京城機電股份
JINGCHENG MAC

北京京城機電股份有限公司
Beijing Jingcheng Machinery Electric Company Limited

(a joint stock limited company established in the People's Republic of China)
(Stock Code: 0187)

OVERSEAS REGULATORY ANNOUNCEMENT

This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Announcement of Beijing Jingcheng Machinery Electric Company Limited (the "Company") in relation to Proposal for Non-Public Issuance of A Shares, which is published by the Company on the website of the Shanghai Stock Exchange, is reproduced herein for your reference.

This announcement was originally prepared in Chinese and the English version is for reference only. If there is any discrepancy between the English and Chinese version, the Chinese version shall prevail. Pursuant to the Implementation Rules for the Non-public Issue of Shares by Listed Companies (2017 Revision) (上市公司非公開發行股票實施細則(2017年修訂)) promulgated by the CSRC, the Board shall prepare the Proposal for Non-public Issuance of A Shares in accordance with the requirements set out in No. 25 Guideline on the Contents and Formats of Information Disclosure by the Companies – Advanced Proposal and Issuance Reports on the Non-public Issue of Shares by Listed Companies (公司信息披露內容與格式準則第25號－上市公司非公開股票預案和發行情況報告書) ("No. 25 Guideline"). The said Proposal is required to be approved by the Board and the Shareholders in accordance with the Administrative Measures for the Issuance of Securities by Listed Companies (上市公司證券發行管理辦法) promulgated by the CSRC.

All the numbers in this announcement are prepared using PRC GAAP. Net profit attributable to the equity holders of the Company excluding non-recurring profit/loss for the year of 2019 in Section VII of this announcement constitutes profit forecast under Rule 10 of the Takeovers Code and is required to be reported in accordance with Rule 10 of the Takeovers Code. The information relating to 2019 is prepared for illustrative purposes only and does not represent the Company's judgments on its operation results or trend in 2019, and it will be inappropriate for the Company to prepare an actual profit forecast for 2019 at the beginning of the year to provide the relevant illustration given that it will prematurely disclose the business plans of the Company, leak its business secrets, severely jeopardise the competitiveness of the Company and harm the interests of the Company and the Shareholders as a whole and at the same time not providing meaningful information to the Shareholders as a profit forecast at the beginning of the year may not present sufficient accuracy and may even be misleading to Shareholders, an application has been made to the Executive for a waiver from the reporting on requirements set out in Rule 10 of the Takeovers Code, and the Executive has indicated that it is minded to grant such consent. As such information relating to 2019 has not been reported on in accordance with Rule 10 of the Takeovers Code, it does not meet the standard required by Rule 10 of the Takeovers Code. Shareholders and potential investors of the Company should exercise caution in placing reliance on such profit forecast in assessing the merits and demerits of the Non-public Issuance of A Shares and the whitewash waiver.

Stock Code: 600860.SH Abbreviation: 京城股份
Stock Code: 0187.HK Abbreviation: JINGCHENG MAC

BEIJING JINGCHENG MACHINERY ELECTRIC COMPANY LIMITED

(Room 901, No. 59 Mansion, Dongsanhuan Road Central, Chaoyang District, Beijing)

PROPOSAL FOR NON-PUBLIC ISSUANCE OF A SHARES

This document contains information including analysis which is prepared pursuant to the relevant requirement prescribed under the Opinions of the State Council on Further Promoting the Sound Development of Capital Markets (Guo Fa [2014] No.17) (《國務院辦公廳關於進一步促進資本市場健康發展的若干意見》), Opinions of the General Office of the State Council on Further Strengthening the Work of Protection of the Legitimate Rights and Interests of Minority Investors in the Capital Markets (Guo Ban Fa [2013] No.110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》) and Guiding Opinions on Matters concerning the Dilution of Current Return in Initial Public Offering, Refinancing and Material Asset Restructuring (Announcement No.31 [2015] of the CSRC) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》), the Guiding Opinions on Matters Relating to the Dilution of Current Returns as a Result of Initial Public Offering, Refinancing (《關於首發及再融資對攤薄即期回報有關事項的指導意見》). Such analysis (including assumptions) adopted in preparation thereof are for illustration purposes only and does not constitute a commitment, profit forecast or performance commitment by the Company.

April 2019

Issuer's Statements

1. Beijing Jingcheng Machinery Electric Company Limited and all members of the Board of Directors guarantee that the contents of the proposal for non-public issuance of A shares are true, accurate and complete without false records, misleading statements or major omissions.

2. Upon completion of this non-public issuance of A shares, the changes in the operation and income shall be borne by the Company at its own and the investment risks arising from this issuance shall be assumed by the investors.

3. The proposal is the description of the non-public issuance of A shares by the Board of Directors of the Company, and any statement to the contrary shall be misrepresentation.

4. Investors should consult their own stockbrokers, lawyers, professional accountants or other professional advisers if in doubt.

5. The matters mentioned in the proposal do not represent the substantive judgment, confirmation or approval of the approval authorities on the matters relating to the non-public issuance of A shares, and the effectiveness and completion of the matters relating to the non-public issuance of A shares mentioned in the proposal shall be subject to the approval and verification of the relevant approval authorities.

Special Reminders

1. The proposal for non-public issuance of A shares and related matters have been reviewed and approved by the 13th meeting of the 9th session of the Board of Directors of Beijing Jingcheng Machinery Electric Company Limited on 6 May 2019, and shall still be subject to the approval of the state-owned assets competent authorities, the consideration and approval of the Company's general meeting and the approval of the CSRC. Upon the approval of the CSRC, the Company will apply to the Shanghai Stock Exchange and the Shanghai branch of China Securities Depository and Clearing Co., Ltd. for the issuance and listing of shares, and complete all reporting approval procedures for the non-public issuance of A shares.

2. The target subscriber of the non-public issuance shall be Jingcheng Machinery Electric. The target subscriber shall subscribe the shares offered in this non-public issuance in cash. Upon completion of this issuance, the shares subscribed by the target subscriber shall not be transferred within 36 months from the date of the end of this non-public issuance.

3. The total number of A shares issued in this non-public issuance shall not exceed 84.4 million (inclusive), subject to adjustment if there are any ex-right and ex-dividend issues such as dividend distribution, bonus issue, and capitalization issue during the period from the announcement of this proposal to the issue date. The final number of A shares under this non-public issuance shall be determined by and between the Board of Directors of the Company authorized by the general meeting and the lead underwriter in accordance with the quantity limit and issue price approved by the CSRC.

4. Before the issuance, Jingcheng Machinery Electric directly holds 43.30% of the Company's equity and is the controlling shareholder of the Company. The shareholding proportion of Jingcheng Machinery Electric which will participate in such subscription will increase to 52.75% after the completion of this non-public issuance (assuming a total of 84.4 million shares issued), and it will still be the largest shareholder with no change in the Company's right of control.

5. The pricing benchmark date for the non-public issuance of A shares is the first day of the issuance period, and the issue price shall not be less than 90% of the average transaction price of A shares in the 20 trading days prior to the pricing benchmark date (Average price of A shares in the 20 trading days before the pricing benchmark date = total amount of trading A shares in the 20 trading days before the pricing benchmark date/total volume of trading A shares in the 20 trading days before the pricing benchmark date), and shall not be lower than the amount of audited net asset per Share attributable to the shareholders of ordinary shares of the parent company as set out at the latest audited consolidated financial statement. The lowest price under this non-public issuance shall be subject to adjustment pursuant to the requirements of relevant laws and regulations if the CSRC made adjustments to the pricing method of the non-public issuance prior to the issuance.

   If any ex-right and ex-dividend event such as bonus issue of shares and capitalisation issue occurs during the period from the pricing benchmark date to the date of this issuance, the issue price of this non-public issuance shall be adjusted accordingly.

6. The total amount of proceeds from the non-public issuance of A shares (including the issuance expenses) shall not exceed RMB462.283 million, which will be used for the type IV cylinders construction project, research and development of hydrogen energy products and repayment of debts to Jingcheng Machinery Electric and the financial institutions.

7. The Company has improved its profit distribution policy in accordance with the requirements of Announcement on Further Implementation of Relevant Matters Concerning Cash Dividend Distribution of Listed Companies (《關於進一步落實上市公司現金分紅有關事項的通知》) and Guidelines No. 3 on the Supervision and Administration of Listed Companies – Distribution of Cash Dividends of Listed Companies (《上市公司監管指引第3號—上市公司現金分紅》) of the CSRC. For details of dividend distribution policy, amount and proportion of cash dividends in the past three years, and arrangement of the use of undistributed profits, please refer to "Section VI-Profit Distribution" in this proposal.

8. After the completion of this issuance, the new and existing shareholders of the Company shall share the undistributed profits of the Company before the issuance so that the interests of both new and existing shareholders will be protected.

Definition

For the purpose of this non-public issuance of A shares proposal, the following abbreviations shall have the following meanings unless otherwise specified in the context:

"The Company", "Company", "issuer", Jingcheng MAC	Beijing Jingcheng Machinery Electric Company Limited (北京京城機電股份有限公司)
"Controlling shareholder", or "Jingcheng Machinery Electric"	Beijing Jingcheng Machinery Electric Holding Co., Ltd (北京京城機電控股有限責任公司)
"Beijing Tianhai"	Beijing Tianhai Industry Co., Ltd. (北京天海工業有限公司), a wholly-owned subsidiary of the issuer
"type II cylinders"	Metal tank circumferential winding compound gas cylinder (金屬內膽環向纏繞複合氣瓶), mainly used for vehicle fuel storage, for filling natural gas or hydrogen
"type III cylinders"	Metal tank full-winding compound gas cylinder (金屬內膽全纏繞複合氣瓶),mainly used for vehicle fuel storage, for filling natural gas or hydrogen
"type IV cylinders"	Plastic tank full-winding compound gas cylinder (塑料內膽全纏繞複合氣瓶), mainly used for vehicle fuel storage, for filling natural gas or hydrogen
"Construction project of intelligent numerical control production line for type IV cylinders"	The Construction project of intelligent numerical control production line for Plastic tank full-winding compound gas cylinder (塑料內膽全纏繞複合氣瓶)
"LNG"	Liquefied natural gas
"CNG"	Compressed natural gas
"Issuance/non-public issuance"	A non-public issuance of no more than 84,400,000 shares (inclusive) of ordinary shares (A shares) to Jingcheng Machinery Electric by the issuer in the form of the non-public issuance
"proposal"	The proposal for the non-public issuance of A shares of Beijing Jingcheng Machinery Electric Company Limited
"Company Law"	The Company Law of the PRC
"Securities Law"	The Securities Law of the PRC

"CSRC"	China Securities Regulatory Commission
"Shanghai Stock Exchange"	The Shanghai Stock Exchange
"NDRC"	National Development and Reform Commission of the PRC
"Beijing SASAC"	State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality
"Articles of Association"	Articles of Association of Beijing Jingcheng Machinery Electric Company Limited
"Board of Directors of the Company" or "Board of Directors"	The Board of Directors of Beijing Jingcheng Machinery Electric Company Limited
"general meeting of shareholders" or "general meeting"	The general meeting of shareholders of Beijing Jingcheng Machinery Electric Company Limited
"RMB", "RMB0'000"	RMB, RMB ten thousand

Note: All amounts herein are rounded to two decimal places unless otherwise indicated. Any discrepancy between the total number and the sum of bottom-line items is due to rounding.

Section I Summary of the Non-public Issuance of A Shares Proposal

I. Basic information of the Issuer

Registered Chinese name	北京京城機電股份有限公司
Registered English name	Beijing Jingcheng Machinery Electric Company Limited
Registered capital	RMB422,000,000
Legal representative	Wang Jun (王軍)
Date of establishment	13 July 1993
Date of listing	6 May 1994
Abbreviation of A shares	京城股份
Stock code of A shares	600860
Abbreviation of H Shares	JINGCHENG MAC
Stock code of H Shares	00187
Type of industry	Industrial machinery
Company address	Room 901, No. 59 Mansion, Dongsanhuan Road Central, Chaoyang District, Beijing (北京市朝陽區東三環中路59號樓901室)
Listing exchange of A shares	The Shanghai Stock Exchange
Listing exchange of H shares	The Stock Exchange of Hong Kong Limited
Tel	010-67365383/010-58761949
Fax	010-87392058
E-mail	jcgf@btic.com.cn
Business scope	General freight; professional contracting; development, design, sales, installation, debugging and repair of cryogenic storage transport vessel, compressor (piston compressor, membrane compressor and nuclear membrane compressor) and accessories, machinery equipment and electrical equipment; technical consulting; technical service; economic trade consulting; goods import and export; technical import and export; and agency for import and export. (Upon the receipt of this license, the Company shall obtain an administrative license from the Municipal Commission of Housing and Urban-rural Development. For projects subject to approval according to the law, the operating activities shall only be carried out within the approved scope upon the approval of the relevant authorities.

II. Background and purpose of the non-public issuance

(I) Background of the non-public issuance

1. Rapid growth of the hydrogen energy industry

Facing the increasingly serious world energy crisis and environmental problem, the countries across the world are actively developing new clean and economical energy. The hydrogen energy, as a secondary energy, is considered to be the most promising clean energy in the 21st century with its abundant, high combustion value, clean and renewable features, and is the development direction of strategic energy for human beings.

