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

If you have sold or transferred all your shares in **Beijing Jingcheng Machinery Electric Company Limited**, you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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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)

- (1) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES**
(2) CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF A SHARES
BY JINGCHENG MACHINERY ELECTRICITY
(3) APPLICATION FOR WHITEWASH WAIVER
AND
(4) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

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

VINC  **城高**

Vinco Capital Limited

A letter from the Board is set out on pages 5 to 31 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 32 to 33 of this circular. A letter from Vinco Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 34 to 80 of this circular.

The General Meeting will be held at the Company's Conference Room, No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing on 15 July 2019 at 9:30 a.m. Further details of the General Meeting are set out in the revised notice issued by the Company dated 31 May 2019.

The A Shares Class Meeting will be held at the Company's Conference Room, No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing on 15 July 2019 at 10:30 a.m. Further details of the A Shares Class Meeting are set out in the notice issued by the Company dated 29 May 2019.

The H Shares Class Meeting will be held at the Company's Conference Room, No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing on 15 July 2019 at 11:00 a.m. Further details of the H Shares Class Meeting are set out in the revised notice issued by the Company dated 31 May 2019.

The respective revised proxy forms and reply slips for use at the General Meeting and the H Shares Class Meeting are despatched by the Company on 27 June 2019. Whether or not you intend to attend the above meetings, you are requested to complete the revised form of proxy for use at the above meetings in accordance with the instructions printed thereon and return the same to the business address of the Company at No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing, the PRC, or the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The completion and delivery of the revised form of proxy will not preclude you from attending and voting in person at the above meetings or any adjournment thereof if you so wish.

27 June 2019

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DEFINITIONS

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

“A Shareholder(s)”	holders of A Shares
“A Share(s)”	ordinary shares of the Company with a nominal value of RMB1.00 each, which are issued in the PRC, subscribed for in RMB and listed on the Shanghai Stock Exchange (stock code: 600860)
“A Shares Class Meeting”	the class meeting of A Shareholders
“A Shares Subscription Agreement”	the subscription agreement entered into between the Company and Jingcheng Machinery Electricity on 6 May 2019 in relation to the subscription of not more than 84,400,000 A Shares
“acting in concert”	has the meaning as defined in the Takeovers Code; and the term “concert parties” shall be construed accordingly
“Announcement”	the announcement dated 6 May 2019 issued by the Company in relation to, among other things, the Proposed A Shares Issue and the Whitewash Waiver
“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing SASAC”	Beijing Municipal People’s Government State-owned Assets Supervision and Administration Commission
“Beijing Tianhai”	北京天海工業有限公司 (Beijing Tianhai Industry Co., Ltd.), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Benchmark Price”	for illustration purpose only, RMB1.11 being the net asset value per Share attributable to the shareholders of ordinary shares of the parent company set out in the latest audited consolidated financial statements of the Company for the year ended 31 December 2018
“Board”	the board of Directors of the Company
“CSRC”	China Securities and Regulatory Commission
“Class Meetings”	A Shares Class Meeting and H Shares Class Meeting

DEFINITIONS

“Company”	北京京城機電股份有限公司 (Beijing Jingcheng Machinery Electric Company Limited), a joint stock company incorporated in the PRC with limited liability and the shares of which are listed on the Main Board of the Stock Exchange and the Shanghai Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC from time to time and any delegate of such Executive Director
“General Meeting”	a general meeting of the Company to be convened to consider, if thought fit, to approve, among others, the Proposed A Shares Issue, the Whitewash Waiver and the proposed amendments to the Articles of Association
“Group”	the Company and its subsidiaries
“H Shareholder(s)”	holder of H Shares
“H Share(s)”	overseas listed shares of the Company with a nominal value of RMB1.00 each, which are issued in Hong Kong, subscribed for in Hong Kong dollars and listed on the Main Board of the Stock Exchange (stock code: 00187)
“H Shares Class Meeting”	the class meeting of H Shareholders
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising Ms. Wu Yan, Mr. Liu Ning, Mr. Yang Xiaohui and Mr. Fan Yong being all the independent non-executive Directors, which was formed in accordance with the Listing Rules and the Takeovers Code to advise the Independent Shareholders on the Proposed A Shares Issue, the Specific Mandate and the Whitewash Waiver

DEFINITIONS

“Vinc Capital” or “Independent Financial Adviser”	Vinc Capital Limited, a wholly-owned subsidiary of Vinc Financial Group Limited (Stock Code: 8340), a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in relation to the Proposed A Shares Issue and the Whitewash Waiver
“Independent Shareholders”	the Shareholders other than (i) Jingcheng Machinery Electricity and its associates and concert parties; and (ii) the Shareholders who are involved in or interested in the Proposed A Shares Issue and/or the Whitewash Waiver
“Issuance Date”	the date of issuance of A Shares to the target subscriber pursuant to the Proposed A Shares Issue
“Jingcheng Machinery Electricity”	北京京城機電控股有限責任公司 (Beijing Jingcheng Machinery Electric Holding Co., Ltd.*), a company incorporated in the PRC and holding 43.30% interest in the Company
“Latest Practicable Date”	24 June 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Pricing Benchmark Date”	the first date of issuance of A Shares pursuant to the Proposed A Shares Issue
“Proposed A Shares Issue”	the proposed non-public issuance of not more than 84,400,000 A Shares to Jingcheng Machinery Electricity
“Relevant Period”	the period commencing on 6 November 2018, being the date falling six months prior to the date of the Announcement, and ending on and including the Latest Practicable Date
“RMB”	renminbi, the lawful currency of the PRC

DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	A Shares and H Shares
“Shareholders”	registered holders of the Shares
“Specific Mandate”	the specific mandate to be granted by the Shareholders to the Board in relation to the Proposed A Shares Issue
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisors”	supervisors of the Company
“Takeovers Code”	the Code on Takeovers and Mergers
“Whitewash Waiver”	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligation on the part of Jingcheng Machinery Electricity to make a general offer for all securities of the Company (other than those already owned or agreed to be acquired by Jingcheng Machinery Electricity and its concert parties) as a result of the Proposed A Shares Issue
“%”	per cent

* *For identification purpose only.*



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)

Executive directors:

Mr. Wang Jun
Mr. Li Junjie
Mr. Zhang Jiheng

Non-executive directors:

Ms. Jin Chunyu
Mr. Du Yuexi
Mr. Xia Zhonghua
Ms. Li Chunzhi

Independent non-executive directors:

Ms. Wu Yan
Mr. Liu Ning
Mr. Yang Xiaohui
Mr. Fan Yong

Registered office:

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

27 June 2019

To the Shareholders

Dear Sir or Madam,

- (1) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES**
(2) CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF A
SHARES BY JINGCHENG MACHINERY ELECTRICITY
(3) APPLICATION FOR WHITEWASH WAIVER
AND
(4) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

INTRODUCTION

Reference is made to the announcement of the Company dated 6 May 2019 in relation to, among other things, the Proposed A Shares Issue, the Specific Mandate, the Whitewash Waiver, and the proposed amendments to the Articles of Association.

LETTER FROM THE BOARD

The Board announces that on 6 May 2019, the Board resolved to propose a non-public issuance of A Shares, pursuant to which the Company will issue not more than 84,400,000 A Shares to Jingcheng Machinery Electricity, and the total funds raised shall amount to not more than RMB462,283,000 (subject to regulatory approval).

As part of the Proposed A Shares Issue, the Company and Jingcheng Machinery Electricity entered into the A Shares Subscription Agreement on 6 May 2019, pursuant to which, the Company has conditionally agreed to issue, and Jingcheng Machinery Electricity has conditionally agreed to subscribe for not more than 84,400,000 A Shares with a total subscription money of not more than RMB462,283,000 under the Proposed A Shares Issue.

The purpose of this circular is to provide you with information regarding, among other things, (i) details of the Proposed A Shares Issue, the Specific Mandate, the Whitewash Waiver and the proposed amendments to the Articles of Association; and (ii) a letter from the Independent Board Committee and a letter of advice from Vinco Capital, the Independent Financial Adviser.

PROPOSED NON-PUBLIC ISSUANCE OF A SHARES UNDER SPECIFIC MANDATE

(1) Structure of the Proposed A Shares Issue

Class and par value of A Shares to be issued:	A Shares with a par value of RMB1.00 each.
Number of A Shares to be issued:	A maximum of 84,400,000 A Shares will be issued under the Proposed A Shares Issue, which represents: <ul style="list-style-type: none">(i) approximately 26.2% of the existing issued A Shares and 20.0% of the existing total issued Shares as at the Latest Practicable Date; and(ii) approximately 20.8% of the enlarged issued A Shares and approximately 16.7% of the enlarged total issued Shares upon the completion of the Proposed A Shares Issue (assuming full subscription and issuance of a total of 84,400,000 A Shares under the Proposed A Shares Issue).

The maximum number of A Shares to be issued will be adjusted if any ex-dividend or ex-right event occur such as dividend distribution, issue of bonus shares or conversion of capital reserve into share capital occur during the period from the Pricing Benchmark Date to the Issuance Date, the maximum number of A Shares to be issued will be adjusted accordingly.

LETTER FROM THE BOARD

Set out below is the arithmetic calculations in respect of the abovementioned possible adjustment to the maximum number of A Shares to be issued:–

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

Where,

- (i) Q_0 is the maximum number of A Shares to be issued before adjustment;
- (ii) N is the number of bonus issue or capitalization per A Share; and
- (iii) Q_1 is the maximum number of A Shares to be issued after adjustment.

The final number of A Shares to be issued shall be determined by negotiation between the Board and the sponsor (lead manager) based on the approval from the CSRC.

Target subscriber and method of subscription:

The target subscriber of the Proposed A Shares Issue is Jingcheng Machinery Electricity.

Apart from the A Shares Subscription Agreement, the Company has not and will not enter into any agreement with any other parties in respect of the Proposed A Shares Issue.

The target subscriber will subscribe by way of cash in RMB.

Method and time of issue:

The Proposed A Shares Issue will be carried out by way of non-public issuance of A Shares to Jingcheng Machinery Electricity. According to Rule 47 of “Measures for Administration of the Issuance of Securities by Listed Companies” (《上市公司證券發行管理辦法》), listed companies should issue securities within six months from the date of approval by the CSRC.

The Company will submit the application of the Proposed A Shares Issue to the CSRC after the relevant resolutions in relation to the Proposed A Shares Issue have been passed at the General Meeting and Class Meetings. The Company will complete the Proposed A Shares Issue after obtaining the approval from the CSRC within the aforementioned validity period of six months.

LETTER FROM THE BOARD

Pricing Benchmark Date, issue price and pricing principles:

The Pricing Benchmark Date is the first date of issuance of A Shares pursuant to the Proposed A Shares Issue.

In compliance with Rule 30 of “Measures for Administration of the Issuance of Securities by Listed Companies” (《上市公司證券發行管理辦法》), Rule 7 of “Implementation Rules for the Non-public Issuance of Shares by Listed Companies” (《上市公司非公開發行股票實施細則》) issued by CSRC and Rule 10 of “Measures for the Supervision and Administration of State-owned Shares of Listed Companies” (《上市公司國有股權監督管理辦法》) jointly issued by People’s Government State-owned Assets Supervision and Administration Commission, CSRC and Ministry of Finance, the issue price of the A Shares to be issued under the Proposed A Shares Issue shall not be less than (i) 90% of the average trading price of the A Shares during the 20 trading days preceding the Pricing Benchmark Date (the average trading price of the A Shares in the 20 trading days preceding the Pricing Benchmark Date equals to the total trading amount of A Shares traded in the 20 trading days preceding the Pricing Benchmark Date divided by the total volume of A Shares traded in the 20 trading days preceding the Pricing Benchmark Date), and (ii) the net asset value per Share attributable to the shareholders of ordinary shares of the parent company as set out at the latest audited consolidated financial statements of the Company. If the CSRC amends the pricing method of the non-public issuance prior to the Proposed A Shares Issue, the Board may, subject to the authorization at the general meeting, adjust the Benchmark Price of the Proposed A Shares Issue in accordance with relevant requirements under the 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 issuance, the issue price shall be adjusted accordingly based on the following method:

Bonus issue of shares or capitalisation issue: $P_1 = P_0 / (1 + N)$

Where:

- (i) P_0 denotes the issue price before adjustment;
- (ii) N denotes the number of Shares to be distributed as scrip dividend or converted from the capital reserve per share; and
- (iii) P_1 denotes the new issue price after adjustment.

LETTER FROM THE BOARD

Given the net asset value per Share attributable to the shareholders of ordinary shares of the parent company as at the Latest Practicable Date as set out in the 2018 annual audited consolidated financial statements of the Company is RMB1.11, on such basis it is expected the minimum issue price would, subject to the approval of Beijing SASAC, and the CSRC, be at least RMB1.11 (the Benchmark Price). This represents a discount of approximately 85.5% over the closing price of the Company's A Shares at RMB7.68 on 30 April 2019, being the last trading day immediately before the date of the Announcement. In the event that the issue price is expected to fall below the Benchmark Price, the Company will re-comply with the necessary approval requirements including, among other things, Independent Shareholders' approval requirements under the Listing Rules and for a new whitewash waiver under the Takeovers Code.

The above adjustment is made based on the requirement under Rule 13 of the "Implementation Rules for Non-public Issuance of Shares by Listed Companies" (《上市公司非公開發行股票實施細則》) promulgated by CSRC. The Board shall also resolve to determine whether the issue size shall be adjusted accordingly in case of ex-dividend or ex-rights activities in respect of the shares of the Company during the period from the date of resolution by the Board to the date of issuance. CSRC will consider and approve the above adjustment as a part of the proposal for Proposed A Shares Issue, CSRC will not consider and approve such adjustment on a standalone basis.

For illustration purpose only, if the A Shares are issued as at the Latest Practicable Date under the Proposed A Shares, according to the abovementioned pricing principles, the issue price would be not less than RMB6.96.

Lock-up period:

The target subscriber shall not transfer the A Shares subscribed under the Proposed A Shares Issue within 36 months from the date of completion of the Proposed A Shares Issue.

Total funds to be raised and used:

The total funds (inclusive of issuance expenses) to be raised from the Proposed A Shares Issue shall finally be determined by the actual issue price and issue size, and shall be not more than RMB462,283,000.

LETTER FROM THE BOARD

The proceeds from the Proposed A Shares Issue are intended to be used in the following manner:

- (1) as to approximately RMB52,000,000 to the construction project of the Type IV cylinder automation digital control production line;
- (2) as to approximately RMB27,285,000 to the research and development project of hydrogen energy product; and
- (3) as to approximately RMB382,998,000 to the repayment of debts owed to Jingcheng Machinery Electricity and financial institutions, of which RMB100,000,000 will be used for repayment of special payables^(note) of Jingcheng Machinery Electricity, RMB45,000,000 will be used for repayment of borrowings of Jingcheng Machinery Electricity, RMB237,998,000 will be used for repayment of debts of financial institutions, such financial institutions are independent of the Company and are not shareholders of the Company.

Note: Beijing SASAC issued a Notice about Appropriation of 2013 State-owned Capital Operation Budget on 4 June 2013 (JGZ [2013] No.96) (《關於撥付2013年國有資本經營預算資金的通知》) and notified to inject the State fund of RMB100,000,000.00 (“**State Fund**”) to Jingcheng Machinery Electricity for the project of production base construction for gas storage and transportation equipment. On 30 July 2013, Jingcheng Machinery Electricity allocated the State Fund to Beijing Tianhai. Beijing Tianhai received the State Fund in August 2013 and recognized as special payables. The special payables are long-term funds without maturity dates.

LETTER FROM THE BOARD

In particular, the details of proceeds to be used for repayment of debts of financial institutions are as follows:

Borrower	Lending bank	Loan	Loan period	
		Amount (RMB'0,000)	(Starting date – Closing date)	
Beijing Tianhai	Hua Xia Bank Co., Ltd.	3,000.00	2018.06.22	2019.06.22
	Hua Xia Bank Co., Ltd.	3,000.00	2018.10.10	2019.10.10
	Hua Xia Bank Co., Ltd.	2,800.00	2018.10.23	2019.10.23
	Hua Xia Bank Co., Ltd.	2,000.00	2018.05.23	2019.05.23
	Hua Xia Bank Co., Ltd.	3,000.00	2018.05.10	2019.05.10
	Hua Xia Bank Co., Ltd.	2,000.00	2018.11.16	2019.11.04
	Bank of Beijing	2,999.99	2018.11.06	2019.05.06
	Bank of Beijing	<u>4,999.82</u>	2018.11.06	2019.11.06
Total		<u><u>23,799.80</u></u>		

After the proceeds from the Proposed A Shares Issue are received, the Company will prioritise the use of the proceeds of RMB237,998,000 according to the needs for repaying the above banks loans, and the shortfall will be covered by the Company's own funds.

Considering that the actual time for the proceeds to be received cannot be estimated, the Company will arrange the repayment of the Company's loans with flexibility based on the principle of optimizing the Company's debts structure and saving its costs and expenses as much as possible. If some of the above bank loans have been repaid before the proceeds from the Proposed A Shares Issue are received, the Company will utilize the remaining proceeds for repaying other bank loans, the specific details of the repayment of other bank loans will be determined at the authorized general manager's office of the Company.

LETTER FROM THE BOARD

Place of listing:	<p>The Company will apply to the Shanghai Stock Exchange for the listing of, and permission to deal in, the A Shares to be issued pursuant to the Proposed A Shares Issue.</p> <p>The A Shares to be issued under the Proposed A Shares Issue can be traded on the Shanghai Stock Exchange upon the expiration of the lock-up period.</p>
Validity period of the resolution:	<p>The resolution regarding the Proposed A Shares Issue shall be valid for 12 months from the date of the passing at the General Meeting and the Class Meetings. If the Company obtains the approval of the Proposed A Shares Issue by CSRC during such validity period, such validity will be automatically extended to the completion date of the Proposed A Shares Issue.</p> <p>There is no restriction in the Articles of Association and under the PRC laws for the validity period of the resolutions passed at shareholders' meeting. With reference to the usual market practice, the validity period of the resolutions passed at shareholders' meeting is usually 12 months. Since there is an uncertainty of the time for the CSRC granting the approval of the Proposed A Shares Issue and its approval is valid for six months, if the approval to be granted by the CSRC falls within the validity period of the resolutions but the validity of the resolutions has less than six months remaining until the expiration date, the validity period of the resolutions will be automatically extended to the completion date of the Proposed A Shares Issue. Such extension is in line with the usual market practice, the Directors consider that it is legal and reasonable for the Company to extend the validity period of the resolutions in order to successfully complete the Proposed A Shares Issue.</p>
Specific Mandate of the issuance of A Shares:	<p>The Company will issue the A Shares under the Specific Mandate which is intended to be granted to the Board at the General Meeting and the Class Meetings.</p>
Rights of the A Shares to be issued:	<p>The A Shares to be issued pursuant to the Proposed A Shares Issue, when fully paid and issued, will rank pari passu in all respects amongst themselves and with the A Shares in issue at the time of the issue of such A Shares.</p>

LETTER FROM THE BOARD

Distribution of profit: Upon completion of the Proposed A Shares Issue, the existing and new Shareholders will be entitled to the Company's cumulative undistributed profits accumulated from before the Proposed A Shares Issue.

CSRC has no mandatory provisions for the attribution of the undistributed profits before the non-public issuance of A shares, but it requires clear disclosure. According to the proposals of non-public issuance of A Shares announced by the companies listed on the Shanghai Stock Exchange, there are two ways to attribute the undistributed profits:

- (1) the undistributed profits accumulated from before the Proposed A Shares Issue are shared by the new and existing shareholders, which is the usual practice in the market; or
- (2) in very few cases, part of the undistributed profits are paid to the existing shareholders, and part of the undistributed profits are shared by the new and existing shareholders, subject to the undistributed profits attributable to the existing shareholders must be distributed before the completion of the non-public issuance, and the new shares will be issued after the distribution is completed.

Considering that the Company recorded an undistributed loss of RMB(690,446,430.91) as at 31 December 2018, the Company will not declare any dividend before making up the loss nor does it have the conditions for the existing Shareholders to make up for the loss. Therefore, the Company does not have the conditions to distribute profit according to method (2) above, the Company can only adopt method (1) above for profit distribution.

LETTER FROM THE BOARD

According to the non-public issuance proposals announced on the website of the Shanghai Stock Exchange in the past six months, all comparable companies adopted method (1) above for their undistributed profit plans, that is, the undistributed profits are shared by the new and existing shareholders, all shareholders will enjoy equal distribution of the undistributed profits in accordance with the principle of “same share with the same rights”. Therefore, the Directors are of the view that the term in respect of the distribution of profits is in line with the actual situation of the Company and the usual market practice for issuance of A Shares, it is on normal commercial terms, fair and reasonable and in the interest of the Company and its shareholders as a whole.

(2) Proposal in relation to the “Proposal for Non-public Issuance of A Shares”

The “Proposal for Non-public Issuance of A Shares” was prepared in Chinese language. The full text of the English translation of the “Proposal for Non-public Issuance of A Shares” is set out in Appendix I to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

Each of the following items in relation to the Proposed A Shares Issue will be considered and approved, and be implemented conditional upon approvals and/or authorisations having been obtained from the relevant authorities:

- (i) target subscriber;
- (ii) class and par value of shares to be issued;
- (iii) method and time of issue;
- (iv) target subscriber and subscription method;
- (v) Price Benchmark Date, issue price and pricing principles;
- (vi) number of A Shares to be issued;
- (vii) lock-up period;
- (viii) arrangement of accumulated profits before the issue;
- (ix) place of listing; and
- (x) validity period of the resolution.

LETTER FROM THE BOARD

The proposal in relation to the “Proposal for Non-public Issuance of A Shares” will be submitted, by way of special resolution, for the Independent Shareholders’ consideration and approval at the General Meeting, the A Shares Class Meeting and the H Shares Class Meeting.

(3) Proposal in relation to “the Company’s compliance with the conditions of the Proposed A Share Issue”

Pursuant to laws, regulations and regulatory documents such as the Company Law of the PRC, the Securities Law of the PRC, the “Measures for Administration of the Issuance of Securities by Listed Companies” (《上市公司證券發行管理辦法》) and the Implementation Rules for the Non-public Issuance of Shares by Listed Companies (《上市公司非公開發行股票實施細則》), the Board considers that the Company complies with the conditions of non-public offering of A Shares for the Proposed A Shares Issues after detailed verification of the actual situation and relevant matters of the Company.

The proposal in relation to the Company’s compliance with the conditions of the Proposed A Share Issue will be submitted, by way of ordinary resolution, for the Shareholders’ consideration and approval at the General Meeting.

(4) Proposal in relation to the “Feasibility Analysis Report on the use of proceeds from the Non-Public Issuance of A Share”

The “Feasibility Analysis Report on the use of proceeds from the Non-Public Issuance of A Share was prepared in Chinese language. The full text of the English translation of the “Feasibility Analysis Report on the Use of Proceeds from the Non-Public Issuance of A Shares” is set out in Appendix II to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to the “Feasibility Analysis Report on the Use of Proceeds from the Non-Public of A Shares” will be submitted, by way of special resolution, for the Independent Shareholders’ consideration and approval at the General Meeting, the A Shares Class Meeting and the H Shares Class Meeting.

(5) Proposal in relation to the “the dilution of current return as a result of the proposed non-public issuance of A Shares and the adoption of remedial measures”

To protect the interests of small and medium investors, according to the Guiding Opinions on Matters Relating to the Dilution of Current Returns as a Result of Initial Public Offering, Refinancing and Major Asset Restructuring (CSRC Announcement [2015] No. 31) (《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》) issued by the CSRC, the Company has provided remedial measures for the diluted current returns after the Proposed A Shares Issue. Please refer to section VII of Appendix I to this circular for details of the main measures adopted by the Company for the dilution of current returns caused by non-public issuance.

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The proposal in relation to the “the dilution of current return as a result of the proposed non-public issuance of A Shares and the adoption of remedial measures” will be submitted, by way of ordinary resolution, for the Shareholders’ consideration and approval at the General Meeting.

(6) Proposal in relation to “Undertakings by the Controlling Shareholder, Directors and Senior Management of the Company to the Implementation of the Remedial Measures”

In accordance with the requirements of the applicable documents including the Opinions of the General Office of the State Council on Further Strengthening the Protection of Small and Medium Investors’ Legitimate Interests 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 the Guiding Opinions on Matters concerning the Dilution of Current Return in Initial Public Offering, Refinancing and Material Asset Restructuring (CSRC Announcement [2015] No. 31) (《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 Company has provided analysis and proposed remedial measures in relation to diluted current returns after the Proposed A Shares Issue, and the controlling shareholder, Directors and senior management of the Company have provided undertakings as to the implementation of the remedial measures. Please refer to section VII of Appendix I to this circular for details of 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.

