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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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 revised 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) POSSIBLE MAJOR AND CONNECTED TRANSACTION  
DISPOSAL OF JINGCHENG COMPRESSOR  
(2) ELECTION OF DIRECTORS AND SUPERVISORS  
AND  
(3) SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING**

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



**China Everbright Capital Limited**

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A letter from the Board is set out on pages 5 to 14 of this circular and a letter from the Independent Board Committee is set out on pages 15 to 16 of this circular. A letter from Everbright Capital, the independent financial adviser containing its advice to the Independent Board Committee is set out on pages 17 to 27 of this circular.

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## DEFINITIONS

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

|                               |  |
|-------------------------------|--|
| “A Share(s)”                  | domestic ordinary share(s) with a par value of RMB1.00 each in the share capital of the Company which are listed on the Shanghai Stock Exchange and traded in RMB  |
| “AGM”                         | the annual general meeting of the Company to be convened on 26 June 2014 (Thursday) at 9:00 a.m. at First Conference Room, 18/F, Jingcheng Machinery Electric Building, No. 59 Mansion, Dongsanhuan Road Central, Chaoyang District, Beijing, PRC    |
| “Articles of Association”     | the articles of association of the Company as amended from time to time  |
| “Asset Transaction Agreement” | an asset transaction agreement (產權交易合同) to be entered into between the Company and the successful bidder of the Public Tender pursuant to the Tender Notice and the rules and regulations of CBEX  |
| “associate”                   | has the meaning ascribed to it under the Listing Rules   |
| “Beijing SASAC”               | 北京市人民政府國有資產監督管理委員會 (Beijing Municipal People’s Government State-owned Assets Supervision and Administration Commission)  |
| “Board”                       | the board of Directors   |
| “CBEX”                        | 北京產權交易所有限公司 (China Beijing Equity Exchange), an institution authorised by the State-owned Assets Supervision and Administration Commission to transact assets and equity of State-owned enterprises under the central government of PRC              |
| “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 as ascribed to it under the Listing Rules  |
| “Consideration”               | the purchase price for 100% interest in Jingcheng Compressor   |

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## DEFINITIONS

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|---|---|
| “controlling shareholder”                               | has the meaning as ascribed to it under the Listing Rules   |
| “Deposit”   | the sum of RMB 75,000,000 to be paid into an account designated by CBEX within 3 working days after CBEX has confirmed the qualified bidder in accordance with the request of CBEX  |
| “Director(s)”   | the director(s) of the Company  |
| “Disposal”  | the disposal of 100% interest in Jingcheng Compressor   |
| “Fusheng Machine”                                       | 北京復盛機械有限公司 (Beijing Fusheng Machine Co., Ltd.), a company established in the PRC and is owned as to 30% by Jingcheng Compressor   |
| “Group”   | the Company and its subsidiaries  |
| “Golden Standard & Headman Appraisal and Advisory”      | Golden Standard & Headman Appraisal and Advisory Co., Ltd. (北京大正海地人資產評估有限公司), an independent valuer   |
| “H Share(s)”  | the overseas foreign listed shares of nominal value of RMB1.00 each in the share capital of the Company, which are listed on the Main Board of the Stock Exchange subscribed for and traded in Hong Kong dollars  |
| “Hong Kong”   | the Hong Kong Special Administrative Region of the PRC  |
| “Independent Board Committee”                           | the independent board committee comprising all the independent non-executive Directors, namely Mr. Zhang Shuangru, Ms. Wang Hui, Mr. Xie Bingguang and Mr. Wang Deyu, which has been established by the Company to advise the Independent Shareholders on the Preliminary Asset Transaction Agreement and the transaction contemplated thereunder   |
| “Independent Financial Adviser” or “Everbright Capital” | China Everbright Capital Limited, being a corporation licensed to Type 1 (dealing in securities), Type 4 (advising on Securities) and Type 6 (advising on corporate finance) regulated activity under the SFO, the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Preliminary Asset Transaction Agreement and the Disposal |

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## DEFINITIONS

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|---|--|
| “Independent Shareholder(s)”              | Shareholders who are not required to abstain from voting at the AGM to be convened for the purposes of approving the Preliminary Asset Transaction Agreement under the Listing Rules                         |
| “Jingcheng Compressor”                    | 北京京城壓縮機有限公司 (Beijing Jingcheng Compressor Co., Ltd.), a company established in the PRC and a wholly-owned subsidiary of the Company  |
| “Jingcheng Holding”                       | 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 a controlling shareholder of the Company holding approximately 47.78% interest in the Company |
| “Latest Practicable Date”                 | 9 June 2014, 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  |
| “Minimum Consideration”                   | the initial bidding price of approximately RMB250,202,800 which is the appraised value of Jingcheng Compressor based on the Valuation Report   |
| “PRC”, “China” or “State”                 | the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, Macau and Taiwan  |
| “Preliminary Asset Transaction Agreement” | the preliminary asset transaction agreement dated 16 May 2014 relating to the Disposal entered into by the Company and Jingcheng Holding   |
| “Public Tender”                           | the public tender for the Disposal through CBEX  |
| “Publication Period”                      | the publication period for the Public Tender during which qualified bidders may indicate their interest in purchasing the 100% interest in Jingcheng Compressor and register as interested bidders           |
| “RMB”                                     | Renminbi, the lawful currency of the PRC   |
| “SFO”                                     | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)  |
| “Share(s)”                                | share(s) of the Company, including A Shares and H Shares, unless otherwise specified   |

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## DEFINITIONS

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|-------------------------|--|
| “Shareholders”          | the shareholders of the Company  |
| “Stock Exchange”        | the Stock Exchange of Hong Kong Limited  |
| “Supervisor(s)”         | the supervisor(s) of the Company   |
| “Supervisory Committee” | the supervisory committee of the Company   |
| “Tender Notice”         | the tender notice (產權轉讓公告) for the Disposal  |
| “Valuation Report”      | 大正海地人評報字(2014)第75A號《資產評估報告書》 (Da Zheng Hai Di Ren Ping Bao Zi (2014) No. 75A) the valuation report prepared by Golden Standard & Headman Appraisal and Advisory in respect of the 100% interests in Jingcheng Compressor with 31 December 2013 being the base date for valuation, the text of which is set out in Appendix II to this circular |
| “working day”           | a day other than Saturday, Sunday and statutory holiday in the PRC, on which commercial banks in the PRC are open for normal business  |
| “%”                     | percent  |

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LETTER FROM THE BOARD

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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)**

*Executive directors:*

Mr. Wang Pingsheng  
Mr. Hu Chuanzhong  
Mr. Wu Yanzhang  
Mr. Li Junjie  
Ms. Jiang Chi

*Registered office:*

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

*Non-executive directors:*

Mr. Jiang Zili  
Ms. Wu Dongbo

*Independent non-executive directors:*

Mr. Zhang Shuangru  
Ms. Wang Hui  
Mr. Xie Bingguang  
Mr. Wang Deyu

11 June 2014

*To the Shareholders*

Dear Sir or Madam,

**(1) POSSIBLE MAJOR AND CONNECTED TRANSACTION  
DISPOSAL OF JINGCHENG COMPRESSOR**

**(2) ELECTION OF DIRECTORS AND SUPERVISORS**

**AND**

**(3) SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING**

**INTRODUCTION**

The purpose of this circular is to provide you with information regarding, among others, (1) the Disposal and the Preliminary Asset Transaction Agreement, and (2) the proposed election of Directors and Supervisors, and seek your approval of the ordinary resolutions relating to the above at the AGM.

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## LETTER FROM THE BOARD

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Reference is made to the notice of the AGM dated 12 May 2014 and the supplemental notice of the AGM with additional proposed resolutions dated 16 May 2014 (the “**Supplemental Notice of AGM**”), which set out the venue of the AGM and contain the resolutions to be tabled before the AGM for Shareholders’ approval.

### (1) DISPOSAL OF JINGCHENG COMPRESSOR

Reference is also made to the announcement of the Company dated 16 May 2014, the Board announced that the Company proposed to dispose its 100% interests in Jingcheng Compressor, a wholly-owned subsidiary of the Company. The Company is a State-controlled listed Company and the disposal of its State-controlled assets is required to go through the process of public tender through an approved equity exchange in accordance with the relevant PRC laws and regulations concerning the disposal of State-controlled assets. The Disposal will be carried through CBEX, an institution authorised by the State-owned Assets Supervision and Administration Commission to transact assets and equity of State-owned enterprises under the central government of PRC. According to the rules and regulations of CBEX, the successful bidder of the Public Tender is required to enter into an Asset Transaction Agreement with the Company.

As Jingcheng Holding intended to participate in the Public Tender, the Company and Jingcheng Holding entered into the Preliminary Asset Transaction Agreement on 16 May 2014. Subject to the fulfilment of conditions precedent which includes, inter alia, that Jingcheng Holding is successfully qualified as transferee of the Disposal, the Company has conditionally agreed to sell and Jingcheng Holding has conditionally agreed to purchase 100% interest in Jingcheng Compressor. If Jingcheng Holding is successfully qualified as transferee of the Disposal, it will enter into the Asset Transaction Agreement with the Company.

Jingcheng Compressor is a limited liability company established in the PRC and is a wholly-owned subsidiary of the Company. Jingcheng Compressor holds 30% interests in Fusheng Machine, which is a limited liability company established in the PRC and is an associated company of the Company.

Jingcheng Compressor will cease to be a subsidiary of the Company and Fusheng Machine will cease to be an associated company of the Company after the completion of the Disposal.

Pursuant to the Listing Rules, the Independent Board Committee comprising all the independent non-executive Directors has been established by the Company to advise the Independent Shareholders on the terms of the Preliminary Asset Transaction Agreement and the transaction contemplated thereunder. Everbright Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders regarding the Preliminary Asset Transaction Agreement and the transaction contemplated thereunder.

This circular will provide you, inter alia, (i) further information on the Disposal and the Preliminary Asset Transaction Agreement; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders with respect to the Preliminary Asset



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## LETTER FROM THE BOARD

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Transaction Agreement; (iii) the advice from Everbright Capital to the Independent Board Committee and the Independent Shareholders with respect to the Preliminary Asset Transaction Agreement; (iv) the Valuation Report; and (v) the Supplemental Notice of AGM.

### **THE PUBLIC TENDER**

#### **Description and qualifications of the potential bidders**

The potential bidders shall satisfy, among others, the following descriptions and qualifications:

1. a potential bidder must be a validly existing enterprise or a natural person; and
2. the potential bidder must have sound financial capability for payment.

#### **Date of the Public Tender**

The Company intends to submit the Tender Notice to CBEX at approximately the beginning of July after the Shareholders has passed the relevant resolutions at the AGM.

The Publication Period will be opened for 20 working days from the date of the Tender Notice. During the Publication Period, qualified bidders may indicate their interest in purchasing the 100% interest in Jingcheng Compressor and register themselves as interested bidders. Upon the expiry of the Publication Period, CBEX will notify the Company the identity of the successful bidder.

Within 5 working days of the notification of the successful bidder by CBEX, the Company must enter into the Asset Transaction Agreement with the successful bidder. As at the Latest Practicable Date, apart from the Preliminary Asset Transaction Agreement, no asset transfer agreement has been entered into between the Company and any other party in relation to the Disposal.