The State Council printed and issued Made in China 2025 (《中國製造2025》) in May 2015, proposing to promote the localization of key materials and key parts of system (such as air compressor, membrane humidifier, solenoid valve, 70MPa hydrogen cylinder for vehicles) for fuel cell. In March 2016, National Development and Reform Commission and National Energy Administration jointly issued the Action Plan for Energy Technical Reform and Innovation 2016-2030 (《能源技術革命創新行動計劃(2016-2030年)》) proposing the technical innovation of hydrogen energy and fuel cell, and developing key materials and technical equipment for hydrogen storage and transportation. In November 2016, the State Council printed and issued the "13th Five-Year" Plan for Emerging Sectors of Strategic Importance (《"十三五"國家戰略性新興產業發展規劃》), which clearly proposed the systemical promotion of the development and research and industrialization of fuel cell vehicles and required to promote the hydrogen storage system for vehicles, the development for hydrogen manufacturing, storage, transportation and refueling technologies and the construction of hydrogen station. In May 2017, the Ministry of Science and Technology and the Ministry of Transport jointly issued the "13th Five-Year" Plan for Projects of Science and Technology Innovation for the Transportation (《"十三五"交通領域科技創新專項規劃》) to promote the development of hydrogen storage and transportation technologies, the construction of hydrogen stations and scale demonstration of fuel cell vehicles.

Beijing Municipal Commission of Science and Technology, Beijing Municipal Commission of Economy and Information Technology and other units proposed in the Guiding Opinions of Beijing Municipal on Accelerating the Scientific and Technological Innovation to Cultivate New Energy Smart Vehicle Industry (《北京市加快科技創新培育新能源智能汽車產業的指導意見》) to make efforts to develop the fuel cell vehicle mainly relying on hydrogen, focusing on enhancing the development & research and production ability for cell and galvanic pile, Hydrogen circulating pump, air compressor and other parts, high-pressure hydrogen storage and liquid hydrogen storage and support the construction and operation of hydrogen stations.

Influenced by national energy policies, the hydrogen energy industry has developed rapidly and relevant enterprises start to carry out research and development and commercialize fuel cell vehicles. The hydrogen energy industry has a broad market prospect.

2. *The infrastructure construction of hydrogen energy industry is in urgent need of improvement*

In 2012, the State Council pointed out in the Planning for the Development of the Energy-Saving and New Energy Automobile Industry (2012-2020) (《節能與新能源汽車產業發展規劃(2012-2020年)》) that, the fuel cell vehicles and vehicle hydrogen energy industry will keep pace with international market by 2020, and will carry out demonstration of fuel cell vehicle operation, improve the reliability and durability of fuel cell system, and promote the development of hydrogen preparation, storage and transportation and refueling technologies.

3. *The research and development of hydrogen energy industry needs sufficient capital reserve*

Facing the huge potential that hydrogen energy industry will become the next blue ocean, the competition of research and development on hydrogen energy products is increasingly fierce. The competition of research and development on hydrogen energy products has changed from technology, innovation and management at the beginning of the development to all-round competition on the operating ability of the companies concerned. In addition, continuous additional funds must be invested in the process of the research and development project of hydrogen energy products. The latest cutting-edge technologies used in providing integrated system solutions for bottles, hydrogen supply systems, transportation vehicles and stations in the hydrogen energy field require equipment and professional input, and the product design and risk management require a large amount of capital investment. Therefore, the R&D enterprises in the hydrogen energy industry can only achieve rapid business development with sufficient capital reserves and maintain its leading position in fierce competition, so as to obtain good profit returns.

In recent years, with the expansion of production and operation scale of the Company, the demand for continuing investment for research and development and for working capital are increasing. Facing rapid-growing capital demand, the Company mainly relies on bank loans to solve the problem at present, therefore the gearing ratio has been relatively high, which has a certain adverse impact on the Company's operation. In addition, the Company still has capital expenditure requirement for future development and it has to finance its development through various financing channels.

Under the above background, the Company has determined the investment projects for this non-public issuance in accordance with relevant national industrial polices and the overall strategic development direction of the Company in the future, to further highlight its main business, consolidate its leading position in the industry and enhance its competitiveness while optimizing the financial structure and enhancing profitability.

(II) Purpose of the non-public issuance

1. *Increase the application scope of products in hydrogen energy industry chain and improve management efficiency and core competitiveness of the enterprise*

   The whole large industry chain of hydrogen energy industry is mainly divided into four parts: hydrogen manufacturing, hydrogen storage and transportation, hydrogen refueling and use of hydrogen. It is mentioned in the Roadmap of Infrastructure Development for Hydrogen Energy Industry of China (《中國氫能產業基礎設施發展路綫圖》) that by 2020, there shall be more than 100 hydrogen stations, 200,000 kilowatts fuel cell power generation, 10,000 fuel cell transportation vehicles and 50 hydrogen-propelled trains. By 2030, there shall be more than 1,000 hydrogen stations, 100,000,000 kilowatts fuel cell generation, 2,000,000 fuel cell transportation vehicles and long-distance hydrogen pipelines of more than 3,000 kilometers.

   Therefore, the infrastructure development of the hydrogen energy industry is a general trend. Manufacturing products with high efficiency through advanced technology to increase the application range of products in hydrogen industry chain and enhance the overall business management standard of the Company are necessary for the adaptation to market development. Therefore, the research and development center construction of the investment project will enhance the management effectiveness and core competitiveness of the Company, and play a significant role in aspects of clean energy development, terminal energy consumption optimization and supply safety improvement of the Company, and thus bring prominent economic benefits and social benefits.

2. *Enter the blue ocean of developing type IV cylinders and add a new profit growth point*

   The type IV cylinder, with excellent resistance to hydrogen embrittlement corrosion, is a new product leading the development direction of international high-pressure hydrogen containers for hydrogen energy vehicles, and is widely used in developed countries and regions including Europe, the United States and Japan, but is still fresh in China. Currently, the domestic market demand for hydrogen energy is in a phase of steady increase.

   The Company will smoothly enter the field of type IV cylinders manufacturing through the non-public issuance, and firmly grasp the rapid-developing period of type IV cylinders manufacturing, put strong efforts to develop products with high added value for business expansion. The Company will regard the hydrogen energy industrial layout based on type IV cylinders as the new strategic growth point of the Company in the future to rapidly obtain the advantage of leading development, maintain the leadership in technology and enhance the profitability and value of the Company.

3. Optimize the capital structure of the Company and reduce financial expenses

Due to the characteristics of the Company's business operation, the Company's business requires it to have strong capital support ability to invest in research and development. In recent years, with the continuous increase in the projects undertaken by the Company, the overall operating activities of the Company have been in a state of net cash outflow, which is in urgent need of replenishing working capital through financing. With the Company's scale of business expanding year by year, the gearing ratio of the Company is at a relatively high level in the industry, which exposes the Company to certain debt repayment pressure and leaves less room for further debt financing.

After the completion of the non-public issuance, the Company can further optimize its capital structure, reduce financial risk, enhance the comprehensive competitiveness, improve the sustainable profitability and risk-resistant ability of the Company and build a solid foundation for the long-term sustainable development of the Company. In addition, part of the proceeds will be used for repaying borrowings, which can improve the liquidity of the Company's assets, enhance the Company's debt paying ability and reduce financial expenses.

III. Target of issuance and its relations with the Company

(I) Target subscriber

The target subscriber of the non-public issuance of A shares shall be Jingcheng Machinery Electric, which is in line with the relevant provisions stipulated by CSRC.

(II) The relationship between the target subscriber and the Company

As of the announcement date of the proposal, Jingcheng Machinery Electric is the controlling shareholder of the Company.

IV. Price and pricing principle, number of shares to be issued and lock-up period

(I) Class and par value of the shares to be issued

The shares under the non-public issuance are domestically-listed and RMB denominated ordinary shares (A shares) with a par value of RMB1.00 each.

(II) Method and time of issuance

The A shares will be issued to specific target through non-public issuance. The Company will choose the timing to issue shares to specific target during the valid period approved by the CSRC.

(III) Target subscriber and subscription method

All shares under the non-public issuance will be issued to an ascertained investor, namely Jingcheng Machinery Electric. Jingcheng Machinery Electric agreed to fully subscribe for the shares under the non-public issuance by RMB in cash. The Board of Directors of the Company will negotiate with the sponsoring institution (principal underwriter) and determine the final issue size after being approved by the CSRC.

(IV) Pricing benchmark date, issue price and pricing principles

The pricing benchmark date of the non-public issuance of A shares is the first day of the issuance period, and the issue price shall not be less than 90% of the average transaction price of A shares in the 20 trading days prior to the pricing benchmark date (Average price of A shares in the 20 trading days before the pricing benchmark date = total amount of trading A shares in the 20 trading days before the pricing benchmark date/total volume of trading A shares in the 20 trading days before the pricing benchmark date), and shall not be lower than the amount of audited net asset per Share attributable to the shareholders of ordinary shares of the parent company as set out at the latest audited consolidated financial statement. The lowest price under this non-public issuance shall be subject to adjustment pursuant to the requirements of relevant laws and regulations if the CSRC made adjustments to the pricing method of the non-public issuance prior to the issuance. If any ex-right and ex-dividend event such as bonus issue of shares and capitalisation issue occurs during the period from the pricing benchmark date to the date of this issuance, the issue price shall be adjusted accordingly based on the following method:

Bonus issue of shares or capitalisation issue: $P1=P0/(1+N)$

Where: $P0$ denotes the issue price before adjustment; N denotes the number of shares distributed as scrip dividend or converted from the capital reserve per share; $P1$ denotes the new issue price after adjustment.

(V) Number of shares to be issued

The number of A shares to be issued in the non-public issuance shall not exceed 84,400,000 shares (inclusive). In the event of ex-dividend and ex-right of the Company's shares during the period from the pricing benchmark date to the date of issue, the number of A shares to be issued in the non-public issuance shall be subject to adjustment according to the total proceeds and the issue price after the ex-dividend and ex-right.

In the event of ex-right issues including bonus issue and capital conversion during the period from the date of announcement of Board of Directors meeting resolution in relation to the non-public issuance to the first day of the issuance, the maximum shares to be issued shall be subject to adjustment according to the following formula:

$$Q_1 = Q_0 \times (1+N)$$

Of which, Q_0 represents the maximum number of shares to be issued before adjustment; N represents the number of bonus shares or capitalization per share; Q_1 represents the maximum number of shares to be issued after adjustment.

(VI) Lock-up period

After the completion of the non-public issuance of A Shares, the shares subscribed by the target subscriber shall not be transferred within 36 months from the date of the completion of the issuance.

(VII) Arrangement for retained profits before the non-public issuance

After the completion of the issuance, for the interests of new and existing shareholders, the new and existing shareholders of the Company shall be jointly entitled to the undistributed profits before the issuance.

(VIII) Place of listing

After the expiration of the lock-up period of the issuance, the Company will apply for the listing of, and permission to deal in A shares under the non-public issuance on the Shanghai Stock Exchange.

(IX) Validity period of resolution on the non-public issuance

The resolution of the non-public issuance will be valid for 12 months from the date on which the resolution is approved by the general meeting. If the non-public issuance of the Company is approved by the CSRC during the aforesaid validity period, the above-mentioned authorized validity period shall be automatically extended to the date of the completion of the non-public issuance.

V. Utilization of fund raised

The total proceeds of the non-public issuance of A shares (including the issuance expenses) will not exceed RMB462,283,000 and will be used for the construction project of intelligent numerical control production line for type IV cylinders, research and development project of hydrogen energy products and repaying the debts of Jingcheng Machinery Electric and financial institutions. The details are as follows:

Unit: RMB ten thousand

No	Project name	Total investment	Proceeds intended to be used
1	Construction project of intelligent numerical control production line for type IV cylinders	5,200.00	5,200.00
2	Research and development project of hydrogen energy product	2,728.50	2,728.50
3	Repaying the debts of controlling shareholder and financial institutions	38,299.80	38,299.80
Total		**46,228.30**	**46,228.30**

Before the receipt of such proceeds, the Board of Directors of the Company may, according to the market condition and its own actual conditions, select to finance the project construction with its self-raised funds after the approval of the non-public issuance proposal by the Board of Directors, and to be replaced by such proceeds upon receipt.

If the net proceeds actually received after deducting the issuance expense are lower than the proceeds intended to be used, the Company shall meet such capital requirement through its own funds, bank loans and others.

VI. Whether the issuance will constitute a connected transaction

The target subscriber of the non-public issuance of A shares is the controlling shareholder of the Company, namely Jingcheng Machinery Electric, thus the issuance constitutes a connected transaction.

VII. Whether the issuance will cause a change in the right of control of the Company

The issuance will not cause a change in the right of control of the Company.

As of the issuance date of the proposal, Jingcheng Machinery Electric directly holds approximately 43.30% equity of the Company and is the controlling shareholder of the Company. Jingcheng Machinery Electric participates in the subscription and its shareholding, calculated based on the maximum number of 84,400,000 shares, will reach approximately 52.75% after the completion of the non-public issuance. It will still be the first majority shareholder of the Company and thus the issuance will not result in a change in the right of control of the Company.

VIII. Approval has been obtained for the issuance proposal from the relevant competent authorities and approval procedures are still required

According to the provisions of relevant laws, regulations and regulatory documents including Company Law, Securities Law, Administrative Measures for the Issuance of Securities by Listed Companies (《上市公司證券發行管理辦法》) and Detailed Implementation Rules for the Non-Public Offering of Stocks of Listed Companies (《上市公司非公開發行股票實施細則》), the proposal was considered and approved by the thirteenth meeting of the ninth session of Board of Directors of the Company on 6 May 2019 and is subject to the approval of the competent authorities of state-owned assets, the general meeting of the Company and the CSRC.