The proposal in relation to the “Undertakings by the Controlling Shareholder, Directors and Senior Management of the Company to the Implementation of the Remedial Measures” will be submitted, by way of ordinary resolution, for the Shareholders’ consideration and approval at the General Meeting.

(7) Proposal in relation to the “Shareholders’ Return Plan for the Next Three Years of the Company”

In accordance with the requirements under the Notice Regarding Further Implementation of 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 Listed Companies Regulatory Guidance No. 3 – Cash Dividends Distribution of Listed Companies (《上市公司監管指引第3號—上市公司現金分紅》) and issued by the CSRC, the Company formulated the “Shareholders’ Return Plan for the Next Three Years of the Company”.

The “Shareholders’ Return Plan for the Next Three Years of the Company” was prepared in Chinese language. The full text of the English translation of the “Shareholders’ Return Plan for the Next Three Years of the Company” is set out in Appendix IV to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to “Shareholders’ Return Plan for the Next Three Years of the Company” will be submitted, by way of ordinary resolution, for the Shareholders’ consideration and approval at the General Meeting.

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(8) Proposal in relation to the Specific Mandate to the Board to deal with matters related to the Proposed A Shares Issue

The proposal in relation to the Specific Mandate to the Board to deal with matters related to the Proposed A Shares Issue will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the General Meeting, the A Shares Class Meeting and the H Shares Class Meeting.

CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF A SHARES BY JINGCHENG MACHINERY ELECTRICITY

As part of the Proposed A Shares Issue, the Company and Jingcheng Machinery Electricity entered into the A Shares Subscription Agreement on 6 May 2019, pursuant to which, the Company has conditionally agreed to issue and Jingcheng Machinery Electricity has conditionally agreed to subscribe for not more than 84,400,000 A Shares to be issued pursuant to the Proposed A Shares Issue for an amount not more than RMB462,283,000.

(1) Major terms of the A Shares Subscription Agreement

Date:	6 May 2019
Parties	(1) The Company, as the issuer; and (2) Jingcheng Machinery Electricity, as the subscriber.
Number of A Shares to be subscribed:	Jingcheng Machinery Electricity will subscribe all shares to be issued under the Proposed A Share Issue, with the number of A Shares to be subscribed of not more than 84,400,000 A Shares, and is subject to a maximum subscription amount of RMB462,283,000.

If any ex-right or ex-dividend event (such as distribution of dividend, bonus issue of shares, capitalization issue) occurs between the Pricing Benchmark Date and the Issuance Date, the maximum number of A Shares to be subscribed by Jingcheng Machinery Electricity will be adjusted accordingly.

If the total funds raised in the Proposed A Shares Issue is required to be reduced due to regulatory policy changes or according to the requirements of the relevant approval documents, Jingcheng Machinery Electricity agrees to subscribe for the adjusted amount accordingly.

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Method of subscription:	By way of cash subscription in RMB.
Subscription price and pricing principles:	The subscription price and pricing principles will be determined on the same basis as the Proposed A Shares Issue.
Conditions precedent for the A Shares Subscription Agreement to take effect:	<p>The A Shares Subscription Agreement will take effect when all the following conditions have been satisfied:</p> <ol style="list-style-type: none">1. the approval from the Board for the Proposed A Shares Issue has been obtained;2. the approval from Beijing SASAC for the Proposed A Shares Issue has been obtained;3. the approval from the Shareholders at the General Meeting, A Shares Class Meeting and H Shares Class Meeting for the Proposed A Shares Issue, A Shares Subscription Agreement and Whitewash Waiver and all the related and auxiliary resolutions have been obtained;4. the approval from the CSRC for the Proposed A Shares Issue has been obtained;5. all necessary consents, approvals, authorizations, permits, waivers and notices from the relevant government and/or regulatory authorities for the Proposed A Shares Issue have been obtained; and6. the grant of the Whitewash Waiver from the SFC in accordance with the Takeovers Code has been obtained and such waiver has not been revoked prior to completion of the Proposed A Shares Issue.

All of the aforementioned conditions (1)-(6) are non-waivable. Conditions (1) and (2) have been satisfied as at the Latest Practicable Date.

Under the Takeovers Code, the resolution(s) in relation to Whitewash Waiver shall be approved by at least 75% of the independent votes that are either in person or by proxy by the Independent Shareholders at the General Meeting.

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Lock-up period: The A Shares to be subscribed by Jingcheng Machinery Electricity pursuant to the Proposed A Shares Issue shall not be traded or transferred within 36 months from the date of completion of the Proposed A Shares Issue.

Liability for breach of contract: Upon entering into the A Shares Subscription Agreement, apart from force majeure, it shall constitute a breach of contract if any party does not perform or fails to perform promptly or properly any obligation ought to be performed under the A Shares Subscription Agreement or contravenes any statement, warranty or undertaking made pursuant to the A Shares Subscription Agreement. The defaulting party shall bear the liability for breach of contract in the following ways:

- (1) where the A Shares 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 A Shares 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 A Shares Subscription Agreement, which result in the failure of achieving the purpose of the A Shares Subscription Agreement, the non-defaulting party shall be entitled to cancel the A Shares Subscription Agreement. The defaulting party shall indemnify the non-defaulting party in full for the loss arising from the breach of contract.

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After the signing of the A Shares Subscription Agreement and prior to the completion of the Proposed A Shares Issue, if Jingcheng Machinery Electricity unilaterally cancels or terminates the A Shares Subscription Agreement, or if after the satisfaction of all conditions precedent of the A Shares Subscription Agreement, Jingcheng Machinery Electricity fails to pay the subscription amount in full in a timely manner prior to the specific payment date confirmed between the Company and the sponsor as required in the A Shares Subscription Agreement, Jingcheng Machinery Electricity shall pay 3% of the total funds raised from the Proposed A Share Issue as the liquidated damages.

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

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

If the Proposed A Shares Issue (1) fails to obtain the approval at the general meeting of the Company; 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 the Company for matters including the Pricing Benchmark Date due to changes in the securities market, and if the Board unilaterally terminates the contract, thus the Proposed A Shares Issue cannot proceed, such circumstances shall not constitute the breach of contract by the Company.

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(2) Resolution in relation to the subscription of A Shares under the Proposed A Shares Issue which constitutes connected transaction of the Company

As Jingcheng Machinery Electricity, being the Company's controlling shareholder, has conditionally agreed to subscribe for not more than 84,400,000 A Shares to be issued pursuant to the Proposed A Shares Issue, the Proposed A Shares Issue constitutes a connected transaction of the Company under chapter 14A of the Listing Rules, the relevant PRC laws and regulations.

The resolution in relation to the subscription of A Shares under the Proposed A Shares Issue which constitutes connected transaction of the Company will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the General Meeting, the A Shares Class Meeting and the H Shares Class Meeting.

(3) Resolution in relation to the conditional A Shares Subscription Agreement entered into between the Company and Jingcheng Machinery Electricity on 6 May 2019

The resolution in relation to the conditional A Shares Subscription Agreement entered into between the Company and Jingcheng Machinery Electricity on 6 May 2019 will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the General Meeting, the A Shares Class Meeting and the H Shares Class Meeting.

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EFFECT OF SHAREHOLDING STRUCTURE OF THE COMPANY

The following sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Proposed A Shares Issue (assuming full subscription and issuance of a total of 84,400,000 A Shares under the Proposed A Shares Issue):

	As at the Latest Practicable Date		Immediately after completion of the Proposed A Shares Issue	
	Approximate percentage of the total issued Shares (%)		Approximate percentage of the total issued Shares (%)	
	Number of Shares held	Number of Shares (%)	Number of Shares held	Number of Shares (%)
A Shares				
Jingcheng Machinery Electricity	182,735,052	43.30	267,135,052	52.75
<i>Parties acting in concert with Jingcheng Holding</i>	0	0	0	0
Sub-total for Jingcheng Machinery Electricity and parties acting in concert with it	<u>182,735,052</u>	<u>43.30</u>	<u>267,135,052</u>	<u>52.75</u>
Ms. Wu Yan, independent non-executive Director	43,001	0.01	43,001	0.01
Public Shareholders	<u>139,221,947</u>	<u>32.99</u>	<u>139,221,947</u>	<u>27.49</u>
Sub-total	<u>322,000,000</u>	<u>76.30</u>	<u>406,400,000</u>	<u>80.25</u>
H Shares				
Jingcheng Machinery Electricity	0	0	0	0
<i>Parties acting in concert with Jingcheng Holding</i>	0	0	0	0
Sub-total for Jingcheng Machinery Electricity and parties acting in concert with it	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Public Shareholders	<u>100,000,000</u>	<u>23.70</u>	<u>100,000,000</u>	<u>19.75</u>
Sub-total	<u>100,000,000</u>	<u>23.70</u>	<u>100,000,000</u>	<u>19.75</u>
Total	<u><u>422,000,000</u></u>	<u><u>100</u></u>	<u><u>506,400,000</u></u>	<u><u>100</u></u>

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As shown in the above table, the total shareholding interest held by Jingcheng Machinery Electricity and parties acting in concert with it in the Company immediately before and after the Proposed A Shares Issue are approximately 43.30% and approximately 52.75% respectively.

FUND RASING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not carried out any fund raising exercises during the 12 months immediately preceding the Latest Practicable Date.

FINANCING ALTERNATIVES AVAILABLE TO THE COMPANY

The Directors, having considered that (i) one of the main purposes of the Proposed A Shares Issue is to use part of the proceeds to repay the loans that the Company currently has, and to improve the Company leverage position, (ii) debt financing may incur interest expenses as compared to equity financing; and (iii) the Company does not prefer to increase the Company's gearing level and create additional debt liabilities to the Company, the Directors are of the view that debt financing is considered to be less preferable for the Company at present.

Given that the Company recorded loss respectively for the year ended 31 December 2016 and the year ended 31 December 2018, the Company is not allowed to make a public issuance of securities according to Administrative Measures for the Issuance of Securities by Listed Companies – Order of China Securities Regulatory Commission (《上市公司證券發行管理辦法》). In other words, financing measures such as rights issue, open offer and placement of A Shares are not available to the Company and non-public issuance of A shares is the only available option for the Company to achieve its financing target.

Besides, the issued H Share capital of the Company is significantly lower than the issued A Share capital of the Company, the expected size of the fund to be raised by rights issue, open offer or placement of H Shares will be less than approximately RMB462,283,000. Based on the closing prices of the H Shares and the A Shares on the Latest Practicable Date, the market capitalisation of H Shares and A Shares was approximately HK\$150.0 million (or approximately RMB132.1 million) and approximately RMB2.3 billion, representing approximately 6.2% and 93.8% of the Company's total market capitalisation of approximately RMB2.4 billion, respectively. Based on the above, the Directors considered that the Proposed A Shares Issue is a more preferable method of fund raising for the Company.

Based on the above, the Directors of the view that it is in the interests of the Company and the Shareholders as a whole to raise funds by the Proposed A Shares Issue.

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REASONS FOR AND BENEFITS OF THE PROPOSED A SHARES ISSUE

According to “Medium and Long Term Development Plan of the Automotive Industry” (《汽車產業中長期發展規劃》) jointly promulgated by the Ministry of Industry and Information Technology and the Development and Reform Commission in 2017, technology roadmaps for hydrogen fuel cell vehicle industry of China was proposed, which focused on strengthening the development of core technologies and achieving breakthroughs, it covered the strengthening of research and development of fuel cell vehicles, the construction project of the innovation center including the formulation of technology roadmaps for hydrogen fuel cell vehicles, vehicle lightweight technology and vehicle manufacturing technology. The plan proposed to accomplish an achievement for every five-year stage starting from 2020. The targets for 2020 are to achieve small-scale demonstration and application in the public service vehicles sector in designated regions, aim to exceed 1,000 sets per enterprise in respect of the production of fuel cell systems and implement the storage and transportation of high-pressure gas hydrogen, with an aim of exceeding 100 hydrogen refueling stations. The targets for 2025 are to achieve large-scale application in the sector of urban private vehicles and public services vehicles sector, improve the functions of key system accessories including key parts of high-speed and fuel-free air compressor, hydrogen cycling system and 70MPa hydrogen storage tank to satisfy the indicator requirements of vehicles, aim to exceed 10,000 sets per enterprise in respect of the production of fuel cell systems and implement the storage and transportation of high-pressure and low temperature liquified hydrogen, with an aim of exceeding 300 hydrogen refueling stations. The targets for 2030 are to achieve mass marketing in the private vehicles and large commercial vehicles sector, with an aim of exceeding 100,000 sets per enterprise in respect of the production of fuel cell systems, and to achieve the storage and transportation of atmospheric pressure and high density organic liquified hydrogen with a number of over 1,000 hydrogen refueling stations.

According to the above, the Directors consider that as at the Latest Practicable Date, the hydrogen energy market is at the initial stage in China, but there will be huge room for development in 2020 to 2030. The funds raised from the Proposed A Shares Issue to invest in the construction project of the Type IV cylinder automation digital control production line and the research and development project of hydrogen energy product is mainly to allow the Company to enter into the hydrogen energy market, occupy a market position in the fierce and competitive hydrogen market in the future and acquire the necessary equipment and technology in advance for the hydrogen energy business, as well as exploring emerging businesses including storage tanks for hydrogen energy vehicles, hydrogen supply system and hydrogen transportation. In the long run, the completion of the Proposed A Shares Issue is beneficial to the Company for expanding new business market, further enhancing its profitability and overall competitiveness and improving its risk resistance capacity effectively so as to achieve a sustainable development for the Company. If there is a sound development of the hydrogen energy market subsequently, the Company may consider using its own financial resources for investing in its hydrogen energy business.

Meanwhile, the Company will repay bank loans, which enable it to effectively improve its structure of assets and liabilities and lower finance costs, strengthen its size and strength to a certain extent, improve its competitiveness and enhance its profitability, solvency and risk resistance capacity, which is in the benefits of the Company and all its Shareholders as a whole.

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The Board believes that the Proposed A Shares Issue is reasonable and necessary and in the interests of the Company and its shareholders as a whole. The main reasons are as follows:

- (1) the Proposed A Shares Issue meets the need of the business development strategy of the Company, it is in line with the national industrial policy and the overall business development strategy of the Company, and has a good market prospect. The Proposed A Shares Issue will help the Company to develop new business market, further enhance the profitability and comprehensive competitiveness of the Company, effectively enhance risk-resistant ability of the Company and achieve sustainable development of the Company;
- (2) the Proposed A Shares Issue will optimise the capital structure and reduce financial risks of the Company. After repaying the bank loans from the proceeds, the Company can effectively improve the structure of assets and liabilities and reduce financial expense, the scale and strength of the Company will be increased to a certain extent and the competitiveness, profitability, debt repayment and risk-resistant ability of the Company will improve;
- (3) the Company will take a number of effective measures to ensure the reasonable use of the proceeds raised and effectively prevent the risk of dilution of current returns. The measures include continuously promoting the overall development of business, expanding diversified profit channels, standardizing the management and use of the proceeds, strengthening operation management and internal control, enhancing operation efficiency and profitability, strengthening the risk management measures, maintaining a stable shareholder return policy and continuously improving corporate governance to provide system guarantee for the development of the Company; and
- (4) although there is a potential risk of dilution of current returns of the Company caused by the Proposed A Shares Issue, it does not mean that such risk is probable to occur. The controlling shareholder, the Directors and senior management of the Company have undertaken to adopt remedial measures for the potential risks of dilution of current returns caused by the Proposed A Shares Issue to ensure all measures are effectively in place to protect the interests of the Company and its shareholders as a whole. (Refer to Appendix I Section VII for details)

The net proceeds from the Proposed A Shares Issue will be used for (1) the construction project of the Type IV cylinder automation digital control production line (the Type IV cylinder project); (2) the research and development project of hydrogen energy product; (3) the repayment of debts owed to Jingcheng Machinery Electricity and financial institutions.

The A Shares Subscription Agreement was negotiated between the Board (excluding the interested Directors and the independent non-executive Directors) and Jingcheng Machinery Electricity based on normal commercial terms and in accordance with the requirements of the Measures for Securities Issuance by the Listed Companies (《上市公司證券發行辦法》) and

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the Implementation Rules for Nonpublic Issuance of Shares by Listed Companies (《上市公司非公开发行股票实施细则》) promulgated by CSRC, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors (excluding the Independent Board Committee whose view is set out in the section headed “Letter from the Independent Board Committee” in this circular) are of the view that the terms of the terms of the A Shares Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTENTION OF JINGCHENG MACHINERY ELECTRICITY REGARDING THE COMPANY

Jingcheng Machinery Electricity intends to continue with the existing business of the Company upon the completion of the Proposed A Shares Issue. Jingcheng Machinery Electricity has no intention to introduce any major changes to the existing business of the Company (including any redeployment of the fixed assets of the Company). It is also the intention of Jingcheng Machinery Electricity that the employment of the existing employees of the Group should be continued following completion of the Proposed A Shares Issue except for changes which may occur in the ordinary course of business.

IMPLICATIONS UNDER THE LISTING RULES

Jingcheng Machinery Electricity is the controlling shareholder holding approximately 43.30% of the total issued Shares of the Company as at the Latest Practicable Date, and therefore Jingcheng Machinery Electricity is a connected person of the Company under the Listing Rules. The Proposed A Shares Issue constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Mr. Wang Jun, an executive Director, and Ms. Jin Chunyu, Mr. Du Yuexi, Mr. Xia Zhonghua and Ms. Li Chunzhi, who are non-executive Directors, are nominated by Jingcheng Machinery Electricity and act as senior management and/or employee in Jingcheng Machinery Electricity and/or its subsidiaries other than the Group, and accordingly Mr. Wang Jun, Ms. Jin Chunyu, Mr. Du Yuexi, Mr. Xia Zhonghua and Ms. Li Chunzhi have abstained from voting on the Board resolutions to approve the Proposed A Shares Issue. Saved and except for the aforesaid, none of the Directors has any material interest in any of the Proposed A Shares Issue and hence no other Director has abstained on voting such Board resolutions.

IMPLICATIONS UNDER THE TAKEOVERS CODE AND APPLICATION FOR WHITESHASH WAIVER

As at the Latest Practicable Date, Jingcheng Machinery Electricity holds 182,735,052 A Shares, representing in aggregate approximately 43.30% of the total issued share capital of the Company. Upon completion of the Proposed A Shares Issue, Jingcheng Machinery Electricity’s shareholding of the Company is expected to increase from approximately 43.30% to not more than approximately 52.75%. In the absence of the Whitewash Waiver,

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the Proposed A Shares Issue will give rise to an obligation on the part of Jingcheng Machinery Electricity to make a mandatory offer for all the Shares other than those already owned or agreed to be acquired by it under Rule 26.1 of the Takeovers Code.

An application has been made on behalf of Jingcheng Machinery Electricity to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the Proposed A Shares Issue. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by at least 75% of the independent votes that are either in person or by proxy by the Independent Shareholders at the General Meeting by way of poll. The Proposed A Shares Issue will not proceed if the Whitewash Waiver is not granted by the Executive or the Proposed A Shares Issue and Whitewash Waiver are not approved by the Independent Shareholders at the General Meeting and the Class Meetings.

As at the Latest Practicable Date, the Company does not believe that the Proposed A Shares Issue gives rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the Latest Practicable Date, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if the Proposed A Shares Issue does not comply with other applicable rules and regulations.

Jingcheng Machinery Electricity and parties acting in concert with Jingcheng Machinery Electricity and those who are involved in or interested in the Proposed A Shares Issue and/or the Whitewash Waiver will abstain from voting in respect of the resolution(s) to approve the Proposed A Shares Issue, A Shares Subscription Agreement and the Whitewash Waiver at the General Meeting and the Class Meetings.

Shareholders and public investors should note that immediately upon the issue of A Shares under the Proposed A Shares Issue, the potential holding of voting rights of the Company held by Jingcheng Machinery Electricity will exceed 50% of the voting rights of the Company and that Jingcheng Machinery Electricity may increase its holding of voting rights of the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer for the securities of the Company.

IMPLICATIONS UNDER THE TAKEOVERS CODE AND PROPERTY VALUATION REPORT

Pursuant to Rule 11.1(f) of the Takeovers Code, except with the consent of the Executive, when the offeror is an interested party, a valuation will be required of the properties of the offeree company if it has significant property interests. An interested party includes a party holding, or together with parties acting in concert with it holding, immediately before either the commencement of an offer period or an obligation arises to make a mandatory offer under Rule 26.1, 30% or more of the voting rights of the offeree company. As a general guide, a company has “significant property interests” if the book value of its consolidated property assets exceeds 15% of its consolidated total assets.

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Jingcheng Machinery Electric is an interested party under Rule 11.1(f) of the Takeovers Code. Moreover, the book value of the Company consolidated property assets exceeds 15% of its consolidated total assets. Therefore, a valuation is required of the properties of the Company.

The full text of the valuation report prepared by Vigers Appraisal & Consulting Limited on the properties of the Company is set out in Appendix VI to this circular.

ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

Pursuant to Rule 2.8 of the Takeovers Code, members of the independent committee should comprise all non-executive Directors who have no interest in the Proposed A Shares Issue and Whitewash Waiver other than as a Shareholder. Apart from Ms. Wu Yan, an independent non-executive Director, who holds 43,001 A Shares, which represents 0.01% of the total share capital of the Company, none of the Directors has direct or indirect interest in the Company. Ms. Wu Yan has no direct or indirect interest in the Proposed A Shares Issue and the Whitewash Waiver, other than as a Shareholder. The Independent Board Committee (excluding Ms. Wu Yan) is of the view that, pursuant to Rule 2.8 of the Takeovers Code, Ms. Wu Yan is eligible to be a member of the Independent Board Committee. The Independent Board Committee (comprising all the independent non-executive Directors but not including any non-executive Director as they are nominated by Jingcheng Machinery Electricity) has been formed in accordance with Chapter 14A of the Listing Rules and Rule 2.8 of the Takeovers Code to advise the Independent Shareholders on the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and Whitewash Waiver. In this connection, Vinco Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and Whitewash Waiver.

GENERAL

(1) Information on the Company

The authorised scope of operation of the Company includes general logistics; professional contractor; developing, designing, selling, installing, adjusting and maintaining of cryogenic containers, compressors (piston compressor, membrane compressor and membrane compressor of nuclear grading) and accessories; machinery equipment and electrical equipment; technical consultancy and technical services; economic and trading consultancy; import and export of commodities and technology and acting as import and export agency.

(2) Information on Jingcheng Machinery Electricity

The authorised scope of operation of Jingcheng Machinery Electricity, as the controlling shareholder of the Company, includes labour dispatch; state-owned assets operation and management within the authorised scope; investment and investment management; property development, sales of commodity housing; leasing of housing;

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property management; technical transfer, technical trainings, technical consultancy and technical services; sales of mechanical and electrical equipment (excluding vehicles); technological 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 operating 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.)

(3) Information on Beijing State-owned Capital Operation and Management Center

Beijing State-owned Capital Operation and Management Center directly owns 100% equity of Jingcheng Machinery Electricity and is a state-owned enterprise established entirely with the capital contributed by Beijing SASAC on 30 December 2008 with a registered capital of RMB35 billion. It is an investment and financing platform focusing on the operation of state-owned capital and the management of state-owned equities with the objective of achieving the securitization and maximizing the value of state-owned capital.

(4) Information on Beijing SASAC

Beijing SASAC is the ultimate beneficial owner of Jingcheng Machinery Electricity and owns 100% equity of Beijing State-owned Capital Operation and Management Center. Pursuant to the Program for the Reform of the Institutions of the People's Government of Beijing Municipality as approved by the Central Committee of the Communist Party of China and the State Council and the Circular of the People's Government of Beijing Municipality about the Establishment of Institutions, the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality ("Municipality SASAC") has been established. Municipality SASAC is a special institution directly under the Municipality Government and authorised by the Municipality Government to represent the State to perform the duties of the state-owned assets contributor.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In order to standardize and improve the profit distribution policy of the Company, enhance the transparency of profit distribution, according to the provisions of the "Notice on Further Implementing the Cash Dividends of Listed Companies" and "Guidelines for the Supervision of Listed Companies No. 3-Cash Dividends of Listed Companies" issued by CSRC and other related laws and regulations and regulatory documents, the resolution in relation to the amendments to the Articles of Association was considered and approved at the thirteenth extraordinary meeting of the ninth session of the Board.