#### **Consideration**

The Minimum Consideration i.e. the initial bidding price for the 100% interest in Jingcheng Compressor is RMB 250,202,800. The Minimum Consideration is based on the results of the Valuation Report (大正海地人評報字(2014)第75A號《資產評估報告書》(Da Zheng Hai Di Ren Ping Bao Zi (2014) No. 75A)) issued by an independent valuer, Golden Standard & Headman Appraisal and Advisory in respect of the 100% interests in Jingcheng Compressor with 31 December 2013 being the base date for valuation and using the asset-based approach, the valuation result of which has to be reviewed and filed by Beijing SASAC. Shareholders should note that the Consideration will depend on the final bid price, but will in any event be no less than the Minimum Consideration.

According to the rules of CBEX, in principle, the Consideration should be paid in one instalment. However, if the parties agree to pay by instalments, 50% of the Consideration will be payable by the successful bidder within 10 days after the signing of the Asset Transaction Agreement and the balance of the Consideration must be guaranteed.

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## LETTER FROM THE BOARD

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### THE PRELIMINARY ASSET TRANSACTION AGREEMENT

**Date:**

16 May 2014

**Parties:**

Vendor: the Company

Purchaser: Jingcheng Holding

**Subject matter:**

Subject to the conditions precedent, the Company has conditionally agreed to sell and Jingcheng Holding has conditionally agreed to purchase 100% interests in Jingcheng Compressor for the Consideration.

**Conditions Precedent:**

The Preliminary Asset Transaction Agreement will take effect upon, on fulfilment of the following conditions precedent:

1. Jingcheng Holding successfully qualifying as transferee in the Public Tender;
2. the Beijing SASAC having approved and filed the valuation results of the Valuation Report;
3. the Disposal having approved by the Board and passed at the AGM;
4. the Disposal having approved by the board of directors of Jingcheng Holding; and
5. the Company having satisfied all of its required disclosure requirements, Independent Shareholders' approval and approval procedures under all applicable laws and the Listing Rules in respect of the Disposal.

As at the Latest Practicable Date, the above conditions 2 and 4 have been fulfilled. In the event that any of the above conditions precedent has not been fulfilled, the Preliminary Asset Transaction Agreement will be of no further effect and the parties to the Preliminary Asset Transaction Agreement will not have to fulfil the obligations and responsibilities thereunder.

Upon the Preliminary Asset Transaction Agreement taking effect, the Company will enter into a formal agreement, namely the Asset Transaction Agreement with Jingcheng Holding.

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## LETTER FROM THE BOARD

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### Consideration:

The Consideration payable by Jingcheng Holding to the Company will be determined from the Public Tender but will not be lower than the Minimum Consideration. The Consideration will be paid by Jingcheng Holding to the Company in the following manner:

1. the Deposit, which will form part of the Consideration, will be payable by Jingcheng Holding to an account designated by CBEX within 3 working days after CBEX has confirmed that Jingcheng Holding as a qualified bidder;
2. 50% of the Consideration (which includes the Deposit) will be payable by Jingcheng Holding to the Company by bank transfer to the account designated by CBEX within 10 days after the Preliminary Asset Transaction Agreement becomes effective;
3. the balance of the Consideration (the “**Balance**”) will be payable by Jingcheng Holding to the Company by bank transfer on or before 25 December 2014.

Jingcheng Holding will provide a legal guarantee to the Company for the Balance by instructing an independent third party, China Merchants Bank (the “**Guarantor**”) as a guarantor to issue a guarantee letter to the Company. The guaranteed repayment amount will be equal to the Balance and the guarantee letter will be valid until 31 December 2014 and it will become invalid after 31 December 2014. In the event that Jingcheng Holding fails to pay the Balance to the Company on or before 25 December 2014, the Company will serve a notice to the Guarantor on or before 31 December 2014 for recovering the Balance. In accordance with the terms of the guarantee letter, the Guarantor will reimburse such guaranteed repayment amount to the Company within seven working days upon receiving such notice.

Having considered that (i) the provision of guarantee by Jingcheng Holding is for the purpose of complying the rules of CBEX; (ii) CBEX will monitor the payment of the Consideration by the successful bidder to the Company; and (iii) since China Merchants Bank has a very good reputation in the PRC and it is a company listed on the Stock Exchange and Shanghai Stock Exchange, the possibility of the Guarantor to breach the guarantee is low. Thus, the Board is of the view that the above payment arrangement is not prejudicial to the interests of the Company.

### FINANCIAL INFORMATION OF JINGCHENG COMPRESSOR

In accordance with the generally accepted accounting principles in the PRC, the profits before and after taxation of Jingcheng Compressor for the financial years ended 31 December 2012 and 2013 were as follows:

|                         | <b>For the year ended<br/>31 December 2013</b> | <b>For the year ended<br/>31 December 2012</b> |
|-------------------------|--|--|
|                         | <i>RMB</i>                                     | <i>RMB</i>                                     |
| Profits before taxation | -18,041,466.24                                 | -2,581,997.86                                  |
| Profits after taxation  | -17,621,279.53                                 | -2,902,586.52                                  |

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## LETTER FROM THE BOARD

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The original acquisition cost of Jingcheng Compressor was RMB224,932,500.

Jingcheng Compressor is valued at RMB250,202,800, according to the results of the Valuation Report.

The net asset value of Jingcheng Compressor as at 31 December 2013 was RMB160,472,711.92.

### **REASONS FOR AND BENEFITS FOR THE DISPOSAL**

The reasons for the Disposal is to reduce the operating costs of the Company, optimise the capital structure and resource allocation of the Company and further focus on the core business, improve the asset quality and enhance the profitability of the Company.

None of the Directors had material interest in respect of the Disposal and the Preliminary Asset Transaction Agreement. However, in view of good corporate governance practices, Mr. Jiang Zili and Ms. Wu Dongbo, being directors nominated by the Jingcheng Holding, had all abstained from voting in the relevant Board resolutions approving the Preliminary Asset Transaction Agreement.

### **FINANCIAL EFFECT OF THE DISPOSAL AND INTENDED USE OF PROCEEDS**

#### **Earnings**

It is estimated that, upon Completion, the Group will record a gain from the Disposal of approximately RMB70,000,000 to RMB90,000,000 (subject to the finalisation which will be disclosed in a further announcement after the completion of the Public Tender). Such gain is estimated based on the Minimum Consideration receivable from the Disposal, i.e. RMB250,202,800 less the net assets value of Jingcheng Compressor as at 31 December 2013 of approximately RMB160,472,711.92 and the profits and losses for the transition period and related transaction fees. The Shareholders are reminded that (i) the actual gain will be confirmed in the financial statements of the Company upon the Disposal and the actual amount may differ from the amount stated above which is subject to the gain or loss as reviewed by the auditors at the completion date of the Disposal and (ii) in the event of change in the PRC accounting policy, the Company will comply accordingly.

#### **Assets and liabilities**

Upon the completion of Disposal, Jingcheng Compressor will no longer be the subsidiary of the Company and its financial results will not be consolidated into the consolidated financial statements of the Group. As such, using the unaudited financial position of Jingcheng Compressor from the base date of the valuation to the completion date of the Disposal and the changes of Jingcheng Compressor prior to the completion of the Disposal to estimate the impact on the balance sheet of the Group, the total assets and total liabilities of the Group will decrease. The final figures will be based on the audited figures after the Public Tender.

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## LETTER FROM THE BOARD

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The Board intends to use the net proceeds arising from the Disposal as general working capital of the Group.

### IMPLICATIONS UNDER THE LISTING RULES

The Minimum Consideration i.e. the initial bidding price for the 100% interest in Jingcheng Compressor is RMB250,202,800. The Minimum Consideration is based on the result of the Valuation Report. Shareholders should note that the Consideration will depend on the final bid price, but will in any event be no less than the Minimum Consideration.

Using the Minimum Consideration as the basis of calculation, one of the relevant percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Disposal are more than 25% and less than 75%. Thus, the Disposal constitutes a major transaction of the Company and is therefore subject to reporting, announcement, and shareholders' approval requirements at general meeting under Chapter 14 of the Listing Rules.

In addition, Jingcheng Holding is a controlling shareholder of the Company holding approximately 47.78% interest in the Company and therefore, is a connected person of the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Disposal are more than 5%, should Jingcheng Holding successfully be qualified as transferee of the Disposal, the Disposal will also constitute a connected transaction of the Company which is subject to the reporting, annual review, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, Jingcheng Holding is interested in 201,620,000 A Shares, representing approximately 47.78% of the total issued Shares. Accordingly, Jingcheng Holding and its associates will abstain from voting on the relevant resolution(s) at the AGM to be convened for the purpose of, inter alia, approving the Disposal and the Preliminary Asset Transaction Agreement.

In the event that Jingcheng Holding is successfully qualified as transferee of the Disposal, the Company must seek the approval of the Independent Shareholders, which is required under Chapter 14A of the Listing Rules. Therefore, the Company intends to seek the Independent Shareholders' approval in advance of the Preliminary Asset Transaction Agreement together with the Disposal.

An announcement containing the results of the Public Tender will be made by the Company as soon as practicable after the Public Tender is completed.

### GENERAL

The Company is principally engaged in research and development, manufacture and sale of compressed gas cylinders, gas compressors and related equipment.

Jingcheng Holding is principally engaged in: the operation and management of State-owned assets within the scope of authorisation; investment and investment management; real estate development and sales of commercial premises; leasing of premises;

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## LETTER FROM THE BOARD

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property management; technology transfer, technical training, technical consultancy and technical services; sales of mechanical and electrical equipment (except for automobiles); technology development.

Jingcheng Compressor is principally engaged in: production of compressors (piston compressor, membrane compressor and membrane compressor of nuclear grading); general logistics (road transport license valid until 7 May 2016); design and sales of compressors (piston compressor, membrane compressor and membrane compressor of nuclear grading) and accessories; sales of machinery equipment and electrical equipment; maintenance of equipment; technical consultancy and technical services; import and export of commodities and technology and acting as import and export agency; professional contracting.

General scope of operation of Jingcheng Compressor: design and sales of compressors (piston compressor, membrane compressor and membrane compressor of nuclear grading) and accessories; sales of machinery equipment and electrical equipment; maintenance of equipment; technical consultancy and technical services; import and export of commodities and technology and acting as import and export agency; professional contracting.

Fusheng Machine is principally engaged in: production of compressors, refrigerating machines and the related kits and accessories; drilling machines; diesel-driven power systems; sandblasting machines; and spraying machines.

General operation of Fusheng Machine: the repair and after-sales services of its products; the sale and lease of its products; the production of the abovementioned products and the related kits; the wholesale of specialist oil products; commission agency (excluding auction); import and export (excluding State-managed goods); and the application procedures of products involved in quota license management in accordance with relevant regulations of PRC.

### **(2) ELECTION OF DIRECTORS AND SUPERVISORS**

The term of office of all Directors and all Supervisors of the current term will expire on the date of the AGM.

As disclosed in the Supplemental Notice of AGM and the announcement of resolutions passed at the eighth extraordinary meeting of the seventh Board both dated 16 May 2014, the Board has considered and approved the nomination of: (i) Mr. Hu Chuanzhong, Mr. Li Junjie, Mr. Wu Yanzhang and Ms. Jiang Chi as the executive Director candidates of the eighth Board by the nomination committee of the Board; (ii) Mr. Zhou Yongjun, Ms. Chang Yun and Mr. Xia Zhonghua as the non-executive Director candidates of the eighth Board by the controlling shareholder, Jingcheng Holding; (iii) Ms. Wu Yan, Mr. Liu Ning, Mr. Yang Xiaohui and Mr. Fan Yong as the independent non-executive Director candidates of the eighth Board by the nomination committee of the Board.