Upon obtaining the approval of the CSRC, the Company will apply to the Shanghai Stock Exchange and China Securities Depository and Clearing Co., Ltd. (Shanghai Branch) for completing the issue, registration and listing of shares and all reporting and approval procedures of the non-public issuance.

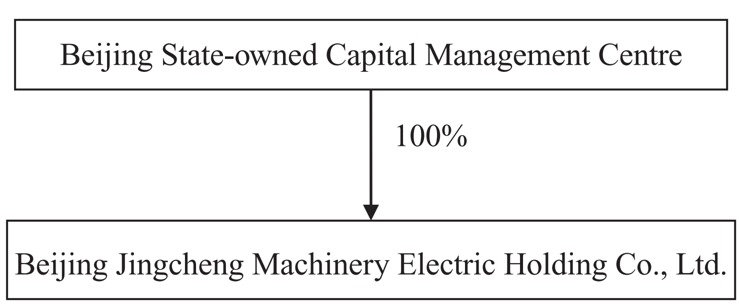
Section II Basic information of the target subscriber

I. Basic information of Jingcheng Machinery Electric

(I) Overview of Jingcheng Machinery Electric

Enterprise name	Beijing Jingcheng Machinery Electric Holding Co., Ltd
Date of establishment	8 September 1997
Registered capital	RMB2,044,687,082.96
Legal representative	Ren Yaguang (任亞光)
Address	18/F, No. 59 Mansion, Dongsanhuan Road Central, Chaoyang District, Beijing (北京市朝陽區東三環中路59號樓18層)
Business scope	Labor dispatching; within the scope of authorization, management of state-owned assets; investment and investment management; real estate development; commercial housing sales; property management; technology transfer, technical training, technical consulting, technical service; sales of machinery and electrical equipment (excluding automobiles); technology development. (Enterprises independently select operation projects and carry out operating activities in accordance with laws; for projects subject to approval according to the law, the operation activities shall only be carried out within the approved scope upon the approval of the relevant authorities; enterprise shall not engage in operating activities prohibited or restricted by industrial policies issued by the municipality.)

(II) The relationship structure diagrams of equity control between the Company and its controlling shareholder and de facto controller



(III) Principal business operation

Jingcheng Machinery Electric is a wholly state-owned company authorized by Beijing municipal government to engage in asset management, its predecessor was the Industrial Bureau of People's Government of Beijing Municipality (北京市人民政府工業局) established in 1949; in 1997, it was restructured into Beijing Machinery Electric Industry Holding (Group) Co., Ltd. (北京機電工業控股(集團)有限責任公司); in 2000, the Company changed to the current name. The de facto controller of the Company is the Sate-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality. The Company is a manufacturing enterprise. At present, the major business sectors mainly include power generation equipment, CNC machine tools, storage and transportation of gas, engineering machine, environment equipment, printing machine, logistics industry, etc.

(IV) Development status and operating results of principal business in the past 3 years

The Company is a manufacturing enterprise. At present, the major business sectors mainly include power generation equipment, CNC machine tools, storage and transportation of gas, engineering machine, environment equipment, printing machine, logistics industry, etc. The Company is operating in a typical cyclical industry and is subject to macroeconomic fluctuations.

In 2015, 2016 and 2017, the principal operational income of the Company amounted to RMB11,908,834,100, RMB11,244,279,400 and RMB10,521,627,000, respectively. The core resources of the Company's income were power generation equipment (accounting for 30.00%, 35.85% and 30.41%), CNC machine tools (accounting for 14.29%, 14.56% and 15.38%), storage and transportation of gas (accounting for 8.71%, 7.68% and 11.09%), etc. The details are as follows:

Unit: RMB ten thousand

	2017			2016			2015		
Business	**Income**	**Percentage (%)**	**Gross margin (%)**	**Income**	**Percentage (%)**	**Gross margin (%)**	**Income**	**Percentage (%)**	**Gross margin (%)**
Power generation equipment	319,973.68	30.41	8.85	403,116.88	35.85	8.88	357,236.66	30.00	7.51
CNC machine tools	161,860.62	15.38	4.46	163,671.55	14.56	4.77	170,232.30	14.29	8.33
Storage and transportation of gas	116,647.22	11.09	15.86	86,370.71	7.68	10.22	103,751.73	8.71	5.86
Logistics industry	90,349.51	8.59	4.54	116,594.43	10.37	3.64	101,997.79	8.56	
Printing sector	67,919.23	6.46	26.76	55,263.16	4.91	24.22	–	0.00	
Hydraulic industry	59,658.57	5.67	8.09	86,099.67	7.66	8.95	80,491.57	6.76	0.75
Rental income	48,302.17	4.59	63.83	41,839.32	3.72	60.15	–	0.00	
Environment protection industry	48,031.82	4.57	15.77	38,241.67	3.40	21.88	61,344.18	5.15	24.39
Engineering machinery	40,431.76	3.84	9.74	53,980.10	4.80	12.96	45,116.75	3.79	11.69
Other principal businesses	98,988.12	9.41	8.21	79,250.45	7.05	26.05	270,712.43	22.73	26.42
Total	**1,052,162.70**	**100.00**	–	**1,124,427.94**	**100.00**	–	**1,190,883.41**	**100.00**	–

(V) Condensed financial data of the target subscriber for the most recent year

The condensed financial data for the most recent year is as follows:

Item	31 December 2018/2018 (RMB ten thousand)
Total assets	3,818,509.67
Total liabilities	2,666,728.40
Owner's equity	1,951,781.27
Operating revenues	997,161.36
Total profits	4,359.65

Note: The above data was audited by Grant Thornton (special general partnership).

(VI) Penalties suffered by the target subscriber and its key management in the past 5 years

None of Jingcheng Machinery Electric and its directors, supervisors, senior management (or principal) is involved in any material lawsuit, arbitration and administrative penalty case that is outstanding, or has been closed but not completed yet or is expect to have material impact on the non-public issuance of A shares conducted by Beijing Jingcheng Machinery Electric Company Limited.

(VII) Situation of horizontal competition and connected transaction between the target subscriber and the Company after the completion of the non-public issuance

1. *Horizontal competition*

   Before and after the non-public issuance, there shall be no horizontal competition between Jingcheng Machinery Electric and the Company and its subsidiaries.

2. *Connected transaction*

   Jingcheng Machinery Electric is the controlling shareholder of the Company and is a connected party of the Company, thus the non-public issuance constitutes a connected transaction. After the completion of the issuance, Jingcheng Machinery Electric is still the controlling shareholder of the Company with a direct shareholding increasing to not exceeding 52.75%. There will be no additional connected transaction between the Company and Jingcheng Machinery Electric due to the non-public issuance.

(VIII) Significant transactions between the Company and the target subscriber and its controlling shareholder and de facto controller within 24 months before the disclosure of the non-public issuance proposal

In the 24 months before the disclosure of the proposal, there is no significant transaction between Jingcheng Machinery Electric, its controlling shareholder, de facto controller and the Company. Jingcheng Machinery Electric does not have any relationship with the Company and its shareholders holding more than 5% of shares, directors, supervisors and senior management. There is no shareholder of the Company holding more than 5% of shares and directors, supervisors and senior management participating in the issuance and subscription through Jingcheng Machinery Electric.

Section III Summary of the conditional Share Subscription Agreement

On 6 May 2019, the Company and Jingcheng Machinery Electric entered into a Share Subscription Agreement, the main contents are as follows:

I. Parties to the contract and execution date

Party A (the issuer): Beijing Jingcheng Machinery Electric Company Limited (北京京城機電股份有限公司)

Party B (the subscriber): Beijing Jingcheng Machinery Electric Holding Co., Ltd (北京京城機電控股有限責任公司)

Date of execution: 6 May 2019

II. Price, number, method of the subscription, payment method and lock-up period

(I) Subscription price

Both parties agree to use the pricing standards stipulated in Administrative Measures for the Issuance of Securities by Listed Companies (《上市公司證券發行管理辦法》) and Implementing Rules on non-public issuance of Shares by Listed Companies (《上市公司非公開發行股票實施細則》) as the pricing basis for the non-public issuance. The pricing benchmark date is the first day of the issuance period. The issue price shall not be less than 90% of the average transaction price of A shares in the 20 trading days prior to the pricing benchmark date (Average price of A shares in the 20 trading days before the pricing benchmark date = total amount of trading A shares in the 20 trading days before the pricing benchmark date/total volume of trading A shares in the 20 trading days before the pricing benchmark date), and shall not be lower than the amount of audited net asset per Share attributable to the shareholders of ordinary shares of the parent company as set out at the latest audited consolidated financial statement. (If the CSRC amends the pricing method of the non-public issuance prior to the Issuance, the Board may, subject to the authorization of Party A at the general meeting, adjust the issue price of the Issuance in accordance with relevant requirements under the relevant laws and regulations.)

If any ex-right and ex-dividend event such as bonus issue of shares and capitalisation issue occurs during the period from the pricing benchmark date to the date of this issuance, the issue price of this non-public issuance shall be adjusted accordingly.

(II) Number of shares to be subscribed

Both parties confirm that, after obtaining the approval of the CSRC for the non-public issuance, Party B shall subscribe for all shares under the non-public issuance in cash (the board of Party A shall negotiate with the sponsoring institution (principal underwriter) to determine the final number of issuances according to the approval of CSRC).

(III) Methods of subscription and payment

1. Party B shall subscribe A shares under the non-public issuance of Party A by RMB in cash.

2. Party B shall subscribe the shares under the non-public issuance conducted by Party A in accordance with the subscription price and subscription number as determined in Article 3 in the Subscription Agreement. After obtaining the approval document approved by the CSRC, Party A and the sponsoring institution of the non-public issuance will send the payment notice of share subscription (hereinafter referred to as "payment notice") in writing to Party B according to the issuance proposal finally approved by the CSRC, Party B shall transfer the subscription funds to the account designated by the sponsoring institution (principal underwriter) as required by the payment notice. The fund will be transferred to the Party A's special deposit account for the proceeds after verifying the capital and deducting the relevant fees.

(IV) Lock-up period

Both parties agree and confirm that, the shares subscribed by Party B under the Subscription Agreement shall be locked up for 36 months from the date of completing issuing shares under the non-public issuance, and shall not be transferred or listed for circulation. Where there are stipulations otherwise provided by the CSRC and Shanghai Stock Exchange, such provisions shall prevail.

Any increased shares arising from the bonus issue and capitalization conducted by Party A shall also be locked up according to the above lock-up period.

III. Conditions precedent and effective time of the contract

The Subscription Agreement shall be executed upon being signed and affixed with the official seal by the legal representatives or authorized representatives of both parties, and shall come into force upon the completion of all the following conditions:

(1) The non-public issuance shall be approved by the Board of Directors meeting of the issuer;

(2) The non-public issuance shall be approved by Beijing SASAC;

(3) The non-public issuance, the Subscription Agreement, whitewash waiver and all relevant and incidental resolutions shall be subject to the approval of A Shareholders' Class Meeting, H Shareholders' Class Meeting and the General Meeting;

(4) The non-public issuance conducted by the issuer shall be approved by the CSRC;

(5) Party A shall obtain all necessary consent, approval, authorization, permit, waiver and notice in respect of the non-public issuance from relevant government departments and/or regulatory institutions;

(6) The issuer shall obtain the whitewash waiver granted by the Securities and Future Commission of Hong Kong and such waiver shall not be revoked before the completion of issuance of A shares according to the Codes on Takeover, Merger and Shares Repurchase (《公司收購、合併及股份回購守則》).

The above Conditions (1) to (6) are all conditions not subject to waiver.

IV. Liability for breach of contract

After signing the Subscription Agreement, except for force majeure, if any party fails to perform or fails to perform timely and properly any obligation hereunder or violate any statement, warranty or undertaking made hereunder, it shall be deemed as breach of contract. The default party shall assume the liability as follows:

(1) where the Subscription Agreement has specified the situation of liability for breach of contract, the relevant provision shall be applied;

(2) for liability for breach of contract not specified in the Subscription Agreement, the defaulting party shall indemnify the non-defaulting party in full for any loss suffered by, any liability of and/or any fees (including reasonable legal fees and travelling expenses, etc.) of the non-defaulting party arising from the breach of contract.

If any party does not perform or fails to perform promptly or properly any obligation ought to be performed under the Subscription Agreement, which result in the failure of achieving the purpose of the Subscription Agreement, the non-defaulting party shall be entitled to cancel the Subscription Agreement. The defaulting party shall indemnify the non-defaulting party in full for the loss arising from the breach of contract.

After the signing of the Subscription Agreement and prior to the completion of the non-public issuance, if Party B unilaterally cancels or terminates the Subscription Agreement, or if after the satisfaction of all conditions precedent of the Subscription Agreement, Party B fails to pay the subscription amount in full in a timely manner prior to the specific payment date confirmed between Party A and the sponsor as required in the Subscription Agreement, Party B shall pay 3% of the total funds raised from the non-public issuance as the liquidated damages.

If the abovementioned liquidated damages cannot cover the loss suffered by Party A, Party A shall be entitled to request Party B to fully indemnify for the loss suffered by, any liability of and/or any fees (including reasonable legal fees and travelling expenses, etc.) of Party A.

However, if Party B unilaterally cancels or terminates the Subscription Agreement in accordance with the requirements of the laws and regulations and the terms of the Subscription Agreement, such cancellation or termination shall not be regarded as a breach of contract.