The full text of the proposed amendments to Articles of Association is set out in Appendix V to this circular. In the event of any discrepancy between the English translation and the Chinese version of the proposed amendments to Articles of Association, the Chinese version shall prevail.

LETTER FROM THE BOARD

The resolution in relation to the proposed amendments to Articles of Association will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the General Meeting. The proposed amendments are subject to approval by the relevant authorities in the PRC.

GENERAL MEETING AND CLASS MEETINGS

The General Meeting will be convened on 15 July 2019 at 9:30 a.m. at Conference Room of the Company, No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing to consider and, if thought fit, approve resolutions relating to (i) the Proposed A Shares Issue; (ii) the A Shares Subscription Agreement; (iii) the Specific Mandate; (iv) the Whitewash Waiver; and (v) the proposed amendments to the Articles of Association.

The A Shares Class Meeting will be convened on 15 July 2019 at 10:30 a.m. and the H Shares Class Meeting will be convened on 15 July 2019 at 11:00 a.m. to consider and, if thought fit, approve resolutions relating to (i) the Proposed A Shares Issue; (ii) the A Shares Subscription Agreement; and (iii) the Specific Mandate.

Jingcheng Machinery Electricity and parties acting in concert with it and those who are involved in or interested in the Proposed A Shares Issue and/or the Whitewash Waiver will abstain from voting on the corresponding resolutions to be proposed at the General Meeting and/or the Class Meetings.

The voting in relation to the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the proposed amendments of the Articles of Association will be conducted by way of poll.

The respective revised proxy forms and reply slips for use at the General Meeting and the H Shares Class Meeting are despatched by the Company on 27 June 2019. Whether or not you intend to attend the above meetings, you are requested to complete the form of proxy for use at the above meetings in accordance with the instructions printed thereon and return the same to the business address of the Company at No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing, the PRC, or the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The completion and delivery of the revised form of proxy will not preclude you from attending and voting in person at the above meetings or any adjournment thereof if you so wish.

RECOMMENDATION

Having taken into account, among other things, the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in the "Letter from Vinco Capital" in this circular below, the Independent Board Committee concurs with the view of the Independent Financial Adviser and consider that the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and in

LETTER FROM THE BOARD

the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of all the resolutions to be proposed at the General Meeting and the Class Meetings.

The Directors (excluding the independent non-executive Directors whose view is set out in the section headed “Letter from the Independent Board Committee” in this circular below) are of the view that the resolutions to be proposed at the General Meeting and the Class Meetings are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all the Shareholders to vote in favour of all the resolutions to be proposed at the General Meeting and the Class Meetings.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 32 to 33 of this circular; (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 34 to 80 of this circular; and (iii) the appendices to this circular.

Yours faithfully,
By order of the Board
**BEIJING JINGCHENG MACHINERY
ELECTRIC COMPANY LIMITED**
Luan Jie
Company Secretary



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)

27 June 2019

To the Independent Shareholders

Dear Sir or Madam,

**(1) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES
(2) CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF A
SHARES BY JINGCHENG MACHINERY ELECTRICITY
(3) APPLICATION FOR WHITEWASH WAIVER
AND
(4) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

We refer to the circular of the Company dated 27 June 2019 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver, details of which are set out in the “Letter from the Board” in the Circular. Vinco Capital Limited has been appointed as the Independent Financial Adviser with our approval to advise the Independent Board Committee and the Independent Shareholders in this regards.

We wish to draw your attention to the “Letter from the Board” set out on pages 5 to 31 of the Circular and the “Letter from Vinco Capital” set out on pages 34 to 80 of the Circular and the additional information set out in the appendices of this Circular.

Having taken into account, among other things, the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in the “Letter from Vinco Capital” in the Circular, we concur with the view of the Independent Financial Adviser and consider that the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend you to vote in favour of all the resolutions to be proposed at the General Meeting and the Class Meetings.

Yours faithfully,
Independent Board Committee

Wu Yan **Liu Ning**
Yang Xiaohui **Fan Yong**
Independent non-executive Directors

LETTER FROM VINCO CAPITAL

The following is the text of a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders in respect of the Proposed A Shares Issue, the A Shares Subscription Agreements the Specific Mandate and the Whitewash Waiver, which has been prepared for the purpose of incorporation in this circular:



Vinco Capital Limited
Unit 2610, 26/F., The Center
99 Queen's Road Central, Hong Kong

27 June 2019

*To the Independent Board Committee and the Independent Shareholders of
Beijing Jingcheng Machinery Electric Co. Ltd. – H Shares*

Dear Sirs,

- (1) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES;**
- (2) CONNECTED TRANASCTION – PROPOSED SUBSCRIPTION OF A SHARES BY JINGCHENG MACHINERY ELECTRICITY; AND**
- (3) APPLCATION FOR WHITEWASH WAIVER**

A. INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver, details of which are set out in the “Letter from the Board” of the circular issued by the Company dated 27 June 2019 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 6 May 2019 (the “**Announcement**”). As set out in the Announcement, the Board resolved to propose a non-public issuance of A shares, pursuant to which the Company will issue not more than 84,400,000 A Shares to Jingcheng Machinery Electricity, and the total funds raised shall amount to not more than RMB462,283,000 (subject to regulatory approval).

As part of the Proposed A Shares Issue, the Company and Jingcheng Machinery Electricity entered into the A Shares Subscription Agreement on 6 May 2019, pursuant to which, the Company has conditionally agreed to issue, and Jingcheng Machinery Electricity has conditionally agreed to subscribe for not more than 84,400,000 A Shares with a total subscription money of not more than RMB462,283,000 under the Proposed A Shares Issue.

LETTER FROM VINCO CAPITAL

As at the Latest Practicable Date, Jingcheng Machinery Electricity is the controlling shareholder holding approximately 43.30% of the total issued Shares of the Company. As such, under Rule 14A of the Listing Rules, Jingcheng Machinery Electricity is a connected person of the Company. The Proposed A Shares Issue constitutes a connected transaction of the Company and is subject to the announcement, reporting and the Shareholders' approval under Chapter 14A of the Listing Rules.

Mr. Wang Jun, an executive Director, and Ms. Jin Chunyu, Mr. Du Yuexi, Mr. Xia Zhonghua and Ms. Li Chunzhi, who are non-executive Directors, are nominated by Jingcheng Machinery Electricity and act as senior management and/or employee in Jingcheng Machinery Electricity and/or its subsidiaries other than the Company, and accordingly Mr. Wang Jun, Ms. Jin Chunyu, Mr. Du Yuexi, Mr. Xia Zhonghua and Ms. Li Chunzhi have abstained from voting on the Board resolutions to approve the Proposed A Shares Issue. Saved and except for the aforesaid, none of the Directors has any material interest in any of the Proposed A Shares Issue and hence no other Director has abstained on voting such Board resolutions.

Furthermore, as Jingcheng Machinery Electricity's shareholding of the Company is expected to increase from approximately 43.30% to approximately 52.75% upon completion of the Proposed A Shares Issue, the Proposed A Shares Issue will give rise to an obligation on the part of Jingcheng Machinery Electricity to make a mandatory offer for all the Shares other than those already owned or agreed to be acquired by it under Rule 26 of the Takeovers Code. Jingcheng Machinery Electricity has applied for a waiver from such obligation pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to the approval by at least 75% of the independent votes that are either in person or by proxy by Independent Shareholders by way of poll at the General Meeting and the Class Meetings. The Proposed A Shares Issue will not proceed if the Whitewash Waiver are not granted by Executive or the Proposed A Shares Issue, the Specific Mandate and the Whitewash Waiver are not approved by the Independent Shareholders at the General Meeting and the Class Meetings.

As at the Latest Practicable Date, Jingcheng Machinery Electricity holds 182,735,052 A Shares, representing in aggregate approximately 43.30% of the total issued share capital of the Company. Upon completion of the Proposed A Shares Issue, Jingcheng Machinery Electricity's shareholding of the Company is expected to increase from approximately 43.30% to not more than approximately 52.75%. In the absence of the Whitewash Waiver, the Proposed A Shares Issue will give rise to an obligation on the part of Jingcheng Machinery Electricity to make a mandatory offer for all the Shares other than those already owned or agreed to be acquired by it under Rule 26.1 of the Takeovers Code.

Jingcheng Machinery Electricity and parties acting in concert with it and those who are involved in or interested in the Proposed A Shares Issue or the Whitewash Waiver will abstain from voting on the corresponding resolutions to be proposed at the General Meeting and/or the Class Meetings.

The Independent Board Committee, comprising all the independent non-executive Directors but not any non-executive Director as they are nominated by Jingcheng Machinery Electricity, namely Ms. Wu Yan, Mr. Liu Ning, Mr. Yang Xiaohui and Mr. Fan Yong has

LETTER FROM VINCO CAPITAL

been formed to advise the Independent Shareholders as to whether the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and its Shareholders as a whole.

We, Vinco Capital, have been appointed and have been approved by the Independent Board Committee, as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates or any party acting, or presumed to be acting in concert with any of them and as the Latest Practicable Date, we did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any member of the Company or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We were not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rule and Rule 2 of the Takeovers Code to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver. We are eligible to give independent advice and recommendations on the terms of the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver and as to whether to vote in favour of the special resolutions to be proposed at the General Meeting and the H Shares Class Meeting to approve the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Non-executive Directors, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. We have not acted as the independent financial adviser to the Company's other transactions during the last two years.

We are not in the same group as the financial or other professional adviser (including a stockbroker) to:

- (i) The Controlling Shareholder and
- (ii) The Company, any party acting, or presumed to be acting in concert with the Company; or any company controlled by the Company (collectively, the “**Offeree Group**”).

We do not have and did not have, a significant connection, financial or otherwise, with the Controlling Shareholder and the Offeree Group, of a kind reasonably likely to create, or to create the perception of, a conflict of interest or reasonably likely to affect the objectivity of our advice as referred to in Rule 2.6 of the Takeover Code. We are not aware of the

LETTER FROM VINCO CAPITAL

existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on the Proposed A Share Issue.

B. BASIS OF OUR OPINION AND RECOMMENDATION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the Latest Practicable Date and the Independent Shareholders will be notified of any material changes to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiries and considerations. We have no reason to doubt that any relevant information have been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to use untrue, inaccurate or misleading. We consider that we have reviewed sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinions and recommendations. All Directors have declared in responsibility statement set out in the Appendix VIII to the Circular that they jointly and severally accept full responsibility for the accuracy of the information contained in the Circular. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs, financial condition and future prospects of the Group.

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

In formulating our opinions, our opinion is necessarily based upon the financial, economic, market regulatory and other conditions as they existed on, and the facts, information, representations, and opinions made available to us as of the Latest Practicable Date. Shareholders will be notified of any material changes to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinions expressed herein which may come to be brought to our attention after the completion of the Proposed A Shares Issue.

LETTER FROM VINCO CAPITAL

We consider that we have reviewed all currently available information and documents particularly, (i) the annual report of the Company for the year ended 31 December 2017 (the “**Annual Report 2017**”); (ii) the Annual Report of the Company for the year ended 31 December 2018 (the “**Annual Report 2018**”); (iii) the unaudited consolidated accounts of the Company for the three months ended 31 March 2019 (the “**1st Quarter Report 2019**”); (iv) the A Shares Subscription Agreement entered into between the Company and Jingcheng Machinery Electricity; (v) the debt agreements entered into by the Company; (vi) the Proposal for the Non-public A Shares Issuance provided by the Company; (vii) the basis and assumptions on the reasons for and benefits of the Proposed A Shares Issue; (viii) the recent non-public A Shares issuance announcement of companies listed on Shanghai Stock Exchange in the past three months; (ix) the national energy policies and future plan; and (x) the property valuation report of the Company prepared by Vigers Appraisal & Consulting Limited, which are made available to us and enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration in respect of the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and Independent Shareholders in respect of the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver, we have considered the principal factors and reasons set out below.

I. Information of the parties

Information of the Company

Beijing Jingcheng Machinery Electric Company Limited is a China-based company. The authorized scope of operation of the Company includes general logistics; professional contractor; developing, designing, selling, installing, adjusting and maintaining of cryogenic containers, compressors (piston compressor, membrane compressor and membrane compressor of nuclear grading) and accessories; machinery equipment and electrical equipment; technical consultancy and technical service; economic and trading consultancy; import and export of commodities and technology and acting as import and export agency.

LETTER FROM VINCO CAPITAL

(a) Financial performance of the Company

The Company's revenue derived from prime businesses and other businesses. The Company's prime businesses include seamless steel gas cylinders, full-wrapped cylinders, cryogenic gas cylinders, cryogenic devices for storage and transportation and others. Set out below is the summary of consolidated statements of profit and loss of the Company for each of the three years ended 31 December 2018, which are extracted from the Annual Report 2017 and the Annual Report 2018.

	Year ended 31 December					
	2018		2017		2016	
	<i>RMB'000</i> <i>(audited)</i>	<i>% of total</i> <i>revenue</i>	<i>RMB'000</i> <i>(audited)</i>	<i>% of total</i> <i>revenue</i>	<i>RMB'000</i> <i>(audited)</i>	<i>% of total</i> <i>revenue</i>
Revenue:						
– Seamless steel gas cylinders	451,822	40.3%	487,850	40.5%	488,346	54.9%
– Full-wrapped cylinders	200,284	17.9%	199,271	16.6%	155,820	17.5%
– Cryogenic gas cylinders	116,136	10.4%	134,009	11.1%	60,333	6.8%
– Cryogenic devices for storage and transportation	107,311	9.6%	228,315	19.0%	63,768	7.2%
– Other prime businesses	188,766	16.8%	117,028	9.7%	95,440	10.7%
– Other businesses	57,245	5.1%	37,025	3.1%	25,818	2.9%
Total revenue	1,121,564		1,203,497		889,525	
Operating cost	1,016,768		1,008,934		791,506	
Gross profit	104,796		194,564		98,019	
Selling expenses	50,936		65,404		70,893	
Administrative expenses	112,349		119,315		130,794	
R&D expenses	11,827		–		–	
Finance cost	24,487		24,438		13,910	
Assets impairment losses	36,441		27,482		74,601	
Credit impairment losses	2,017		–		–	
Investment gain/(losses)	(3,276)		(4,586)		6,820	
Taxes and surcharges	10,903		16,443		12,487	
Incomes/(losses) of assets disposal	8,596		66,140		(2,092)	
Non-operating expenses	446		19,827		887	
Non-operating income	13,015		48,430		21,810	
Other earnings	720		–		–	
Profit/(loss) before taxation	(125,555)		31,636		(179,015)	
Income tax expenses	7,090		8,491		1,643	
Net Profit/(loss) for the year	(132,645)		23,146		(180,658)	

As shown in the table above, the Company's total revenue increased by approximately RMB313,972,000 or 35.3% from approximately RMB889,525,000 for the year ended 31 December 2016 to approximately RMB1,203,497,000 for the year ended 31 December 2017. Although the Company's revenue derived from

LETTER FROM VINCO CAPITAL

seamless steel gas cylinders slightly decreased by approximately RMB496,000 or 0.1% from approximately RMB488,346,000 for the year ended 31 December 2016 to approximately RMB487,850,000 for the year ended 31 December 2017, the revenue derived from other business segments increased. The Company's revenue derived from full-wrapped cylinders increased by approximately RMB43,451,000 or 27.8% from approximately RMB199,271,000 for the year ended 31 December 2016 to approximately RMB199,211,000 for the year ended 31 December 2017, while the revenue derived from cryogenic gas cylinders significantly increased by approximately RMB73,676,000 or 122.1% from approximately RMB60,333,000 for the year ended 31 December 2016 to approximately RMB134,009,000 for the year ended 31 December 2017. Besides, the Company's revenue derived from cryogenic devices for storage and transportation significantly increased by approximately RMB164,547,000 or 258.0% from approximately RMB63,768,000 for the year ended 31 December 2016 to approximately RMB228,315,000 for the year ended 31 December 2017. The Company's revenue derived from other prime businesses and other businesses also increased. The revenue derived from other prime businesses increased by approximately RMB21,588,000 or 22.6% from approximately RMB95,440,000 for the year ended 31 December 2016 to approximately RMB117,028,000 for the year ended 31 December 2017, while the revenue generated from other businesses increased by approximately RMB11,207,000 or 43.4% from approximately RMB25,818,000 for the year ended 31 December 2016 to approximately RMB37,025,000 for the year ended 31 December 2017. According to the Annual Report 2017, international crude oil prices continued to increase steadily since 2017 and the domestic refined oil price also caught up such increase, while the cost-effectiveness of natural gas utilisation had recovered to a certain extent. Besides, on 26 July 2016, the General Administration of Quality Supervision, Inspection and Quarantine of PRC issued a new version of GB1589 standards which specifies the limits of dimensions, axle load and masses for motor vehicles, trailers and combination vehicles. The introduction of the new version of GB1589 stimulated the heavy-duty truck industry to have relatively substantial growth as compared with the previous year, thus driving the production and sales of natural gas heavy duty trucks. In the meantime, the global industrial gas market and downstream hydrogen and fuel cell industries continued to recovered. Under such industrial development background, the Company targeted on key regions and expanded sales channels and approaches through the establishment of leased-out storerooms and other ways. The LNG equipment market of the Company, especially the LNG cylinder, had fast growth demand, and its sales and production had relatively substantial growth as compared with the corresponding period of last year.

Accompany with the increase in the Company's revenue, the Company's gross profit and gross profit margin also increased. The Company's gross profit margin increased by approximately RMB96,545,000 or 98.5% from approximately RMB98,019,000 for the year ended 31 December 2016 to approximately RMB194,546,000 for the year ended 31 December 2017, while the Company's gross profit margin increased by approximately 5.1% from approximately 11.0% for the year ended 31 December 2016 to approximately 16.2% for the year ended 31 December 2017. The Company's gross profit margin increased because the

LETTER FROM VINCO CAPITAL

increased in revenue outweighed the increase in operating cost. The Company's revenue increased by approximately 35.3% over the year ended 31 December 2017, while the operating cost only increased by approximately 27.5% over the year. This was mainly because the production capacity could be generated to a large extent with substantial growth of production volume so as to dilute the fixed charges, reduce unit costs of products and increase the gross profit margin.

According to the Annual Report 2017, as shown in the table, the Company's selling expenses and administrative expenses decreased over the year. The selling expenses decreased by approximately RMB5,489,000 or 7.7% from approximately RMB70,893,000 for the year ended 31 December 2016 to approximately RMB65,404,000 for the year ended 31 December 2017. The decrease was mainly due to decreased transportation costs. The Company started to accept certain major customers to directly pick up their procured products in the plants which helped Company to save transportation costs. Besides, the Company and logistic companies chose to charter vehicles to deduce waste of transporting capacity and effectively reduce the transportation costs. The administrative expenses decreased by approximately RMB11,479,000 or 8.8% from approximately RMB130,794,000 for the year ended 31 December 2016 to approximately RMB119,315,000 for the year ended 31 December 2017. The decrease was mainly due to (i) the pilot implementation of the conversion of business tax to value-added tax; (ii) the decreased in provision of impairment of idle fixed assets and depreciation cost; and (iii) the decrease in commission fees as compared with last year, which was due to the payment to an intermediary agency by the Company for the preparation of restructuring last year. The Company's finance cost increased by approximately RMB10,528,000 or 75.7% from approximately RMB13,910,000 for the year ended 31 December 2016 to approximately RMB24,438,000 for the year ended 31 December 2017. The increase was attributable to (i) the increase in foreign exchange loss as a result of the appreciation of RMB; and (ii) the increase in interest expenses due to increase in finance amount and costs. The impairment loss on assets decreased by approximately RMB47,119,000 or 63.2% from approximately RMB74,601,000 for the year ended 31 December 2016 to approximately RMB27,482,000 for the year ended 31 December 2017. The decrease was due to (i) the decrease in provision for inventory impairment loss; (ii) absence of provision of impairment of fixed assets; and (iii) absence of provision of impairment for goodwill. The Company's investment income decreased by approximately RMB11,406,000 for the year ended 31 December 2017 mainly due to the substantial decrease in the profitability of a joint venture of the Company. Gains from disposal of assets increased by approximately RMB68,232,000 for the year ended 31 December 2017 which was mainly attributable to the income from the disposal of a subsidiary of the Company. The Company's non-operating income increased by approximately RMB26,626,000 for the year ended 31 December 2017 because of the receipt of government subsidies and increase in the gain on debt restructuring.

The Company recorded net profit of approximately RMB23,146,000 for the year ended 31 December 2017 as compared with the net loss of approximately RMB180,658,000 for the year ended 31 December 2016. The improvement was

LETTER FROM VINCO CAPITAL

mainly due to (i) increase in the Company's revenue; (ii) increase in the Company's gross profit margin; and (iii) decrease in the Company's operating cost.

For the year ended 31 December 2018

As shown in the table, the Company's total revenue decreased by approximately RMB81,933,000 or 6.8% from approximately RMB1,203,497,000 for the year ended 31 December 2017 to approximately RMB1,121,564,000 for the year ended 31 December 2018. The Company's revenue derived from full-wrapped cylinders of approximately RMB200,284,000 for the year ended 31 December 2018 remained stable as compared with that of approximately RMB199,271,000 for the year ended 31 December 2017. The Company's revenue derived from other prime businesses and other businesses increased over the year ended 31 December 2018. The revenue generated from other prime businesses increased by approximately RMB71,738,000 or 61.3% from approximately RMB117,028,000 for the year ended 31 December 2017 to approximately RMB188,766,000 for the year ended 31 December 2018, while the revenue derived from other businesses increased by approximately RMB20,220,000 or 54.6% from approximately RMB37,025,000 for the year ended 31 December 2017 to approximately RMB57,245,000 for the year ended 31 December 2018. However, the decrease in revenue derived from other business segments outweighed the Company's improved performance in other prime businesses and other businesses. The Company's revenue derived from cryogenic devices for storage and transportation significantly decreased by approximately RMB121,004,000 or 53.0% from approximately RMB228,315,000 for the year ended 31 December 2017 to approximately RMB107,311,000 for the year ended 31 December 2018. Besides, the Company's revenue derived from seamless steel gas cylinders decreased by approximately RMB36,028,000 or 7.4% from approximately RMB487,850,000 for the year ended 31 December 2017 to approximately RMB451,822,000 for the year ended 31 December 2018, while the revenue derived from cryogenic gas cylinders decreased by approximately RMB17,873,000 or 13.3% from approximately RMB134,009,000 for the year ended 31 December 2017 to approximately RMB116,136,000 for the year ended 31 December 2018. According to the Annual Report 2018, the Company was facing uncertainties and unstable factors including the complicated external environment and the downward pressure on the economy over the year. The decrease in the Company's revenue was mainly due to the decreased in the LNG orders from automobile manufacturers.

The Company's gross profit decreased by approximately RMB89,768,000 or 46.1% from approximately RMB194,564,000 for the year ended 31 December 2017 to approximately RMB104,796,000 for the year ended 31 December 2018. The decreased was mainly due to the decrease in revenue and the increase in operating cost. Although the revenue decreased approximately 6.8% for the year ended 31 December 2018, the operating cost also increased by approximately RMB7,834,000 or 0.8% from approximately RMB1,008,934,000 for the year ended 31 December 2017 to approximately RMB1,016,768,000 for the year ended

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31 December 2018. This was because fixed costs such as rent would not be reduced as a result of the decreased production volume, which led to the increase in production unit costs. In addition, the increase in prices of raw materials caused the increase in production costs. Due to the above reason, the Company's gross profit margin decreased by approximately 6.9% from approximately 16.2% for the year ended 31 December 2017 to approximately 9.3% for the year ended 31 December 2018.

As shown in the table, the Company's selling expenses decreased by approximately RMB14,468,000 or 22.1% from approximately RMB65,404,000 for the year ended 31 December 2017 to approximately RMB50,936,000 for the year ended 31 December 2018. The decrease was mainly due to decrease in revenue. The Company's administrative expense and finance cost were relatively stable over the year ended 31 December 2018 as compare with the year ended 31 December 2017. The Company recorded administrative expense of approximately RMB112,349,000 for the year ended 31 December 2018 compared to that of approximately RMB119,315,000 for the year ended 31 December 2017, while the Company recorded finance cost of approximately RMB24,487,000 for the year ended 31 December 2018 compared to that of approximately RMB24,438,000 for the year ended 31 December 2017. The Company recorded R&D expenses of approximately RMB11,827,000 for the year ended 31 December 2018. According to the Annual Report 2018, the Company invested in the development of Type III cylinders and combined with the Ministry of Science and Technology and the Beijing Municipal Science and Technology Commission to carry out a series of new product development including 70MPa series, 35MPa single-port large-volume series, 20MPa steel liner carbon fiber full-winding for vehicles and passenger vehicles. The Company's incomes of assets disposal significantly decreased by approximately RMB57,544,000 from approximately RMB66,140,000 for the year ended 31 December 2017 to approximately RMB8,596,000 for the year ended 31 December 2018. This was because the Company did not dispose assets during the year ended 31 December 2018 which is as large as the subsidiary disposed in the year ended 31 December 2017

The Company recorded net loss of approximately RMB132,645,000 for the year ended 31 December 2018 compared to the net profit of approximately RMB23,146,000 for the year ended 31 December 2017. The main drivers were (i) the decreased in the Company's revenue; and (ii) the increase in operating cost which led to decreased in the Company's gross profit and gross profit margin.