Further, as disclosed in the Supplemental Notice of AGM and the announcement of resolutions passed at the nineteenth meeting of the seventh Supervisory Committee dated 16 May 2014, the Supervisory Committee has considered and approved the recommendations of Ms. Liu Zhe and Mr. Han Bingkui as Supervisors candidates of the eighth Supervisory

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## LETTER FROM THE BOARD

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Committee, by the controlling shareholder, Jingcheng Holding. There will be another candidate proposed for democratic election as the Supervisor representing the staff and workers at a separate meeting held by the staff and workers of the Company.

The term of office of the newly elected Directors and Supervisors will be for a period of 3 years which is proposed to commence on the date of approval at the AGM and end at the conclusion date of the annual general meeting to be held in 2016.

The annual remuneration of the executive Directors who serve as senior management of the Company comprises three parts: i.e. annual basic salaries, regular annual performance salaries and special contribution income. Each of the proposed executive Directors will be entitled to a basic salary with a range of RMB200,000 to RMB550,000. The regular annual performance remuneration ranges from RMB120,000 to RMB850,000, depending on the result of the performance appraisal of each executive Director. The income for special contribution may be granted to executive Directors in the event that they have made significantly outstanding contributions to the implementation of the strategies of the Company or received special recognition for significant managerial innovation and technological innovation. The income for special contribution, which shall not exceed RMB100,000, will be reviewed by the remuneration and monitoring committee of the Board and will be presented to the Board for review and approval.

Each of the proposed non-executive Directors will be entitled to an annual fee not exceeding RMB40,000.

Each of the proposed independent non-executive Directors will be entitled to an annual fee not exceeding RMB60,000.

Each of the Supervisors will be entitled to an annual fee of not exceeding RMB40,000.

The Company will enter into service contracts with all new Directors of the eighth Board and all new Supervisors.

According to the Articles of Association, the appointment of Directors and Supervisors is subject to the approval of the Shareholders. At the AGM, ordinary resolutions will be proposed to approve the election of Mr. Hu Chuanzhong, Mr. Li Junjie, Mr. Wu Yanzhang and Ms. Jiang Chi as executive Directors; Mr. Zhou Yongjun, Ms. Chang Yun and Mr. Xia Zhonghua as non-executive Directors; Ms. Wu Yan, Mr. Liu Ning, Mr. Yang Xiaohui and Mr. Fan Yong as the independent non-executive Directors; and Ms. Liu Zhe and Mr. Han Bingkui as the Supervisors, and their respective remuneration packages.

The biographical details of the candidates proposed to be elected as Directors and Supervisors at the AGM are set out in Appendix III to this circular.

### RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee dated 11 June 2014 set out on pages 15 to 16 of this circular which contains the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the

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## LETTER FROM THE BOARD

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Preliminary Asset Transaction Agreement; and (ii) the letter from Everbright Capital dated 11 June 2014 as set out on pages 17 to 27 of this circular which contains the recommendation from Everbright Capital to the Independent Board Committee and the Independent Shareholders in relation to the Preliminary Asset Transaction Agreement and the principal factors and reasons considered by Everbright Capital in arriving at its recommendation.

The Directors (including members of the Independent Board Committee after taking into account the factors and reasons considered by, and the opinion of Everbright Capital as stated in its letter), consider that the Disposal and the Preliminary Asset Transaction Agreement are fair and reasonable and on normal commercial terms and is in the interests of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the AGM to approve the Preliminary Asset Transaction Agreement and the Disposal.

The Directors further consider that the other proposed resolutions as set out in the Supplemental Notice of the AGM are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the AGM.

### THE AGM

A supplemental notice convening the AGM to be held on 26 June 2014 (Thursday) at 9:00 a.m. are set out on pages 87 to 88 of this circular and have been despatched on 16 May 2014. Whether or not you are able to attend the AGM, you are requested to complete and return the revised form of proxy which has been despatched on 16 May 2014 in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the AGM or any adjournment thereof. The revised form of proxy should be returned to the registered address of the Company at No. 9 North Tianying Road, Chaoyang District, Beijing, PRC not less than 24 hours before the time appointed for the commencement of the AGM or any adjournment thereof. Completion and return of the said revised form of proxy will not prevent you from attending and voting in person at the AGM or at any adjournment thereof if you so wish.

Reply slip for the AGM has been despatched on 12 May 2014. You have been reminded to complete and sign the reply slip and return the signed slip to the Company at Directors' office, No. 9 North Tianying Road, Chaoyang District, Beijing, PRC on or before 5 June 2014 in accordance with the instructions printed thereon.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendices I, II, III and IV to this circular.

Yours faithfully,  
By order of the Board  
**BEIJING JINGCHENG MACHINERY ELECTRIC COMPANY LIMITED**  
**Jiao Rui Fang**  
*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)**

11 June 2014

*To the Independent Shareholders*

Dear Sir or Madam,

**POSSIBLE MAJOR AND CONNECTED TRANSACTION  
DISPOSAL OF JINGCHENG COMPRESSOR**

We refer to the circular of the Company to the Shareholders dated 11 June 2014 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, terms used in this letter will have the same meanings as given to them in the section headed “Definitions” of the Circular.

We have been established by the Board as the Independent Board Committee to advise the Independent Shareholders on whether the terms of Preliminary Asset Transaction Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Everbright Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from Everbright Capital as set out on pages 17 to 27 of the Circular and the letter from the Board as set out on pages 5 to 14 of the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the terms of the Preliminary Asset Transaction Agreement and taken into account the advice of Everbright Capital as stated in its letter, we consider that the Preliminary Asset Transaction Agreement and Disposal are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the AGM to approve the Preliminary Asset Transaction Agreement and Disposal.

Yours faithfully,

**The Independent Board Committee**

**Zhang Shuangru**

*Independent non-executive Director*

**Wang Hui**

*Independent non-executive Director*

**Xie Bingguang**

*Independent non-executive Director*

**Wang Deyu**

*Independent non-executive Director*

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## LETTER FROM EVERBRIGHT CAPITAL

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*The following is the text of the “Letter from the Everbright Capital” to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.*



11 June 2014

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### **POSSIBLE MAJOR AND CONNECTED TRANSACTION DISPOSAL OF JINGCHENG COMPRESSOR**

#### **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 possible major and connected transaction for the disposal of Jingcheng Compressor (the “**Possible Disposal**”) and terms thereof, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular to the Shareholders dated 11 June 2014 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

As set out in the announcement of the Company dated 16 May 2014 and the Letter from the Board, the Company proposed to dispose its 100% interests in Jingcheng Compressor, a wholly-owned subsidiary of the Company, through the process of public tender on CBEX. The Company intends to submit the Tender Notice to CBEX at approximately the beginning of July 2014 after the Shareholders have passed the relevant resolutions at the AGM.

As Jingcheng Holding intends to participate in the Public Tender, the Company and Jingcheng Holding entered into a conditional Preliminary Asset Transaction Agreement on 16 May 2014, pursuant to which, should Jingcheng Holding be successfully qualified as transferee of the Possible Disposal, the Company has conditionally agreed to sell and Jingcheng Holding has conditionally agreed to purchase 100% interests in Jingcheng Compressor at a minimum consideration of RMB250,202,800 (the “**Minimum Consideration**”). An Asset Transaction Agreement will be entered into between two parties after CBEX has confirmed Jingcheng Holding as transferee of the Possible Disposal.

As at the Latest Practicable Date, Jingcheng Holding is a controlling shareholder of the Company holding approximately 47.78% interest in the Company and therefore, is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Possible Disposal contemplated under the Preliminary Asset Transaction Agreement constitutes a connected transaction (the “**Connected Transaction**”) of the Company under the Listing Rules.

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## LETTER FROM EVERBRIGHT CAPITAL

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As the relevant percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Possible Disposal are more than 5%, should Jingcheng Holding successfully be qualified as transferee of the Possible Disposal, the Possible Disposal are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, Jingcheng Holding is interested in 201,620,000 A Shares, representing approximately 47.78% of the total issued Shares. Accordingly, Jingcheng Holding and its associates will abstain from voting on the relevant resolution(s) at the AGM to be convened for the purpose of, inter alia, approving the Disposal and the Preliminary Asset Transaction Agreement.

In the event that Jingcheng Holding is successfully qualified as transferee of the Possible Disposal, the Company must seek the approval of the Independent Shareholders, which is required under Chapter 14A of the Listing Rules. Therefore, the Company intends to seek the Independent Shareholders' approval of the Preliminary Asset Transaction Agreement together with the Possible Disposal in advance.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Zhang Shuangru, Ms. Wang Hui, Mr. Xie Bingguang and Mr. Wang Deyu, has been established to advise the Independent Shareholders on the terms of the Preliminary Asset Transaction Agreement and the transaction contemplated thereunder. We, China Everbright Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Apart from normal professional fees for our services to the Company in connection with the engagement described above, no arrangement exists whereby we will receive any fees and benefits from the Group, Jingcheng Holding and Jingcheng Compressor or any of their respective associates. We are independent from and not connected with the Group, Jingcheng Holding and Jingcheng Compressor or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates pursuant to Rule 13.84 of the Listing Rules, and are accordingly qualified to give independent advice to the Independent Director and the Independent Shareholders regarding the Connected Transaction.

### **BASIS OF OUR OPINION**

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management ("**Management**") of the Company and have assumed that such information, facts and opinions are true and accurate. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. However, we have not conducted any independent investigation into the business, operations or financial condition of the Group. We have assumed that all statements and representations made or referred to in the Circular were accurate at the time when they were made and are true at the date of the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation.

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## LETTER FROM EVERBRIGHT CAPITAL

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### PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT

In formulating our recommendations, we have taken into consideration the principal factors and reasons as set out below. In reaching our conclusion, we have considered the results of the analysis in light of each other and ultimately reached our opinion based on the results of all analysis taken as a whole.

#### (A) Background of and reasons for the Connected Transactions

According to the Company's announcement dated 16 May 2014, the board of directors (the "**Board**") announced that the Company proposed to dispose its 100% interests in Jingcheng Compressor, a wholly owned subsidiary of the Company. The Company is a State-controlled listed Company and the disposal of its State-controlled assets is required to go through the process of public tender (the "**Public Tender**") through an approved equity exchange in accordance with the relevant PRC laws and regulations concerning the disposal of State-controlled assets. The Possible Disposal will be carried through CBEX, an institution authorised by the State-owned Assets Supervision and Administration Commission to transact assets and equity of State-owned enterprises under the central government of PRC. According to the rules and regulations of CBEX, the successful bidder of the Public Tender is required to enter into an Asset Transaction Agreement with the Company.

As Jingcheng Holding intends to participate in the Public Tender, the Company and Jingcheng Holding entered into the Preliminary Asset Transaction Agreement on 16 May 2014. Subject to the fulfilment of conditions precedent which includes, inter alia, that Jingcheng Holding is successfully qualified as transferee of the Disposal, the Company has conditionally agreed to sell and Jingcheng Holding has conditionally agreed to purchase 100% interest in Jingcheng Compressor. If Jingcheng Holding is successfully qualified as transferee of the Possible Disposal, it will enter into the Asset Transaction Agreement with the Company.

Jingcheng Compressor is a limited liability company established in the PRC and is a wholly-owned subsidiary of the Company. Jingcheng Compressor holds 30% interests in Fusheng Machine, which is a limited liability company established in the PRC and is an associated company of the Company. Upon Completion, Jingcheng Compressor will cease to be a subsidiary of the Company and Fusheng Machine will cease to be an associated company of the Company.