If the non-public issuance (1) fails to obtain the approval at the general meeting of Party A; and/or (2) fails to obtain the approval and/or exemption from the CSRC and/or other competent authorities (if necessary); and/or (3) is adjusted by Party A for matters including the pricing benchmark date due to changes in the securities market, and if the board of Party A unilaterally terminates the contract, thus the non-public issuance cannot proceed, such circumstances shall not constitute the breach of contract by Party A.

Section IV Feasibility Analysis of the Board of Directors on the use of the proceeds

I. Plan of the Use of Proceeds from the Issuance

The proceeds from the non-public issuance of A shares will be all used in the construction project of intelligent numerical control production line for type IV cylinders, research and development ("R&D") project of the hydrogen energy products and repayment of the debts due to the controlling shareholders and financial institutions.

Among them, RMB52,000,000 of the proceeds will be used in the construction project of intelligent numerical control production line for type IV cylinders; RMB27,285,000 of the proceeds will be used in the R&D project of the hydrogen energy products; RMB382,998,000 will be used in the repayment of debts due to the controlling shareholders and financial institutions. The total amount of proceeds from the non-public issuance will not exceed RMB462,283,000.

The specific information of investment projects is set out below:

Unit: RMB0'000

No.	Name of Project	Total Investment	Proposed Amount of Proceeds to be Applied
1	The construction project of intelligent numerical control production line for type IV cylinders	5,200.00	5,200.00
2	R&D project of the hydrogen energy products	2,728.50	2,728.50
3	Repayment of debts due to the controlling shareholders and financial institutions	38,299.80	38,299.80
Total		**46,228.30**	**46,228.30**

Prior to the receipt of the proceeds, upon the approval of the proposal of the non-public issuance by the Board of Directors, the Board of Directors of the Company may, according to the market conditions and its own actual conditions, take the opportunity to invest in the project construction by using of its self-raised funds, and replace the funds with the proceeds received later.

If the net amount of funds actually raised after deducting the expenses of the issuance is lower than the proposed amount of proceeds to be applied, the Company will meet the funding needs through its own funds, bank loans or other means.

II. The construction project of intelligent numerical control production line for type IV cylinders

(I) Overview of the Investment Project

Implementing entity: Beijing Tianhai

Method of implementation: The issuer will use the proceeds to increase capital in Beijing Tianhai, and the implementation of the project will be made by Beijing Tianhai

Location of construction: East Area, No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing

Construction period: 3 years

Project description: The total investment in the project will be RMB52,000,000, which is used to construct the construction project of intelligent numerical control production line for type IV cylinders of Beijing Tianhai. The type IV cylinder is mainly used for hydrogen storage tank in fuel vehicle battery system, component of fuel cell hydrogen system and natural gas storage tanks in natural gas vehicle systems. The main contents of construction include: construction engineering, equipment purchase and installation engineering, etc.

Investment plan:

No.	**Project Items**	**Estimated Static Investment (RMB 0'000)**
1	Equipment purchase and installation fee	3,700.00
2	Other fees	800.00
3	Feasibility study report fee	5.00
4	Design fee	20.00
5	Environmental impact consultation fee	30.00
6	Safety impact consulting fee	30.00
7	Occupational health impact consultation costs	25.00
8	R&D expenses	480.00
9	Process and completion audit	20.00
10	Contingencies	190.00
Sub-total		**4,500.00**
11	Working capital	700.00
Total		**5200.00**

Forecasted performance of project investment:

Performance Indicators	Unit	Investment Performance
Total investment in the project	RMB0'000	5,200.00
Financial internal rate of return (after tax)	%	10.84
Financial net present value (after tax)	RMB0'000	58.58
Payback period (excluding construction period)	Year	6.83

(II) Approval by the Competent Authorities and the Procedures for Pending Approval

The approval for project initiation has been granted by the Beijing Economic and Information Technology Commission, and other relevant approvals are being applied for.

(III) Prospects of the Project

The type IV cylinder produced in this project is mainly used for gas storage device in hydrogen energy vehicles and natural gas vehicles.

1. *Hydrogen Energy Vehicles Sector*

On 28 October 2016, the China National Institute of Standardization and the National Hydrogen Energy Standardization Technical Committee issued the Blue Book on Infrastructure Development of China's Hydrogen Energy Industry (2016) (《中國氫能產業基礎設施發展藍皮書(2016)》), which clearly stated the development goals in the three phrases of near term (2016-2020), medium term (2020-2030) and long term (2030-2050) as well as main tasks of the infrastructure development of China's hydrogen energy industry as follows:

Phase	Period	Number of Hydrogen Refueling Stations	Number of Fuel Cell Vehicle Ownership (10,000 units)	Target of Hydrogen Industry (RMB100 million)
Near term	(2016-2020)	100	1.00	3,000.00
Medium term	(2020-2030)	1,000	200.00	10,000.00
Long term	(2030-2050)	Construction of network of hydrogen refueling stations will be completed	1,000.00	40,000.00

In 2017, the Ministry of Industry and Information Technology, National Development and Reform Commission and Ministry of Science and Technology jointly issued the Medium and Long Term Development Plan for the Automotive Industry (《汽車產業中長期發展規劃》), which proposes the technical roadmap for the hydrogen fuel cell vehicle industry in China and strengthening of the core technology research, and states that strengthening of the R&D of fuel cell vehicles and the planning of the innovation center construction project, including technical roadmaps of hydrogen fuel cell vehicles, lightweight of automotive and automobile manufacturing. One of the key tasks is to deploy in the development of six innovation chains including power battery and battery management systems and fuel cell power systems. Starting from 2020, phase progress will be achieved every five years. Details are as follows:

Time	**Overall objective**
By 2020	The small-scale pilot application will be applied in the public service vehicles in specific regions, the production capacity of fuel cell system will exceed 1,000 sets per plant, and high-pressure gaseous hydrogen storage and transportation will be achieved. The number of hydrogen refueling stations will exceed 100.
By 2025	The large-scale application will be achieved in urban private vehicles and public service vehicles, the performance of key components such as high-speed oil-free air compressors, hydrogen circulation systems, 70MPa hydrogen storage tanks will meet the requirements of automotive indicators, the production capacity of fuel cell system will exceed 10,000 sets per plant and high-pressure gaseous low-temperature liquid hydrogen storage and transportation will be achieved. The number of hydrogen refueling stations will exceed 300.
By 2030	The large-scale commercial application will be achieved in the private passenger cars and large commercial vehicles, the production capacity of fuel cell system capacity will exceed 100,000 sets per plant. Normal-pressure and high-density organic liquid hydrogen storage and transportation will be achieved, the number of hydrogen refueling stations will exceed 1,000.

2. *Natural Gas Vehicles Sector*

In recent years, affected by shortages of natural gas, development of the natural gas automobile industry has slowed down. However, as a clean energy resource, development potential and market prospects of natural gas are still optimistic. The number of natural gas vehicle ownership in China as of the end of 2017 and the number of natural gas vehicle filling stations in China at the end of 2017 were as follows:

Number of natural gas vehicle ownership in China as of the end of 2017

Category	**Number of vehicle ownership (ten thousand units)**	**Year-on-year increase in number (ten thousand units)**	**Increase in percentage**
CNG	573	41.4	7.80%
LNG	35	9	34.60%
Total	608	50.4	9.00%

Number of natural gas vehicle filling stations in China at the end of 2017

Category	**Number**	**Year-on-year increase in number**	**Increase in percentage**
CNG	5300	200	3.90%
LNG	3100	400	14.80%
Total	8400	600	7.70%

According to the estimates of the CPPEI, the fuel of about 80% of the taxis and buses and about 5% of the road trucks and passenger cars in China have been converted to natural gas, which can consume 50 billion cubic meters of natural gas and there are huge potentials in the market. Natural gas has been widely used in automobiles. With the improvement of China's natural gas pipeline network and the increasing pressure of emission reduction, natural gas as a fuel for automobiles will be heavily used in the eastern region, which will definitely bring about a larger demand for gas cylinders.

With the scarcity of energy resources and the increasing demand for clean energy in various countries around the world, the development of gas cylinder business for natural gas vehicles has been promoted, especially demand for composite gas cylinders will accelerate in Europe, the Middle East, North America and South Asia. It is expected that the next 10-20 years will be a rapid development period of composite gas cylinders.

3. Forecast of Market Demand

Because there is no type IV cylinder production and sales enterprise in China at present, by 2022, the main competitive products of the type IV cylinder will include type III cylinder and type II cylinder. With increasing support for the hydrogen energy industry in China, the type IV cylinder is gradually accepted by customers. By 2025, the maximum replacement rate of the type IV cylinder in the type II cylinder CNG market is expected to be 4%, and the replacement rate in the type III cylinder hydrogen energy market is expected to be around 50%. At present, the distribution of the type IV cylinders of Beijing Tianhai and the expected demand for the type IV cylinders in the Chinese market in the coming period is set out as follows:

(1) Type IV cylinders for hydrogen fuel cell vehicles

According to the Blue Book on Infrastructure Development of China's Hydrogen Energy Industry (2016) (《中國氫能產業基礎設施發展藍皮書(2016)》), by 2020, hydrogen fuel cell vehicles will reach about 10,000 vehicles. Based on this schedule, it is estimated that in 2020, there will be about 4,000 new hydrogen fuel vehicles, which will have demand for 8,000 gas cylinders. Given the type IV cylinder is a new product, it takes a certain time to enter the market and obtain the recognition of customers. Therefore, in the early stage, the replacement volume of the type IV cylinder project for hydrogen product is about 1,500 units. With the growth of the hydrogen energy industry in China, the replacement volume of the type IV cylinder and the expected sales volume of Beijing Tianhai will enter a stage of rapid growth.

According to the development plan of the Blue Book, Beijing Tianhai forecasts the future market of hydrogen fuel cell vehicles and the expected future market size of hydrogen cylinder, which are set out in the following table:

No.	Year	Total market size (10,000 units)	Increase in the current year (10,000 units)	Hydrogen cylinders demand (10,000 units)	Replacement volume of type IV cylinders (unit)	Replacement rate of type IV cylinders	Targeted share of Beijing Tianhai (unit)	Market share of Beijing Tianhai
1	2020	1	0.4	0.8	1,500	18.75%	1,500	100%
2	2021	3	2	4	5,000	12.50%	4,000	80%
3	2022	6	3	6	12,000	20.00%	8,000	66%
4	2023	10	4	8	24,000	30.00%	16,000	66%
5	2024	14	4	8	32,000	40.00%	17,000	53%
6	2025	18	4	8	40,000	50.00%	18,000	45%

(2) Type IV Cylinder for Natural Gas Vehicles

In the field of natural gas, the type IV cylinders are intended to replace some of the type II cylinders, steel tank full-winding gas cylinders and type III cylinders. According to incomplete statistics, in the current Chinese market, the market size of composite natural gas cylinders is approximately 600,000 units. Thanks to the light weight and economic feature, the market size for full-winding compound gas cylinders is expected to reach 5% (i.e. 30,000 units). In the future, the proportion will continuously increase considering the national policies and market recognition. Given the development of the type IV cylinder is in the early stage, this market segment still coexists with the type III cylinder and the type IV cylinder. With the acceptance by customers of the type IV cylinder which will gradually replace the type III cylinder in some sectors, the situation of gradual replacement and coexistence will be formed.

In the early stage of the type IV cylinder entering the CNG market, it will focus on some high-end vehicle models such as Mercedes-Benz buses, Volvo heavy-duty trucks and high-end CNG modification market that is sensitive to weight and driving mileage. As the high-end vehicle models are increasingly competing for lightweight, the type IV cylinders therefore have greater comparative advantages, we can take this opportunity to pursue the market opportunity. The main competitive products include type II cylinders and type III cylinders, and the main competitors include Sinoma, Anhui Clean Energy, Anhui Dapan, and Hunan Yinjian. Given the current situation of CNG conversion market, after first-phase project will be put into production, the total available market of the type IV cylinder in CNG high-end conversion market is expected to be approximately 1,000 units. Based on the development trend of CNG market, the expected future trend of the type IV cylinders is as follows:

No.	Year	Demand for Gas Cylinder (10,000 units)	Replacement volume of type IV cylinders	Replacement rate of type IV cylinders	Targeted share of Beijing	Market share of Beijing
1	2020	60	500	0.08%	500	100%
2	2021	62	2,000	0.32%	1,000	50%
3	2022	64	6,400	1.00%	2,000	31%
4	2023	66	13,200	2.00%	4,000	30%
5	2024	68	20,400	3.00%	3,000	14%
6	2025	70	28,000	4.00%	2,000	7.1%

III. R&D Project of the Hydrogen Energy Products

(I) Overview of R&D Project

Implementing entity: Beijing Tianhai

Method of implementation: The issuer will use the proceeds to increase capital in Beijing Tianhai, and the implementation of the project will be made by Beijing Tianhai

Project description: The total investment in the project will be RMB27,285,000, which is used for the R&D of the 40-foot cylinder-type hydrogen container vehicle, hydrogen supply system and hydrogen refueling station. The main contents of construction include: construction engineering, equipment purchase and installation engineering.

