision of the overseas subsidiaries. Finally, parent companies should take the internal diagnosis system as an important means to improve the

governance and management structure of overseas enterprises, and set up special organisations to carry out regular internal assessment of the operation and management of overseas enterprises, and make corresponding recommendations for improvement.

(3) Strengthening the management of offshore enterprises while maintaining their operational flexibility.

The investment entity should clarify the authority of risk decision-making within the TNC, on the one hand, and on the other hand, to prevent

On the other hand, we should also avoid over-regulation, whereby all investments or expenditures must be reported to the head office for approval, which may affect the normal operation of the overseas enterprises.

(4) Focus on the fulfilment of social responsibility.

Under the new situation of China's in-depth implementation of the "going out" strategy and the continuous improvement of the level of opening up to the outside world, it is of great significance for our enterprises abroad to actively fulfil their social responsibilities. In carrying out cross-border operations, enterprises should assume more social responsibility, not only for their own brands,

Investment in credibility and social image, but also in favour of a balance between countries and between companies,

The various relationships of interest between enterprises and society will have a positive impact on the operation of enterprises.

Our Chinese-funded enterprises in Thailand should implement the "Scientific Outlook on Development", combine their business operations with the fulfilment of their social responsibilities, carry out foreign business based on the principle of "mutual benefit and win-win situation and common development", and participate in various social welfare activities, such as disaster relief, poverty alleviation, environmental protection, education, social security, resource conservation, labour protection, etc., so as to integrate into the local society and build up a good image of Chinese enterprises. We are also keen to participate in disaster relief, poverty alleviation, environmental protection, education, social security, resource conservation, labour protection and other social welfare activities, so as to integrate into the local society, build up a good image of the Chinese-funded enterprises, and create a good atmosphere conducive to harmonious coexistence and common development between us and the local society.

Chapter VII Analysis of the impact of the project on our national interests and national security

I. Impact of the project on the development of the industry

The rubber industry in Serbia was at its peak in the 1980s, when 20,000 people were employed, accounting for 55-60 per cent of the Yugoslav rubber industry. Annual exports amounted to \$200 million. After the dissolution of Yugoslavia, the rubber industry declined sharply. In recent years the rubber industry entered into privatisation and in 2003 the American company GALAXY TIRE & WHEEL acquired the company PUMA-GUMA, and the French company MICHELIN became the biggest shareholder of the company TIGER MH, which produces tyres. In 2004 the export of rubber products reached the highest level in the history, amounting to 186.6 million euros. The export of tyres and tubes from TIGER MH was nearly 8 million euros. TIGER MH exported nearly 80 million euros in tyres and tubes.

Shandong Linglong Tyre Co., Ltd. is a professional, large-scale technology-based tyre production enterprises, has grown into a well-known tyre enterprises in China, for many years in the world's top 20 tyres, China's top five tyres. The research and development covers all-steel radial tyres, semi-steel radial tyres and semi-steel radial tyres.

Radial tyres and other areas of more than 3,000 specifications of tyre varieties, product range ranks among the forefront of

domestic counterparts, in the global tyre processing industry in a leading position.

The construction of the project is compatible with the development of the tyre processing industry in Serbia, and for the It is of great significance to promote the development of the local tyre industry, stimulate the development of automobile, transport, packaging and other related industries, stimulate social demand and promote social consumption.

II. Macroeconomic impact of the project

Serbia is a landlocked country in south-eastern Europe, in the middle of the Balkan Peninsula, with a total land area of 88,361 square kilometres (including Kosovo) and Belgrade as its capital. In 2017, Serbia's GDP grew by 1.9 per cent in real terms compared to the previous year; investment in fixed assets grew by 5.3 per cent in real terms compared to the previous year; industrial production grew by 3.9 per cent in real terms compared to the previous year; agricultural production fell by 10.0 per cent in real terms compared to the previous year. Construction grew by 2.8 per cent in real terms compared to the previous year; retail trade

4.0 per cent in real terms compared to the previous year; 7.8 per cent in real terms compared to the previous year in the catering and accommodation services and food processing sector; 10.3 per cent increase in the number of passenger overstays compared to the previous year; 9.9 per cent increase in real terms compared to the previous year in the transport and warehousing sector; and 1.2 per cent increase in the telecommunication sector. In euro terms, foreign trade in 2017 increased by 13.0 per cent in exports and 14.2 per cent in imports compared with the previous year

The project contractor Shandong Linglong Tire Co., Ltd. to take advantage of its own favourable conditions, the use of advanced radial tyre production technology and equipment, improve product quality, investment and construction in Serbia with an annual output of 13.62 million high-performance radial tyre project, will achieve the sale of Sales revenue of US\$640,183,000 (equivalent to RMB401,852,000) increased for the local government.