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## LETTER FROM EVERBRIGHT CAPITAL

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### *Principal activities and business of the Company*

The Company is principally engaged in research and development, manufacture and sale of compressed gas cylinders, gas compressors and related equipment. The tables below sets out the financial highlights of the Group extracted from 2012 and 2013 Annual Report for the years ended 31 December 2012 and 2013:

| <b>Expressed in RMB'000</b>                          | <b>For the year ended 31 December</b> |                     |                         |                     |
|--|---------------------------------------|---------------------|-------------------------|---------------------|
|  | <b>2012</b>                           | <b>%</b>            | <b>2013</b>             | <b>%</b>            |
|  | <b>(Audited)</b>                      |                     | <b>(Audited)</b>        |                     |
| <b>Segment turnover</b>                              |                                       |                     |                         |                     |
| Printing Machinery                                   | 748,254                               | 24.6                | 608,198                 | 21.5                |
| Low temperature storage and transportation equipment | 2,192,105                             | 72.0                | 2,112,093               | 74.7                |
| Compressor   | <u>104,916</u>                        | <u>3.4</u>          | <u>107,903</u>          | <u>3.8</u>          |
| <b>Total</b>   | <b><u>3,045,275</u></b>               | <b><u>100.0</u></b> | <b><u>2,828,194</u></b> | <b><u>100.0</u></b> |

As shown in the table above, the Group generated over 70% of its revenue from low temperature storage and transportation equipment whereas revenue generated from Compressor amounted to approximately RMB104.9 million in 2012 and approximately RMB107.9 million in 2013, representing only 3.4% and 3.8% of the Group's total revenue, respectively. The Group's overall turnover decreased by 7.1% from approximately RMB3,045.3 million in 2012 to approximately RMB2,828.2 million in 2013.

According to the 2013 Annual Report, the decline in revenue was mainly due to (i) smaller price difference between oil and natural gas, which affected the sales revenue of natural gas cylinder products; (ii) the fluctuation of downstream industries which affected the demand for traditional industrial gas cylinder products; and (iii) the decrease in demand for compressors as a result of increased competition.

| <b>Expressed in RMB'000</b>                          | <b>For the year ended</b> |                         |
|--|---------------------------|-------------------------|
|  | <b>2012</b>               | <b>2013</b>             |
|  | <b>(Audited)</b>          | <b>(Audited)</b>        |
| <b>Segment profit/(loss)</b>                         |                           |                         |
| Printing Machinery                                   | (169,435)                 | (63,378)                |
| Low temperature storage and transportation equipment | 62,595                    | (23,439)                |
| Compressor   | (2,582)                   | (18,041)                |
| Others   | 13,145                    | (146)                   |
| Write-off  | <u>(13,250)</u>           | <u>—</u>                |
| <b>Total</b>   | <b><u>(109,527)</u></b>   | <b><u>(105,004)</u></b> |

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## LETTER FROM EVERBRIGHT CAPITAL

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As reflected in the table above, the Company has recorded loss before tax of approximately RMB 109.5 million in 2012, which was contributed by the profit generated from low temperature storage and transportation equipment, net off by the loss from both printing machinery and compressors. In 2013, the Group's loss before tax reduced slightly by 4.1% to approximately RMB105.0 million, which was contributed by (i) the deterioration of performance in the segment of low temperature storage and transportation equipment from profit of approximately RMB62.6 million in 2012 to loss of approximately RMB23.4 million in 2013; (ii) the aggravation of loss in the segment of compressor from approximately RMB2.6 million in 2012 to approximately RMB18.0 million in 2013; and net off by (iii) the significant reduction of loss in the segment of printing machinery from approximately RMB169.4 million in 2012 to approximately RMB63.4 million in 2013.

### *Principal activities and business of Jingcheng Compressor*

Jingcheng Compressor is principally engaged in (i) production of compressors (piston compressor, membrane compressor and membrane compressor of nuclear grading; (ii) general logistics (road transport license valid until 7 May 2016); (iii) design and sales of compressors and accessories; (iv) sales of machinery equipment and electrical equipment; (v) maintenance of equipment; (vi) technical consultancy and technical services; (vii) import and export of commodities and technology and acting as import and export agency; (viii) professional contracting.

In accordance with the generally accepted accounting principles in the PRC, the loss before and after taxation of Jingcheng Compressor for the financial years ended 31 December 2012 and 2013 were as follows:

| Expressed in RMB'000 | For the year ended |        |
|----------------------|--------------------|--------|
|                      | 2012               | 2013   |
| Loss before taxation | 2,582              | 18,041 |
| Loss after taxation  | 2,903              | 17,621 |

Both loss before taxation and loss after taxation aggravated from approximately RMB2.6 million and approximately RMB2.9 million in 2012 to approximately RMB18.0 million and approximately RMB17.6 million in 2013. As advised by the Management, Jingcheng Compressor experienced a decrease in demand as a result of increased competition and weak economic growth in 2013. The newly launched series of compressor products in 2013 were of lower production capacity and higher costs, thereby adversely affecting the overall gross profit margin of the Jingcheng Compressor. Having considered (i) the decrease in demand; (ii) the high production costs; (iii) the declining margins; and (iv) increased competition, the Management expects that the loss making condition of Jingcheng Compressor would persist for a period of time.

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## LETTER FROM EVERBRIGHT CAPITAL

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### *Reasons for the Possible Disposal*

As set out in the Letter from the Board, the Directors are of the opinion that the Possible Disposal is (i) to reduce the operating costs of the Company; (ii) to optimize the capital structure and resource allocation of the Company and further focus on the core business; (iii) to improve asset quality and (iv) enhance the profitability of the Company.

Based on the below reasons and factors, we consider that the Possible Disposal represents a good opportunity for the Company to focus on its core business and to improve the profitability and are, therefore, in the interests of the Shareholder and the Company as a whole:

1. Jingcheng Compressor is not the core businesses of the Company, its revenue and profits only represented a small portion of the Group's total revenue and total profits during the two years ended 31 December 2012 and 2013;
2. Jingcheng Compressor had been loss making during the two years ended 31 December 2012 and 2013 and the loss of Jingcheng Compressor also aggravated in 2013;
3. The Possible Disposal would be conducted through the process of Public Tender through CBEX; and
4. The net proceeds from the Possible Disposal would enable the Company to realise its investment on Jingcheng Compressor and to develop and strengthen its core businesses and products.

### **(B) The Major Terms of the Preliminary Asset Transaction Agreement**

Pursuant to the Preliminary Asset Transaction Agreement, subject to the conditions precedent, the Company has conditionally agreed to sell and Jingcheng Holding has conditionally agreed to purchase 100% interests in Jingcheng Compressor at the consideration ("**Consideration**") to be determined from the Public Tender but will not be lower than the Minimum Consideration.

According to the rules and regulations of CBEX, the successful bidder of the Public Tender is required to enter into an Asset Transaction Agreement with the Company. As Jingcheng Holding intends to participate in the Public Tender, the Company and Jingcheng Holding entered into the Preliminary Asset Transaction Agreement on 15 May 2014. If Jingcheng Holding is successfully qualified as transferee of the Possible Disposal, it will enter into the Asset Transaction Agreement with the Company.

The Preliminary Asset Transaction Agreement will only take effect upon fulfillment of the following conditions precedent:

1. Jingcheng Holding successfully qualifying as transferee in the Public Tender;



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## LETTER FROM EVERBRIGHT CAPITAL

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2. The Beijing SASAC having approved and filed the valuation results of the Valuation Report;
3. The Possible Disposal having approved by the Board and passed at the AGM;
4. The Possible Disposal having approved by the board of directors of Jingcheng Holding; and
5. The Company having satisfied all of its required disclosure requirements, Independent Shareholders' approval and approval procedures under all applicable laws and the Listing Rules in respect of the Possible Disposal.

Upon the Preliminary Asset Transaction taking effect, the Company will enter into a formal agreement, namely the Asset Transaction Agreement with Jingcheng Holding.

We are of the view that the above condition precedents are in place to ensure the relevant PRC laws and regulations and the requirements of CBEX are observed and fulfilled and are, therefore, in the interests of the Company.

### *Consideration*

According to the Preliminary Asset Transaction Agreement, the Consideration will be determined from the Public Tender but will not be lower than the Minimum Consideration. As set out in the Letter from the Board, the Minimum Consideration is approximately RMB250.2 million, which is determined after consideration of the results of the Valuation Report prepared based on the asset-based approach and issued by an independent valuer, Golden Standard & Headman Appraisal and Advisory Limited (the "**Valuer**") in respect of the 100% interests in Jingcheng Compressor as at 31 December 2013 (the "**Valuation Date**"), being the base date for valuation. This Valuation Report was submitted to and reviewed by Beijing SASAC.

In assessing the fairness and reasonableness of the Minimum Consideration, we have reviewed the Valuation Report. We noted that the Minimum Consideration was the appraisal value of Jingcheng Compressor as at the Valuation Date stated on the Valuation Report.

We have reviewed the Valuation Report and understand that asset-based approach was adopted by the Valuer in the assessment of the enterprise value of Jingcheng Compressor. We have discussed with the Valuer and understand that there are three valuation approaches that are commonly used for arriving at the enterprise value, namely (i) market approach; (ii) income approach; and (iii) asset-based approach. We understand from the Valuer that market approach is not adopted in the valuation of Jingcheng Compressor because it is not a listed company and the business structure, scale of operation, operating and financial risks are significantly different from the listed companies in the same industry, thereby defying them to select appropriate comparable companies. Income approach was not adopted either because of the uncertainties in the future income of Jingcheng Compressor.

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## LETTER FROM EVERBRIGHT CAPITAL

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By adopting the asset-based approach, the appraisal value of Jingcheng Compressor is determined based on the aggregate appraisal value of all on-and-off balance sheet assets and liabilities on the Valuation Date. The appraisal procedures for each type of assets and liabilities are clearly set out in the Valuation Report, which is set out in Appendix II to this Circular.

We have further obtained from the Management the copy of approval notice dated 7 May 2014 issued by Beijing SASAC (the “**Notice**”), approving the valuation of Jingcheng Compressor. We noted consistency of the valuation results summary included in the Notice and the Valuation Report. It is stated in the Notice that (i) the Valuation Report was conducted by the Valuer, which has been qualified by relevant government departments in the PRC; (ii) the signing valuers are registered qualified valuers; (iii) the format of the Valuation Report satisfied the relevant requirements; and (iv) the conclusions of the Valuation Report is valid until 30 December 2014.

Furthermore, in respect of the valuation conducted by the Valuer, we have performed the steps as required under Note 1(d) to Rule 13.80 of the Listing Rules in relation to expert opinions, including (i) reviewing the terms of engagement of the Valuer, noting that the scope of work was appropriate and was not limited by the Company nor its connected persons; (ii) obtaining from the Valuer the names, qualifications and experience of staff members who are involved in this engagement, and noting that the team of the Valuer consists of members who are registered members of China Appraisal Society (中國資產評估師協會) and with prior experience in similar valuation projects in the PRC; (iii) obtaining confirmation from the Valuer that, saved for the normal business relationships with respect to the Group’s business and property valuation projects, they are independent of the Company and their respective connected persons; and (iv) obtaining confirmation from the Valuer that, save for the documents and representations stipulated in the Valuation Report, which were provided by the Company, neither the Company nor its connected persons has made any other formal or informal representations to the Valuer. According to our interview with the Valuer, the financial information provided by the Company for this engagement has been audited and they further confirmed that nothing has come to their attention during the engagement which caused them to doubt the accuracy and appropriateness of the information on which they relied.