Investment plan:

No.	Estimated investment items	Estimated investment (RMB0'000)
	40-foot cylinder-type container hydrogen vehicle	
1	Cylinder-type hydrogen storage container development costs	50.00
2	Cylinder-type hydrogen storage container (two units) expenses	737.00
3	Trailer (one unit) development costs	35.00
4	Trailer (two units)	60.00
5	Verification of testing equipment	211.50
Sub-total		**1,093.50**
	Hydrogen refueling station	
6	Film laminator	600.00
7	Gas cylinder set	205.00
8	Hydrogenation machine	140.00
9	Cooling systems, process piping systems, electric auto-control systems and safety systems, laboratory equipment and manufacturing costs, etc.	230.00
Sub-total		**1,175.00**
	Vehicle hydrogen supply system	
10	Hydrogen cylinder	83.00
11	Frame, cylinder valve, testing equipment, etc.	377.00
Sub-total		**460.00**
Total		**2,728.50**

(II) The Approval by the Competent Authorities and the Procedures for Pending Approval

This project is a R&D project and is not subject to the approval of relevant authorities.

(III) Prospects of the Project

1. The necessity of product R&D

(1) 40-foot hydrogen container storage truck

At present, given the limited amount of gas used and short distance transport of hydrogen, the high-pressure container is mainly used for storage and the tractor is used for transportation. According to statistics, since the end of 2018, the hydrogenation capacity of most of new hydrogen refueling stations was 500KG. The hydrogen is transported by duct truck in China, the weight of the whole vehicle is 40 tons with the amount of hydrogen of less than 400Kg, while the high-pressure type III and type IV cylinder-type containers can transport nearly 814kg. It has huge advantage in hydrogen storage and provides efficient and lightweight method of hydrogen transportation. Above all, the implementation of the 40-foot cylinder-type container hydrogen truck project is in line with the Company's strategic development direction, and is an inevitable choice for the Company to carry out product iteration, technology upgrade and competitiveness enhancement.

(2) Hydrogen Refueling Station

Hydrogen energy is a new energy sub-sector that is strongly supported by the national policies in China. In the future, with the popularity of hydrogen energy as a new energy vehicle for fuel systems, the demand for hydrogen refueling stations will increasingly rise, but it is still in the early stage of development in China in light of the limited number of hydrogen refueling stations and less-developed technology, the core technology of the hydrogen refueling station is also dominated by foreign manufacturers, the application of fuel cell vehicles is tough to be supported. In order to solve the contradiction between the rare number of hydrogen refueling stations and the strong demand in China, the central and local governments have successively issued several incentive policies and implementation rules, which can be summarized as vehicle subsidies, station subsidies and operation subsidies, and thus can also be benefited from central and local subsidies at the same time. For a foreseeable future, the construction of hydrogen refueling stations will surely enter a peak period. As equipment manufacturing enterprises, especially energy equipment manufacturing enterprises, the hard-won opportunity should be seized to use the platform of Beijing Tianhai to develop hydrogen refueling station equipment which have our own proprietary intellectual property rights and core technology and are well recognized in the market.

(3) Vehicle Hydrogen Supply System

At this stage, customers are no longer satisfied with an enterprise that only provides a single component, but rather require the enterprise to provide them with a complete set of solutions, which has become the demand trend of the automotive makers. For the vehicle hydrogen supply system, the automotive makers are usually willing to contract the entire system to a company with production capacity of core component. Beijing Tianhai is a gas cylinder manufacturer with a wide range of product offerings and can manufacture based on the customized needs. Due to its high pressure, light weight, good safety performance, strong environmental adaptability and good heat resistance, the 35MPa high-pressure hydrogen storage cylinders produced have been applied in bulk in the hydrogen fuel cell vehicles and fuel cell backup power supply. 70MPa high-pressure hydrogen storage cylinders have been recognized as key projects of the Beijing Science and Technology Commission and the Ministry of Science and Technology, which improve the R&D and production capacity of Beijing Tianhai system integration, enable to gain the market opportunities, provide favorable conditions for Beijing Tianhai to occupy the domestic market, and enhance the overall core competitiveness of the enterprise. The supply from the single cylinder to the entire set of system also greatly increases the added value of the product, diversifies the variety of products offerings, and constantly adapts to the development needs of the market and the enterprise itself.

2. *Prospect of the Project*

China National Institute of Standardization and National Hydrogen Energy Standardization Technical Committee issued the Blue Book on Infrastructure Development of China's Hydrogen Energy Industry (《中國氫能產業基礎設施發展藍皮書》), which states by 2020, the infrastructure development of China's hydrogen energy industry will make significant breakthrough, the number of hydrogen refueling stations will reach 100, fuel cell vehicles will reach 10,000 units, and the number of hydrogen energy rail transit vehicles will reach 50. The total output value will reach RMB300 billion. By 2030, the number of hydrogen refueling stations will reach 1,000, the number of fuel cell vehicles will reach 2 million, and the length of hydrogen long-distance pipeline will reach 3,000 km. The output value will reach RMB300 billion. The degree of perfection of the technology standard system of the hydrogen energy industry infrastructure will nearly reach the level of developed countries. As forecasted in the Fuel Cell Vehicles: Global Market Analysis (《燃料電池汽車：全球市場分析》), by 2032, the volume of sales and amount of sale of fuel cell vehicle in the world will be hundreds of times of those in 2017, and cumulative sales in 15 years will reach trillions of US dollars. By 2050, the fuel cell vehicles will become the fastest growing segment of the global automotive market. The market size of the entire industry is huge with broad and bright prospects.

IV. Repayment of Debts Due to the controlling shareholders and financial institutions

(I) Overview of the Project

The Company intends to utilize RMB382,998,000 of the proceeds to repay the debts due to controlling shareholders and financial institutions, of which RMB100,000,000 will be used to repay the special payables to Jingcheng Machinery Electric, and RMB45,000,000 will be used to repay the borrowings from Jingcheng Machinery Electric and RMB237,998,000 will be used to repay the loans from the financial institutions.

The detailed information is set out below:

1. *RMB100,000,000 will be used to repay the special payables to Jingcheng Machinery Electric*

   Implementing entity: Beijing Tianhai

   Method of implementation: The issuer will use the proceeds to increase capital in Beijing Tianhai, and the implementation of the project will be made by Beijing Tianhai

   Project description: On 4 June 2013, the Beijing SASAC issued the Notice on Disbursement of the 2013 State-owned Capital Operation Budget Fund" (Jing Guo Zi [2013] No. 96) (《關於撥付2013年國有資本經營預算資金的通知》（京國資[2013]96號）), and agreed to increase the state capital in the Jingcheng Machinery Electric by RMB100,000,000, which was used for the construction project of natural gas storage and transportation equipment production base. On 30 July 2013, Jingcheng Machinery Electric allocated RMB100,000,000 of state capital to Beijing Tianhai for the implementation of the project, and the special payable of RMB100,000,000 to Jingcheng Machinery Electric would be undertaken by Beijing Tianhai. Therefore, the amount was the special payable resulting from allocation of state capital.

   Jingcheng Machinery Electric intends to subscribe for the shares under the non-public issuance of the listed company in cash, and the listed company will use the proceeds to repay the special payables owing to Jingcheng Machinery Electric.

2. *RMB45,000,000 will be used to repay the borrowing from Jingcheng Machinery Electric*

   Implementing entity: Beijing Tianhai

   Method of implementation: The issuer will use the proceeds to increase capital in Beijing Tianhai, and the implementation of the project will be made by Beijing Tianhai

Project description: In view of business needs, the Company borrowed RMB45,000,000 from Jingcheng Machinery Electric, the controlling shareholder of the Company. The Company will use the proceeds to repay the borrowing. Details are as follows:

Borrower	Lender	Amount of borrowing (RMB0'000)	Term of borrowing (starting date-ending date)	
Beijing Tianhai	Jingcheng Machinery Electric	2,000.00	2018.08.31	2019.08.31
	Jingcheng Machinery Electric	2,500.00	2018.10.26	2019.10.25
Total		**4,500.00**		

3. *RMB237,998,000 will be used to repay the loans from financial institutions*

Implementing entity: Beijing Tianhai

Method of implementation: The issuer will use the proceeds to increase capital in Beijing Tianhai, and the implementation of the project will be made by Beijing Tianhai

Project description: Due to business needs, the Company borrowed RMB237,998,000 from financial institutions. The Company will use the proceeds to repay the loans. Details are as follows:

Borrower	Lender	Amount of loan (RMB0'000)	Term of loan (starting date-ending date)	
Beijing Tianhai	**Hua Xia Bank Co., Limited**	**3,000.00**	**2018.06.22**	**2019.06.22**
	Hua Xia Bank Co., Limited	**3,000.00**	**2018.10.10**	**2019.10.10**
	Hua Xia Bank Co., Limited	**2,800.00**	**2018.10.23**	**2019.10.23**
	Hua Xia Bank Co., Limited	**2,000.00**	**2018.05.23**	**2019.05.23**
	Hua Xia Bank Co., Limited	**3,000.00**	**2018.05.10**	**2019.05.10**
	Hua Xia Bank Co., Limited	**2,000.00**	**2018.11.16**	**2019.11.04**
	Bank of Beijing Co., Ltd.	**2,999.99**	**2018.11.06**	**2019.05.06**
	Bank of Beijing Co., Ltd.	**4,999.82**	**2018.11.06**	**2019.11.06**
	Total	**23,799.80**		

Upon the receipt of the proceeds from the non-public issuance, the Company will use RMB237,998,000 of the proceeds to repay the above bank loans based on the priority, if the proceeds fail to meet the need of repayment, the Company will repay the remaining balance with its own funds.

Considering that the actual time of receipt of the proceeds cannot be accurately estimated, the Company will arrange for the repayment of its bank loans in a flexible manner based on the principle of optimizing its debt structure and saving its interest expenses as much as possible. If the Company receives the proceeds from the non-public issuance and the above-mentioned individual bank loans have been repaid, the Company will use the remaining proceeds to repay other bank loans, and decision on repayment of other bank loans will be made by the general manager's office.

(II) Necessity of Repayment of Bank Loans

1. To reduce the Company's gearing ratio, optimize the capital structure, and improve the Company's ability to resist risks

Upon the receipt of the proceeds, the Company's gearing ratio will be reduced, the short-term solvency will be improved, the Company's asset-liability structure will be optimized, and the financial cost pressure will be reduced, thereby improving the Company's ability to resist risks and facilitating the long-term and steady development of the Company.

2. To reduce interest expenses and lower financial costs, and help to improve the profitability of the Company

In recent years, with the rapid development of the Company, its investment in fixed assets projects has accelerated, and the demand for funds has increased rapidly. The Company mainly raises fund through bank loans, resulting in higher financial costs. In recent years, higher amount of bank loans and resulting financial costs of the Company have become one of the main factors that undermine the Company's on-going profitability. After using the proceeds to repay bank loans, interest expenses will be reduced and financial costs will be lowered, thereby improving the Company's profitability.

3. To improve the Company's investment and financing capabilities and lay a solid foundation for the Company's future development

Till now, the Company mainly used debt financing to raise funds for its development. These funds have provided support for the Company to expand its business scale and increase market share. However, the Company's current liabilities have impaired the Company's ability to carry out on-going financing, which has adversely affected the Company's long-term development. After the proceeds from the non-public issuance will be used to repay bank loans, it will improve the financial condition of the Company to a certain extent, which will enable the Company to enhance its capital strength and financing capabilities, and to seize market opportunities in a timely manner. The Company will obtain funds that have lower cost through various financing channels to achieve sustainable development of the Company in the future.

V. Impacts of the Investment Project on the Company's Business Operations and Financial Condition

(I) Impacts on the business operations

The Company is principally engaged in the R&D, production, processing and sales of pressure vessels. The investment projects are the construction project of intelligent numerical control production line for type IV cylinders, hydrogen energy R&D center project and repayment of the debts due to the controlling shareholders and financial institutions. The investment projects will enable the listed company to explore the hydrogen energy market business with huge development potentials, and have new emerging businesses including hydrogen energy vehicle gas storage tanks, hydrogen supply systems and hydrogen transportation. Repayment of the debts owing to the controlling shareholder and financial institutions can reduce the Company's gearing ratio, lower its financial costs, and improve its ability to resist risks.

Therefore, the non-public issuance to raise funds for the investment projects is in line with the national industrial policy and the overall business development strategy of the Company, and the projects have bright market prospect. Upon the completion of the issuance, the Company's capital capability will be further enhanced. Upon the completion of the investment projects, the Company will be able to explore new business markets, further improve its profitability and comprehensive competitiveness and effectively enhance its ability to resist risks, achieving sustainable development of the Company

(II) Impacts on the financial condition

The funds for investment project construction raised through equity financing can effectively reduce the Company's gearing ratio. With the completion of investment projects and R&D projects, in addition to its existing business of traditional pressure vessels, the Company will engage in the new hydrogen energy market business including type IV cylinders, hydrogen supply systems and hydrogen transportation. Hydrogen energy is the new clean energy which the Chinese government currently strives to develop and has broad market prospects and will enable the Company to greatly improve its overall revenue and profitability.

The repayment of bank loans will enable the Company to effectively improve its asset and liability structure and reduce finance cost, strengthen its business scale to a certain extent, improve its competitiveness, enhance its profitability, solvency and risk resistance, which are in line with the interests of the Company and its shareholders as a whole.

Section V Discussion and Analysis of the Board of Directors on the Impact of the Issuance on the Company

I. Impact on the Company's Operations and Business Structure

The Company is mainly engaged in the research and development, production, processing and sales of pressure vessels, with the main products including vehicles liquefied natural gas (LNG) cylinders, vehicles compressed natural gas (CNG) cylinders, steel seamless gas cylinders, steel welding gas cylinders, welded insulated gas cylinders, carbon fiber full-winding compound gas cylinders (碳纖維全纏繞複合氣瓶), Plate punching non-asbestos filler acetylene bottle ISO tank container (板沖式無石棉填料乙炔瓶ISO罐式集裝箱), aluminum tank carbon fiber full-winding compound gas cylinders for hydrogen fuel cells (氫燃料電池用鋁內膽碳纖維全纏繞複合氣瓶), as well as cryogenic tank and LNG filling station equipment, etc. According to the Guidelines on Industry Classification of Listed Companies in the Industry (《上市公司行業分類指引》) issued by the CSRC in 2012, the Company operates its business in the C35 "specialized equipment manufacturing industry".