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For the three months ended 31 March 2019

Set out below is the summary of consolidated statements of profit and loss of the Company for the three months ended 31 March 2018 and 31 March 2019, which are extracted from the 1st Quarter Report 2019:

	Three months ended	
	31 March	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	251,055	235,780
Operating cost	236,274	213,527
Gross profit	14,781	22,253
Selling expenses	15,335	12,891
Administrative expenses	23,536	25,283
R&D expenses	233	–
Finance cost	4,672	6,271
Taxes and surcharges	1,715	2,123
Non-operating expenses	411	20
Non-operating income	1,561	272
Investment losses	(22)	(73)
Losses of assets disposal	–	(43)
Loss before taxation	(29,582)	(24,179)
Income tax expenses	727	1,354
Net loss for the period	(30,309)	(25,534)

As shown in the table above, the Company's revenue increased by approximately RMB15,275,000 or 6.5% from approximately RMB235,780,000 for the three months ended 31 March 2018 to approximately RMB251,055,000 for the three months ended 31 March 2019. The increase was mainly due to (i) increased sales in LNG products and (ii) the revenue generated from a subsidiary, namely Kuancheng Tianhai, which was in preparation period during the 1st quarter of 2018. Although the Company's revenue increased, the Company's gross profit decreased by approximately RMB7,472,000 or 33.6% from approximately RMB22,253,000 for the three months ended 31 March 2018 to approximately RMB14,781,000 for the three months ended 31 March 2019. Besides, the Company's gross profit margin also decreased by approximately 3.5% from approximately 9.4% for the three months ended 31 March 2018 to approximately 5.9% for the three months ended 31 March 2019. The decreases in gross profit and gross profit margin were primarily due to the increased operating cost and the gross loss of Kuancheng Tianhai. The Company's operating cost increased by approximately RMB22,747,000 or 10.7% from approximately RMB213,527,000 for the three months ended 31 March 2018 to approximately RMB236,274,000 for the three months ended 31 March 2019. The increased operating cost was mainly

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attributable to the increase in sales. The Company's subsidiary, Kuancheng Tianhai, recorded gross loss for the three months ended 31 March 2019 which lowered the gross profit and gross profit margin of the Company.

As shown in the table, the Company's selling expenses and non-operating expenses increased for the three months ended 31 March 2019 as compare to those for the three months ended 31 March 2018. The Company's selling expenses increased by approximately RMB2,444,000 or 19.0% from approximately RMB12,891,000 for the three months ended 31 March 2018 to approximately RMB15,335,000 for the three months ended 31 March 2019. The increase was primarily due to increase in sales. The Company's non-operating expenses increased approximately RMB391,000 or 19.6 times from approximately RMB20,000 for the three months ended 31 March 2018 to approximately RMB411,000 for the three months ended 31 March 2019. Such increase was mainly due to the cost incurred from disposal of subsidiary's scrap assets. The Company incurred R&D cost of approximately RMB233,000 for the three months ended 31 March 2019. This is because the R&D expenses for the 3 months ended 31 March 2018 were offset by the grants from governmental departments such as Ministry of Science and Technology. The Company's finance cost decreased by approximately RMB1,599,000 or 25.5% from approximately RMB6,271,000 for the three months ended 31 March 2018 to approximately RMB4,672,000 for the three months ended 31 March 2019. The decrease was mainly attributable to smaller financing scale as compared to that during the 1st quarter of 2018. The Company's non-operating income increased by approximately RMB1,289,000 or 473.9% from approximately RMB272,000 for the three months ended 31 March 2018 to approximately RMB1,561,000 for the three months ended 31 March 2019. Such significant increase was primarily due to the increase in government subsidies.

The Company recorded net loss of approximately RMB30,309,000 for the three months ended 31 March 2019 as compared with the net loss of approximately RMB25,534,000 for the three months ended 31 March 2018. The negative growth was mainly due to (i) the increased operational cost and (ii) the decrease in gross profit margin.

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(b) Financial position of the Company

Set out below is the summary of consolidated statements of financial position of the Company for each of the three years ended 31 December 2016, which are extracted from the Annual Report 2017 and the Annual Report 2018 of the Company:

	As at 31 December		
	2018	2017	2016
	<i>RMB'000</i> <i>(audited)</i>	<i>RMB'000</i> <i>(audited)</i>	<i>RMB'000</i> <i>(audited)</i>
Non-current assets:			
Long-term equity investments	124,899	71,694	75,182
Investment properties	28,724	–	–
Fixed assets	707,396	657,289	841,900
Construction in progress	11,654	68,469	–
Intangible assets	128,527	139,750	151,587
Goodwill	–	3,680	3,680
Long-term deferred expenses	10,298	14,515	14,852
Deferred income tax assets	363	289	286
	<u>1,011,861</u>	<u>955,685</u>	<u>1,087,486</u>
Current assets:			
Cash at bank and on hand	61,162	78,368	118,829
Notes receivable and accounts receivable	246,255	382,745	231,501
Advances to suppliers	58,395	49,913	36,212
Other receivables	20,471	12,891	4,581
Inventories	325,701	389,219	317,128
Other current assets	51,641	56,241	54,173
	<u>763,625</u>	<u>969,377</u>	<u>762,422</u>
Total assets	1,775,486	1,925,062	1,849,909

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	As at 31 December		
	2018	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Current liabilities:			
Short-term borrowings	277,998	285,000	190,000
Notes payable and accounts payable	264,375	260,851	298,518
Advances from customers	–	45,878	43,160
Contractual liabilities	48,104	–	–
Employee benefits payable	22,930	36,863	25,073
Taxes payable	15,822	16,683	4,756
Other payables	80,625	90,989	167,044
Non-current liabilities due within one year	18,000	11,000	11,000
Other current liabilities	287	5,381	279
	<u>728,140</u>	<u>752,644</u>	<u>739,830</u>
Total current liabilities	<u>728,140</u>	<u>752,644</u>	<u>739,830</u>
Non-current liabilities:			
Long-term borrowings	11,000	5,060	–
Long-term payables	143,100	103,900	103,900
Long-term employee benefits payable	24,637	32,872	31,164
Provisions	3,252	4,244	3,129
Deferred incomes	2,087	2,000	–
	<u>184,077</u>	<u>148,075</u>	<u>138,193</u>
Total non-current liabilities	<u>184,077</u>	<u>148,075</u>	<u>138,193</u>
Total liabilities	912,217	900,720	878,024
Shareholders' equity:			
Capital stock	422,000	422,000	422,000
Capital reserves	687,349	687,349	683,803
Other comprehensive income	2,308	1,154	2,391
Surplus reserves	45,666	45,666	45,666
Undistributed profit	690,446	567,794	588,662
	<u>466,876</u>	<u>588,375</u>	<u>565,198</u>
Total shareholders' equity attributable to parent company	<u>466,876</u>	<u>588,375</u>	<u>565,198</u>
Non-controlling interest	396,393	435,967	406,687
	<u>396,393</u>	<u>435,967</u>	<u>406,687</u>
Total stockholders' equity	<u>863,269</u>	<u>1,024,342</u>	<u>971,885</u>

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As at 31 December 2017

Both total assets and total liabilities of the Company as at 31 December 2017 increased as compared with those as at 31 December 2016. The Company's total assets increased by approximately RMB75,200,000 or 4.1% from approximately RMB1,850,000,000 as at 31 December 2016 to approximately RMB1,925,100,000 as at 31 December 2017. The increase in total assets was mainly due to (i) the increase in notes receivable; (ii) the increase in account receivables; (iii) the increase in prepayment; and (iv) the increase in amount of construction in progress. The Company's notes receivable increased by approximately 70.1% from approximately RMB16,300,000 as at 31 December 2016 to approximately RMB27,800,000 as at 31 December 2017. The increase was mainly due to the decrease in notes endorsed and transferred for goods payment and the increase in notes received during the financial year 2017. The Company's account receivables increased by approximately 64.9% from approximately RMB215,200,000 as at 31 December 2016 to approximately RMB354,900,000 as at 31 December 2017. The increase was mainly due to the increase in operating income during the financial year 2017. The Company's prepayment increased by approximately 37.8% from approximately RMB36,200,000 as at 31 December 2016 to approximately RMB49,900,000 as at 31 December 2017. The increase was mainly attributable to the increase in prepayment as a result of the payment policy of steel suppliers during the financial year 2017. The Company's had amount of construction in progress of approximately RMB68,500,000 as at 31 December 2017 due to the construction in progress of Kuancheng Tianhai which is a new subsidiary of Beijing Tianhai.

The Company's total liabilities increased by approximately 2.6% from approximately RMB878,000,000 as at 31 December 2016 to approximately RMB900,700,000 as at 31 December 2017. The increase in the Company's total liabilities was mainly due to (i) the increase in short-term loans; and (ii) the increase in other current liabilities. The Company's short-term loans increased by approximately 50.0% from approximately RMB190,000,000 as at 31 December 2016 to approximately RMB285,000,000 as at 31 December 2017. The increase was mainly due to the increase in loans and resulting increase in interest payable. The Company's other currently liabilities increase by approximately 1,827.3% from approximately RMB300,000 as at 31 December 2016 to approximately RMB5,400,000 as at 31 December 2017. The increase was mainly due to the increase in pending changeover VAT on sales.

As at 31 December 2018

The Company's total assets decreased as at 31 December 2018 as compared to that as at 31 December 2017 while the Company's total liabilities further increased as at 31 December 2018. The Company's total assets decreased by approximately RMB149,600,000 or 7.8% from approximately RMB1,925,100,000 as at 31 December 2017 to approximately RMB1,775,500,000 as at 31 December 2018. The decrease was mainly due to the decrease in account receivable. The Company's account receivable decreased by approximately RMB131,800,000 or

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37.1% from approximately RMB354,900,000 as at 31 December 2017 to approximately RMB223,100,000 as at 31 December 2018. The decrease was mainly due to the stronger control on accounts receivable by the Company and the recovery of long-term receivables during the financial year 2018.

The Company's total liabilities further increased by approximately RMB11,500,000 or 1.3% from approximately RMB900,700,000 as at 31 December 2017 to approximately RMB912,200,000 as at 31 December 2018. The increase was mainly due to (i) the increase in non-current liabilities due within one year; (ii) the increase in long-term borrowings; and (iii) the increase in long-term payables. The Company's non-current liabilities due within one year increase by approximately 63.6% from RMB11,000,000 as at 31 December 2017 to RMB18,00,000 as at 31 December 2018. The increase was mainly due to the increase in long-term borrowings due within one year of Kuancheng Tianhai which is a subsidiary of the Company. Due to the same reason, the Company's long-term borrowings increase by approximately 117.4% from approximately RMB5,100,000 as at 31 December 2017 to RMB11,000,000 as at 31 December 2018. The Company's long-term payables increased by approximately 37.7% from approximately RMB103,900,000 as at 31 December 2017 to approximately RMB143,100,000 as at 31 December 2018. The increase was mainly due to the consideration of the subscribed shares in Jingcheng Haitong of Beijing Tianhai which is a subsidiary of the Company.

The Company's total liabilities increased from 31 December 2016 to December 2018. The Company's total liabilities increased by approximately 3.9% from approximately RMB878,000,000 as at 31 December 2016 to RMB912,200,000 as at 31 December 2018. The Company's short-term borrowings increased by approximately RMB88,000,000 or 46.3% from RMB190,000,000 as at 31 December 2016 to approximately RMB278,000,000 as at 31 December 2018. The Company's long-term borrowings also increased from nil as at 31 December 2016 to RMB11,000,000 as at 31 December 2018.

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As at 31 March 2019

Set out below is the summary of consolidated statement of financial position of the Company as at 31 March 2019 and 31 December 2018, which are extracted from the 1st Quarter Report and the Annual Report 2018 of the Company:

	As at 31 March 2019 <i>RMB'000</i> <i>(unaudited)</i>	As at 31 December 2018 <i>RMB'000</i> <i>(unaudited)</i>
Non-current assets:		
Long-term equity investments	124,877	124,899
Investment properties	28,679	28,724
Fixed assets	685,340	707,396
Construction in progress	9,560	11,653
Intangible assets	127,848	128,526
Long-term deferred expenses	9,245	10,298
Deferred income tax assets	249	363
 Total non-current assets	 985,798	 1,011,861
Current assets:		
Cash at bank and on hand	51,784	61,162
Notes receivable and accounts receivable	207,677	246,255
Advances to suppliers	85,793	58,395
Other receivables	21,368	20,471
Inventories	360,420	325,701
Other current assets	42,859	51,641
 Total current assets	 769,901	 763,625
 Total assets	 1,755,699	 1,775,485

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	As at 31 March 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (unaudited)
Current liabilities:		
Short-term borrowings	278,077	277,998
Notes payable and accounts payable	285,909	264,375
Contractual liabilities	34,552	48,104
Employee benefits payable	12,442	22,930
Taxes payable	6,514	15,822
Other payables	102,890	80,624
Non-current liabilities due within one year	18,000	18,000
Other current liabilities	<u>279</u>	<u>287</u>
Total current liabilities	<u>738,663</u>	<u>728,140</u>
Non-current liabilities:		
Long-term borrowings	11,000	11,000
Long-term payables	143,100	143,100
Provisions	24,637	24,637
Deferred incomes	3,251	3,251
Deferred income tax liabilities	<u>2,087</u>	<u>2,087</u>
Total non-current liabilities	<u>184,077</u>	<u>184,077</u>
Total liabilities	922,740	912,217
Shareholders' equity:		
Capital stock	422,000	422,000
Capital reserves	687,349	687,349
Other comprehensive income	2,308	2,308
Surplus reserves	45,666	45,666
Undistributed profit	<u>713,033</u>	<u>690,446</u>
Total shareholders' equity attributable to parent company	444,290	466,876
Non-controlling interest	<u>388,670</u>	<u>396,393</u>
Total stockholders' equity	<u>832,960</u>	<u>863,269</u>

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The Company's total assets and total liabilities remained stable as at 31 March 2019 as compared with that as at 31 December 2018. The Company had total assets of approximately RMB1,755,700,000 as at 31 March 2019 as compared to the amount of total assets of approximately RMB1,775,500,000 as at 31 December 2018. The Company's total non-current assets decreased by approximately RMB26,100,000 or 2.6% from approximately RMB1,011,900,000 as at 31 December 2018 to approximately RMB985,800,000. The slight decrease was mainly due to the decreased in company's fixed assets. The Company's fixed asset value decreased by approximately RMB22,100,000 or 3.1% from approximately RMB707,400,000 as at 31 December 2018 to approximately RMB685,300,000 as at 31 March 2019. Such decreased was mainly due to depreciation of fixed assets. The Company's total current assets increased by approximately RMB6,300,000 or 0.8% from approximately RMB763,600,000 as at 31 December 2018 to approximately RMB769,900,000 as at 31 March 2019. The Company's notes receivable and accounts receivable decreased by approximately RMB38,600,000 or 15.7% from approximately RMB246,300,000 as at 31 December 2018 to approximately RMB207,700,000 as at 31 March 2019. This is because the Company reviewed the customers in strict accordance with the credit limit of the account receivables, and increased the efforts for collection of outstanding receivables. The Company's advances to suppliers increased by approximately RMB27,400,000 46.9% from approximately RMB58,400,000 as at 31 December 2018 to approximately RMB85,800,000 as at 31 March 2019. The reason for such increased is that some suppliers of steel adjusted the payment method that require larger portion of prepayment for placing orders.

The Company's total liabilities increased by approximately RMB10,500,000 or 1.2% from approximately RMB912,200,000 as at 31 December 2018 to approximately RMB922,700,000 as at 31 March 2019. The Company's non-current liabilities remained unchanged as at 31 March 2019 as compare to that as at 31 December 2018. The Company's current liabilities increased by approximately RMB10,500,000 or 1.4% from approximately RMB728,100,000 as at 31 December 2018 to approximately RMB738,700,000 as at 31 March 2019. Such increase was mainly due to the increased in notes payable and account payable. The Company's notes payable and accounts payable increased by approximately RMB21,500,000 or 8.1% from approximately RMB264,400,000 as at 31 December 2018 to approximately RMB285,900,000 as at 31 March 2019. Such increase was mainly due to the increase in procurement of materials for production to support increased sales.

According to the Annual Report 2018, one of the core business of the Company is to produce energy storage and transportation equipment for vehicle. The core business of the Company is closely associated to the energy industry.

Since the Directors believe the hydrogen gas market has board future prospects, entering into the hydrogen gas market is one of the main strategies of the Company. Given that the Company will use the proceeds raised from the Proposed A Shares Issue for (i) investing in construction project of the type IV cylinder automation digital control production line; (ii) investing in R&D project

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of the hydrogen energy products; and (iii) repayment of debts due to the controlling shareholders and financial institutions, we are of the view that the Proposed A Shares Issue is in the usual and ordinary course of business of the Company.

II. Information of Jingcheng Machinery Electricity

Jingcheng Machinery Electricity is the controlling shareholder of the Company. Its authorized scope of operation includes labour dispatch; state-owned assets operation and management within the authorized scope; investment and investment management; property development, sales of commodity housing; leasing of housing; property management; technical transfer, technical trainings, technical consultancy and technical services; sales of mechanical and electrical equipment (excluding vehicles); and technological development.

III. Financing alternatives available to the Company

As conformed by the Directors, the Company has not considered debt financing as fund raising methods for the Company. The Directors advised us that one of the main purposes of the Propose A Shares Issue is to use part of the proceeds to repay the loans that the Company currently has, to improve the Company leverage position. There is no point for the Company to apply new debts to repay its current debts. Besides, in the light of that (i) the debt financing may incur interest expenses as compared to equity financing; and (ii) the Company does not prefer to increase the Company's gearing level and create additional debt liabilities to the Company, debt financing is considered to be less preferable for the Company at present.

According to Administrative Measures for the Issuance of Securities by Listed Companies – Order of China Securities Regulatory Commission (no. 30) (《上市公司證券發行管理辦法》(中國證券監督管理委員會令第30號)) issued on 5 June 2006, there are various conditions have to be fulfilled for a listed company to make a public issuance of securities, including shares, convertible corporate bonds and other types as recognised by the CSRC. Under article 7 (1) of the regulation, a listed company has to have a favourable balance for the recent 3 consecutive fiscal years as calculated on the basis of the net profits after deducting the non-regular profits and losses or the pre-deduction net profits, whichever is smaller. Given that the Company recorded loss for the year ended 31 December 2016 and the year ended 31 December 2018, the Company is not allowed to make a public issuance of securities under the regulation. In other words, rights issue, open offer and placement of A shares are not available financing measures for the Company and non-public issuance of A shares is the only available option for the Company to achieve its financing target.

Besides, the issued H Shares capital of the Company is significantly lower than the issued A Share capital of the Company, the expected size of the fund to be raised by rights issue, open offer or placement of H Shares will be less than approximately RMB462,283,000. Based on the closing prices of the H Shares and the A Shares on the Latest Practicable Date, the market capitalisation of H Shares and A shares was approximately HK\$150.0 million (or approximately RMB132.1 million) and

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approximately RMB2.5 billion, representing approximately 6.2% and 93.8% of the Company's total market capitalisation of approximately RMB2.4 billion, respectively. Based on the above, the Directors considered that the Proposed A Shares Issue is a more preferable method of fund raising for the Company.

Having considered that (i) equity financing can improve the leverage position of the Company as compared to debt financing; (ii) the issued H Share capital of the Company is significantly lower than the issued A shares capital of the Company; (iii) the market capitalisation of H Shares of the Company on the Latest Practicable Date is less than the expected proceeds from the fund raised from the Proposed A Shares Issue; and (iv) the Company is not allowed to make a public issuance of securities under the PRC regulation, we concur with the Directors' view that it is in the interests of the Company and the Shareholders as a whole to raise funds by the Proposed A Shares Issue.

IV. Reasons for and benefits of the Proposed A Shares Issue

With reference to the "Letter from the Board", the Company will use the proceeds raised from the Proposed A Shares Issue for three purposes, including (i) investing in construction project of the type IV cylinder automation digital control production line; (ii) investing in R&D Project of the Hydrogen Energy Products; and (iii) repayment of debts due to Jingcheng Machinery Electricity and financial institutions. To assess the reasonableness and fairness of the use of proceeds to be raised from the Proposed A Shares Issue, we have reviewed the proposal for the non-public issuance of A shares provide by the Company which is set out in Appendix I in this circular and we have also reviewed the industry data and the Company's financial.

According to the "Letter from the Board", the Directors are of the view that the hydrogen energy industry is rapidly growing. Their views are based on various national energy policies and plans. We have reviewed those policies and plans, including (i) The State Council printed and issued Made in China 2025 (《中國製造2025》) in May 2015 which proposed to promote the localisation of key materials and key parts of system for fuel cell; (ii) the 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)》) in March 2016 which proposed the technical innovation of hydrogen energy and fuel cell, and developing key materials and technical equipment for hydrogen storage and transportation; (iii) 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》) in November 2016 which proposed to systematic 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 and transportation and refueling technologies and the construction of hydrogen station; and (iv) 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》) in May 2017 to promote the development of hydrogen storage and transportation technologies, the construction of hydrogen stations and scale demonstration of fuel cell vehicles. Beijing

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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 (《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. Based on the above national energy policies and plans, we concur that the hydrogen energy industry in the PRC is optimistic.

Set out the below is the summary of the proposed use of proceeds:

Unit: RMB'000

No.	Name of Project	Total Investment	Proposed Amount of Proceeds to be Applied
1	The construction project of the type IV cylinder automation digital control production line	52,000	52,000
2	R&D project of the hydrogen energy products	27,285	27,285
3	Repayment of debts due to Jingcheng Machinery Electricity and financial institutions	382,998	382,998
Total		<u>462,283</u>	<u>462,283</u>

The Directors plan to use (i) RMB52,000,000 of the proceeds in the construction project of intelligent numerical control production line for type IV cylinders; (ii) RMB27,285,000 of the proceeds in the R&D project of the hydrogen energy products; and (iii) RMB382,998,000 of the proceeds in the repayment of debts due to Jingcheng Machinery Electricity and financial institutions. The total amount of proceeds from the non-public issuance will not exceed RMB462,283,000. 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.

1. The construction project of the type IV cylinder automation digital control production line

According to the Proposal for Non-public Issuance of A Shares, The total investment in the project will be RMB52,000,000, which is used to construct the construction project of the type IV cylinder automation digital control production

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line 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.

In the field of hydrogen gas industry, according to 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)》), the number of hydrogen refuelling stations and the number of fuel cell vehicle ownership are targeted to be increased to 100 units and 10,000 units by 2020, respectively. During the period from 2020 to 2030, the number of hydrogen refuelling stations and the number of fuel cell vehicle ownership are targeted to increase to 1,000 units and 2 million units respectively. This indicates an increase in demand of hydrogen energy vehicles. Besides, 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》) in 2017, it is targeted that 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 2020. By 2025, it is targeted that 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 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. The above national energy policies indicate that the hydrogen energy market is at the initial stage in China, but there will be huge room for development in 2020 to 2030.

In the field of natural gas industry, according to the estimates of the China Petroleum Planning and Engineering Institute (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. According to China Energy Report, the number of natural gas vehicle ownership and number of natural gas vehicle filling stations in China in 2017 increased approximately 9.0% and 7.7% respectively. These figures indicate that the development potential and market prospect of natural gas are optimistic. The Directors believe that 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.

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Currently, there is no type IV cylinder production and sales enterprise in the China market. Based on the mentioned national energy policies, more advanced technology in the market is being advocated. The Directors believe that the type IV cylinder is supported by the energy industry and is gradually accepted by customers.