Having considered the above and that (i) the asset-based approach as adopted by the Valuer in the Valuation Report is a commonly adopted approach for valuation of the enterprise value in the PRC; (ii) the Minimum Consideration is equivalent to the appraisal value stated on the Valuation Report compiled by the Valuer, an independent valuer; (iii) the Valuation Report has been reviewed by Beijing SASAC; and (iv) the Consideration to be determined from the Public Tender will not be lower than the Minimum Consideration, we are of the view that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM EVERBRIGHT CAPITAL

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### *Payment terms*

The Consideration will be paid by Jingcheng Holding to the Company by three instalments: (i) the deposit in the sum of RMB75 million to be payable by Jingcheng Holding to an account designated by CBEX within three working days after CBEX has confirmed that Jingcheng Holding as a qualified bidder; (ii) 50% of the Consideration (including the deposit mentioned in (i) above) to be payable within 10 days after the Preliminary Asset Transaction Agreement becomes effective; and (iii) the balance of the Consideration to be payable on or before 25 December 2014.

As required by CBEX, Jingcheng Holding will also provide a legal guarantee to the Company for the balance of the Consideration by instructing China Merchants Bank (the “**Guarantor**”), to issue a guarantee letter to the Company. The guaranteed repayment amount will be equal to the balance of the Consideration and the guarantee letter will be valid until 31 December 2014. In the event that Jingcheng Holding fails to pay the balance of the Consideration to the Company on or before 25 December 2014, the Company will serve a notice to the Guarantor on or before 31 December 2014 for recovering the balance of the Consideration. The Guarantor will reimburse such guaranteed repayment amount within seven working days upon receiving such notice. The guarantee will become invalid after 31 December 2014.

As set out in the Letter from the Board, according to the rules of CBEX, in principle, the Consideration should be paid in one instalment. However, if the parties agree to pay by instalments, 50% of the Consideration will be payable by the successful bidder within 10 days after the signing of the Asset Transaction Agreement and the balance of the Consideration must be guaranteed. CBEX will monitor the payment of the Consideration by the successful bidder to the Company.

Having considered the above and that (i) the payment terms set out in the Preliminary Asset Transaction Agreement is in line with the rules of CBEX stated above; (ii) the balance of the Consideration is fully guaranteed by the Guarantor; (iii) there are a period of time for the Company to recover the remaining balance of the Consideration from the Guarantor in case Jingcheng Holding defaults payment; (iv) the Guarantor is a reputable bank in the PRC and a listed company on the Stock Exchange and the Shanghai Stock Exchange, we are of the view that the above payment terms are in the interests of the Company and the Shareholders as a whole.

### **(C) Financial Effects of the Possible Disposal**

#### *1. Earnings*

The Group recorded net loss after taxation of approximately RMB109.6 million. Assuming the final transaction price for the Possible Disposal is set at the Minimum Consideration of approximately RMB250.2 million, the Group will record a gain of RMB70 million to RMB90 million from the Possible Disposal. As stated in the Letter from the Board, such gain is estimated based on the Minimum Consideration receivable from the Possible Disposal less the net asset value of Jingcheng Compressor as at 31 December 2013 of approximately RMB160.5 million and the profits and losses for the

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## LETTER FROM EVERBRIGHT CAPITAL

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transition period and related transaction fees. In addition, Jingcheng Compressor is a loss-making subsidiary of the Company. The Management expects that the overall earning of the Group will be improved upon the Completion of the Possible Disposal.

### 2. *Net asset value*

The Group had consolidated audited net assets of approximately RMB1,163.6 million as at 31 December 2013. Upon completion of the Possible Disposal, the net assets of the Group is expected to decrease because Jingcheng Compressor would cease to be the subsidiary of the Company and its financial position and results would no longer be consolidated into the combined financial statements of the Group. However, taking into account of (i) small share of Jingcheng Compressor's net asset value to the Group's total net asset value; and (ii) the receipt of net proceeds from the Possible Disposal, we are of the view that the Possible Disposal will not have a significant financial impact on the Group's net asset value.

### 3. *Working Capital*

Pursuant to the Preliminary Asset Transaction Agreement, the Consideration will be satisfied by bank transfer and settled in full on or before 25 December 2014. As stated in the Letter from the Board in the Circular, the net proceeds from the Possible Disposal in the amount of approximately RMB250.2 million will be used as general working capital of the Group. Therefore, the working capital position of the Group is expected to improve upon Completion.

It should be noted that the aforesaid figures are subject to final audit, and the aforesaid analyses and calculations are for illustrative purposes only and does not purport to represent how the financial position of the Group will be upon completion.

Taking into account of the improvement in earnings and the working capital of the Group upon completion of the Possible Disposal, we consider that the Possible Disposal is in the interests of the Company and the Shareholders as a whole.

## **RECOMMENDATION**

Having taken into account the above principal factors and reasons and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- (i) Jingcheng Compressor is not the core businesses of the Company, its revenue and profits only represented a small portion of the Group's total revenue and total profits during the year ended 31 December 2012 and 2013;
- (ii) the Possible Disposal is to off-load a loss-making business;
- (iii) the positive impact of the Possible Disposal on the Group's financial aspect in terms of earnings and general working capital; and

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## LETTER FROM EVERBRIGHT CAPITAL

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- (iv) the Possible Disposal would enable the Company to reduce the operating costs of the Company, strengthen the core business and to improve the profitability of the Group,

we consider that the Possible Disposal contemplated under the Preliminary Asset Transaction Agreement are conducted in the ordinary and usual course of business of the Company, and the terms contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favor of the ordinary resolution(s) to be proposed at the AGM to approve the Preliminary Asset Transaction Agreement and the Possible Disposal.

Yours faithfully,  
For and on behalf of  
**China Everbright Capital Limited**  
**Alvin Kam**  
*Executive Director*

**1. INDEBTEDNESS**

As at 31 May 2014, the interest-bearing loans of the Group were RMB774,250,000, of which secured bank borrowings amounted to RMB30,000,000 and unsecured bank borrowings amounted to RMB744,250,000. There were no guarantees on the bank borrowings.

As at 31 May 2014, the note payables of the Group were RMB136,000,000 which were secured by bank deposits of RMB42,000,000. The Company's subsidiary, Beijing Tianhai Industry Co., Ltd. has provided a guarantee of RMB14,200,000 to its subsidiary Tianjin Tianhai High Pressure Containers Co., Ltd.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not, as at 31 May 2014, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

**2. WORKING CAPITAL**

After taking into account the banking facilities available and existing cash and bank balances of the Group, the Directors are of the opinion that the Group has sufficient working capital for at least the next 12 months from the date of this circular in the absence of unforeseeable circumstances.

**3. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, the date to which the latest published audited consolidated financial statements of the Company were made up.

**4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

Upon the completion of Disposal, the Company will be more concentrated in the operation of natural gas storage equipment and the research and development of its core business. The Company will focus on efficiency, transformation and risk control while at the same time striving to realise operating income and stabilise costs and expenses in order to foster the sustainable development of the Company.

*The following is the English translation of the valuation report received by Golden Standard & Headmen Appraisal and Advisory, prepared for the purpose of incorporation in this circular, an independent valuer, in connection with its valuation as at 31 December 2013 of the 100% interests in Jingcheng Compressor.*

## **Asset Valuation Report**

**In Respect of**

**Proposed Transfer of Equities in Beijing Jingcheng Compressor Co., Ltd  
Held by Beijing Jingcheng Machinery Electric Company Limited**

### **Summary**

DZHDRPB Zi (2014) No. 75A

#### **Important Notice**

**The contents of the summary are excerpts from the text of the Report. If you want to know more about the details of the valuation and reasonably understand the conclusion, please read the text of the Report carefully.**

Beijing Golden Standard & Headmen Appraisal and Advisory Co., Ltd. has accepted the commission of Beijing Jingcheng Machinery Electric Company Limited to appraise the shareholders' equity in Beijing Jingcheng Compressor Co., Ltd. with respect to the transfer of such equity based on independent, objective and equitable principles and in accordance with relevant national laws, regulations and standards of asset valuation.

The valuation target is the whole equity of shareholders of Beijing Jingcheng Compressor Co., Ltd. and the scope of valuation is all the assets and relevant liabilities of Beijing Jingcheng Compressor Co., Ltd; the type of value subject to valuation is the market value and the reference day of the valuation is 31 December 2013.

The valuers have performed necessary valuation processes on the assumptions of sustained use of assets and open market, and made the assessment and estimation with the asset-based valuation approach and income approach. After the comprehensive analysis, the conclusion of valuation with the asset-based valuation approach is adopted as the final conclusion of this Valuation Report (the "Report").

As of the reference day, the valuation result of Beijing Jingcheng Compressor Co., Ltd is RMB 250,202,800.00.

## Summary of Asset Valuation Result

Unit: RMB 0'000

| Item | Book Value  | Appraisal Value | Reduction/<br>Growth | Growth Rate %<br>D=C/A<br>×100% |        |
|------|---|-----------------|----------------------|---------------------------------|--------|
|      | A   | B               | C=B-A                |                                 |        |
| 1    | Current assets                                    | 16,791.53       | 17,232.57            | 441.04                          | 2.63   |
| 2    | Non-current assets                                | 12,689.52       | 20,764.68            | 8,075.17                        | 63.64  |
| 3    | Including: Available-for-sale<br>financial assets | –               | –                    | –                               |        |
| 4    | Long-term receivables                             | –               | –                    | –                               |        |
| 5    | Long-term equity<br>investments                   | 6,261.70        | 7,836.78             | 1,575.08                        | 25.15  |
| 6    | Investment properties                             | 951.97          | 951.97               | –                               | –      |
| 7    | Fixed assets                                      | 2,286.62        | 3,208.13             | 921.51                          | 40.30  |
| 8    | Construction in progress                          | 1,898.32        | 1,789.32             | -108.99                         | -5.74  |
| 9    | Construction materials                            | –               | –                    | –                               |        |
| 10   | Intangible assets                                 | 904.18          | 6,591.58             | 5,687.39                        | 629.01 |
| 11   | Research and<br>development expenses              | –               | –                    | –                               |        |
| 12   | Goodwill  | –               | –                    | –                               |        |
| 13   | Long-term deferred<br>expenses                    | 37.57           | 37.74                | 0.18                            | 0.48   |
| 14   | Deferred tax assets                               | 349.16          | 349.16               | –                               | –      |
| 15   | Other non-current assets                          | –               | –                    | –                               |        |
| 16   | Total assets                                      | 29,481.05       | 37,997.25            | 8,516.21                        | 28.89  |
| 17   | Current liabilities                               | 11,776.97       | 11,776.97            | –                               | –      |
| 18   | Non-current liabilities                           | 1,656.80        | 1,200.00             | -456.80                         | -27.57 |
| 19   | Total liabilities                                 | 13,433.77       | 12,976.97            | -456.80                         | -3.40  |
| 20   | Net assets (Owners' equity)                       | 16,047.28       | 25,020.28            | 8,973.01                        | 55.92  |

The valuers have made special instructions in the Report for defects found in the process of valuation to draw the attentions of the users of the Report.

The effective period for the valuation conclusion of the Report shall be one year from the reference day, i.e. 31 December 2013 to 30 December 2014.