The proceeds from this non-public issuance will be fully used for the construction project of intelligent numerical control production line for type IV cylinders, the project of hydrogen energy research and development center and the repayment of the controlling shareholder and financial institution debt. Upon the completion of the fundraising project, the Company will further improve its financial structure, significantly reduce the financial costs, expand new business market and further strengthen its business scale and core competitiveness.

After the implementation of this non-public issuance and fund-raising project, the principal business of the Company will remain unchanged, with no material change in the principal business structure as a result of this issuance and no business or asset integration plan will be caused by this non-public issuance.

II. Impact on the Company's Articles of Association, Shareholder Structure and Management Structure

(I) Amendments to the Company's Articles of Association as a result of this issuance

The shares to be offered under this issuance shall not exceed 84,400,000 ordinary shares (inclusive) denominated in RMB (A shares). Upon the completion of the issuance, the Company's share capital will be increased accordingly, and the Company will make amendments to the provisions relating to the share capital in the Articles of Association in accordance with the actual situation of the issuance, and complete the procedures for the registration of industrial and commercial changes.

(II) The impact of this issuance on the structure of shareholders

Prior to the issuance, Jingcheng Machinery Electric directly holds 43.3% of the Company's equity and is a controlling shareholder of the Company, and the shares under this non-public issuance will be fully subscribed by Jingcheng Machinery Electric. Jingcheng Machinery Electric will hold 52.75% equity interests in the Company upon the completion of this non-public issuance and will still be the largest shareholder, and Beijing State-owned Capital Management Center will remain the actual controller of the Company. Therefore, this issuance will not lead to a change in right of control of the Company.

This issuance will neither lead to a change of the largest shareholder and actual controller of the Company nor a material change in the share capital structure.

(III) The impact of this issuance on the management structure

As of the issue date of this proposal, the Company has no intention to adjust the structure of senior management. The issuance will have no significant impact on the structure of senior management. If the Company intends to adjust the structure of senior management, it will perform the necessary legal procedures and information disclosure obligations in accordance with relevant regulations.

III. Discussion and Analysis on the Changes of the Company's Financial Status

(I) Changes in financial condition

After the issuance, the total assets and net assets of the Company will be greatly improved, the financial strength will be strengthened, the asset-liability ratio will be reduced, the asset-liability structure will become more reasonable, financial expenses and financial risks will be reduced, and the Company's financial condition will be further improved.

(II) Changes in profitability

Upon the completion of this issuance, the proceeds will be used for the construction project of intelligent numerical control production line for type IV cylinders, the project of hydrogen energy research and development center and repayment of the debts owing to the controlling shareholder and financial institutions. During the period of construction and the research and development of the fund-raising project, the Company's profit will be affected to some extent, and the economic benefits will gradually emerge after the project is completed and put into operation. Meanwhile, after the successful implementation of the project, the Company shall develop the hydrogen energy market business, further increase the Company's operating income scale and enhance its sustainable profitability; after repaying the bank loans with the raised funds, the Company's long-term and short-term loans and the financial expenses of each year will be significantly reduced, and the profitability will be enhanced.

(III) Changes in cash flow

Upon the completion of this issuance, cash inflow from the financing activities of the Company will be greatly increased upon the receipt of the proceeds and cash outflow from the financing activities will be substantially increased due to the repayment of bank loans by the proceeds raised; with the implementation and construction of investment projects, cash inflow from operating activities and cash outflow from investment activities in future will gradually increase.

IV. Discussion and Analysis on Changes in Connected Transactions and Horizontal Competition

Through discussion and analysis, the Board of Directors of the Company considers that the production and management system of the Company is complete with autonomous and independent management right. Prior to the issuance, the Company carried out its business, personnel, assets, organization and finance independently and was not affected by the controlling shareholder and its connected persons.

The proceeds will be mainly utilized by the Company and its wholly-owned subsidiaries. The implementation project shall explore new markets on the basis of the Company's original business, without involving controlling shareholders of the Company and their associates. Therefore, there will be no horizontal competition between the Company and the controlling shareholder and its associates after the issuance, and there will be no change in business relations, management relationships and connected transactions.

Meanwhile, the Company will strictly follow the regulations, rules and policies of the securities regulatory authorities and the stock exchange on the connected transactions of listed companies to ensure that listed company operates in accordance with the law and protect the rights and interests of listed company and other shareholders. The issuance will be reviewed by the Board of Directors of the listed company, the competent department of state-owned assets, and the general meeting of shareholders in accordance with the prescribed procedures, and the Company will make timely and complete information disclosure.

V. Discussion and Analysis on the Issue of Capital Appropriation and Guarantee

Through discussion and analysis of the Board of Directors of the Company, it considers that there will be no situation in which the capital and assets of the listed company are appropriated by the controlling shareholder and its associates, and there will be no situation in which the listed company provides guarantee for the controlling shareholder and its associates.

VI. Discussion and Analysis on Relevant Risks of the Non-public Issuance

(I) Policy risk

Although the hydrogen energy market is an emerging clean energy industry with great support by the state, there are still some uncertainties in the development of hydrogen energy market, and the industrial policies may be subject to adjustment. Any change in industrial development policies may have a certain impact on the business operations of the Company.

(II) Market risks

Hydrogen energy market is at the initial stage in China, and according to the Blue Book on Infrastructure Development of China's Hydrogen Energy Industry (2016) (《中國氫能產業基礎設施發展藍皮書(2016)》), it is predicted that: from 2016 to 2020, our hydrogen energy market will be in the basic development stage with 100 hydrogen refueling stations and 10,000 hydrogen fuel cell vehicles; from 2020 to 2030, the development of the hydrogen energy market will enter an explosive stage, with 1,000 hydrogen refueling stations and 2 million hydrogen fuel cell vehicles in China by 2030. However, with the development of other clean energy sources such as solar energy, biomass energy and wind energy, there is still some uncertainty about the market development of hydrogen energy and market share. If the future development is lower than expected, the profitability and financial condition of the Company will be affected.

(III) Risk of prices fluctuations of raw material

The main raw materials required in the production of gas storage and transportation equipment by the listed company include pipes, square steel, plates, valves, diaphragms, etc. In recent years, the price of raw materials has fluctuated significantly due to the impact of their respective production costs, market supply and demand, and short-term speculative factors in the market. Fluctuation in the price of raw materials will bring certain risks to the operation and profitability of listed company in the future.

(IV) Risk of tax incentives

On 22 December 2016, Beijing Tianhai, a subsidiary of the Company, obtained the certificate of high-tech enterprise with the certificate number GR201611003805, jointly issued by Beijing Municipal Science and Technology Commission, Beijing Municipal Finance Bureau, Beijing Municipal State Taxation Bureau and Beijing Municipal Local Taxation Bureau, which is valid for three years, and the enterprise income tax will be calculated at the preferential income tax rate of 15% during the validity period; On 22 December 2016, Tianhai Cryogenic, a secondary subsidiary of the Company, obtained certificate of high-tech enterprise with the certificate number GR201611004210, jointly issued by Beijing Science and Technology Commission, Beijing Municipal Finance Bureau, Beijing Municipal State Taxation Bureau and Beijing Municipal Local Taxation Bureau, which is valid for three years, and the enterprise income tax will be calculated at the preferential income tax rate of 15% during the validity period. In the future, the Company may not be able to continue to enjoy the tax benefit due to the cancellation of the above policy of tax incentives, or the relevant entities may not be deemed to be high-tech enterprises after the validity period of the existing high-tech enterprise certificates, which may result in the Company not being able to continue to obtain the tax benefits. Therefore, the operating results of the listed company may be subject to the risk of changes in tax incentives.

(V) Risk of approval of this non-public issuance of A shares

The proposal for the non-public issuance of A shares of the Company shall be subject to approval of the general meeting and the CSRC. There are certain uncertainties on the receipt of the relevant approval or verification for such non-public issuance by the Company as well as the timing of final approval or verification.

(VI)Risk of dilution of immediate returns

Upon the completion of the issuance, the total share capital of the Company will increase accordingly. As it will take some time for achieving the efficiency of the use of proceeds, therefore, the return on equity, earnings per share and other financial indicators of the Company may be diluted to some extent in the short term. With the Company's continuous operation and steady development, its return on equity and earnings per share will gradually improve in the future.

(VII) Risk of stock price volatility

The investment return and investment risk coexist in the stock market. The fluctuation in stock prices is not only affected by the Company's profit level and development prospects, but also affected by many factors such as the adjustment of national macroeconomic policies, the regulation and control of financial policies, the speculation of stock markets, and investors' expectations. This non-public issuance shall be subject to the approval of the relevant departments, which will take a certain period of time to complete, and the fluctuation in the stock price during this period may impose certain risk to investors.

On one hand, the ultimate goal of the Company is to maximize the interests of shareholders, and improve asset utilization efficiency and profitability; on the other hand, it will operate in strict accordance with the requirements of the Company Law, the Securities Law and other laws and regulations. Upon the completion of this non-public issuance, the Company will make timely, full and accurate disclosure of information in strict accordance with the Listing Rules, so as to facilitate investors to make approximate investment decisions.

Investors are advised to have full knowledge of the fluctuation in stock price and the risk of stock market investment prior to dealing in the shares of the Company and make prudent judgments.

Section VI Profit Distribution

I. Provisions of Profit Distribution Policy in the Articles of Association

According to the relevant provisions under the No. 3 Guideline for the Supervision of Listed Companies – Cash Dividend Distribution of Listed Companies (《上市公司監管指引第3號——上市公司現金分紅》) and the Guidelines on Cash Dividend Distribution of Listed Companies of Shanghai Stock Exchange (《上海證券交易所上市公司現金分紅指引》) issued by the CSRC and based on the actual conditions of the Company, the thirteenth meeting of the ninth session of the Board of Directors of the Company considered and approved the Resolution on Amendments to the Articles of Association (《關於修訂公司章程的議案》), and the provisions of the profit distribution policy of the Company in the amended Articles of Association are set out below:

Article 225

In distributing the current year's profit after taxation, 10% of the profit shall be allocated into the Company's statutory reserve fund. When the aggregate amount of the statutory surplus reserve has reached 50% of the Company's registered capital, further appropriations is not required.

When the statutory surplus reserve of the Company is not sufficient to cover its losses incurred in the previous years, the profit of the current year shall be used to make up for such losses before allocations are made to the statutory surplus reserve in accordance with the preceding paragraph.

After the Company has allocated statutory surplus reserve from its profit after taxation, it may also appropriate discretional reserve fund from the profit after taxation upon approval of a general meeting.

The remaining profit after taxation after recovery of losses and appropriation of reserve fund shall be distributed to shareholders in proportion of their shareholdings unless it is stipulated in the Articles of Association that no profit distribution shall be made in accordance with shareholdings.

If the general meeting has, in violation of the preceding paragraph, distributed profit to shareholders before the Company has covered the losses and allocated statutory surplus reserve, the shareholders shall return to the Company the profit distributed in violation of regulations.

No profit shall be distributed in respect of the shares held by the Company.

Article 226

The reserve fund of the Company is used for recovery of losses and expansion of operations or is transferred to capital. However, capital reserve shall not be used for recovery of the Company's losses.

For transfer of statutory surplus reserve into capital, the retained statutory surplus reserve shall not be less than 25% of the Company's registered capital before its increment through the transfer.

Article 227

After the profit distribution plan has been resolved at the general meeting, the Board of Directors shall complete the dividend (or share) distribution within 2 months after the holding of the general meeting.

Article 229

The profit distribution policy of the Company is as follow:

The basic principles of the profit distribution policy of the Company

The Company shall take full account of return to investors and distribute dividend to its shareholders each year in proportion to the distributable profit realized in the year concerned (from the consolidated financial statements).

The profit distribution policy of the Company maintains maintain continuity and stability, and operates for the long-term interest of the Company, the entire interest of all its shareholders and the sustainable development of the Company.

The Company shall give priority to dividend distribution in cash.

The specific profit distribution policy of the Company

1. The manner of profit distribution: The Company may distribute dividends in cash, in shares, in a combination of both cash and shares. Subject to conditions, the Company may propose interim profit distribution.

2. Specific conditions and proportions of cash dividend of the Company:

   Upon satisfying all below conditions regarding cash dividend, the profits distributed by the Company in cash each year shall be no less than 5% of the annual distributable profits (from the consolidated financial statements) realized in the year. The accumulated dividend distributed by the Company in cash in the past three years shall be no less than 30% of the average annual distributable profits (from the consolidated statements) realized in the past three years:

   (1) if the distributable net profit realized by the Company in the year concerned (i.e. net profit of the Company net of loss recovery and allocation of its profits to the statutory reserve) are positive with adequate liquidity, the Company may distribute dividend in cash provided that it shall not undermine the subsequent ongoing operation of the Company;

(2) if the accumulated distributable profits made by the parent company are positive;

(3) auditors had issued a standard unqualified audit report for the financial statements of the Company for that year;

(4) no special circumstances have occurred in the Company (excluding projects funded by raised proceeds);

The aforementioned "special circumstances" refer to material investment plans or significant capital expenditures (excluding projects funded by raised proceeds) with accumulated expenditure made by the Company within the following 12 months amounting to or exceeding 25% of the latest audited net assets of the Company; "material investment plans" or "significant capital expenditures" include external investment, external repayment of debts or material asset acquisitions.