According to the “Letter from the Board”, the Directors believe that the funds raised from the Proposed A Shares Issue to invest in the construction project of the type IV cylinder automation digital control production line and the research and development project of hydrogen energy product is mainly to allow the Company to enter into the hydrogen energy market, occupy a market position in the fierce and competitive hydrogen market in the future and acquire the necessary equipment and technology in advance for the hydrogen energy business, as well as exploring emerging businesses including storage tanks for hydrogen energy vehicles, hydrogen supply system and hydrogen transportation. In long run, the Director believe that using the proceeds to invest in the construction project of the type IV cylinder automation digital control production line is beneficial to the Company for expanding new business market, further enhancing its profitability and overall competitiveness and improving its risk resistance capacity effectively so as to achieve a sustainable development for the Company. Given that (i) the hydrogen energy market is at the initial stage in China, but there will be huge room for development in 2020 to 2030 according to the mentioned national energy policies; (ii) the development potential and market prospect of natural gas industry is optimistic which is indicated by the approximate 9.0% growth in number of natural gas vehicle ownership and the approximate 7.7% growth in number of natural gas vehicle filling stations in China in 2017; and (iii) the mentioned national energy policies is promoting more advanced technology in the market, we concur that investing in the construction project of the type IV cylinder automation digital control production line is in the interest of the Company and Shareholders as a whole.

2. R&D project of the hydrogen energy products

The Directors plan to use RMB27,285,000 of the proceeds to invest in R&D project of the hydrogen energy products, including 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.

As mentioned, 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2016》), which targets to significantly increase the number of hydrogen vehicles and hydrogen refuelling station by 2030. 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. The Directors are of the view that the market size of

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the entire hydrogen industry is huge with optimistic prospects. In the proposed R&D project, the Company will invest in 3 products, including 40-foot hydrogen container storage truck, hydrogen refueling station and vehicle hydrogen supply system. For 40-foot hydrogen container storage truck, according to statistics, the hydrogenation capacity of most of new hydrogen refuelling stations was 500kg while a duct truck which is the main transportation for hydrogen in China can only carry less than 400kg of hydrogen per time. The 40-foot hydrogen container storage truck can transport nearly 814 kg of hydrogen per time which can provide efficient and lightweight method of hydrogen transportation. By introducing the new truck, the competitiveness of the Company may be increased. For hydrogen refueling station, as mentioned, the national energy policies aim to significantly increase the number of hydrogen refueling stations by 2030, the market prospects are bright. For vehicle hydrogen supply system, the Directors believe that 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. By investing in the vehicle hydrogen supply system, the Company can provide entire set of hydrogen energy system to its customers. This enable the Company to suit the client's demand in the market and also increase its competitiveness.

We have reviewed a feasibility study report on the R&D project which is provided by the Company. The report clarified the background, motives and expected outcomes of the project, requirements and sources of technologies, design of the products, the budget plan and the timeline of the project. The report also lists out the role, academic background and specialised field of the main participants of the R&D project. We found that the Company has sufficient expertise and technology to carry out the R&D project of the hydrogen energy products.

Given that (i) the national energy policies aim to significantly increase the number of hydrogen refueling stations and hydrogen fuel vehicles ownership by 2030; (ii) the market size of the entire hydrogen industry is huge with optimistic prospects; (iii) the new products invested in the R&D project can increase the competitiveness of the Company; and (iv) the Company has sufficient expertise and technology to carry out the R&D project, we are of the view that investing in these R&D projects is in the interest of the Company and Shareholders as a whole.

3. Repayment of debts due to the controlling shareholders and financial institutions

The Company plan to utilise 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 Electricity and RMB237,998,000 will be used to repay the loans from the financial institutions.

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We have reviewed the terms of loans entered into between the Company and the relevant parties. We noted that all of the loans will be expired in 2019. If the Company receives the proceeds from the non-public issuance and the abovementioned 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. We note that there are three loans with aggregate amount of approximately RMB80 million have been expired on 6 May 2019, 10 May 2019 and 23 May 2019 respectively. According to the record provided by the Company, those three loans have been settled by the Company through its internal resources. Besides, the Company has four new bank loans with aggregate amount of approximately RMB85 million. According to the "Letter from the Board", 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.

As mentioned above, the Company's total liabilities increased from 31 December 2016 to December 2018. The Company's total liabilities increased by approximately 3.9% from approximately RMB878,000,000 as at 31 December 2016 to RMB912,200,000 31 December 2018. The Company's short-term borrowings increased by approximately RMB88,000,000 or 46.3% from RMB190,000,000 as at 31 December 2016 to approximately RMB278,000,000 as at 31 December 2018. The Company's long-term borrowings also increased from nil as at 31 December 2016 to RMB11,000,000 as at 31 December 2018. According to the Annual Report 2017 and Annual Report 2018, the Company's gearing ratio increased from approximately from 47.5% as at 31 December 2016 to approximately 51.4% as at 31 December 2018. Besides, the Company's finance cost increased by approximately RMB10,600,000 or 75.0% from approximately RMB13,900,000 for the year ended 31 December 2016 to approximately RMB24,500,000 for the year ended 31 December 2018. Given that if the Company used part of the proceeds received from the Proposed A Shares Issue to repay part of the current loans, the Company's leverage position could be improved. Besides, it is expected that the finance cost of at least approximately RMB11.8 million will be reduced. Based on the above, we are of the view that the Proposed A Shares Issue is in the interests of the Company and the Shareholders as a whole.

V. Principal terms of the Proposed A Shares Issue

Pursuant to laws, regulations and regulatory documents such as the Company Law of the PRC, the Securities Law of the PRC, the "Measures for Administration of the Issuance of Securities by Listed Companies" (《上市公司證券發行管理辦法》) and the Implementation Rules for the Non-public Issuance of Shares by Listed Companies (《上市公司非公開發行股票實施細則》), the Directors consider that the Company complies with

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the conditions of non-public offering of A Shares for the Proposed A Shares Issues after detailed verification of the actual situation and relevant matters of the Company. The details of the Proposed A Shares Issue are summarised and set out below:

- Class and par value of A Shares to be issued** : A Shares with a par value of RMB1.00 each.
- Number of A Shares to be issued** : A maximum of 84,400,000 A Shares will be issued under the Proposed A Shares Issue, which represents:
- (1) approximately 26.2% of the existing issued A Shares and 20.0% of the existing total issued Shares as at the Latest Practicable Date; and
 - (2) approximately 20.8% of the enlarged issued A Shares and approximately 16.7% of the enlarged total issued Shares upon the completion of the Proposed A Shares Issue (assuming full subscription and issuance of a total of 84,400,000 A Shares under the Proposed A Shares Issue).

The maximum number of A Shares to be issued will be adjusted if any ex-dividend or ex-right event occur such as dividend distribution, issue of bonus shares or conversion of capital reserve into share capital occur during the period from the Pricing Benchmark Date to the Issuance Date, the maximum number of A Shares to be issued will be adjusted accordingly.

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Set out below is the arithmetic calculations in respect of the abovementioned possible adjustment to the maximum number of A Shares to be issued:

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

Where,

- (1) Q_0 is the maximum number of A Shares to be issued before adjustment;
- (2) N is the number of bonus issue or capitalization per A Share; and
- (3) Q_1 is the maximum number of A Shares to be issued after adjustment.

The final number of A Shares to be issued shall be determined by negotiation between the Board and the sponsor (lead manager) based on the approval from the CSRC.

Target subscriber and method of subscription : The target subscriber of the Proposed A Shares Issue is Jingcheng Machinery Electricity.

Apart from the A Shares Subscription Agreement, the Company has not and will not enter into any agreement with any other parties in respect of the Proposed A Shares Issue.

The target subscriber will subscribe by way of cash in RMB.

Method and time of issue: : The Proposed A Shares Issue will be carried out by way of non-public issuance of A Shares to Jingcheng Machinery Electricity. The Company will complete the Proposed A Shares Issue within after obtaining the approval from the CSRC within the valid period.

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Pricing Benchmark Date, issue price and pricing principles: : The Pricing Benchmark Date is the first date of issuance of A Share pursuant to the Proposed A Shares Issue.

The issue price of the A Shares to be issued under the Proposed A Shares Issue shall not be less than (i) 90% of the average trading price of the A Shares during the 20 trading days preceding the Pricing Benchmark Date (the average trading price of the A Shares in the 20 trading days preceding the Pricing Benchmark Date equals to the total trading amount of A Shares traded in the 20 trading days preceding the Pricing Benchmark Date divided by the total volume of A Shares traded in the 20 trading days preceding the Pricing Benchmark Date), and (ii) the net asset value per Share attributable to the shareholders of ordinary shares of the parent company as set out at the latest audited consolidated financial statements of the Company. If the CSRC amends the pricing method of the non-public issuance prior to the Proposed A Shares Issue, the Board may, subject to the authorization at the general meeting, adjust the Benchmark Price of the Proposed A Shares Issue in accordance with relevant requirements under the 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 issuance, the issue price shall be adjusted accordingly based on the following method:

Bonus issue of shares or capitalisation issue:

$$P_1 = P_0 / (1 + N)$$

Where:

- (1) P_0 denotes the issue price before adjustment;
- (2) N denotes the number of Shares to be distributed as scrip dividend or converted from the capital reserve per share; and
- (3) P_1 denotes the new issue price after adjustment.

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Given the net asset value per Share attributable to the shareholders of ordinary shares of the parent company as at the Latest Practicable Date as set out in the 2018 annual audited consolidated financial statements of the Company is RMB1.11, on such basis it is expected the minimum issue price would, subject to the approval of Beijing SASAC, and the CSRC, be at least RMB1.11 (the Benchmark Price). This represents a discount of approximately 85.5% over the closing price of the Company's A Shares at RMB7.68 on 30 April 2019, being the last trading day immediately before the date of the Announcement. In the event that the issue price is expected to fall below the Benchmark Price, the Company will re-comply with the necessary approval requirements including, among other things, Independent Shareholders' approval requirements under the Listing Rules and for a new whitewash waiver under the Takeovers Code.

The above adjustment is made based on the requirement under Rule 13 of the "Implementation Rules for Non-public Issuance of Shares by Listed Companies" (《上市公司非公开发售股票实施细则》) promulgated by CSRC: The Board shall also resolve to determine whether the issue size shall be adjusted accordingly in case of ex-dividend or ex-rights activities in respect of the shares of the Company during the period from the date of resolution by the Board to the date of issuance. CSRC will consider and approve the above adjustment as a part of the proposal for Proposed A Shares Issue, CSRC will not consider and approve such adjustment on a standalone basis.

For illustration purpose only, if the A Shares are issued as at the Latest Practicable Date under the Proposed A Shares, according to the abovementioned pricing principles, the issue price would be not less than RMB6.96.

Lock-up period: : The target subscriber shall not transfer the A Shares subscribed under the Proposed A Shares Issue within 36 months from the date of completion of the Proposed A Shares Issue.

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- Total funds to be raised** : The total funds (inclusive of issuance expenses) to be raised from the Proposed A Shares Issue shall finally be determined by the actual issue price and issue size, and shall be not more than RMB462,283,000.
- Place of listing:** : The Company will apply to the Shanghai Stock Exchange for the listing of, and permission to deal in, the A Shares to be issued pursuant to the Proposed A Shares Issue.
- The A Shares to be issued under the Proposed A Shares Issue can be traded on the Shanghai Stock Exchange upon the expiration of the lock-up period.
- Validity period of the resolution** : The resolution regarding the Proposed A Shares Issue shall be valid for 12 months from the date of the passing at the General Meeting and the Class Meetings. If the Company obtains the approval of the Proposed A Shares Issue by CSRC during such validity period, such validity will be automatically extended to the completion date of the Proposed A Shares Issue.
- Specific Mandate of the issuance of A Shares** : The Company will issue the A Shares under the Specific Mandate which is intended to be granted to the Board at the General Meeting and the Class Meetings.
- Rights of the A Shares to be issued** : The A Shares to be issued pursuant to the Proposed A Shares Issue, when fully paid and issued, will rank pari passu in all respects amongst themselves and with the A Shares in issue at the time of the issue of such A Shares.
- Distribution of profit** : Upon completion of the Proposed A Shares Issue, the existing and new Shareholders will be entitled to the Company's cumulative undistributed profits accumulated from before the Proposed A Shares Issue.

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CSRC has no mandatory provisions for the attribution of the undistributed profits before the non-public issuance of A shares, but it requires clear disclosure. According to the proposals of non-public issuance of A Shares announced by the companies listed on the Shanghai Stock Exchange, there are two ways to attribute the undistributed profits:

- (1) the undistributed profits accumulated from before the Proposed A Shares Issue are shared by the new and existing shareholders, which is the usual practice in the market; or
- (2) in very few cases, part of the undistributed profits are paid to the existing shareholders, and part of the undistributed profits are shared by the new and existing shareholders, subject to the undistributed profits attributable to the existing shareholders must be distributed before the completion of the non-public issuance, and the new shares will be issued after the distribution is completed.

Considering that the Company recorded an undistributed loss of RMB(690,446,430.91) as at 31 December 2018, the Company will not declare any dividend before making up the loss nor does it have the conditions for the existing Shareholders to make up for the loss. Therefore, the Company does not have the conditions to distribute profit according to method (2) above, the Company can only adopt method (1) above for profit distribution.

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Connected transaction – proposed subscription of A shares by Jingcheng Machinery Electricity

As part of the Proposed A Shares Issue, the Company and Jingcheng Machinery Electricity entered into the A Shares Subscription Agreement on 6 May 2019, pursuant to which, the Company has conditionally agreed to issue and Jingcheng Machinery Electricity has conditionally agreed to subscribe for not more than 84,400,000 A Shares to be issued pursuant to the Proposed A Shares Issue for an amount not more than RMB462,283,000.

Date : 6 May 2019

Parties : (1) The Company (as issuer)
(2) Jingcheng Machinery Electricity (as subscriber)

Number of A Shares to be subscribed : Jingcheng Machinery Electricity will subscribe all shares to be issued under the Proposed A Share Issue, with the number of A Shares to be subscribed of not more than 84,400,000 A Shares, and is subject to a maximum subscription amount of RMB462,283,000.

If any ex-right or ex-dividend event (such as distribution of dividend, bonus issue of shares, capitalization issue) occurs between the Pricing Benchmark Date and the Issuance Date, the maximum number of A Shares to be subscribed by Jingcheng Machinery Electricity will be adjusted accordingly.

If the total funds raised in the Proposed A Shares Issue is required to be reduced due to regulatory policy changes or according to the requirements of the relevant approval documents, Jingcheng Machinery Electricity agrees to subscribe for the adjusted amount accordingly.

Method of subscription : By way of cash subscription in RMB.

Subscription price and pricing principles : The subscription price and pricing principles will be determined on the same basis as the Proposed A Shares Issue.

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Conditions precedent for the A Shares Subscription Agreement to take effect :

The A Shares Subscription Agreement will take effect when all the following conditions have been satisfied:

1. the approval from the Board for the Proposed A Shares Issue has been obtained;
2. the approval from Beijing SASAC for the Proposed A Shares Issue has been obtained;
3. the approval from the Shareholders at the General Meeting, A Shares Class Meeting and H Shares Class Meeting for the Proposed A Shares Issue, A Shares Subscription Agreement and Whitewash Waiver and all the related and auxiliary resolutions have been obtained;
4. the approval from the CSRC for the Proposed A Shares Issue has been obtained;
5. all necessary consents, approvals, authorizations, permits, waivers and notices from the relevant government and/or regulatory authorities for the Proposed A Shares Issue have been obtained; and
6. the grant of the Whitewash Waiver from the SFC in accordance with the Takeovers Code has been obtained and such waiver has not been revoked prior to completion of the Proposed A Shares Issue.

All of the aforementioned conditions (1)-(6) are non-waivable. Conditions (1) and (2) have been satisfied as at the Latest Practicable Date.

Under the Takeovers Code, the resolution(s) in relation to Whitewash Waiver shall be approved by at least 75% of the independent votes that are either in person or by proxy by the Independent Shareholders at the General Meeting.

Lock-up period :

The A Shares to be subscribed by Jingcheng Machinery Electricity pursuant to the Proposed A Shares Issue shall not be traded or transferred within 36 months from the date of completion of the Proposed A Shares Issue.

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Liability for breach of contract : Upon entering into the A Shares Subscription Agreement, apart from force majeure, it shall constitute a breach of contract if any party does not perform or fails to perform promptly or properly any obligation ought to be performed under the A Shares Subscription Agreement or contravenes any statement, warranty or undertaking made pursuant to the A Shares Subscription Agreement. The defaulting party shall bear the liability for breach of contract in the following ways:

- (1) where the A Shares 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 A Shares 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 A Shares Subscription Agreement, which result in the failure of achieving the purpose of the A Shares Subscription Agreement, the non-defaulting party shall be entitled to cancel the A Shares Subscription Agreement. The defaulting party shall indemnify the non-defaulting party in full for the loss arising from the breach of contract.

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After the signing of the A Shares Subscription Agreement and prior to the completion of the Proposed A Shares Issue, if Jingcheng Machinery Electricity unilaterally cancels or terminates the A Shares Subscription Agreement, or if after the satisfaction of all conditions precedent of the A Shares Subscription Agreement, Jingcheng Machinery Electricity fails to pay the subscription amount in full in a timely manner prior to the specific payment date confirmed between the Company and the sponsor as required in the A Shares Subscription Agreement, Jingcheng Machinery Electricity shall pay 3% of the total funds raised from the Proposed A Share Issue as the liquidated damages.

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

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

If the Proposed A Shares Issue (1) fails to obtain the approval at the general meeting of the Company; 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 the Company for matters including the Pricing Benchmark Date due to changes in the securities market, and if the Board unilaterally terminates the contract, thus the Proposed A Shares Issue cannot proceed, such circumstances shall not constitute the breach of contract by the Company.

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The pricing mechanism of the Proposed A Shares Issue is a price not less than the higher of (a) 90% of the average trading price of the A Shares during the 20 trading days preceding the Pricing Benchmark Date; and (b) the net asset value per Share attributable to the shareholders of ordinary shares of the parent company. We noted that the subscription price was not fixed as at the date of the A Shares Subscription Agreement. We also noted that setting non-fixed subscription price for non-public A Share issuance is complied with the “Implementation Rules for Non-public Issuance of Shares by Listed Companies” (《上市公司非公開發行股票實施細則》) promulgated by CSRC. Pursuant to the “Implementation Rules for Non-public Issuance of Shares by Listed Companies”, the subscription prices of the issuing companies shall not be fixed before their respective price referencing date (i.e. the first day of the issuance period).

To further assess the reasonableness and fairness of the non-fixed subscription price under the A Shares Subscription Agreement, we have searched over Cninfo (www.cninfo.com.cn, being a website designated by CSRC for the purpose of information disclosure) with companies listed on the Shanghai Stock Exchange to identify non-public A shares issuance proposal or revised non-public A shares issuance proposal as published in the past six months (i.e. from 1 December 2018 to 1 June 2019) for comparing the term of subscription price (the “Comparables”). We have identified 25 Comparables and despite that the businesses, operations, prospects as well as market capitalization and the fund raising size of the relevant A-share issuance of the Company are not the same as the subject companies of the Comparables, we consider that the comparables are exhaustive, fair and representative as the purpose of the comparison is to compare the prevailing market practice of the Shanghai Stock Exchange for non-public issuance of A-shares subsequent to the implementation of the relevant regulations since their effective date. We believe that although the principal activities and the market capitalisation of the Comparables are different from the Company, the selection of Comparables are fair and representative because (i) the purpose of the comparison is to examine the prevailing market practice in pricing mechanism of non-public A Shares issuance of companies listed on Shanghai Stock Exchange; (ii) the Comparables selected from transactions in the past six month are sufficient to show the recent the prevailing market practice in pricing mechanism; and (iii) the Comparables represented exhaustive list of samples available under the current selection criteria. Summarised below is our findings:

Company/Stock code (Note 1)	Market Capitalisation as at Latest Practicable Date	Principal activities (source: Bloomberg)	Date of proposal/ latest revised proposal	Basis for A-share issue price	Lock-up period	Validity period of the resolution	Distribution of profit
*中遠海運能源運輸股份有限公司 COSCO SHIPPING Energy Transportation Co., Ltd./ SH600026	RMB23.2 billion	The company offers marine shipping services. The company provides refined oil transportation, crude oil transportation, and other services. The company also ships iron ores, dry bulks, coal, and other products.	29-May-19	Not less than (i) 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date; and (ii) the net asset value per share attributable to the shareholders of ordinary shares of the company	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.

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Company/Stock code <i>(Note 1)</i>	Market Capitalisation as at Latest Practicable Date	Principal activities <i>(source: Bloomberg)</i>	Date of proposal/ latest revised proposal	Basis for A-share issue price	Lock-up period	Validity period of the resolution	Distribution of profit
*上海吉祥航空股份有限公司 Juneyao Airlines Co., Ltd./ SH603885	RMB23.3 billion	The company supplies air transportation services. The Company provides domestic and international routes for passengers and cargoes. The company also offers ticket home delivery and electronic ticketing services.	27-May-19	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
*中節能風力發電股份有限公司 CECEP Wind-Power Corporation Co., Ltd./ SH601016	RMB11.1 billion	The company develops and constructs wind power projects. The company provides wind power generation, transmission, and electricity distribution services.	14-May-19	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
*烟台艾迪精密機械股份有限公司 Yantai Eddie Precision Machinery Co., Ltd./ SH603638	RMB8.3 billion	The company develops, produces, and sells attachments for construction machinery. The company offers hydraulic breaker, coupler, vibration breaker, stone grab, log grab, and hydraulic compactors.	11-May-19	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
*福建傲農生物科技集團股份有限公司 Fujian Aonong Biological Technology Group Incorporation Limited/ SH603363	RMB8.7 billion	The company operates as a feed products manufacturing company. The company produces and sells pig feed, chicken feed, and other products. The company also provides veterinary medicine products.	30-Apr-19	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
*江西洪城水業股份有限公司 Jiangxi Hongcheng Waterworks Co., Ltd./ SH600461	RMB4.9 billion	The company supplies and distributes tap water in Nanchang City, Jiangxi Province.	28-Apr-19	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	36-month	Not mentioned	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
*海通證券股份有限公司 Haitong Securities Co., Ltd./ SH600837	RMB141.4 billion	The company offers securities services. The company provides securities brokerage, asset management, securities investment, share transfer agency, and capital intermediary services. The company focuses on online brokerage, wealth management, and institutional investors.	26-Apr-19	Not less than (i) 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date; and (ii) the net asset value per share attributable to the shareholders of ordinary shares of the company	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
*浙江華正新材料股份有限公司 Zhejiang Wazam New Materials Co., Ltd./ SH603186	RMB3.6 billion	The company designs and manufactures composite materials. The company researches, produces, and markets copper clad laminates, thermal materials, thermoplastic honeycombs, and insulation materials.	26-Apr-19	Not less than (i) 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date; and (ii) the net asset value per share attributable to the shareholders of ordinary shares of the company	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.

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Company/Stock code (Note 1)	Market Capitalisation as at Latest Practicable Date	Principal activities (source: Bloomberg)	Date of proposal/ latest revised proposal	Basis for A-share issue price	Lock-up period	Validity period of the resolution	Distribution of profit
物產中大集團股份有限公司 Wuchan Zhongda Group Co., Ltd./ SH600704	RMB23.5 billion	The company offers supply chain services. The company purchases and distributes metal materials, ores, automobiles, chemicals, rubbers, and energy products. The company also conducts finance, medical, thermal power, and public utility businesses.	22-Apr-19	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	12-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
中原證券股份有限公司 Central China Securities Co., Ltd/ SH601375	RMB16.1 billion	The company operates as a securities company. The company provides brokerage services, investment banking, investment management, proprietary trading services and other services. The company also offers margin financing, securities lending, and wealth management services.	19-Apr-19	Not less than (i) 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date; and (ii) the net asset value per share attributable to the shareholders of ordinary shares of the company	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
浙江東尼電子股份有限公司 Zhejiang Tony Electronic Co., Ltd/ SH603595	RMB4.4 million	The company manufactures wire products. The company produces and sells ultra-fine alloy, laminating, and diamond cutting wires, as well as battery plate lugs and medical apparatus harnesses. The company serves customers in China.	18-Apr-19	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	12-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
湖南百利工程科技股份有限公司 Hunan Baili Engineering Sci & Tech Co., Ltd./ SH603959	RMB6.2 billion	The company provides engineering design, engineering investigation, engineering consultation and related services. The company mainly offers their services for chemical industry, petrochemical, textile and construction industry.	17-Apr-19	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	12-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
*廈門金龍汽車集團股份有限公司 Xiamen King Long Motor Group Co., Ltd./ SH600686	RMB4.8 billion	The company manufactures and markets buses, minivans, and related auto parts and accessories. Through its subsidiaries, the company also invests in import and export trading and real estate development.	3-Apr-19	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
*甘肅省敦煌種業集團股份有限公司 Gansu Dunhuang Seed Group Co., Ltd/ SH600354	RMB3.9 billion	The company wholesales and distributes farm supplies. The company sales seeds, vegetables, flowers, and other products. The company also operates import and export businesses.	30-Mar-19	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.