The date of the Report is 11 April 2014.

The content above are all excerpted from the text of the Report. If you want to know more about the details of the valuation and reasonably understand the conclusion, please read the text of the Report carefully.



## Asset Valuation Report

In Respect of

Proposed Transfer of Equities in Beijing Jingcheng Compressor Co., Ltd  
Held by Beijing Jingcheng Machinery Electric Company Limited

### Valuation Report

DZHDRPB Zi (2014) No. 75A

To Beijing Jingcheng Machinery Electric Company Limited:

Beijing Golden Standard & Headmen Appraisal and Advisory Co., Ltd. has accepted your commission to appraise the market value of shareholders' equity in Beijing Jingcheng Compressor Co., Ltd. as at 31 December 2013 with respect to the transfer of equity based on asset valuation principles and in accordance with relevant national laws, regulations and standards of asset valuation. The valuation of assets is hereby reported as follows:

#### I. Client, Entity Appraised and Users of the Report

The client of the valuation is Beijing Jingcheng Machinery Electric Company Limited; the entity appraised is Beijing Jingcheng Compressor Co., Ltd; and the users of the Report are the supervision and administration departments of state-owned assets and the securities supervision departments.

##### (I) Overview of the Client

|                             |   |
|-----------------------------|---|
| Name:                       | Beijing Jingcheng Machinery Electric Company Limited (hereinafter referred to the "Client")   |
| Registered capital:         | RMB 422 million   |
| Legal representative:       | Jiang Zili  |
| Registered address:         | Room 901, No. 59 Mansion, Dongsanhuan Road Central, Chaoyang District, Beijing  |
| Type of enterprise:         | stock limited liability company (listed and state-controlled)   |
| Business scope:             | licensed operation: logistics; professional contractor.   |
| General scope of operation: | development, design, sales, installation, adjustment, maintenance of cryogenic containers for storage, compressors (piston compressor, membrane compressor and membrane compressor of nuclear grading) and accessories; machinery equipment and electrical equipment; technical consultancy and technical services; import and export of commodities and technology and acting as import and export agency. |

*(II) Overview of the entity appraised**1. Overview*

|                             |   |
|-----------------------------|---|
| Name:                       | Beijing Jingcheng Compressor Co., Ltd.<br>(hereinafter referred to as “Jingcheng Compressor”)   |
| Domicile:                   | No. 1008, Kangxi Road, Badaling Economic Development Zone, Yanqing County, Beijing  |
| Legal representative:       | Wang Pingsheng  |
| Registered capital:         | RMB 109,281,500.00  |
| Economic nature:            | other limited liability company   |
| Business scope:             | licensed operation: manufacture of compressors (piston compressors, membrane compressors, and nuclear grade membrane compressors), and logistics (permit of road transportation expired on 7 May 2016).   |
| General scope of operation: | design and sales of compressors (piston compressors, membrane compressors and nuclear grade membrane compressors) and spare parts; sales of mechanical equipment, electrical equipment; equipment repair and maintenance; technical consultancy and technical services; import and export of commodities and technology and acting as import and export agency; and professional contracting. |

## 2. Introduction

Beijing Jingcheng Compressor Co., Ltd. (formerly known as “Beijing Jingcheng Environmental Protection Development Co., Ltd.”) was established on 6 August 2002 by joint contribution of Beijing Jingcheng Machinery Electric Holding Co., Ltd, Beijing State-Owned Assets Management Co., Ltd. and Beiren Group Corporation with a registered capital of RMB 61 million. The capital contribution by shareholders upon establishment is as follows:

| Shareholder   | Amount of<br>Capital<br>Contribution<br><i>(RMB 0'000)</i> | Proportion of<br>Contribution |
|---|--|-------------------------------|
| Beijing Jingcheng Machinery Electric Holding Co.,<br>Ltd. | 2,100.00   | 34.42%                        |
| Beiren Group Corporation                                  | 2,000.00   | 32.79%                        |
| Beijing State-owned Assets Management Co., Ltd.           | <u>2,000.00</u>  | <u>32.79%</u>                 |
| Total   | <u><u>6,100.00</u></u>                                     | <u><u>100%</u></u>            |

As at 11 June 2004, according to the resolution of the shareholders' meeting of Jingcheng Compressor, Beijing Jingcheng Machinery Electric Holding Co. Ltd. and Beiren Group Corporation increased the capital of Jingcheng Compressor. The registered capital after the increase was RMB 95,004,100.00. The shareholding structure after the increase is as follows:

| Shareholder   | Amount of<br>Capital<br>Contribution<br><i>(RMB 0'000)</i> | Proportion of<br>Contribution |
|---|--|-------------------------------|
| Beijing Jingcheng Machinery Electric Holding Co.,<br>Ltd. | 3,800.52   | 40%                           |
| Beiren Group Corporation                                  | 3,699.89   | 38.95%                        |
| Beijing State-owned Assets Management Co., Ltd.           | <u>2,000.00</u>  | <u>21.05%</u>                 |
| Total   | <u><u>9,500.41</u></u>                                     | <u><u>100%</u></u>            |

As at 1 May 2005, according to the resolution of the shareholders' meeting of Jingcheng Compressor, Beijing State-owned Assets Management Co., Ltd. increased RMB 6 million to the capital of Jingcheng Compressor. The registered capital after the increase was RMB 101,004,100.00. The shareholding structure after the increase is as follows:

| Shareholder   | Amount of<br>Capital<br>Contribution<br>(RMB 0'000) | Proportion of<br>Contribution |
|---|---|-------------------------------|
| Beijing Jingcheng Machinery Electric Holding Co.,<br>Ltd. | 3,800.52  | 37.63%                        |
| Beiren Group Corporation                                  | 3,699.89  | 36.63%                        |
| Beijing State-owned Assets Management Co., Ltd.           | <u>2,600.00</u>                                     | <u>25.74%</u>                 |
| Total   | <u><u>10,100.41</u></u>                             | <u><u>100%</u></u>            |

As at 20 June 2005, according to the resolution of the shareholders' meeting of Jingcheng Compressor, Beijing State-owned Assets Management Co., Ltd. transferred 25.74% equity in Jingcheng Compressor to Beijing Industrial Development Investment Co., Ltd. The shareholding structure after the transfer is as follows:

| Shareholder   | Amount of<br>Capital<br>Contribution<br>(RMB 0'000) | Proportion of<br>Contribution |
|---|---|-------------------------------|
| Beijing Jingcheng Machinery Electric Holding Co.,<br>Ltd. | 3,800.52  | 37.63%                        |
| Beiren Group Corporation                                  | 3,699.89  | 36.63%                        |
| Beijing Industrial Development Investment Co., Ltd.       | <u>2,600.00</u>                                     | <u>25.74%</u>                 |
| Total   | <u><u>10,100.41</u></u>                             | <u><u>100%</u></u>            |

As at 28 April 2008, according to the resolution of the shareholders' meeting of Jingcheng Compressor, the registered capital of Jingcheng Compressor was changed from RMB 101,004,100.00 to RMB 109,281,500.00. The capital increase of RMB 8,277,400.00 was contributed by the shareholder Jingcheng Machinery Electric Holding Co., Ltd. Upon the completion of the capital increase, the shareholding structure of Jingcheng Compressor is as follows:

| Shareholder   | Amount of<br>Capital<br>Contribution<br>(RMB 0'000) | Proportion of<br>Contribution |
|---|---|-------------------------------|
| Beijing Jingcheng Machinery Electric Holding Co.,<br>Ltd. | 4,628.26  | 42.35%                        |
| Beiren Group Corporation                                  | 3,699.89  | 33.86%                        |
| Beijing Industrial Development Investment Co., Ltd.       | <u>2,600</u>  | <u>23.79%</u>                 |
| Total   | <u><u>10,928.15</u></u>                             | <u><u>100%</u></u>            |

In 2008, Beiren Group Corporation and Beijing Jingcheng Machinery Electric Holding Co., Ltd. signed the agreement on voluntary transfer of the property rights of state-owned assets, under which 33.86% of equity in Jingcheng Compressor held by Beiren Group Corporation was transferred without any charges to Beijing Jingcheng Machinery Electric Holding Co., Ltd. After the transfer, the shareholding structure of Jingcheng Compressor is as follows:

| Shareholder   | Amount of<br>Capital<br>Contribution<br>(RMB 0'000) | Proportion of<br>Contribution |
|---|---|-------------------------------|
| Beijing Jingcheng Machinery Electric Holding Co.,<br>Ltd. | 8,328.15  | 76.21%                        |
| Beijing Industrial Development Investment Co., Ltd.       | <u>2,600.00</u>                                     | <u>23.79%</u>                 |
| Total   | <u><u>10,928.15</u></u>                             | <u><u>100%</u></u>            |

As at 18 June 2012, according to the resolution of the extraordinary shareholders' meeting of Jingcheng Compressor as well as the equity transfer agreement signed between Beijing Jingcheng Machinery Electric Holding Co., Ltd. and Beijing Industrial Development Investment Co., Ltd., under which 23.79% equity in Jingcheng Compressor held by Beijing Industrial Development Investment Co., Ltd. was fully transferred to Beijing Jingcheng Machinery Electric Holding Co., Ltd. After the transfer, Jingcheng Compressor became a wholly-owned subsidiary of Beijing Jingcheng Machinery Electric Holding Co., Ltd.

In September 2012, according to the resolution of the shareholders' meeting of Jingcheng Compressor, the registered capital was newly increased by RMB 29.99 million, which was fully contributed by Beijing Jingcheng Machinery Electric Holding Co., Ltd. After the capital increase, the registered capital was changed to RMB 139,271,500.00.

In October 2012, the name of Beijing Jingcheng Environmental Protection Development Co., Ltd. was changed to Beijing Jingcheng Compressor Co., Ltd.

In October 2013, Beijing Jingcheng Compressor Co., Ltd. completed the formalities for changes of shareholders. The shareholder was changed from Beijing Jingcheng Machinery Electric Holding Co., Ltd. to Beiren Printing Machinery Holdings Limited.

In December 2013, the name of Beiren Printing Machinery Holdings Limited was changed to Beijing Jingcheng Machinery Electric Company Limited.