(5) there is no situation in which the principal and interest of the bond cannot be repaid on time or the principal and interest of the matured bond cannot be repaid on time.

3. Conditions for distributing dividends in shares by the Company

Where the Company's business is in a sound condition, and the Company's share price valuation is within a reasonable range, under the condition that the minimum cash dividend ratio and the reasonability of the Company's share capital could be ensured, dividends in shares can be used for profit distribution according to the status of the provident fund and cash flow.

4. The Board shall take various factors into consideration, including its industry features, development stages, business model and profitability level as well as whether it has any significant capital expenditure arrangements, to propose a differentiated policy at different stages for cash dividend distribution.

(1) Where the Company is in a developed stage with no significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 80% of the total profit distribution;

(2) Where the Company is in a developed stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 40% of the total profit distribution;

(3) Where the Company is in a developing stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 20% of the total profit distribution;

In the case that it is difficult to distinguish the Company's stage of development but the Company has significant capital expenditure arrangements, such matter may be dealt with pursuant to the preceding provisions.

Article 230

Procedures for considering the profit distribution plan of the Company:

The profit distribution plan of the Company shall be formulated by the Board of Directors. The Board of Directors shall thoroughly discuss the rationality of the profit distribution plan and form a specific resolution which shall be approved and considered by the Board of Directors and the Supervisory Committee before submitting to the general meeting for consideration.

Where the Company has no cash dividends in particular cases as provided for in the foregoing Article 229, the Board of Directors shall explain the specific reasons for not distributing cash dividends, the exact purpose for the retained profit and the estimated investment return, and submit such to the general meeting for consideration after independent directors express their opinions thereon.

In considering the profit distribution plan at the general meeting, the Company shall communicate and exchange information with the shareholders, especially the small and medium shareholders, through hotlines and other related channels, take into full account their opinions and requests, and answer questions concerned by the small and medium shareholders in a timely manner. The Company shall make network voting method accessible to shareholders. The votes of the small and medium shareholders should be counted separately, and the poll results should be disclosed in the designated media of the Company.

Alteration of the Company's profit distribution policy:

In case of war, natural disasters and other force majeure, or changes to the Company's external operational environment resulting in material impact on its production and operation, or relatively significant changes to the Company's operational position, the Company may adjust its profit distribution policy.

The Board of Directors shall conduct specific discussion over adjustment to the Company's profit distribution policy, provide detailed reasons for such adjustment, provide a written report to be considered by independent directors, and then submit to the general meeting for approval by way of a special resolution. In considering alterations to the profit distribution policy, the Company shall make network voting method accessible to shareholders to provide convenience for the small and medium shareholders for attending the shareholders' meeting and the votes of the small and medium shareholders should be counted separately.

II. Profit Distribution of the Company for the last three years

The information of cash dividend distribution of the Company for the last three years is detailed as follows:

Unit: RMB0'000

Year of distribution	Number of bonus shares for every 10 shares (share(s))	Dividend for every 10 shares (Tax inclusive)	Number of scrip share for every 10 shares (share(s))	Total amount of cash dividend (Tax inclusive)	Net profits/(loss) attributable to shareholders of the Company in the consolidated financial statements	Percentage of dividend to the net profits attributable to shareholders of the Company in the consolidated financial statements
2018	0	0	0	0	(9,393.62)	0.00%
2017	0	0	0	0	2,086.84	0.00%
2016	0	0	0	0	(14,878.76)	0.00%
Total				0	(22,185.54)	0.00%

As audited by ShineWing Certified Public Accountants LLP, in 2016, 2017 and 2018, the net profits or loss attributable to shareholders of the Company were RMB(148,787,600), RMB20,868,400 and RMB(93,936,200), and as at the end of the respective years, the undistributed loss were RMB(588,661,900), RMB(567,793,500) and RMB(690,444,600), respectively. No profit distribution was made in the past three years, nor did it convert capital reserve into share capital as its undistributed profits were negative at the end of the last three years.

III. Future Dividend Distribution Plan of the Company

The Company has formulated the Shareholders' Return Plan for the Coming Three Years (2019-2021) of Beijing Jingcheng Machinery Electric Company Limited《北京京城機電股份有限公司未來三年(2019年-2021年)股東回報規劃》, taking fully into account the interests of all shareholders as well as the Company's profitability, operating growth plan, return to shareholders, social capital costs, external financing environment and other important factors, in order to maintain continuity and stability of the dividend distribution policy. The plan was considered and approved at the thirteenth meeting of the ninth session of the Board of Directors of the Company.

The principal contents of shareholders' return plan for 2019-2021 of the Company are set out below:

(I) Basic Principles of Profits Distribution

The Company shall take fully into account the returns for its investors and distribute the dividends to its shareholders according to the stipulated proportion of the profits (in the consolidated financial statements) available for distribution achieved during the year.

The Company shall keep an on-going and stable profit distribution policy and also consider the long-term interest of the Company, the overall interests of all shareholders and the sustained development of the Company.

The Company shall distribute its profit by way of cash dividend as priority.

(II) Specific Policy for Profit Distribution of the Company

1. Sequence of Profit Distribution

In distributing the current year's profit after taxation, 10% of the profit shall be allocated into the Company's statutory reserve fund. When the aggregate amount of the statutory surplus reserve has reached 50% of the Company's registered capital, further appropriations is not required.

When the statutory surplus reserve of the Company is not sufficient to cover its losses incurred in the previous years, the profit of the current year shall be used to make up for such losses before allocations are made to the statutory surplus reserve in accordance with the preceding paragraph.

After the Company has allocated statutory surplus reserve from its profit after taxation, it may also appropriate discretional reserve fund from the profit after taxation upon approval of a general meeting.

The remaining profit after taxation after recovery of losses and appropriation of reserve fund shall be distributed to shareholders in proportion of their shareholdings unless it is stipulated in the Articles of Association that no profit distribution shall be made in accordance with shareholdings.

If the general meeting has, in violation of the preceding paragraph, distributed profit to shareholders before the Company has covered the losses and allocated statutory surplus reserve, the shareholders shall return to the Company the profit distributed in violation of regulations.

No profit shall be distributed in respect of the shares held by the Company.

2. Methods of Profit Distribution

The Company may distribute dividends in the cash or shares form or a combination of both. Subject to conditions, interim profit distribution may be made by the Company.

3. Conditions for and proportions of cash dividends and Exceptions

Upon satisfying all below conditions regarding cash dividend, the profits distributed by the Company in cash each year for the future three years shall be no less than 10% of the annual distributable profits (from the consolidated statements) realized in the year. The accumulated dividend distributed by the Company in cash in the past three years shall be no less than 30% of the average annual distributable profits (from the consolidated statements) realized in the past three years:

(1) if the distributable net profit realized by the Company in the year concerned (i.e. net profit of the Company net of loss recovery and allocation of its profits to the statutory reserve) are positive with adequate liquidity, the Company may distribute dividend in cash provided that it shall not undermine the subsequent ongoing operation of the Company;

(2) if the accumulated distributable profits made by the parent company are positive;

(3) auditors had issued a standard unqualified audit report for the financial statements of the Company for that year;

(4) no special circumstances have occurred in the Company (excluding projects funded by raised proceeds);

The aforementioned "special circumstances" refer to material investment plans or significant capital expenditures (excluding projects funded by raised proceeds) with accumulated expenditure made by the Company within the following 12 months amounting to or exceeding 25% of the latest audited net assets of the Company; "material investment plans" or "significant capital expenditures" include external investment, external repayment of debts or material asset acquisitions.

(5) there is no situation in which the principal and interest of the bond cannot be repaid on time or the principal and interest of the matured bond cannot be repaid on time.

4. Specific Conditions for Distributing Share Dividend of the Company

Where the Company's business is in a sound condition, and the Company's share price valuation is within a reasonable range, under the condition that the minimum cash dividend ratio and the reasonability of the Company's share capital could be ensured, dividends in shares can be used for profit distribution according to the status of the provident fund and cash flow.

5. *The Board shall take various factors into consideration, including its industry features, development stages, business model and profitability level as well as whether it has any significant capital expenditure arrangements, to propose a differentiated policy at different stages for cash dividend distribution.*

   (1) Where the Company is in a developed stage with no significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 80% of the total profit distribution;

   (2) Where the Company is in a developed stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 40% of the total profit distribution;

   (3) Where the Company is in a developing stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 20% of the total profit distribution;

   In the case that it is difficult to distinguish the Company's stage of development but the Company has significant capital expenditure arrangements, such matter may be dealt with pursuant to the preceding provisions.

(III) Procedures for Decision-making of the Profit Distribution of the Company

1. The profit distribution plan of the Company shall be formulated by the Board of Directors. The Board of Directors shall thoroughly discuss the rationality of the profit distribution plan and form a specific resolution which shall be approved and considered by the Board of Directors and the Supervisory Committee before submitting to the general meeting for consideration.

2. Where the Company has no cash dividends in particular cases as provided for, the Board of Directors shall explain the specific reasons for not distributing cash dividends, the exact purpose for the retained profit and the estimated investment return, and submit such to the general meeting for consideration after independent directors express their opinions thereon.

3. In considering the profit distribution plan at the general meeting, the Company shall communicate and exchange information with the shareholders, especially the small and medium shareholders, through hotlines and other related channels, take into full account their opinions and requests, and answer questions concerned by the small and medium shareholders in a timely manner. The Company shall make network voting method accessible to shareholders. The votes of the small and medium shareholders should be counted separately, and the poll results should be disclosed in the designated media of the Company.

(IV) Adjustment of the Established Profit Distribution Policy

In case of war, natural disasters and other force majeure, or changes to the Company's external operational environment resulting in material impact on its production and operation, or relatively significant changes to the Company's operational position, the Company may adjust its profit distribution policy.

The Board of Directors shall conduct specific discussion over adjustment to the Company's profit distribution policy, provide detailed reasons for such adjustment, provide a written report to be considered by independent directors, and then submit to the general meeting for approval by way of a special resolution. In considering alterations to the profit distribution policy, the Company shall make network voting method accessible to shareholders to provide convenience for the small and medium shareholders for attending the shareholders' meeting and the votes of the small and medium shareholders should be counted separately.

(V) Information Disclosure

Pursuant to the relevant regulations of the CSRC and the Shanghai Stock Exchange, the Company shall disclose relevant information such as the Company's profit distribution plan and its implementation in the annual report, interim report and quarterly report.

(VI) Cycle of Preparing Shareholders' Return Plan

The Company shall review the shareholders' return plan at least once every three years, and after fully considering the opinions of the shareholders (especially public investors) and independent directors, may make proper and necessary amendments to the current profit distribution policy and confirm the shareholders' return plan for that phase.

Section VII Risk Warning for Dilution of Current Returns due to the Non-public Issuance of A Shares

According to the requirements of laws, regulations and regulatory documents including Opinions of the State Council on Further Promoting the Sound Development of Capital Markets (Guo Fa [2014] No.17) (《國務院辦公廳關於進一步促進資本市場健康發展的若干意見》), Opinions of the General Office of the State Council on Further Strengthening the Work of Protection of the Legitimate Rights and Interests of Minority Investors in the Capital Markets (Guo Ban Fa [2013] No.110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》) and Guiding Opinions on Matters concerning the Dilution of Current Return in Initial Public Offering, Refinancing and Material Asset Restructuring (Announcement No.31 [2015] of the CSRC) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》), the listed company has made careful analysis on the impact of dilution of current returns caused by the non-public issuance and have formulated specific remedial measures for the return. The relevant bodies of the Company have made a commitment to ensure that the issuer will implement the remedial measures for the current returns, the details are as follows:

I. Analysis of whether the non-public issuance will dilute the current returns

As the increase in the share capital of the Company, it will take some time for the investment project to be implemented and produce benefit, which will lead to a further decrease in the Company's results. Earnings per share of the Company may be diluted during a certain period subsequent to the issuance, and accordingly, the current returns of the Company are at the risk of being diluted.

Based on the following assumptions, without taking into account of the utilization efficiency of the proceeds, the simulated calculation of impact of main financial data and financial indicators of this non-public issuance are as follows:

1. If the issuance is completed by the end of September 2019, the completion time shall be only used for calculating the impact of the dilution of current returns due to the non-public issuance on the main financial indicators, which shall be subject to the actual completion time of issuance approved by the CSRC;

2. It is assumed that the number of A shares under the non-public issuance are 84,400,000 shares;

3. It is assumed that the net profit/loss attributable to shareholders of listed company and net profit/loss attributable to shareholders of listed company after extraordinary items in 2019 is basically the same as compared with the previous year, respectively. Analysis of the assumption shall not constitute a profit forecast of the Company and investors shall not make investment decisions based on it. For any loss caused by the investment decisions made by investors on such basis, the Company shall not be liable for compensation).