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Company/Stock code <i>(Note 1)</i>	Market Capitalisation as at Latest Practicable Date	Principal activities <i>(source: Bloomberg)</i>	Date of proposal/ latest revised proposal	Basis for A-share issue price	Lock-up period	Validity period of the resolution	Distribution of profit
*江西長運股份有限公司 Jiang Xi Chang Yun Co., Ltd./ SH600561	RMB1.6 billion	The company provides bus transportation services. The company provides long distance scheduled passenger transportation, tourism transportation, and other services. The company also operates automobile loans, property management, and other businesses	28-Mar-19	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
*金杯汽車股份有限公司 Shenyang Jinbei Automotive Company Limited/ SH600609	RMB4.8 billion	The company manufactures and markets automotive and auto parts. The company produces light trucks, commercial vehicles, interior parts, seats, rubber parts, and more. The company mainly markets its products domestically.	28-Mar-19	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
*武漢當代明誠文化股份有限公司 Wuhan DDMC Culture Co., Ltd./ SH600136	RMB5.5 billion	The company designs and distributes entertainment contents. The Company produces movies, television shows, and other contents. The company also operates artist brokerage, theater management, and other businesses.	27-Mar-19	90% of the 20-day average trading price of the A-shares immediately preceding the price referencing date (i.e. the first day of the issuance period)	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
*中國東方航空股份有限公司 China Eastern Airlines Corporation Limited/ SH600115	RMB79.9 billion	The company operates airline businesses. The company provides passenger transport, air freight, air catering, and other related services. China Eastern Airlines conducts businesses worldwide.	15-Mar-19	(i) the 20-day average trading price of the A-shares immediately preceding the price referencing date (i.e. the first day of the issuance period; and (ii) last audited net asset value per share of the company, whichever is higher	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
*拾得酒業股份有限公司 Sichuan Tuopai Shede Spirits Co., Ltd./ SH600702	RMB8.9 billion	The company manufactures liquor products. The Company produces high end liquor, low end liquor, mid end liquor, and other products.	1-Mar-19	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
*招商局能源運輸股份有限公司 China Merchants Energy Shipping Co., Ltd./ SH601872	RMB26.6 billion	The company mainly engages in the ocean shipping of crude oil and other energy sources such as coal and iron ore. Through its subsidiary CLNG, the company also provides the ocean shipping service of liquefied natural gas.	21-Feb-19	Not less than (i) 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date; and (ii) the net asset value per share attributable to the shareholders of ordinary shares of the company	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting and class meetings	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.

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Company/Stock code (Note 1)	Market Capitalisation as at Latest Practicable Date	Principal activities (source: Bloomberg)	Date of proposal/ latest revised proposal	Basis for A-share issue price	Lock-up period	Validity period of the resolution	Distribution of profit
中信建投證券股份有限公司 CSC Financial Co., Ltd/ SH601066	RMB166.5 billion	The company provides investment management services. The company offers investment banking, wealth management, and trading and institutional client services.	21-Jan-19	Not less than (i) 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date; and (ii) the net asset value per share attributable to the shareholders of ordinary shares of the company	(i) 48-month period for the shareholders who will hold more than 5% of company's shares; and (ii) 12-month period for the shareholders who will hold less than 5% of company's shares	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting and class meetings	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
*貴州紅星發展股份有限公司 Guizhou Redstar Developing Co., Ltd./ SH600367	RMB2.6 billion	The company manufactures and markets inorganic chemicals and fine chemicals. The company's products include barium carbonate, strontium carbonate, sulphur, and other chemicals.	24-Dec-18	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	36-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
北京乾景園林股份有限公司 Beijing Qianjing Landscape Co., Ltd/ SH603778	RMB2.2 billion	The company is an architecture company that engages in landscape design, landscaping projects, and landscape maintenance.	18-Dec-18	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	12-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
安徽德流機電股份有限公司 Anhui Yingliu Electromechanical Co., Ltd/ SH603308	RMB4.2 billion	The company develops, manufactures and sells high-end components for special equipment. The company produces products including pump and valve parts, and power equipment components. The company also serves various industries comprising petroleum and natural gas, electric power generation, and mining machinery.	5-Dec-18	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	12-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.
大千生態環境集團股份有限公司 Daqian Ecology & Environment group co., Ltd/ SH603955	RMB1.8 billion	The company provides landscaping services. The company specializes in ecological restoration, construction, integrated municipal engineering, road pavement, landscape design and consulting, and seedling production and marketing services.	4-Dec-18	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	12-month	The resolution regarding the proposed A Shares issuance shall be valid for 12 months from the date of the passing at general meeting	Upon completion of the proposed A Shares issuance, the existing and new shareholders will be entitled to the company's cumulative undistributed profits accumulated from before the proposed A Shares issuance.

Note: the * marked before the name of the companies indicates that the proposed non-public A Shares issuance transactions are connected transactions. There are 17 Comparables were connected transactions.

As shown in the above table, the A share issue prices of the Comparables were not fixed as at the date of their relevant announcements. There are 6 Comparables have the same pricing mechanism as that of the Proposed Non-public A Shares Issue and 4 of them involves connected transaction.

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Having considered that (i) the subscription price will reflect the then latest market prices of non-public A Share issuance; (ii) the pricing mechanism of the Proposed Non-public A Share issues is the same as 6 of the Comparables in which 4 of them were connected transactions; (iii) the basis of the subscription price is in compliance with the “Implementation Rules for Non-public Issuance of Shares by Listed Companies” (《上市公司非公开发行业股票实施细则》) promulgated by CSRC.; and (iv) the subscription price will 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, we concur with the Directors that it is in line with the market practice and acceptable that the subscription price was not fixed as at the date of the A Shares Subscription Agreement and the basis for the determination of the subscription price is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

Lock-up period

According to the A Shares Subscription Agreement entered into between the Company and Jingcheng Machinery Electricity, the A Shares to be subscribed by Jingcheng Machinery Electricity pursuant to the A Share Issue shall not be traded or transferred within 36 months from the date of completion of the Proposed A Shares Issue. We have reviewed the non-public A Share issuance proposal of the Comparables, we noted that 18 out of 25 Comparables have a 36-month lock-up period under their non-public A Shares issuance proposal. This indicate that it is a normal practice to have a 36-month lock-up period in non-public A Share issuance of companies listed on Shanghai Stock Exchange. Therefore, we are of the view that the term of lock-up period under the A Shares Subscription Agreement is a normal commercial term and fair and reasonable.

Validity period of the resolution

The resolution regarding the Proposed A Shares Issue shall be valid for 12 months from the date of the passing at the General Meeting and the Class Meetings. If the Company obtains the approval of the Proposed A Shares Issue by CSRC during such validity period, such validity will be automatically extended to the completion date of the Proposed A Shares Issue. As shown in the table, all of the Comparables, except Jiangxi Hongcheng Waterworks Co., Ltd., have the same terms as the Proposed Non-public A Shares Issue. This indicates that although there is no restriction in the Articles of Association and under the PRC laws for the validity of the resolutions passed at shareholders’ meeting, the 12-month validity period is the recent prevailing market practice in non-public A Shares issuance of the companies listed in Shanghai Stock Exchange. We, therefore, of the view that the term of validity period of the resolution under the A Shares Subscription Agreement is fair and reasonable.

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Distribution of profit

Upon completion of the Proposed A Shares Issue, the existing and new Shareholders will be entitled to the Company's cumulative undistributed profits accumulated from before the Proposed A Shares Issue. As shown in the table, all of the Comparables have the same terms of distribution of profit compared to the Proposed A Shares Issue. This indicates that the term of distribution of profit under the A Shares Subscription Agreement is the same as the recent prevailing market practice. Therefore, we are of the view that the term of distribution of profit under the A Shares Subscription Agreement is a normal commercial term and fair and reasonable.

VI. Possible Effects of the Proposed A Shares Issue

Net asset value and net asset value per Share

As refer to the Annual Report 2018, the audited consolidated net assets value of the Company as at 31 December 2018 was approximately RMB863.3 million (total assets minus total liabilities). After we reviewed the property valuation report, we noted that the value of properties of the Company had appreciated as at 31 March 2019. Assume that the value of other assets of the Company remains unchanged since 31 December 2018, the net assets value of the Company increased to approximately RMB1,011.1 million. The Directors expected that the Company's net asset value and net asset value per Share would increase after completion of the Proposed A Shares Issue as large portion of the net proceeds from the Proposed A Shares Issue will be utilised to repay loans. Besides, the net proceeds will bring in additional funds to the Company. In addition, as the issue price shall not be lower than the amount of audited net asset per Share attributable to the shareholders of ordinary shares of the parent company, the Benchmark Price dose not include the value of non-controlling interests of the Company, as set out at the latest audited consolidated financial statement, it is expected that the net assets value per Share of the Company might be slightly decreased immediately upon completion of the Proposed A Shares Issue but before utilisation of the aforesaid proceeds. However, having considered the overall long-term benefits of the Proposed A Shares Issue, we consider that the benefits obtained after the utilisation of the proceeds outweigh the possible minimal reductions in the net asset value per Share.

Leverage position

As mentioned in Section I.b. in this letter, the Company's total liabilities increased from 31 December 2016 to December 2018. The Company's total liabilities increased by approximately 3.9% from approximately RMB878,000,000 as at 31 December 2016 to RMB912,200,000 31 December 2018. The Company's short-term liabilities increased by approximately RMB88,000,000 or 46.3% from RMB190,000,000 as at 31 December 2016 to approximately RMB278,000,000 as at 31 December 2018. The Company's long-term liabilities also increased from nil as at 31 December 2016 to RMB11,000,000 as at 31 December 2018. According

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to the Annual Report 2017 and Annual Report 2018, the Company's gearing ratio increased from approximately 47.5% as at 31 December 2016 to approximately 51.4% as at 31 December 2018. After the completion of the Proposed A Shares Issue, a large portion of net proceeds will be utilised to repay loans. The Company's total liabilities and gearing ratio would be decreased. Besides, the finance cost of the Company would be also decreased due to reduction of outstanding loans. Therefore, the leverage position of the Company is expected to be improved after the completion of the Proposed A Shares Issue.

Based on the above, we concur with the Directors' view that the Proposed A Shares Issue will bring positive impacts on the financial position of the Company. Although the Company's net assets value per share will slightly decrease immediately upon the completion of the Proposed A Share Issue but before the utilisation of the aforesaid proceeds, the net assets value per share will increase after the realisation of benefits gained from the use of proceeds. It should be noted that the aforementioned analysis is for illustrative purposes only and does not purport to represent how the actual financial position of the Company will be upon completion of the Proposed A Shares issue.

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VII. Potential dilution to the shareholding of the existing Shareholders

As at the Latest Practicable Date, the total issued share capital of the Company is 422,000,000 Shares, which comprises 322,000,000 A Shares and 100,000,000 H Shares. The following sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Proposed A Shares Issue (assuming full subscription and issuance of a total of 84,400,000 A Shares under the Proposed A Shares Issue):

	As at the Latest Practicable Date		Immediately after completion of the Proposed A Shares Issue	
	Approximate percentage of the total issued Shares (%)		Approximate percentage of the total issued Shares (%)	
	Number of Shares held	issued Shares (%)	Number of Shares held	issued Shares (%)
A Shares				
Jingcheng Machinery Electricity <i>Parties acting in concert with Jingcheng Holding</i>	182,735,052	43.30	267,135,052	52.75
Sub-total for Jingcheng Machinery Electricity and parties acting in concert with it	<u>182,735,052</u>	<u>43.30</u>	<u>267,135,052</u>	<u>52.75</u>
Ms. Wu Yan, independent non-executive Director	43,001	0.01	43,001	0.01
Public Shareholders	<u>139,221,947</u>	<u>32.99</u>	<u>139,221,947</u>	<u>27.49</u>
Sub-total	<u>322,000,000</u>	<u>76.30</u>	<u>406,400,000</u>	<u>80.25</u>
H Shares				
Jingcheng Machinery Electricity <i>Parties acting in concert with Jingcheng Holding</i>	0	0	0	0
Sub-total for Jingcheng Machinery Electricity and parties acting in concert with it	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Public Shareholders	<u>100,000,000</u>	<u>23.70</u>	<u>100,000,000</u>	<u>19.75</u>
Sub-total	<u>100,000,000</u>	<u>23.70</u>	<u>100,000,000</u>	<u>19.75</u>
Total	<u><u>422,000,000</u></u>	<u><u>100</u></u>	<u><u>506,400,000</u></u>	<u><u>100</u></u>

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As shown in the above table, the total shareholding interest held by Jingcheng Machinery Electricity and parties acting in concert with it in the Company immediately before and after the Proposed A Shares Issue are approximately 43.30% and approximately 52.75% respectively. Upon completion of the Proposed A Shares Issue (assuming there is no adjustment to the issue price of A Shares and no change in the total issued share capital of Company since the Latest Practicable Date save for the issue of the Shares pursuant to the Proposed A Shares Issue), (i) the shareholding of the public A Shareholders will be decreased from approximately 33.0% to 27.5%; and (ii) the shareholding of the public H Shareholders will be decreased from approximately 23.7% to approximately 19.8%.

Although there will be dilution effect to the shareholding interest of existing public shareholders of H Shares as a result of the Proposed A Shares Issue, after we have considered that (i) the reasons for and benefits of the Proposed A Shares Issue and the proposed use of proceeds (refer to Section B.IV – Reasons for and benefits of the Proposed A Shares Issue of this letter); (ii) the expected positive impacts on the Company's financial position brought by the completion of the Proposed A Shares Issue; (iii) the Company's net asset value and net asset value per share would increased after completion of the Proposed A Shares and utilisation of proceeds; (iv) the Proposed A Shares Issue is the only method for the Company to achieve the fund raising target and (v) the fairness and reasonableness of the basis of determining the subscription price of the A Shares under the A Shares Subscription Agreement, we consider that the Proposed A Shares Issue is an acceptable means of funds raising by the Company and the shareholding dilution effects upon completion of the Proposed A Shares Issue is acceptable so far as the Independent Shareholders are concerned.

VIII. The Whitewash Waiver

Upon completion of the Proposed A Shares Issue and assuming the issuance is conducted at the Benchmark Price, Jingcheng Machinery Electricity's shareholding of the Company is expected to increase from approximately 43.30% to not more than approximately 52.75%.

Under Rule 26.1 of the Takeovers Code, Jingcheng Machinery Electricity would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by Jingcheng Machinery Electricity unless the Whitewash Waiver is granted by the Executive and approved by at least 75% of the independent votes that are either in person or by proxy by the Independent Shareholders pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. Jingcheng Machinery Electricity has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of Independent Shareholders by way of poll at the General Meeting and the Class Meetings.

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Completion of the Proposed A Shares Issue is conditional upon, among other things, the Executive having granted the Whitewash Waiver to Jingcheng Machinery Electricity. The Proposed A Shares Issue will not proceed if the Whitewash Waiver is not granted or approved.

If the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, upon the issue of the A Shares to Jingcheng Machinery Electricity, the potential holding of voting rights of the Company held by Jingcheng Machinery Electricity will exceed 50% of the voting rights of the Company and that Jingcheng Machinery Electricity may increase its holding of voting rights of the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer for the securities of the Company.

In view of (i) the reasons for and benefits of the Proposed A Shares Issue and the proposed use of proceeds; (ii) the expected positive impacts on the Company's financial position brought by the completion of the Proposed A Shares Issue; (iii) that the Proposed A Shares Issue is a more preferable method of fund raising for the Company and (iv) the fairness and reasonableness of the basis of determining the subscription price of the A Shares under the A Shares Subscription Agreement, we consider that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Proposed A Shares Issue, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Proposed A Shares Issue.

D. RECOMMENDATION

Having taken the above principal factors and reasons into consideration, we are of the view that the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver are in the usual and ordinary course of business of the Company, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. We also consider that the terms of Proposed A Shares Issue, the Specific Mandate and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned. Therefore, we advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the General Meeting and the H Shares Class Meeting to approve the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Vinco Capital Limited
Alister Chung
Managing Director

Note: Mr. Alister Chung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Vinco Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong for over 10 years.

APPENDIX I PROPOSAL FOR NON-PUBLIC ISSUANCE OF A SHARES

The Proposal for Non-public Issuance of A Shares 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 prepared 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 – 上市公司非公開發行股票預案和發行情況報告書) (“No. 25 Guideline”). The 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 Proposal 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 Proposal 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 was 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 granted 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
Stock Code: 0187.HK

Abbreviation: 京城股份
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.

May 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 thirteenth extraordinary meeting of the ninth 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 value 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 by the Board, subject to authorization by the general meeting, 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.

APPENDIX I PROPOSAL FOR NON-PUBLIC ISSUANCE OF A SHARES

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 (塑料內膽纖維全纏繞複合氣瓶)
“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

APPENDIX I PROPOSAL FOR NON-PUBLIC ISSUANCE OF A SHARES

“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 the 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.)
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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 to systematic 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 and 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 (《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, 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 policies 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. Increasing the application scope of products in hydrogen energy industry chain, improving 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線圖》) 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 3,000 kilometers.

Therefore, the infrastructure development of the hydrogen energy industry is a general trend. Manufacturing products with high efficiency through advanced technology, increase the application range of products in hydrogen industry chain and enhancing the overall business management standard of the Company is 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. *Entering the blue ocean of developing type IV cylinders, adding 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. *Optimizing the capital structure of the Company, reducing 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 value 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 by the Board, subject to authorization by the general meeting 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: $P_1 = P_0 / (1 + N)$

Where: P_0 denotes the base issue price before adjustment; N denotes the number of shares distributed as scrip dividend or converted from the capital reserve per share; P_1 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 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 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 institution. The details are as follows:

Unit: RMB ten thousand

No	Project name	Total investment	Proceeds intended to be used
1	Construction project of the type IV cylinder automation digital control production line	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 institution	38,299.80	38,299.80
		<hr/>	<hr/>
Total		<u>46,228.30</u>	<u>46,228.30</u>

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 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 extraordinary general meeting of the ninth session of Board of Directors of the Company on 6 May 2019 and is approved the Beijing SASAC, and is subject to the approval by 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.

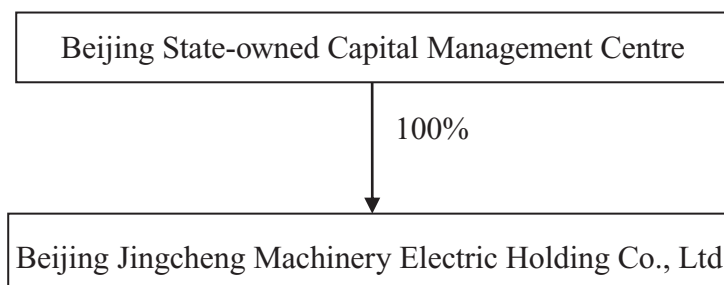
Section II Basic information of the target subscriber

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; leasing of housing; 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 present name. The de facto controller of the Company is the State-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

Business	2017			2016			2015		
	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/ Year of 2018 <i>(RMB ten thousand)</i>
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 value 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 Proposed A Shares Issue, the Board may, subject to the authorization of Party A at the general meeting, adjust the Benchmark Price of the Proposed A Shares Issue 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 Shares Class Meeting, H Shares 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 department and/or regulatory institution;
- (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 waivable.

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.

APPENDIX I PROPOSAL FOR NON-PUBLIC ISSUANCE OF A SHARES

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 materially 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 the type IV cylinder automation digital control production line	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		<u>46,228.30</u>	<u>46,228.30</u>

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 the type IV cylinder automation digital control production line

(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 the type IV cylinder automation digital control production line 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 (RMB0'000)
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	<u>190.00</u>
	Sub-total	<u>4,500.00</u>
11	Working capital	<u>700.00</u>
	Total	<u><u>5,200.00</u></u>

APPENDIX I PROPOSAL FOR NON-PUBLIC ISSUANCE OF A SHARES

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 <i>(ten thousand units)</i>	Year-on-year increase in number <i>(ten thousand units)</i>	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	5,300	200	3.90%
LNG	3,100	400	14.80%
Total	8,400	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, the 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. 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, and 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	Targeted share of Beijing Tianhai	Market share of Beijing Tianhai
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) expense	737.00
3	Trailer (one unit) development costs	35.00
4	Trailer (two units)	60.00
5	Verification of testing equipment	<u>211.50</u>
Sub-total		<u>1,093.50</u>
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		<u>1,175.00</u>
Vehicle hydrogen supply system		
10	Hydrogen cylinder	83.00
11	Frame, cylinder valve, testing equipment, etc.	<u>377.00</u>
Sub-total		<u>460.00</u>
Total		<u><u>2,728.50</u></u>

(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

APPENDIX I PROPOSAL FOR NON-PUBLIC ISSUANCE OF A SHARES

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		<u>4,500.00</u>		

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

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

APPENDIX I PROPOSAL FOR NON-PUBLIC ISSUANCE OF A SHARES

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		<u>23,799.80</u>	

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 the type IV cylinder automation digital control production line, hydrogen energy R&D center project and repayment of the debts due to the controlling shareholders and financial institution. 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 institution 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 and strength 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 fund-raising 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 the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality 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 extraordinary 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 discretionary 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				<u>0</u>	<u>(22,185.54)</u>	<u>0.00%</u>

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 extraordinary general 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 discretionary 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).

APPENDIX I PROPOSAL FOR NON-PUBLIC ISSUANCE OF A SHARES

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 was 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 granted 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 policies 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, and 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/ECPED 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 (《上市公司治理準則》) 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.

I. Plan of the Use of Proceeds of the Issuance

The proceeds from the non-public issuance of A shares will be fully 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 million of the proceeds will be used in the construction project of intelligent numerical control production line for Type IV cylinders; RMB27.285 million of the proceeds will be used in the R&D project of the hydrogen energy products; RMB382.998 million 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 million.

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		<u>46,228.30</u>	<u>46,228.30</u>

Prior to the receipt of the proceeds, upon the approval of the plan of the non-public issuance by the board of directors (the “Board”), the Board 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: Beijing Tianhai will implement the project with the proceeds provided by the issuer

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 RMB52.0 million, which is used to implement 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, equipment purchase, installation works, etc.

Investment plan:

No.	Project Items	Estimated Static Investment (RMB0'000)
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 consultation fee	30.00
7	Occupational health impact consultation fee	25.00
8	R&D expenses	480.00
9	Process and completion audit	20.00
10	Contingencies	<u>190.00</u>
	Sub-total	<u>4,500.00</u>
11	Working capital	<u>700.00</u>
	Total	<u><u>5,200.00</u></u>

Forecasted Performance forecast 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 Procedures for Pending Approval

Approval for project initiation has been granted by the Beijing Economic and Information Technology Commission, and other relevant approvals are in progress.

(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 states 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. The details of which are 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, the National Development and Reform Commission, and the 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, focuses on strengthening the core technology research, and covers the strengthening of the R&D of fuel cell vehicles and the planning of the innovation center construction project, including the formation of technical roadmaps of hydrogen fuel cell vehicles, vehicle lightweight technology and vehicle manufacturing technology. One of the key tasks is to formulate development plans for six innovation chains, including power battery and battery management systems, fuel cell power systems, etc. From 2020 onwards, phase progress will be achieved every five years. The details of which are as follows:

Time	Overall objectives
By 2020	The small-scale pilot application will be achieved 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 private vehicles and public service vehicles in urban area, 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 the shortage of natural gas, the development of the natural gas automobile industry has slowed down. However, as a clean energy resource, natural gas shows promising development potential and market prospects. 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 (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	Increase in percentage
CNG	5,300	200	3.90%
LNG	3,100	400	14.80%
Total	8,400	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, the natural gas will be heavily used in the eastern region as fuels for automobiles, which will definitely result in 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 increase 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

As there is no Type IV cylinder production and sales enterprise in China at present, the Type III cylinder and Type II cylinder are the major competitive products of the Type IV cylinder by 2022. 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 are 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), the number of hydrogen fuel cell vehicles will reach about 10,000 by 2020. Based on this schedule, it is estimated that in 2020, there will be about 4,000 new hydrogen fuel vehicles, which will require 8,000 gas cylinders. Given that the Type IV cylinder is a new product, it takes a certain time to enter the market and obtain the recognition from the customers. Therefore, in the early stage, the replacement volume of the Type IV cylinder project for hydrogen product is about 1,500. 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 (ten thousand 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. Due 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. Since 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 and Volvo heavy-duty trucks, and high-end CNG modification market that is sensitive to weight and driving mileage, as the high-end vehicle models pay more attention to lightweight of vehicle; 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 (unit)	Replacement rate of Type IV cylinders	Targeted share of Beijing Tianhai (unit)	Market share of Beijing Tianhai
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%

II. R&D Project of the Hydrogen Energy Products

(I) Overview of R&D Project

Implementing entity: Beijing Tianhai

Method of implementation: Beijing Tianhai will implement the project with the proceeds provided by the issuer

Project description: The total investment in the project will be RMB27.285 million, 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 works, equipment purchase, installation works, etc.