As of the reference day of the valuation, the details of shareholder and capital contribution are as follows:

| <b>Shareholder</b>                                   | <b>Amount of<br/>Capital<br/>Contribution<br/>(RMB 0'000)</b> | <b>Proportion of<br/>Contribution</b> |
|--|---|---------------------------------------|
| Beijing Jingcheng Machinery Electric Company Limited | <u>13,927.15</u>  | <u>100%</u>                           |
| Total  | <u><u>13,927.15</u></u>                                       | <u><u>100%</u></u>                    |

3. *The financial positions and result of operation for recent three years and as at the reference day*

The overview of the balance sheets as at 31 December 2010, 31 December 2011, 31 December 2012, and the reference day of the valuation (the balance sheet as at the reference day has been audited by Shinewing Certified Public Accountants with the Auditors' Report NO. XYZH/2013TJA2024-17) is as follows:

*Unit: RMB 0'000*

| <b>Item</b>                  | <b>As at 31<br/>December<br/>2013</b> | <b>As at 31<br/>December<br/>2012</b> | <b>As at 31<br/>December<br/>2011</b> | <b>As at 31<br/>December<br/>2010</b> |
|------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Current assets               | 16,791.53                             | 18,638.79                             | 14,777.79                             | 13,328.76                             |
| Non-current assets:          | 12,689.51                             | 11,774.07                             | 10,465.19                             | 9,648.05                              |
| Long-term equity investments | 6,261.70                              | 6,788.53                              | 6,369.79                              | 5,385.24                              |
| Investment properties        | 951.97                                |                                       |                                       |                                       |
| Fixed assets                 | 2,286.62                              | 2,523.24                              | 2,765.59                              | 2,939.17                              |
| Construction in progress     | 1,898.32                              | 1,170.38                              | 18.8                                  | –                                     |
| Intangible assets            | 904.18                                | 930.8                                 | 965.19                                | 982.82                                |
| Long-term deferred expenses  | 37.57                                 |                                       |                                       |                                       |
| Deferred tax assets          | 349.16                                | 313.75                                | 345.81                                | 338.39                                |
| Total assets                 | 29,481.04                             | 30,412.86                             | 25,242.97                             | 22,976.81                             |
| Current liabilities          | 11,776.97                             | 12,543.32                             | 10,416.89                             | 9,665.14                              |
| Non-current liabilities      | 1,656.80                              | 290.97                                | 47.19                                 | 41.41                                 |
| Total liabilities            | 13,433.77                             | 12,834.29                             | 10,464.08                             | 9,706.55                              |
| Total shareholders' equity   | 16,047.27                             | 17,578.57                             | 14,778.89                             | 13,270.26                             |

The income statement for the years of 2010, 2011, 2012 and 2013 is as follows:

*Unit: RMB 0'000*

| Item                          | 2013      | 2012     | 2011      | 2010     |
|-------------------------------|-----------|----------|-----------|----------|
| Operating income              | 10,790.34 | 9,354.07 | 12,479.74 | 9,327.71 |
| Less: operating cost          | 9,270.42  | 6,718.01 | 9,223.72  | 7,157.01 |
| Business taxes and surcharges | 14.28     | 29.84    | 46.64     | 59.38    |
| Selling expenses              | 768.91    | 924.93   | 1,012.45  | 720.23   |
| Administrative expenses       | 2,329.97  | 2,132.48 | 2,510.41  | 2,148.83 |
| Financial expenses            | 160.64    | 146.62   | 102.44    | 110.2    |
| Loss on impairment of assets  | 746.07    | 853.9    | -173.46   | -502.86  |
| Investment income             | 574.04    | 1,433.53 | 1,801.07  | 1,448.20 |
| Operating profits             | -1,925.92 | -18.18   | 1,558.62  | 1,083.11 |
| Add: Non-operating income     | 188.65    | 93.3     | 36.55     | 47.33    |
| Less: Non-operating expenses  | 66.88     | 215.22   | 109.88    | 16.44    |
| Total profit                  | -1,804.15 | -140.1   | 1,485.29  | 1,114.00 |
| Less: income tax expenses     | -42.02    | 32.06    | -7.42     | 35.23    |
| Net profit                    | -1,762.13 | -172.16  | 1,492.71  | 1,078.77 |

The data as at the reference day has been audited by Shinewing Certified Public Accountants, which has issued the Auditors' Report (No.: XYZH/2013TJA2024-17) with unqualified opinions.

#### 4. Relationship between the Client and the entity appraised

Beijing Jingcheng Machinery Electric Holding Co., Ltd. holds 47.78% equity in Beiren Printing Machinery Holdings Limited.

The Client Beijing Jingcheng Machinery Electric Holding Co., Ltd. holds 100% equity in Beijing Jingcheng Compressor Co., Ltd.

## II. Purpose

According to the business plan of Beijing Jingcheng Machinery Electric Company Limited, in order to dispel the adverse effects brought by the long-term losses of Beijing Jingcheng Compressor Co., Ltd. (hereinafter referred to as "Jingcheng Compressor") to the operating condition of Beijing Jingcheng Machinery Electric Company Limited (hereinafter referred to as "Jingcheng Machinery"), Jingcheng Machinery intends to transfer all the equity of Jingcheng Compressor.



The purpose of the valuation is to appraise all the shareholders' equity in Beijing Jingcheng Compressor, offer the market value as at the reference day and to provide value reference for the equity in Beijing Jingcheng Compressor Co., Ltd held by Beijing Jingcheng Machinery Electric Company Limited, which is proposed to be transferred.

The documents of economic activities involved in the valuation are:

1. The document of Beijing Jingcheng Machinery Electric Holding Co., Ltd. (No. JJZG(F) [2014] No. 13): the Reply on Transfer of 100% Equity in Beijing Jingcheng Compressor Co., Ltd. held by Beijing Jingcheng Machinery Electric Company Limited;
2. The document of Beijing Jingcheng Machinery Electric Company Limited (No. JJG(J) [2014] No. 3): the Meeting Minutes for the Third Office Meeting of Managers of 2014 on Transfer of All Equity in Jingcheng Compressor Held by Jingcheng Machinery.

### III. Target and Scope of Valuation

#### (I) Target and scope of valuation

The valuation target is all shareholders' equity in Beijing Jingcheng Compressor Co., Ltd and the scope of valuation is all the assets and relevant liabilities of Beijing Jingcheng Compressor Co., Ltd.

The total asset amounts to RMB 294,810,393.34, including:

|                              |            |                    |
|------------------------------|------------|--------------------|
| Current assets:              | Book Value | RMB 167,915,310.52 |
| Non-current assets:          | Book Value | RMB 126,895,082.82 |
| Long-term investments:       | Book Value | RMB 62,616,996.59  |
| Investment properties:       | Book Value | RMB 9,519,696.39   |
| Fixed assets:                | Book Value | RMB 22,866,172.35  |
| Construction in progress:    | Book Value | RMB 18,983,151.39  |
| Intangible assets:           | Book Value | RMB 9,041,843.86   |
| Long-term deferred expenses: | Book Value | RMB 375,662.00     |
| Deferred assets:             | Book Value | RMB 3,491,560.24   |

Total liabilities amount to RMB 134,337,681.42, including:

|                          |            |                    |
|--------------------------|------------|--------------------|
| Current liabilities:     | Book Value | RMB 117,769,681.42 |
| Non-current liabilities: | Book Value | RMB 16,568,000.00  |

The data above has been audited by Shinewing Certified Public Accountants, which has issued the Auditors' Report (No.: XYZH/2013TJA2024-17) with unqualified opinions.

In addition, the scope of valuation covers intangible assets that have not been included in the book value such as patents, software copyrights and trademarks.

Apart from the matters above, the target and scope of valuation are consistent with those entrusted by the Client.

***(II) Individual or combination of assets that have significant effects on the value of the enterprise***

The accounts receivable, inventories, fixed assets and long-term equity investment account for a large proportion in the assets of Beijing Jingcheng Compressor Co., Ltd.

1. Accounts receivable are mainly trade receivables;
2. Inventories are mainly raw materials, goods in process and finished goods;
3. Long-term equity investments are mainly investments in Beijing Fusheng Machine Co., Ltd; the shareholding proportion is 30%. The details are set out below:

| Name of Investee                  | Date of Investment | Expiration of Investment Agreement | Investment Proportion<br>% | Book Value<br>(RMB) |
|-----------------------------------|--------------------|------------------------------------|----------------------------|---------------------|
| Beijing Fusheng Machine Co., Ltd. | 23 December 1993   | 22 December 2043                   | 30%                        | 62,616,996.59       |

4. Fixed assets are mainly assets of buildings, constructions and equipment.

The buildings and constructions are located in the industry development zone of Kangzhuang Town, Yanqing Country, Beijing, and are mainly large workshops (mechanical processing and assembly workshops), headquarter structural part workshops and headquarter assembly workshops. Main buildings and constructions are of mixed structure and post and panel structure. The buildings and constructions are completed and put into use in 1975 at the earliest and in 2007 at the latest. The grounds are decorated with marbles. The external coating, internal coating, water, heating, electricity and sanitation equipment is complete and functioning well.

The main equipment of Beijing Jingcheng Compressor Co., Ltd. includes bench drills, pipe bending machines, AC arc welding machines, radial drills, universal cutter and tool grinders, honing machines, guillotine shears, common lathes, three-roller plate rolls, slotting machines, vertical round-bench grinders, vertical milling machines, universal mills, bending machines, horizontal boring machines, cylindrical grinders, planer type milling machines, open side planers, and vertical lathes, etc. Most of the equipment was purchased in 2004 and 2005 and can meet the requirements for production; the transportation vehicles are used for daily transportation; electronic equipment mainly includes computers, printers, copiers and air conditioning used for the finance department and offices in the workshops. Most of the equipment was purchased from 2009 to 2011.

*(III) Intangible assets*

1. Intangible assets recorded in the accounts are the land use right of two plots of state-owned land and 3 office software programs;
2. Intangible assets that are not recorded in the accounts are 12 patent rights, 4 copyrights and 7 trademarks.

**IV. Types of Value and Definitions**

Based on relevant conditions such as economic activities and valuation purpose, the type of value for the valuation is market value, i.e. the estimated value of normal and equitable transaction of the valuation target as at the reference day in the circumstance that the voluntary buyers and sellers act reasonably and are not forced.

**V. Reference Day**

The reference day of the valuation is 31 December 2013.

The reference day is determined by the Client, depending on the factors such as accounting period end and factors good for the realization of the economic activity.

**VI. Valuation Basis***(I) Basis of economic activities*

1. The document of Beijing Jingcheng Machinery Electric Holding Co., Ltd. (No. JJZG(F) [2014] No. 13): the Reply on Transfer of 100% Equity in Beijing Jingcheng Compressor Co., Ltd. held by Beijing Jingcheng Machinery Electric Company Limited;
2. The document of Beijing Jingcheng Machinery Electric Company Limited (No. JJG(J) [2014] No. 3): the Meeting Minutes for the Third Office Meeting of Managers of 2014 on Transfer of All Equity in Jingcheng Compressor Held by Jingcheng Machinery.

*(II) Basis of laws and regulations*

1. Company Law of the People's Republic of China (Amended at the 18th session of the Standing Committee of the Tenth National People's Congress of the People's Republic of China on 27 October 2005);
2. Enterprise State-owned Assets Law of the People's Republic of China (Order of the President No. 5, 2008);
3. Land Administration Law of the People's Republic of China (Amended at the 11th session of the Standing Committee of the Tenth National People's Congress of the People's Republic of China on 28 August 2004);

4. Law of the People's Republic of China on the Administration of Urban Real Estate (Order of the President of the People's Republic of China; and amended at the 29th session of the Standing Committee of the Tenth National People's Congress of the People's Republic of China on 30 August 2007);
5. The Administrative Measures for Valuation of State-owned Assets (Order of the State Council No. 91, 1991);
6. The Detailed Rules for Implementation of the Administrative Measures for Valuation of State-owned Assets (Guo Zi Ban Fa [1992] No. 36);
7. The Tentative Measures for the Supervision and Administration of State-Owned Assets of Enterprises (Order of the State Council 378, 2003);
8. The Tentative Measures for the Administration of the Transfer of State-owned Assets and Equity in Enterprises (Order of the State-owned Assets Supervision and Administration Commission of the State Council and the and the Ministry of Finance No. 3, 2003);
9. The Interim Administrative Measures on the Valuation of the State-owned Assets of Central Cultural Enterprises (Order of the State-owned Assets Supervision and Administration Commission of the State Council No. 12, 2005);
10. Circular on Strengthening the Administration of the Appraisal of State-owned Assets of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);
11. The Interim Administrative Measures of Beijing Municipality on the Valuation of the State-owned Assets of Central Cultural Enterprises (Jing Guo Zi Fa No. 5, 2008).