The calculation process of each financial indicator is as follows:

	31 December 2018 (audited)	**Before the issuance**	**After the issuance**
Assumption	**The net profit/loss attributable to the owners of parent company before and after extraordinary items in 2019 is the same compared with 2018**		
Net loss attributable to shareholders of listed company *Note* (RMB ten thousand)	(9,393.62)	(9,393.62)	(9,393.62)
Net loss attributable to shareholders of listed company after extraordinary items *Note* (RMB ten thousand)	(10,973.20)	(10,973.20)	(10,973.20)
Basic earnings per share (RMB)	(0.22)	(0.22)	(0.21)
Basic earnings per share (RMB) (after extraordinary items)	(0.26)	(0.26)	(0.25)
Diluted earnings per share (RMB)	(0.22)	(0.22)	(0.21)
Diluted earnings per share (RMB) (after extraordinary items)	(0.26)	(0.26)	(0.25)

Note:

Such information constitutes profit forecast under Rule 10 of the Takeovers Code and is required to be reported on in accordance with Rule 10 of the Takeovers Code. However, as such information is prepared for illustrative purposes only and does not represent the Company's judgments on its operation results or trend in 2019, and it will be inappropriate for the Company to prepare an actual profit forecast for 2019 at the beginning of the year to provide the relevant illustration given that it will prematurely disclose the business plans of the Company, leak its business secrets, severely jeopardise the competitiveness of the Company and harm the interests of the Company and the Shareholders as a whole and at the same time not providing meaningful information to the Shareholders as a profit forecast at the beginning of the year may not present sufficient accuracy and may even be misleading to Shareholders, an application has been made to the Executive for a waiver from the reporting on requirements set out in Rule 10 of the Takeovers Code, and the Executive has indicated that it is minded to grant such consent. As such information relating to 2019 has not been reported on in accordance with Rule 10 of the Takeovers Code, it does not meet the standard required by Rule 10 of the Takeovers Code. Shareholders and potential investors of the Company should exercise caution in placing reliance on such profit forecast in assessing the merits and demerits of the Non-public Issuance of A Shares and the whitewash waiver.

Explanation of the above calculations is as follows:

1. The number of shares and completion time of the non-public issuance is only estimated, which shall be subject to the number of shares to be issued and the actual completion time approved by the CSRC;

2. The benefit of use of the proceeds from the issuance after they are received is not taken into account in the above calculation;

3. The impact of the cash dividend of the Company was not taken into account in the above calculations;

4. Basic earnings per share and diluted earnings per share are prepared in accordance with the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 – Computation and Disclosure of Return on Net Assets and Earnings per Share (公開發行證券的公司信息披露編報47規則第9號—淨資產收益率和每股收益的計算及披露).

II. Risk warning for dilution of current returns due to the non-public issuance

The proceeds from the non-public issuance of A shares will be used for promoting the development of prime businesses of the Company, the utilization plan of the proceeds has been demonstrated in detail and is in line with the Company's development planning. Upon the completion of the issuance, the total number of shares of the Company will increase. However, due to the long construction period of the project, it will take some time and processes for the project to produce benefit after being completed and put into operation. If the net profit of the Company declines during the construction period of the investment projects, the earnings per share of the Company will have a certain level of decline in the short run. Accordingly, the current returns of the Company are at risk of being diluted after the proceeds from the non-public issuance of A shares are available.

III. Necessity and rationality of the issuance

(I) The issuance is necessary for the operation and development strategy of the Company

The investment project is for the development of the hydrogen energy market business which has great development prospect, adding the emerging businesses including gas storage tank for hydrogen energy vehicles, hydrogen supply system and hydrogen transportation. Accordingly, the investment project funded by the non-public issuance is in line with the national industrial polices and the Company's overall operation and development strategy, and has sound market prospect. Upon the completion of the issuance, the capital strength of the Company will be further enhanced. After the projects are completed, it will help the Company to develop new business market, further enhance the profitability and comprehensive competitiveness of the Company and effectively enhance its risk-resistant ability to achieve sustainable development of the Company.

(II) Optimizing capital structure, reducing financial risks

After repaying the bank loans, the Company can effectively improve the structure of assets and liabilities and reduce financial expense. To a certain extent, it can expand the scale and strength of the Company and enhance the competitiveness, profitability, debt repayment and risk-resistant ability, and is in the interest of the Company and its shareholders as a whole.

IV. Relationship between the investment projects and the existing business of the Company

The proceeds from the issuance will not exceed RMB462,283,000, After deducting the issuance expenses, all the proceeds will be used for construction project of intelligent numerical control production line for type IV cylinders, the research and development project of hydrogen energy products and repayment of the debts owing to the controlling shareholder and financial institutions.

The principal business of the Company shall remain unchanged Upon the completion of the issuance, the capital strength of the Company shall remain unchanged Upon the completion of the issuance, the capital strength of the Company will be further enhanced, which will help the Company to expand its business scale, enhance the market competitiveness and the risk-resisting ability.

V. The reserves of personnel, technology and market of the Company for conducting the investment project

In terms of personnel reserve, the Company has always paid attention to encourage and cultivate the entrepreneurial spirit of employees, motivate employees to be diligent. The stability of the team ensures the continuity of the Company's business strategy and makes employees pay more attention to the long-term interest of the Company, which forms the basis of continuous expansion of the Company. The Company attaches importance to the career development of employees and invest resources to improve their professional competence and comprehensive quality. The aforesaid personnel reserve formed a solid foundation for the business expansion Upon the completion of raising proceeds.

In terms of technology reserve, relying on continuously technological research and development, the Company has A1, A2, C2, and C3 level pressure vessel design qualifications and A1, A2, B1, B2, B3, C2, C3, D1 and D2 level pressure vessel manufacturing qualifications. It can produce over 800 types of seamless steel gas cylinders, winding gas cylinders, accumulator shells, asbestos-free acetylene cylinders, welded insulated cylinders, carbon fiber full-winding compound gas cylinders (including those for vehicles), cryogenic tanks and filling stations; the Company's products are widely applied in automotive, chemical, fire-fighting, medical, petroleum, energy, urban construction, food, metallurgy, machinery, electronics and other industries. Meanwhile, with an accurate grasp of the clean energy market, the Company has combined technologies in respect of LNG cylinders for vehicles, CNG cylinders, cryogenic tanks and natural gas vehicle filling stations and is able to provide customers with LNG/CNG system solutions. The Company is also capable of manufacturing cryogenic tanks and IMO tank container products in accordance with China pressure vessel standards, EU ADM and 97/23/EC PED and Australia/New Zealand AS1210 standards. The formidable technical reserve provides a strong support for the implementation of projects after receipt of the proceeds raised by the Company.

In terms of market reserve, the Company has established a complete sales network equipped with over 30 distribution channels scattering across the country, realizing a full geographical coverage nationwide, and is capable of offering spare parts to largest-scaled automobile manufacturers of national automobile among the supply chain of spare parts for domestic mainstream automobile manufacturers. The Company has also set up eight overseas sales channels mainly located in the United States, Singapore, Korea, India, Australia and other countries. Its products have been accepted by seven out of the world's top eight gas companies. To build a bridge between the basic units and the market, and to increase the vitality of the strategy execution unit and results of operation, the Company carried out transformation and upgrade of the internal management and control so that each of its subsidiaries could establish a business model of unifying research, production, supply and sales, so as to fully unleash the potential of the organization, make flexible and quick responses to the changes in the market and effectively enhance the results of operation.

VI. Main measures adopted by the Company for the dilution of current returns caused by the non-public issuance

The issuance may cause a decrease in the investors' current returns. In order to ensure the reasonable use of the proceeds and effectively prevent the risk of diluting the current returns, the Company intends to implement the following measures to remedy the shareholders' returns and fully protect the interests of minority shareholders.

(I) continuously promoting the overall development of business, expanding diversified profit channels

The Company will expand business innovation opportunities while promoting the stable growth of existing business, continue to focus on the development trend of pressure vessel industry, constantly expand its business field and explore new profit growth points to obtain an advantage in an increasingly competitive market.

(II) Standardizing the management and use of the proceeds

In order to standardize the management and use of the proceeds and protect the interests of investors, the Company has formulated the Measures for the Administration of Proceeds of Beijing Jingcheng Machinery Electric Company Limited (《北京京城機電股份有限公司募集資金管理辦法》) in accordance with the Securities Law, Measures for the Administration of Issuance, Regulatory Requirements for Fund Raised by Listed Companies of Shanghai Stock Exchange (《上海證券交易所上市公司募集資金管理規定》) and Articles of Association, which set out detailed provisions for the deposit, use, investment movement of the proceeds and supervision on the use of proceeds. The Company will strengthen the management of the proceeds, reasonably and effectively use the proceeds and prevent the risks related to the use of proceeds.

(III) Strengthening operation management and internal control, enhancing operation efficiency and profitability

The Company will further improve the operation and management standard in the future and enhance the overall profitability of the Company. The Company will put efforts to enhance the capital use efficiency, improve and strengthen the decision-making procedures, enhance the capital use efficiency and reduce the financial expense of the Company. It will also strengthen the internal control and make use of corporate governance, promote comprehensive budget management, optimize the budget management process, strengthen cost management and the implementation and supervision of financial budget to comprehensively and effectively take control of the Company's businesses and risks.

(IV) Strengthening the risk management measures

The Company will continuously strengthen the overall establishment of risk management system and constantly improve the risk management ability for policy risk, market risk, raw material fluctuation risk, etc., strengthen the risk prevention and control in major fields and continue to identify, measure, monitor, handle and report risks in key aspects to comprehensively improve the risk management of the Company.

(V) Maintaining a stable shareholder return policy

The Company has stipulated the provisions related to profit distribution in the Articles of Association in accordance with the requirements of the Announcement on Further Implementation of Relevant Matters Concerning Cash Dividend Distribution of Listed Companies (《關於進一步落實上市公司現金分紅有關事項的通知》), Guidelines No. 3 on the Supervision and Administration of Listed Companies – Distribution of Cash Dividends of Listed Companies (《上市公司監管指引第3號—上市公司現金分紅》). The Company clarified matters in the Articles of Association including cash dividend policy and proportion of cash dividend, and stipulated the minimum proportion of the Company's cash distribution of profit under normal circumstances, to help investors to form stable return expectation. The Company attaches great importance to the protection of shareholders' interests, continues to maintain continuity and stability of the profit distribution policy and insists on creating long-term value for shareholders.

(VI) Continuously improving corporate governance to provide system guarantee for the development of the Company

The Company will be in strict compliance with the requirements of laws, regulations and regulatory documents including the Company Law, the Securities Law and Code of Corporate Governance of Listed Companies ("《上市公司治理准準》") and constantly improve the Company's governance structure to ensure that shareholders can fully exercise their rights, the Board of Directors can perform its functions and powers in accordance with the provisions of laws, regulations and Articles of Association to make scientific, quick and cautious decisions, and the independent directors can earnestly perform their duties, protect the Company's interests as a whole, especially the legitimate rights of small and medium shareholders and provide system guarantee for the development of the Company.

VII. Commitment of the controlling shareholders, directors and senior management of the Company on adopting remedial measures for the dilution of current returns caused by the non-public issuance

(I) Commitment of the controlling shareholders on adopting remedial measures for the dilution of current returns caused by the non-public issuance

According to the relevant provisions of the CSRS, the controlling shareholders make the following undertaking on the Company's effective implementation of the remedial measures for the current return:

The Company, during the period of being the controlling shareholder of Jingcheng MAC shall not abuse its power to interfere with the operation and management activities of the Company, transfer interests to other entities or individuals without compensation or under unfair conditions, damage the interest of the Company by other means or appropriate the Company's assets to engage in investment and consumption activities unrelated to its performance of duties.

(II) Undertaking by of the directors and senior management on adopting remedial measures for the dilution of current returns caused by the non-public issuance

The directors and senior management of the Company undertakes to perform duties faithfully and diligently, protect the legitimate rights and interests of the Company and all shareholders and make the following undertaking on the effective implementation of the Company's remedial measures for the current returns in accordance with the relevant provisions of CSRS:

(1) Neither transfer interests to other entities or individuals without compensation or under unfair conditions, nor damage the interest of the Company by other means;

(2) To restrain their own occupational consumption behavior;

(3) Not appropriate the Company's assets to engage in investment and consumption activities unrelated to its performance of duties;

(4) The remuneration system formulated by the Board of Directors or the Remuneration Committee shall be linked to the implementation of the Company's remedial measures for the returns.

(5) If the Company introduces equity incentive policy in the future, the conditions for exercise of the equity incentive that is intended to be publicized by the Company shall be linked to the implementation of the Company's remedial measures for the returns.

The person shall assume the corresponding responsibility according to the law for losses of the Company and shareholders due to the breach of aforesaid undertakings.

For and on behalf of the Board of
Beijing Jingcheng Machinery Electric Company Limited
Luan Jie
Company Secretary

Beijing, the PRC
6 May 2019

As at the date of this announcement, the Board comprises Mr. Wang Jun, Mr. Li Junjie and Mr. Zhang Jiheng as executive directors, Ms. Jin Chunyu, Mr. Du Yuexi, Mr. Xia Zhonghua and Ms. Li Chunzhi as non-executive directors and Ms. Wu Yan, Mr. Liu Ning, Mr. Yang Xiaohui and Mr. Fan Yong as independent non-executive directors.

As at the date of this announcement, the board of directors of Jingcheng Machinery Electricity comprises Mr. Ren Yanguang, Mr. Wang Guohua, Mr. Zhao Ying, Mr. Lin Jing, Mr. Lu Jian, Mr. Su Sheng and Mr. Yang Huazhong.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement other than those relating to Jingcheng Machinery Electricity and parties acting in concert with it, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement the omission of which would make any statements in this announcement misleading.

The directors of Jingcheng Machinery Electricity jointly and severally accept full responsibility for the accuracy of the information contained in this announcement relating to Jingcheng Machinery Electricity and parties acting in concert with it, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement the omission of which would make any statements in this announcement misleading.

* *For identification purposes only*