Plus tax 119,366,500 yuan (including additional tax, personal income tax), is to accelerate the development of enterprises, drive the national economy of Serbia to improve the inevitable requirements. At the same time, the construction of the project can further promote the development of our national economy and improve our social status in the international arena. Therefore, the construction of the project is of significance in promoting the macroeconomic development of China and Serbia.

III. Impact of the project on our relations with the countries concerned.

Since the "Belt and Road" initiative was put forward, more and more Chinese entrepreneurs have been involved in investment and construction to explore new markets. Serbia is one of the countries in the circle of friends of China's "Belt and Road" and is currently the second largest investment destination in the world. With a history of more than 70 years and the production of more than 5 million buses, the automobile manufacturing industry is undoubtedly the most important industrial sector in Serbia, and many world-class tyre companies, such as Bosch, Michelin and Continental, have built their factories in Serbia, which is an obvious industrial cluster effect for the project unit.

As one of the top 20 tyres in the world and one of the top 5 tyres in China, Linglong Tire has been actively responding to the strategy of "One Belt, One Road" in recent years, and has become more and more closely involved with the countries along the route, composing the chapter of tyre "Made in China". According to the plan, Linglong Tyre will set up two overseas production bases in Europe and the United States, and strive to reach 8000 tyre production capacity by 2020.

Ten thousand sets. Currently, the company is working on Serbia, the Czech Republic, Poland, Hungary and other Eastern European The country to carry out investment visits. The President of Serbia, Aleksandar Vučić , threw an olive branch to the project unit and offered a number of preferential policies, hoping that the project unit would give full consideration to Serbia as the main intention of investment.

Favourable two-way investment treatment is an essential feature of the FTA. In December 1995, China signed a Bilateral Investment Protection Agreement (BIPA) with the former FRY, and in March 1997, China signed an Agreement on the Avoidance of Double Taxation (DTA) with the former FRY, which is still in force as Serbia inherited the status of the former FRY as a subject of international law. In addition to the above-mentioned BIPA and DTA, China has signed nine other agreements with Serbia. Serbia and China have a long history of friendly relations, and Serbia is the first country in Central and Eastern Europe to establish a comprehensive strategic partnership, with frequent exchanges between the two sides in various fields and at various levels. The heads of state of the two countries signed the Joint Declaration on the Establishment of Comprehensive Strategic Partnership between China and Serbia, which upgraded the positioning of China-Serbia relations to a comprehensive strategic partnership; the heads of state of the two countries also witnessed the signing of a number of intergovernmental and commercial agreements covering capacity building,

infrastructure, and business. The two heads of state also witnessed the signing of a number of inter-governmental and commercial agreements, involving cooperation in various fields such as production capacity, infrastructure, military industry, science and technology, culture, media and local contacts.

It can be seen that the construction of this project will indirectly promote the cooperation between China and Serbia, promote friendly exchanges and mutually beneficial co-operation between the two countries, and further create a unique and bright landscape of China-Serbia relations in the new era.

IV. Whether the project involves offshore investment prohibited in China

The construction of the project is not included in the categories of restricted outbound investments and prohibited outbound investments in the Guiding Opinions on Further Guiding and Regulating the Direction of Outbound Investments (Guo Ban Fa [2017] No. 74) issued by the National Development and Reform Commission, the Ministry of Commerce, the People's Bank of China and the Ministry of Foreign Affairs. In addition, the construction of the project will not constitute a material adverse impact on the fulfilment of China's relevant international obligations, and there are no other circumstances that threaten China's national interests and national security.