Investment plan:

No.	Estimated investment items	Estimated investment (RMB0'000)
40-foot cylinder-type container hydrogen vehicle		
1	Research and development cost for cylinder-type hydrogen storage container	50.00
2	Cost for two cylinder-type hydrogen storage containers	737.00
3	Research and development cost for a trailer	35.00
4	Two trailers	60.00
5	Verification of testing equipment	<u>211.50</u>
Sub-total		<u>1,093.50</u>
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.	<u>230.00</u>
Sub-total		<u>1,175.00</u>
Vehicle hydrogen supply system		
10	Hydrogen cylinder	83.00
11	Frame, cylinder valve, testing equipment, etc	<u>377.00</u>
Sub-total		<u>460.00</u>
Total		<u><u>2,728.50</u></u>

(II) Approval by the Competent Authorities and 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 a certain 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 the PRC. In the future, with the popularity of hydrogen energy as a new energy vehicle for fuel systems, the demand for hydrogen refueling stations will continuously 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, which makes the application of fuel cell vehicles virtually impossible. In order to cope with the contradiction between the rare number of hydrogen refueling stations and the strong demand in the PRC, the central and local governments have successively issued several incentive policies and implementation rules, which include vehicle subsidies, station subsidies and operation subsidies; the recipients are also entitled to 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, we should seize the hard-won opportunity 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 that the company only provides a single component, but requires the company 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 tend to contract the entire system to a company which can produce core components. 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 heat resistance ability, the 35MPa high-pressure hydrogen storage cylinders produced by the Company 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 Company. 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 company 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, 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 sales volume and sales amount 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.

III. Repayment of Debts Due to the Controlling Shareholders and Financial Institutions**(I) Overview of the Project**

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

The detailed information is set out below:

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

Implementing entity: Beijing Tianhai

Method of implementation: Beijing Tianhai will implement the project with the proceeds provided by the issuer

Project description: On 4 June 2013, the Beijing Municipal State-owned Assets Supervision and Administration Commission 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 million, 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 million of state capital to Beijing Tianhai for the implementation of the project, and the special payable of RMB100 million 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 million will be used to repay the borrowing from Jingcheng Machinery Electric*

Implementing entity: Beijing Tianhai

Method of implementation: Beijing Tianhai will implement the project with the proceeds provided by the issuer

Project description: Due to business needs, the Company borrowed RMB45 million 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 (from starting date to 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		<u>4,500.00</u>		

3. *RMB237.998 million will be used to repay the loans from financial institution*

Implementing entity: Beijing Tianhai

Method of implementation: Beijing Tianhai will implement the project with the proceeds provided by the issuer

Project description: Due to business needs, the Company borrowed RMB 237.998 million 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 (from starting date to 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		<u>23,799.80</u>	

Upon the receipt of the proceeds from the non-public issuance, the Company will use RMB237.998 million 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, which will be conducive in improving the Company's profitability*

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.

IV. 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 institution. 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 shareholders and financial institution 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 strength will be further enhanced. Upon the completion of the investment project, it will enable the Company 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 and strength 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.

The Board of
Beijing Jingcheng Machinery Electric Company Limited

Beijing Jingcheng Machinery Electric Company Limited

Explanation on No Requirement Needed for Preparing the Report on the Use of the Previous Proceeds

Beijing Jingcheng Machinery Electric Company Limited (hereinafter referred to as the “Company”), approved by the China Securities Regulatory Commission, conducted the public issuance of A Shares in December 2002 and raised a total of RMB154,000,000. So far, the Company has received the previous raised funds for more than five fiscal years, and has not conducted any refinancing in the past five years.

According to the relevant provisions of the Regulations on Reporting the Use of Previous Proceeds (Zheng Jian Fa Xing Zi [2007] No. 500) (《關於前次募集資金使用情況報告的規定》) issued by the China Securities Regulatory Commission, “If a listed company applied for the issuance of securities and less than five fiscal years were passed from the time of receipt of the previous proceeds, the board of directors shall prepare a report on the use of the previous proceeds in accordance with these regulations, explain in detail the actual use of the latest proceeds raised (domestic or overseas) as at the closing date of latest audited financial report set out in the issuance application documents, and submit the resolution concerning the report on the use of the previous proceeds to the general meeting of shareholders for approval”.

Since the public issuance of shares in 2002, the Company has not raised fund through share allotment, additional issuance, convertible corporate bonds and other methods in the past five fiscal years. In view of the above, the Company is not required to prepare the report on the use of the previous proceeds for this non-public issuance of A shares.

The Board of directors

Beijing Jingcheng Machinery Electric Company Limited

**BEIJING JINGCHENG MACHINERY ELECTRIC COMPANY LIMITED
SHAREHOLDERS' RETURN PLAN FOR THE NEXT THREE YEARS (2019-2021)**

In accordance with the relevant provisions of “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》) (Announcement [2013] No. 43 of the China Securities Regulatory Commission), “Announcement of CSRC on Further Implementation of Relevant Matters Concerning Cash Dividend Distribution of Listed Companies” (《中國證監會關於進一步落實上市公司現金分紅有關事項的通知》) (Zheng Jian Fa [2012] No. 37) issued by the CSRC and the Articles of Association, in order to improve the decision-making procedures and mechanisms for the Company’s profit distribution, increase the transparency and operability of dividend distribution decisions, and bring positive return to investors, the Company formulated the Shareholder Return Planning For the Next Three Years (2019-2021) of Beijing Jingcheng Machinery Electric Company Limited in view of the actual situation of the Company, with the main contents as follows:

I. Basic principle of profit distribution

The Company, taking full account of the return to the investors, distributes dividends to shareholders every year in stipulated proportion of the distributable profits (consolidated statements) recorded in the current year.

The Company maintains continuity and stability of its profit distribution policy, and also takes into account the long-term interests of the Company, the overall interests of all shareholders and the sustainable development of the Company.

The Company adopts cash dividend as its preferred profit distribution method.

II. Specific policies for profit distribution of the Company**(I) Profit distribution sequence**

When allocating profit after tax in the current year, the Company shall allocate 10% of its profits to the statutory reserve fund, and the Company is not required to do so when the accumulative amount of its statutory reserve fund is more than 50% of the Company’s registered capital.

If the statutory reserve fund is insufficient to cover the losses of the previous year, the Company shall use the profits in the current year to cover the losses before withdrawing the statutory reserve fund in accordance with the provisions of the preceding paragraph.

In addition to withdrawal of the statutory reserve fund from the profit after tax, the Company may, upon resolution of the shareholders’ general meeting, also withdraw any reserve fund from the profit after tax.

The remaining profit after-tax after making up the loss and withdrawing the reserve fund shall be distributed in proportion of the shares held by the shareholders, unless otherwise stipulated in the Articles of Association.

If the general meeting violates the provisions of the preceding paragraph, namely distributing profits to the shareholders before making up the losses and withdrawing the statutory reserve fund, the shareholders shall return such profits distributed to the Company.

Shares held by the Company shall not be entitled to the profit distribution.

(II) Mode of profit distribution

The Company distributes dividends in cash, shares or a combination of cash and shares. The Company can make interim profit distribution if conditions permit.

(III) Conditions, proportions and exceptions for cash dividend

When all the following conditions for cash dividends are satisfied, the annual profits to be distributed in cash of the Company in each of the following three years shall be no less than 10% of the distributable profits (consolidated statements) recorded in the current year, and the accumulative profits to be distributed in cash in the past three years shall be no less than 30% of the annual average distributable profits (consolidated statements) recorded in the past three years:

- (1) The Company records net profit available for distribution (i.e. the remaining net profit after making up the loss and withdrawing the reserve fund) in the current year, and has enough cash flow, and the implementation of cash dividend will not affect subsequent continuing operations of the Company;
- (2) The parent company has positive accumulated profit available for distribution;
- (3) The audit institution issues a standard unqualified audit report on the Company's financial report for the year;
- (4) No special circumstances have occurred in the Company (except for fundraising projects);

The "special circumstances" mentioned in the preceding paragraph refers to that the cumulative expenditure of the Company's major investment plans or significant capital expenditures (except for the investment projects supported by the raised funds) in the next 12 months reaches or exceeds 25% of latest audited net assets of the Company; "Major investment plans" or "significant capital expenditures" include foreign investment, external debt repayment or major asset acquisition, etc.

- (5) There is no circumstance that the Company fails to pay the principal and interest of the bonds on time or fails to pay the principal and interest of the bonds on time when due.

(IV) Specific conditions for making dividend distributions

So long as the Company is in good operating condition and the valuation of the shares of the Company is within a reasonable range, it can make profit distributions by means of stock dividend based on its conditions of the reserve fund and cash flow, provided that it maintains a minimum ratio of cash dividend and the share capital of the Company is of reasonable scale.

(V) The Board of directors shall formulate different cash dividend policies at different stages of development after taking into account various factors including the characteristics of the industry, development stage, its own business model, profitability and whether there are significant capital expenditure arrangements in the year.

- (1) If the Company is in a matured development stage and has no major capital expenditure arrangement, the minimum proportion of cash dividends shall be 80% in the profit distribution when carrying out such profit distribution;
- (2) If the Company is in a matured development stage and has major capital expenditure arrangement, the minimum proportion of cash dividends shall be 40% in the profit distribution when carrying out such profit distribution;
- (3) If the Company is in a growing development stage and has major capital expenditure arrangement, the minimum proportion of cash dividends shall be 20% in the profit distribution when carrying out such profit distribution.

Where the development stage of the Company is uncertain but there is major capital expenditure arrangement, the preceding paragraph may apply.

III. Decision-making procedures for profit distribution of the Company

1. The profit distribution plan of the Company shall be made by the Board of directors. The Board of directors shall fully discuss the rationality of the profit distribution plan and form a special resolution, which shall be submitted to the general meeting of shareholders for deliberation after approval by the Board of directors and the Board of supervisors.
2. When the Company intends not to pay cash dividends due to the special circumstances specified above, the Board of directors shall make special explanation on the specific reasons for not paying cash dividends, the exact use of the Company's retained earnings and the expected return on investment, etc., which shall be submitted to the general meeting of shareholders for deliberation after the independent directors expressed their opinions.

3. When the general meeting of shareholders considers the profit distribution plan, the Company shall communicate and exchange with the shareholders, especially minority shareholders, through hotline and other relevant channels, fully listen to the opinions and demands of minority shareholders, and promptly reply to the concerns of minority shareholders. The Company provides online voting channels for shareholders, and the votes of small and medium shareholders shall be counted separately and disclosed in the Company's designated media.

IV. Adjustment of established profit distribution policy

In the event of force majeure such as war, natural disasters, or changes in the Company's external operating environment and significant impact on its business operations, or major changes in the Company's own operating conditions, the Company may adjust the profit distribution policy.

The Board of directors shall conduct a special discussion on the adjustment of the Company's profit distribution policy, fully demonstrate the reasons for the adjustment and form a written report, which shall be submitted to the general meeting of shareholders for approval by special resolution after consideration by the independent directors. When considering the changes in the profit distribution policy, the Company shall provide online voting channels for shareholders, and count separately for the voting of minority shareholders, and provide convenience for minority shareholders to attend the general meeting of shareholders.

V. Information disclosure

According to the relevant regulations of China Securities Regulatory Commission and Shanghai Stock Exchange, the Company shall disclose the profit distribution plan and its implementation and other relevant information in the annual report, interim report and quarterly report.

VI. Formulation cycle of shareholder return planning

The Company shall review the shareholder return planning at least every three years, and make appropriate and necessary modifications to the Company's ongoing profit distribution policy based on the opinions of shareholders (especially public investors) and independent directors to determine the specific shareholder return planning for that period.

The Board of directors
Beijing Jingcheng Machinery Electric Company Limited

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In order to standardize and improve the profit distribution policy of the Company, enhance the transparency of profit distribution, according to the provisions of the “Notice on Further Implementing the Cash Dividends of Listed Companies” and “Guidelines for the Supervision of Listed Companies No. 3 – Cash Dividends of Listed Companies” issued by CSRC and other related laws and regulations and regulatory documents, the resolution in relation to the amendments to the Articles of Association was considered and approved at the thirteenth extraordinary meeting of the ninth session of the Board. The proposed amendments of the relevant article is as follow:

Before the amendment	After the amendment
<p>Article 229</p> <p>The basic principles of the profit distribution policy of the Company:</p> <p>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);</p> <p>The profit distribution policy of the Company maintains 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;</p> <p>The Company shall give priority to dividend distribution in cash.</p>	<p>Article 229 (After the approval of the resolution in relation to the amendments to the Articles of Association at the 2018 annual general meeting of the Company, this article shall be re-numbered as Article 231)</p> <p>The profit distribution policy of the Company is as follow:</p> <p>I. The basic principles of the profit distribution policy of the Company</p> <p>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).</p> <p>The profit distribution policy of the Company maintains 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.</p> <p>The Company shall give priority to dividend distribution in cash.</p>

Before the amendment	After the amendment
<p>The profit distribution policy of the Company is specified as follows:</p> <p>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.</p> <p>Specific conditions and proportions of cash dividend of the Company:</p> <p>Subject to special circumstances, the Company shall distribute cash dividend when the Company makes profit in the year and the accumulated undistributed profit (from the consolidated financial statements) shall be a positive figure. The dividend 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 financial statements) realized in the past three years.</p>	<p>II. The specific profit distribution policy of the Company</p> <ol style="list-style-type: none"> 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: <p>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 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:</p> <ol style="list-style-type: none"> (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;

Before the amendment	After the amendment
<p>The aforementioned “special circumstances” refer to material investment plans or significant cash 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 cash expenditures” include external investment, external repayment of debts or material asset acquisitions.</p> <p>Conditions for distributing dividends in shares by the Company:</p> <p>Where the Company’s business is in a sound condition, and the Board considers that the share price of the Company does not reflect its share capital size and distributing dividend in the form of shares is in the entire interest of all the shareholders of the Company, the Company may propose distributing dividends in shares.</p>	<p>(2) if the accumulated distributable profits made by the parent company are positive;</p> <p>(3) auditors had issued a standard unqualified audit report for the financial statements of the Company for that year;</p> <p>(4) no special circumstances have occurred in the Company (excluding projects funded by raised proceeds);</p> <p>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.</p> <p>(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.</p>

Before the amendment	After the amendment
	<p>III. Conditions for distributing dividends in shares by the Company</p> <p>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.</p> <p>IV. 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.</p> <p>(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;</p> <p>(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;</p>

Before the amendment	After the amendment
	<p data-bbox="874 306 1359 517">(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;</p> <p data-bbox="938 561 1359 804">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.</p>

Save for the above amendments, other provisions in the Articles of Association remained unchanged.

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

27th Floor, Standard Chartered Tower
Millennium City 1
388 Kwun Tong Road
Kowloon
Hong Kong

27 June 2019

The Directors
Beijing Jingcheng Machinery Electric Company Limited
Room 901, No. 59 Mansion
Dongsanhuan Road Central
Chaoyang District
Beijing
The PRC

Dear Sirs,

In accordance with your instructions for us to value all property interests held by Beijing Jingcheng Machinery Electric Company Limited (the “Company”) and its subsidiaries (hereinafter referred to as the “Group”) in the People’s Republic of China (“the PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interest as at 31 March 2019 (“valuation date”) for the purpose of incorporation in the circular.

Our valuation is our opinion of the market value of the property interest which we would define market value as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

In valuing the property interests, we have adopted a combination of the market and depreciated replacement cost approach in assessing the land portion of the property and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the market value of the property as a whole. In the valuation of the land portion, reference has been made to the standard land price and the sales evidence as available to us in the locality. As the nature of the buildings and structures cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement costs. The depreciated replacement cost approach considers the current cost of replacement (reproduction) of the buildings and improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

Our valuation has been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation.

We have not caused title searches to be made for the property interests at the relevant government bureau in the PRC. We have been provided with certain extracts of title documents relating to the property interest. However, we have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the property interests, we have relied on the legal opinion (the “PRC legal opinion”) provided by the Company’s PRC legal adviser, Kangda Law Firm.

We have relied to a considerable extent on information provided by the Company and have accepted advice given to us by the Company on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of the property and other relevant matter. We have also been advised by the Company that no material facts had been concealed or omitted in the information provided to us. All documents have been used for reference only.

All dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Company and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the properties are free from defect. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Our valuation is prepared in accordance with the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors (HKIS) and the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and Rule 11 of the Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission.

Unless otherwise stated, all money amounts stated are in Renminbi (RMB). The exchange rate used in valuing the property interest in the PRC as at 31 March 2019 was HK\$1 = RMB0.855. There has been no significant fluctuation in the exchange rate for Renminbi against Hong Kong Dollars (HK\$) between that date and the date of this letter.

There may be potential tax liability which would arise if the property interests were to be sold. Should disposal of the property interests located in the PRC be conducted, the potential tax liabilities arising may include business tax (5% on the transaction amount), urban maintenance and construction tax (7% on the business tax), educational surtax and surcharge (3% on the business tax), corporation income tax (25% on net profit upon disposal); stamp duty (0.05% on transaction amount) and land appreciation tax (the applicable rate is ranging from 30% to 60% on the net appreciated amount less deductibles). It is unlikely that such tax liability will be crystallized in the recent future as the Company has no intention to dispose of the relevant property interests.

We enclose herewith a summary of valuation and valuation certificates.

We hereby give our consent and confirm that we have not withdrawn our written consent to the issue of the circular with inclusion of our letter together with the summary of valuation and valuation certificates and references to our name in the form and context in which they respectively appear in the circular issued by the Company.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor (GP)
MRICS MHKIS MSc(e-com)
China Real Estate Appraiser
Managing Director

Note: Mr. Raymond Ho Kai Kwong, Chartered Surveyor, MRICS MHKIS MSc(e-com), has over twenty nine years' experiences in undertaking valuations of properties in Hong Kong and has over twenty two years' experiences in valuations of properties in the PRC.

SUMMARY OF VALUATION

Property interests held by the Group in the PRC

Property	Market Value in existing state as at 31 March 2019
1. An industrial complex located at No. 268 Jinbin Avenue, Tianjin Port Free Trade Zone, Tianjin City, the PRC	RMB96,410,000 (equivalent to approximately HK\$112,760,000)
2. An industrial complex located at No. 306 Xingang Avenue, Tianjin Port Free Trade Zone, Tianjin City, the PRC	RMB87,420,000 (equivalent to approximately HK\$102,250,000)
3. An industrial complex located at Longxumen Town, Kuancheng Manchu Autonomous County, Chengde City, Hebei Province, the PRC	RMB36,480,000 (equivalent to approximately HK\$42,670,000)
4. An industrial complex located at No. 2058 Laiyin Road, Jiuting Town, Songjiang District, Shanghai City, the PRC	RMB33,630,000 (equivalent to approximately HK\$39,330,000)
5. An industrial complex located at No. 1 Yard, South 4th Street, Huo County, Tongzhou District, Beijing City, the PRC	RMB202,510,000 (equivalent to approximately HK\$236,850,000)
6. An industrial complex located at No. 91 Yard, Nanfeng East Road, Tongzhou District, Beijing City, the PRC	RMB198,260,000 (equivalent to approximately HK\$231,880,000)

Property	Market Value in existing state as at 31 March 2019
7. An industrial complex located at No. 9 Tianying North Road, Chaoyang District, Beijing City, the PRC	RMB200,550,000 (equivalent to approximately <u>HK\$234,560,000</u>)
Total:	RMB855,260,000 (equivalent to approximately <u>HK\$1,000,300,000</u>)

VALUATION CERTIFICATES

Property interests held by the Group in the PRC

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2019
1. An industrial complex located at No. 268 Jinbin Avenue, Tianjin Port Free Trade Zone, Tianjin City, the PRC	<p>The property comprises a parcel of land with a site area of approximately 50,378.40 sq.m. and 4 buildings and a structure erected thereon completed in 2003 and 2006.</p> <p>The buildings have a total gross floor area of approximately 36,930.63 sq.m.</p> <p>The buildings mainly include workshops and office buildings.</p> <p>The land use rights of the property have been granted for a term expiring on 9 January 2053 for industrial uses.</p>	The property is currently occupied for production and office uses.	<p>RMB96,410,000</p> <p>(equivalent to approximately HK\$112,760,000)</p> <p><i>(See Note 2 below)</i></p>

Notes:

- According to a Real Estate Rights Certificate (Document No.: Fang De Zheng Jin Zi No. 115031501859), the land use rights of the property with a site area of approximately 50,378.40 sq.m. and the buildings of the property with a total gross floor area of approximately 36,930.63 sq.m. have been granted to 天津天海高壓容器有限責任公司 (Tianjin Tianhai High Pressure Container Company Limited), a 55% owned subsidiary of the Company, for a term expiring on 9 January 2053 for industrial uses.
- In the valuation of the property, we have attributed no commercial value to a building with a gross floor area of approximately 26.20 sq.m. which has not obtained a Real Estate Rights Certificate. For reference purposes, we are of the opinion that the market value of this building as at the valuation date would be RMB17,000 (equivalent to approximately HK\$19,900) assuming the relevant title ownership certificate has been obtained and it could be freely transferred.
- The PRC legal opinion states, inter alia, the following:
 - Tianjin Tianhai High Pressure Container Company Limited legally owned the property.
 - The property is subject to mortgage.
- The property was inspected by Ms. Li Shuang, China Real Estate Appraiser, on 10 April 2019.

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2019
2. An industrial complex located at No. 306 Xingang Avenue, Tianjin Port Free Trade Zone, Tianjin City, the PRC	<p>The property comprises a parcel of land with a site area of approximately 45,489.20 sq.m. and 3 buildings erected thereon completed in 2012.</p> <p>The buildings have a total gross floor area of approximately 25,342.76 sq.m.</p> <p>The buildings mainly include workshops.</p> <p>The land use rights of the property have been granted for a term expiring on 24 March 2053 for industrial uses.</p>	The property is currently occupied for production and office uses.	RMB87,420,000 (equivalent to approximately HK\$102,250,000)

Notes:

1. According to a Real Estate Rights Certificate (Document No.: Fang De Zheng Jin Zi No. 115021201217), the land use rights of the property with a site area of approximately 45,489.20 sq.m. and the buildings of the property with a total gross floor area of approximately 25,342.76 sq.m. have been granted to 天津天海高壓容器有限責任公司 (Tianjin Tianhai High Pressure Container Company Limited), a 55% owned subsidiary of the Company, for a term expiring on 24 March 2053 for industrial uses.
2. The PRC legal opinion states, inter alia, the following:
 - (i) Tianjin Tianhai High Pressure Container Company Limited legally owned the property.
 - (ii) The property is subject to a mortgage.
3. The property was inspected by Ms. Li Shuang, China Real Estate Appraiser, on 10 April 2019.

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2019
3. An industrial complex located at Longxumen Town, Kuancheng Manchu Autonomous County, Chengde City, Hebei Province, the PRC	<p>The property comprises a parcel of land with a site area of approximately 30,207.04 sq.m. and 4 buildings and various structures erected thereon completed in 2011 and 2015.</p> <p>The buildings have a total gross floor area of approximately 17,772.27 sq.m.</p> <p>The buildings mainly include workshops, office buildings and dormitories.</p> <p>The land use rights of the property have been granted for a term expiring on 7 December 2061 for industrial uses.</p>	The property is currently occupied for production and office uses.	<p>RMB36,480,000</p> <p>(equivalent to approximately HK\$42,670,000)</p> <p>(See Note 2 below)</p>

Notes:

1. According to a Real Estate Rights Certificate (Document No.: Ji (2017) Kuancheng Manchu Autonomous County Real Estate Rights No. 0000570), the land use rights of the property with a site area of approximately 30,207.04 sq.m. and the buildings of the property with a total gross floor area of approximately 17,772.27 sq.m. have been granted to 寬城天海壓力容器有限公司 (Kuancheng Tianhai Pressure Container Company Limited), a 61.1% owned subsidiary of the Company, for a term expiring on 7 December 2061 for industrial uses.
2. In the valuation of the property, we have attributed no commercial value to another 5 buildings with a total gross floor area of approximately 978.12 sq.m. which have not obtained Real Estate Rights Certificates. For reference purposes, we are of the opinion that the market value of these buildings as at the valuation date would be RMB610,000 (equivalent to approximately HK\$713,000) assuming the relevant title ownership certificates have been obtained and they could be freely transferred.
3. The PRC legal opinion states, inter alia, the following:
 - (i) Kuancheng Tianhai Pressure Container Company Limited legally owned the property.
 - (ii) The property is subject to a mortgage.
4. The property was inspected by Mr. Wang Xu, Valuer, on 16 April 2019.

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2019
4. An industrial complex located at No. 2058 Laiyin Road, Jiuting Town, Songjiang District, Shanghai City, the PRC	<p>The property comprises a parcel of land with a site area of approximately 22,546 sq.m. and 2 buildings erected thereon completed in 2012.</p> <p>The buildings have a total gross floor area of approximately 2,508.92 sq.m.</p> <p>The buildings mainly include a workshop and an office building.</p> <p>The land use rights of the property have been granted for a term expiring on 20 December 2056 for industrial uses.</p>	The property is currently occupied for production and office uses.	RMB33,630,000 (equivalent to approximately HK\$39,330,000)

Notes:

1. According to a Real Estate Rights Certificate (Document No.: Hu Fang De Song Zi (2013) No. 017050), the land use rights of the property with a site area of approximately 22,546 sq.m. and the buildings of the property with a total gross floor area of approximately 2,508.92 sq.m. have been granted to 上海天海複合氣瓶有限公司 (Shanghai Tianhai Composite Cylinders Company Limited), an 87.84% owned subsidiary of the Company, for a term expiring on 20 December 2056 for industrial uses.
2. The PRC legal opinion states, inter alia, the following:
 - (i) Shanghai Tianhai Composite Cylinders Company Limited legally owned the property.
 - (ii) The property is not subject to any mortgage.
3. The property was inspected by Ms. Lu He Rong, China Real Estate Appraiser, on 8 April 2019.

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2019
5. An industrial complex located at No. 1 Yard, South 4th Street, Huo County, Tongzhou District, Beijing City, the PRC	<p>The property comprises a parcel of land with a site area of approximately 66,157.64 sq.m. and 6 buildings and various structures erected thereon completed in 2014.</p> <p>The buildings have a total gross floor area of approximately 44,769.33 sq.m.</p> <p>The buildings mainly include workshops and office buildings.</p> <p>The land use rights of the property have been granted for a term expiring on 20 January 2063 for industrial uses.</p>	The property is currently occupied for production and office uses.	RMB202,510,000 (equivalent to approximately HK\$236,850,000)

Notes:

1. According to 6 Real Estate Rights Certificates (Document Nos.: Jing 2017 (Tong) Real Estate Rights Nos. 0029556, 0029561, 0029563, 0029564, 0029569 and 0029570), the land use rights of the property with a site area of approximately 66,157.64 sq.m. and the buildings of the property with a total gross floor area of approximately 44,769.33 sq.m. have been granted to 北京明暉天海氣體儲運裝備銷售有限公司 (Beijing Minghui Tianhai Gas Storage Equipment Sales Company Limited), a 38.51% owned subsidiary of the Company, for a term expiring on 20 January 2063 for industrial uses.
2. The PRC legal opinion states, inter alia, the following:
 - (i) Beijing Minghui Tianhai Gas Storage Equipment Sales Company Limited legally owned the property.
 - (ii) The property is not subject to a mortgage.
3. The property was inspected by Ms. Liu Fang Min, Valuer, on 11 April 2019.

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2019
6. An industrial complex located at No. 91 Yard, Nanfeng East Road, Tongzhou District, Beijing City, the PRC	<p>The property comprises a parcel of land with a site area of approximately 71,396.43 sq.m. and 5 buildings and various structures erected thereon completed in 2014.</p> <p>The buildings have a total gross floor area of approximately 42,630.64 sq.m.</p> <p>The buildings mainly include workshops and office buildings.</p> <p>The land use rights of the property have been granted for a term expiring on 20 January 2063 for industrial uses.</p>	The property is currently occupied for production and office uses.	RMB198,260,000 (equivalent to approximately HK\$231,880,000)

Notes:

1. According to 5 Real Estate Rights Certificates (Document Nos.: Jing 2017 (Tong) Real Estate Rights Nos. 0029537, 0029542, 0029544, 0029546 and 0029552), the land use rights of the property with a site area of approximately 71,396.43 sq.m. and the buildings of the property with a total gross floor area of approximately 42,630.64 sq.m. have been granted to 北京明暉天海氣體儲運裝備銷售有限公司 (Beijing Minghui Tianhai Gas Storage Equipment Sales Company Limited), a 38.51% owned subsidiary of the Company, for a term expiring on 20 January 2063 for industrial uses.
2. The PRC legal opinion states, inter alia, the following:
 - (i) Beijing Minghui Tianhai Gas Storage Equipment Sales Company Limited legally owned the property.
 - (ii) The property is not subject to a mortgage.
3. The property was inspected by Ms. Liu Fang Min, Valuer, on 11 April 2019.

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2019
7. An industrial complex located at No. 9 Tianying North Road, Chaoyang District, Beijing City, the PRC	<p>The property comprises a parcel of land with a site area of approximately 87,541.76 sq.m. and 28 buildings erected thereon completed in the early 1990's.</p> <p>The buildings have a total gross floor area of approximately 44,65362 sq.m.</p> <p>The buildings mainly include workshops and office buildings.</p> <p>The land use rights of the property have been granted for a term expiring on 28 October 2054 for industrial uses.</p>	The property is currently leased for office uses.	<p>RMB200,550,000</p> <p>(equivalent to approximately HK\$234,560,000)</p> <p>(See Note 2 below)</p>

Notes:

1. According to a State-owned Land Use Rights Certificate (Document No.: Jing Chao Guo Yong (2005 Chu) No. 0242) and 2 Building Ownership Rights Certificates (Document Nos.: X Jing Fang Quan Zheng Chao Zi Nos. 607418 and 727497), the land use rights of the property with a site area of approximately 87,541.76 sq.m. and the buildings of the property with a total gross floor area of approximately 45,143.62 sq.m., in which the buildings with gross floor area of approximately 490 were demolished) have been granted to 北京天海工業有限公司 (Beijing Tianhai Industry Company Limited), a wholly owned subsidiary of the Company, for a term expiring on 28 October 2054 for industrial uses.
2. In the valuation of the property, we have attributed no commercial value to 20 buildings with a total gross floor area of approximately 3,296.02 sq.m. which have not obtained Building Ownership Rights Certificates. For reference purposes, we are of the opinion that the market value of these buildings as at the valuation date would be RMB1,680,000 (equivalent to approximately HK\$1,965,000) assuming the relevant title ownership certificates have been obtained and they could be freely transferred.
3. The PRC legal opinion states, inter alia, the following:
 - (i) Beijing Tianhai Industry Company Limited legally owned the property.
 - (ii) The property is not subject to any mortgage.
4. The property was inspected by Ms. Liu Fang Min, Valuer, on 30 April 2019.

1. FINANCIAL INFORMATION OF THE GROUP

I. FINANCIAL SUMMARY

Set out below is a summary of the consolidated financial information of the Group for each of the three years ended 31 December 2016, 31 December 2017 and 31 December 2018, and for the three months ended 31 March 2018 and 31 March 2019. The figures for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 are extracted from the annual report of the Company for the year ended 31 December 2016, 31 December 2017 and 31 December 2018, and the figures for the three months ended 31 March 2018 and 31 March 2019 are extracted from the first quarterly report for the three months ended 31 March 2018 and 31 March 2019.

The auditors' reports issued by the auditors of the Company, ShineWing Certified Public Accountants LLP, in respect of the audited consolidated financial statements of the Group for each of the three years ended 31 December 2016, 31 December 2017 and 31 December 2018 did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

	(Unaudited)		(Audited)		
	For the three months ended		For the year ended 31 December		
	31 March 2018	31 March 2019	2018	2017	2016
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
I. Total operating revenue	235,780,484.45	251,055,252.01	1,121,564,249.15	1,203,496,955.02	889,525,250.25
II. Total profits	-24,179,384.88	-29,582,411.96	-125,554,760.83	31,636,317.62	-179,014,545.75
Less: income tax expenses	1,354,289.16	726,514.85	7,089,870.89	8,490,684.72	1,643,345.83
III. Net profits	-25,533,674.04	-30,308,926.81	-132,644,631.72	23,145,632.90	-180,657,891.58
(I) Classified according to operating continuity					
1. Net (loss)/profit from continuing operations	-25,533,674.04	-30,308,926.81	-141,291,419.93	23,145,632.90	-180,657,891.58
2. Net profit from discontinuing operations	-	-	8,646,788.21	-	-
(II) Classified according to attribution of the ownership					
1. Net (loss)/profits attributable to parent company	-21,650,195.02	-22,586,691.70	-93,936,155.30	20,868,364.01	-148,787,585.19
2. Non-controlling interests	-3,883,479.02	-7,722,235.11	-38,708,476.42	2,277,268.89	-31,870,306.39

	(Unaudited)		(Audited)		
	For the three months ended		For the year ended 31 December		
	31 March 2018	31 March 2019	2018	2017	2016
	RMB	RMB	RMB	RMB	RMB
IV. Other net comprehensive incomes after-tax	-	-	2,252,331.17	-2,424,859.82	2,569,657.92
Other net after-tax comprehensive income attributable to the owner of the parent company	-	-	1,153,925.70	-1,236,840.66	1,322,367.93
(I) Other comprehensive incomes that cannot be reclassified through profit or loss	-	-	-	-	-
(II) Other comprehensive incomes that will be re-classified into profits or losses: Converted difference in foreign currency statements for foreign currency	-	-	1,153,925.70	-1,236,840.66	1,322,367.93
Other comprehensive incomes after-tax attributable to minority shareholders	-	-	1,098,405.47	-1,188,019.16	1,247,289.99
V. Total comprehensive incomes	-25,533,674.04	-30,308,926.81	-130,392,300.55	20,720,773.08	178,088,233.66
Total comprehensive incomes attributable to shareholders of the parent company	-21,650,195.02	-22,586,691.70	-92,782,229.60	19,631,523.35	147,465,217.26
Total comprehensive incomes attributable to minority shareholders	-3,883,479.02	-7,722,235.11	-37,610,070.95	1,089,249.73	-30,623,016.40
VI. Earnings per share					
(I) Basic earnings per share	-0.05	-0.05	-0.22	0.05	-0.35
(II) Diluted earnings per share	-0.05	-0.05	-0.22	0.05	-0.35
VII. Amount of cash dividend (inclusive of tax)	0	0	0	0	0

II. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated statement of financial position, consolidated statement of cash flows and any other primary statement as shown in the audited consolidated financial statements of the Group for the year ended 31 December 2018 together with the notes to financial information are set out on pages 136 to 274 of the Annual Report 2018 of the Company, which was published on 23 April 2019. The Annual Report 2018 is posted on the Company's website (<http://www.jingchenggf.com.cn>) and the website of the Stock Exchange (www.hkexnews.hk). Please also see below a direct link to the Annual Report 2018:

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0424/LTN20180424486.pdf>

The consolidated statement of financial position, consolidated statement of cash flows and any other primary statement as shown in the unaudited consolidated financial statements of the Group for the three months ended 31 March 2019 are set out on pages 12 to 31 of the first quarterly report for the three months ended 31 March 2019 of the Company, which was published on 25 April 2019. The first quarterly report for the three months ended 31 March 2019 is posted on the Company's website (<http://www.jingchenggf.com.cn>) and the website of the Stock Exchange (www.hkexnews.hk). Please also see below a direct link to the first quarterly report for the three months ended 31 March 2019:

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0425/LTN201904251927.pdf>

The above information are incorporated by reference into this circular and form part of this circular.

2. INDEBTEDNESS

As at 30 April 2019, the Group had interest-bearing loans of RMB367,998,046.30, including Jingcheng Machinery Electric's interest-bearing credit loans of RMB45,000,000.00, pledged bank loan of RMB154,998,046.30 and unpledged bank loan of RMB168,000,000.00, and such bank loans were guaranteed. As at 30 April 2019, note payable of the Group was RMB10,000,000.00, which was secured by bank deposits of RMB4,500,000.00 and real estate assets. Except for the above or otherwise disclosed in this circular, as at 30 April 2019, the Group had no loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or bonds, mortgages, loans or other similar indebtedness or commitments under finance leases, hire purchase commitments, liabilities under acceptance (other than normal trade bills), acceptance credits, guarantees or other contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after due and careful enquiry, after taking into account the Group's internal resources, the effect of the Proposed A Shares Issue, A Shares Subscription Agreement, Whitewash Waiver, the proposed amendments to the Articles of Association and the transactions contemplated thereunder and existing cash and bank

balances, the Group will have sufficient working capital for its present requirements for a period of at least 12 months from the date of this circular, in the absence of unforeseeable circumstances.

4. MATERIAL CHANGE

The Directors confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up to, and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

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

The circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. All the Directors jointly and severally accept full responsibility for the accuracy of the information in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any of the statements in this circular misleading.

2. MARKET PRICE

The table below shows the closing prices of the H Shares on the Stock Exchange and the A Shares on the Shanghai Stock Exchange (i) on the last trading day of each of the six calendar months immediately preceding the date of the Announcement and up to the Latest Practicable Date; (ii) on the last trading day immediately preceding the date of the Announcement; (iii) on the date of the Announcement; and (iv) on the Latest Practicable Date.

Date	Closing price per H Share <i>HK\$</i>	Closing price per A Share <i>RMB</i>
31 October 2018	1.25	4.21
30 November 2018	1.40	4.69
31 December 2018 (<i>being the last trading day of H Shares for December 2018</i>)	1.32	N/A
28 December 2018 (<i>being the last trading day of A Shares for December 2018</i>)	N/A	4.47
31 January 2019	1.31	4.65
28 February 2019	1.57	5.39
29 March 2019	1.87	8.46
30 April 2019	1.50	7.68
3 May 2019 (<i>being the last trading day of H Shares immediately preceding the date of the Announcement</i>)	1.56	N/A
30 April 2019 (<i>being the last trading day of A Shares immediately preceding the date of the Announcement</i>)	N/A	7.68
6 May 2019 (<i>the date of the Announcement</i>)	1.41	7.09
24 June 2019 (<i>the Latest Practicable Date</i>)	1.50	7.03

3. SHARE CAPITAL OF THE COMPANY

The registered and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Proposed A Shares Issue are set out below:

As at the Latest Practicable Date:

	<i>Number of Shares</i>
A Shares	322,000,000
H Shares	<u>100,000,000</u>
Total	<u><u>422,000,000</u></u>

Enlarged share capital of the Company immediately after completion of the Proposed A Shares Issue:

	<i>Number of Shares</i>
A Shares	406,400,000
H Shares	<u>100,000,000</u>
Total	<u><u>506,400,000</u></u>

The A Shares to be issued under the Proposed A Shares Issue when issued and fully paid, shall rank *pari passu* in all aspects amongst themselves with the A Shares in issue at the time of the issuance of such A Shares.

Since 31 December 2018 (being the end of the last financial year of the Company) and up to the Latest Practicable Date, no new Shares have been issued by the Company.

As at the Latest Practicable Date, the Company has no outstanding warrants, options or securities convertible into Shares.

4. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, so far as was known to the Directors, the Directors, the Supervisors and chief executive of the Company or their respective associates had the following interest or short positions in the Shares, underlying Shares or debentures of the Company or any associated corporations below (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company

referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

Long position in Shares

Name of Director	Capacity	Number of Shares held	Approximate percentage of the Shareholding in the entire Share capital of the Company (A Shares and H Shares)
Wu Yan	Beneficial owner	43,001	0.01%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the Supervisors and chief executive of the Company or their respective associates had any interest or short positions in any Shares, underlying Shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

The following is a list of Directors who, as at the Latest Practicable Date, were also employees of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:

Name of Director/ proposed Director	Name of Shareholder	Capacity of Director/proposed Director in Shareholder	Number of Shares held by Shareholder	Approximate percentage of Shareholding in the entire Share capital of the Company (A Shares and H Shares)
Wang Jun	Jingcheng Machinery Electric	Standing committee member of party committee, deputy general manager and general counsel	182,735,052 A Shares	43.30%
Jin Chunyu	Jingcheng Machinery Electric	Assistant of general manager and head of planning and finance department	182,735,052 A Shares	43.30%
Xia Zhonghua	Jingcheng Machinery Electric	Head of housing, land and resources department	182,735,052 A Shares	43.30%
Du Yuexi	Jingcheng Machinery Electric	Supervisor	182,735,052 A Shares	43.30%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors is a Director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, (a) none of the Directors or Supervisors had entered or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation) and (b) none of the Directors or Supervisors had entered into a service contract with the Company or any of its subsidiaries or associated companies (as defined under the Takeovers Code), which (i) have been entered into or amended within 6

months before the date of the Announcement; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

6. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2018, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to the Company or were proposed to be acquired or disposed of by or leased to the any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Company.

7. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or the controlling shareholder or their respective close associates (as defined in the Listing Rules) had any interest in any business which competes or may compete with the business of the Group or has or may have any other conflicts of interest with the Group pursuant to the Listing Rules.

8. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Group were engaged in any litigation or arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

9. MATERIAL CONTRACTS

The following contracts (not being contract in the ordinary course of business of the Group) have been entered into by members of the Group within the two years immediately preceding the date of the Announcement and up to and including the Latest Practicable Date:

- (a) the lease agreement dated 4 September 2018 entered between Beijing Tianhai and Beijing Jingcheng Haitong Technology Culture Development Co., Ltd. (“Jingcheng Haitong”) pursuant to which Beijing Tianhai leased the property located at 9 Tianying North Road, Chaoyang District, the PRC to Jingcheng Haitong with a term of lease of 18 years and rent-free period of 6 months. The initial standard rent is RMB1.43/square metre/day, which shall be increased by 5% after every three years from the date of lease; and
- (b) A Shares Subscription Agreement.

10. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, there is no material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited accounts of the Company were made up.

11. EXPERTS

The following is the qualification of the experts who have given their opinions or advices which are contained in this circular:

Name	Qualification
Vinco Capital Limited	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Vigers Appraisal & Consulting Limited	Property Valuer and Surveyor

As at the Latest Practicable Date, each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinion and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the above experts did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited accounts of the Company were made up.

12. ARRANGEMENTS IN CONNECTION WITH THE PROPOSED A SHARES ISSUE

As at the Latest Practicable Date,

- (a) save for the A Shares Subscription Agreement, no agreement, arrangement or understanding (including any compensation arrangement) exists between Jingcheng Machinery Electricity or parties acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Proposed A Shares Issue, the Specific Mandate, the Whitewash Waiver;
- (b) there was no benefit to be given to any Directors as compensation for loss of office or otherwise in connection with the Proposed A Shares Issue, the Specific Mandate, the Whitewash Waiver;
- (c) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of, or otherwise connected with, the Proposed A Shares Issue, the Specific Mandate, the Whitewash Waiver;
- (d) there was no material contract entered into by Jingcheng Machinery Electricity in which any Director has a material personal interest; and
- (e) there was no agreement, arrangement or understanding pursuant to which the A Shares to be issued to Jingcheng Machinery Electricity under the Proposed A Shares Issue would be transferred, charged or pledged to any other persons.

13. SHAREHOLDINGS AND DEALINGS PURSUANT TO THE TAKEOVERS CODE

- (a) As at the Latest Practicable Date:
 - (i) Jingcheng Machinery Electricity is holding 182,735,052 A Shares, representing approximately 43.30% of the total number of issued Shares;
 - (ii) none of the directors of Jingcheng Machinery Electricity was interested in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options or derivatives in respect of the Shares;
 - (iii) none of the persons acting in concert with Jingcheng Machinery Electricity owned or controlled any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company;

- (iv) no person had irrevocably committed themselves to vote for or against the resolutions to be proposed at the General Meeting and/or the Class Meetings to approve the Proposed A Shares Issue, the Whitewash Waiver, the Specific Mandate;
- (v) save for the A Shares Subscription Agreement and the transactions contemplated thereunder, none of Jingcheng Machinery Electricity or parties acting in concert with it had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person;
- (vi) neither Jingcheng Machinery Electricity nor any persons acting in concert with it had borrowed or lent any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company;
- (vii) the Company had no shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in Jingcheng Machinery Electricity;
- (viii) none of the Directors was interested in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in Jingcheng Machinery Electricity;
- (ix) save as disclosed in the section headed “Effect of the Shareholdings Structure of the Company” in the Letter from the Board of this circular, none of the Directors was interested in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company;
- (x) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert”, or of the Company’s associates by virtue of classes (2), (3) or (4) of the definition of “associate” under the Takeovers Code;
- (xi) no shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company was owned or controlled by any subsidiary of the Company or by a pension fund of any member of the Group or by an adviser to the Company as specified in class (5) of “acting in concert” or class (2) of the definition of “associate” in the Takeovers Code but excluding any exempt principal trader or exempt fund manager;

- (xii) no shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;
- (xiii) Ms. Wu Yan, the independent non-executive Director, has indicated her intention, in respect of her shareholdings in the Company to vote for the Proposed A Shares Issue and the Whitewash Waiver;
- (xiv) there were no shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company which the Company or the Directors has/ have borrowed or lent; and
- (xv) there is no special deal (as defined under Rule 25 of the Takeovers Code), save for the A Shares Subscription Agreement, there is no other consideration, compensation or benefit in whatever form, paid or to be paid by Jingcheng Machinery Electricity or its concert parties to the Company or its concert parties in relation to or in connection with the Proposed A Shares Issue.

14. DEALINGS IN SHARES

During the Relevant Period,

- (i) save for the A Shares Subscription Agreement, neither Jingcheng Machinery Electricity nor any persons acting in concert with it had dealt for value in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company;
- (ii) none of the directors of Jingcheng Machinery Electricity had dealt for value in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company;
- (iii) the Company had not dealt for value in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives of Jingcheng Machinery Electricity;
- (iv) none of the Directors had dealt for value in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives of Jingcheng Machinery Electricity or any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives of the Company;

- (v) none of the subsidiaries of the Company had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares;

15. MISCELLANEOUS

- (a) The registered office of the Company is at Room 901, No. 59 Mansion, Dongsanhuan Road Central, Chaoyang District, Beijing, the PRC.
- (b) The Hong Kong branch share registrar and transfer office of the Company (for H Shares) is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The joint company secretaries of the Company are Mr. Lo Tai On, who is a non-practising qualified accountant and Mr. Luan Jie.
- (d) Jingcheng Machinery Electricity is a company incorporated in the PRC with limited liability. The registered office of Jingcheng Machinery Electricity is 18/F, 59 Dong San Huan Zhong Lu, Zhaoyang district, Beijing.
- (e) The directors of Jingcheng Machinery Electricity are Mr. Ren Yanguang, Mr. Wang Guohua, Mr. Zhao Ying, Mr. Lin Jing, Mr. Lu Jian, Mr. Su Sheng and Mr. Yang Huazhong.
- (f) Jingcheng Machinery Electricity is a state-owned enterprise which is the controlling shareholder of the Company. Beijing State-owned Capital Operation and Management Center is a state-owned enterprise which owns 100% of Jingcheng Machinery Electricity. The ultimate beneficial owner of Jingcheng Machinery Electricity is Beijing SASAC which owns 100% equity of Beijing State-owned Capital Operation and Management Center.
- (g) The English translation of those entities whose name is marked with an asterisk^(*) is for identification purpose only.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at (i) the office of Messrs. Woo Kwan Lee & Lo at 26th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours from 9:30 a.m. to 5:30 p.m., (ii) on the website of the Company at www.jingchenggf.cn and (iii) the website of the SFC at www.sfc.hk from the date of this circular up to and including the date of the General Meeting and the Class Meetings.

- (a) Articles of Association;
- (b) Articles of Association of Jingcheng Machinery Electricity;

- (c) the annual reports of the Company for the financial years ended 31 December 2016, 31 December 2017 and 31 December 2018;
- (d) the first quarterly reports of the Company for the three months ended 31 March 2018 and 31 March 2019;
- (e) the letter from the Board, the text of which is set out in the section headed “Letter from the Board” in this circular;
- (f) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” in this circular;
- (g) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed “Letter from Vinco Capital” in this circular;
- (h) the property valuation report of the Company, the text of which is set out in the Appendix VI of this circular;
- (i) the consent letters from the experts referred to in the paragraph headed “Experts” in this Appendix;
- (j) the material contracts referred to in the section headed “Material Contracts” in this Appendix; and
- (k) this circular.