***(III) Basis of valuation principles***

1. Asset Valuation Standards – Basic Standards (Cai Qi of the Ministry of Finance No. 20, 2004);
2. Standards of Professional Ethics for Asset Valuation – Basic Standards (Cai Qi of the Ministry of Finance No. 20, 2004);
3. Asset Valuation Standards – Valuation Report (Zhong Ping Xie [2007] No. 189);
4. Asset Valuation Standards – Valuation Procedures (Zhong Ping Xie [2007] No. 189);
5. Asset Valuation Standards – Machinery and Equipment (Zhong Ping Xie [2007] No. 189);

6. Asset Valuation Standards – Real Estate (Zhong Ping Xie [2007] No. 189);
7. Asset Valuation Standards – Intangible Assets (Zhong Ping Xie [2008] No. 217);
8. The Guiding Opinions on Valuation of Trademark Assets (Zhong Ping Xie [2008] No. 228);
9. The Guiding Opinions on Valuation of Copyrights (Zhong Ping Xie [2008] No. 215);
10. The Guidelines for the State-owned Asset Valuation Reports of Enterprises (Zhong Ping Xie [2008] No. 218);
11. The Guiding Opinions on Attention of Certified Public Valuers on Legal Ownership of Valuation Target (Zhong Zhu Xie Hui Xie [2003] No. 18);
12. Asset Valuation Standards – Enterprise Value (Zhong Ping Xie [2011] No. 227);
13. The Guiding Opinions on Types of Value in Asset Valuation (Zhong Ping Xie [2007] No. 189);
14. Accounting Standards for Business Enterprises – Basic Standards (Order of the Ministry of Finance No. 33);
15. 38 specific standards such as Accounting Standards for Business Enterprises No. 1 – Inventories (Cai Kuai of the Ministry of Finance [2006] No. 3);
16. Accounting Standard for Enterprises – Application Guidance (Cai Kuai of the Ministry of Finance [2006] No. 18);
17. Standards of Valuation of Real Estates (GB/T50291-1999);
18. Procedures for Valuation of Urban Lands (GB/T18508 – 2001);
19. Procedures for Rating of Urban Lands (GB/T18507-2001).

***(IV) Basis of ownership of assets***

1. Registration Certificate of Ownership of State-owned Assets;
2. Certificate of House Ownership;
3. Certificate of State-owned Land Use Right;
4. Motor Vehicle License;

5. Contracts or invoices for acquisition of material assets;
6. Other documentary evidence of ownership of assets.

*(V) Basis for price selection in the valuation*

1. Circular of the Ministry of Finance on Issuing the Provisions on Basic Construction of Financial Management (Cai Jian [2002] No. 394);
2. Circular of the State Development Planning Commission and the Ministry of Construction on Issuing the Administrative Provisions on Charges of Engineering Survey and Design (Ji Jia Ge [2002] No. 10);
3. The Administrative Provisions on Charges of Supervision of Construction Projects and Relevant Service (Fa Gai Jia Ge [2007] No. 670);
4. Notice of the National Planning Commission and State Environmental Protection Administration on Regulating Environmental Impact Consultation Fees (Ji Jia Ge [2002] No. 125);
5. Order of the State Development Planning Commission No. 3, 2000; the Interim Administrative Measures for Service Fees of Tendering Agencies (Ji Jia Ge [2002] No. 1980); and Circular of the General Office of the State Development Planning Commission on Issues Concerning Fees for Tendering Agency Fees (Fa Gai Ban Jia Ge [2003] No. 857);
6. Circular on Issuing the Detailed Rules of Beijing Municipality for Implementation of the Administrative Measures for Collection and Use of Special Fund for New Wall Materials (Jing Cai Jing Er [2003] No. 802);
7. Circular on Issuing the Interim Measures of Beijing Municipality for Collection of Urban Infrastructural Construction Fees (Jing Ji Tou Zi Zi [2002] No. 1792);
8. Interim Regulations of the People's Republic of China on Vehicle Purchase Tax (Order of the State Council of the People's Republic of China No. 294, 22 October 2000);
9. Provisions on the Criteria for Compulsory Discard of Motor Vehicles (Order of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection [2012] No. 12);
10. The Table of Loan Interest Rate of the People's Bank of China (effective as of 6 July 2012);
11. The foreign exchange quotation of the State Administration of Foreign Exchange as at 31 December 2013;

12. The Budget Norm of Beijing Municipality for Construction Engineering in 2001;
13. The Budget Norm of Beijing Municipality for Construction and Decoration Engineering;
14. Information of Construction Cost in Beijing (Division of Construction Cost of Beijing Municipality, December 2013);
15. The Universal Norm of China for Construction Duration of Construction and Installation Projects (the Ministry of Construction, Jian Biao [2000] No. 38);
16. Quotation Manual of Electromechanical Products (The Institute of Engineering Industry Information, 2012 Edition);
17. <http://www.zol.com.cn/>
18. The Methods for Preparation of Estimates of Construction Projects and Indexes for Estimates issued by the Ministry of Machinery Industry;
19. Manual of Data and Parameters Commonly used for Asset Valuation 2006-2007 (China Economic Science Press);
20. Information of engineering budgets and settlement provided by the entity appraised;
21. The list of assets and other information provided by the entity appraised;
22. The information of financial accounting and operation provided by the entity appraised;
23. The market information, and the information of industrial economy and macro-economy collected by the valuers;
24. Relevant information acquired by the valuers through onsite survey and investigation;
25. The terminal of Wind Information Capital;
26. Technical data and information of geological survey concerning engineering construction; and
27. Other reference information.

## VII. Valuation Approaches

According to Asset Valuation Standards – Enterprise Value, valuation approaches are mainly the asset-based approach, the income approach and the market approach. Based on relevant conditions such as the purpose and the target of the valuation, the type of value and the information collected, the asset-based approach and the income approach are adopted for the valuation.

The asset-based approach refers to the method of valuation, in which the value of the valuation target is determined by appraisal of the value of all on-and-off balance sheet assets and liabilities on the basis of the balance sheet of the enterprise appraised on the reference day.

The basic formula of the asset-based approach:

The value of all shareholder's equity = the sum of appraisal value of all assets – the sum of appraisal value of all liabilities

The entity appraised in the Report is based on going concern. Its core assets are physical assets such as lands, factory buildings and equipment, and all the assets within the valuation scope can be recognised and independently appraised with proper valuation approach. And there are no assets or liabilities that are difficult to be recognised or appraised and may have a significant effect on the valuation target. Therefore, the asset-based approach is adopted for valuation.

The income approach is a valuation method, in which the expected income will be capitalised or discounted to determine the value of the valuation target.

The entity appraised in the Report has the conditions and foundations for going concern. There is a stable corresponding relation between the operation and income, and the future income and risk can be forecasted and quantised. Therefore, the income approach can be adopted for appraisal.

The market approach is a valuation method, in which the value of the valuation target is determined by making comparisons between the valuation target and the comparable listed companies or transaction cases.

Two specific methods used for the market approach are the comparison method with listed companies and comparison method with transaction cases.

As the entity appraised is not a listed company, and the factors such as the business structure, operation mode, scale of enterprise, asset allocation and use, operation phases, growth, operating risks, and financial risks of listed companies in the same industry as the entity appraised are significantly different, and it is difficult to obtain the cases of sales, acquisition and merger of comparable target in the same industry near the reference day. Therefore, the market approach is not adopted for the valuation.



(I) *The asset-based approach*

1. *Current assets*

Current assets include monetary capital, notes receivable, accounts receivable, prepayments, other receivables and inventories, etc.

- (1) Monetary capital: it includes cash, bank deposits and other monetary capital. The valuers check the cash by supervising the counting of cash and make reasonable backward calculation according to the entries of cash journal to calculate the balance of cash as at the reference day and verify the same with the cash journal. After the verification, the book value is taken as the appraisal value; for bank deposits, trial balance is conducted to the bank reconciliation statement on the basis of account-to-account verification, account-to-sheet verification and verification of the bank statement in combination with the reply of letter of confirmation of the banks; after it is verified to be correct, the book value is recognised as the appraisal value.

The other monetary capital is security deposit for letters of guarantee. The valuers have checked and verified the book balance of the other monetary capital and required enterprises to cooperate in confirmation of relevant accounts. The book value after verification is recognised as the appraisal value.

- (2) Notes receivable: the valuers first check the general ledger, the breakdowns, the accounting statements and the valuation list. Then, the valuers supervise the accounting of notes in stock, and verify the register of notes receivable. After that, the values have a check of the acceptance and endorsement transfer of notes after the reference data, determine the economic activities involved in the notes to be authentic and the amount thereof to be accurate. Due to the short time of activities concerning the notes and strong cashability as well as the good credibility of entities issuing notes, the book value after verification is recognised as the appraisal value.
- (3) Receivables include accounts receivable and other receivables. The valuers, through the examination of the accounts, statement and based on the analysis of economic contents and aging, confirm the payments in large amounts by letters, understand the time of occurrence, the reasons for amounts due, and clearing of defaults, the capital, creditability and operation and management of the debtors, and determine the possibility to recover the receivables after specific analysis. The recoverable amount of receivables after a comprehensive analysis based on the combination of individual identification method and aging analysis method is recognised as the appraisal value of the receivables. The appraisal value of the provision for bad debts of receivables is zero.

- (4) Prepayments: the valuers verify the entries of the accounts; examine the original voucher and business contacts and verify the authenticity of transactions, aging, details and amounts of activities. The result is that the amounts in the accounts, table and vouchers are consistent.

Relevant goods can be recovered for prepayments. Assets or rights formed thereby are recognised as the appraisal value.

- (5) Inventories

Inventories include raw materials, finished goods (goods in stock) and goods in process.

With respect to the valuation of inventories, the valuers first verify the internal control system of inventories and understand the incoming, outgoing and retention accounting system for inventories, verify the financial records, statistical reports and physical inventories, spot check the receipt and dispatch, carry-forward of inventories and bills, and accounting records kept. It is considered that the entity appraised has a good inventory management and corresponding internal control system. Then the valuers check relevant accounting records and original vouchers to determine the authenticity and ownership of inventories.

Then, the valuers verify the measurement of the inventories and accounting methods. The inventories are measured at actual cost.

The valuation approaches for all items of inventories are as follows:

- (i) Raw materials

A. It is known to the valuers that most of raw materials within the scope of valuation are purchased near the reference day, and the book value is basically consistent with the market price as at the reference day; therefore, the valuers recognise the actual cost of purchase as the appraisal value based on the verification of consistency among accounts and between the accounts and the sheets;

B. For raw materials that are manufactured according to orders and far from the time of purchase, the book value after verification is recognised as the appraisal value.

- (ii) Goods in process

Goods in process include the work-in-process that is not finished and the major special project of high temperature weight piling for nuclear power.

For work-in-process that is not finished, the valuers, according to the list for declaration of goods in process, examine the components of value of goods in process by inquiring the accounting procedures of the goods in process, examining the original documents, accounting vouchers and detailed accounts and spot-check of formation and transfer business of goods in process. After the verification, the carrying-forward of the costs of goods in process is timely and complete with accurate amounts, and the production cycle is short. The book value verified is recognised as the appraisal value.

For major special project of high temperature weight piling for nuclear power, the valuers verify the declaration statement of the inventories, and the detailed accounts, general ledger and the accounting statement, check relevant accounting records and original vouchers to determine the authenticity and completeness of the research and development cost of the goods in process. The book value of the research and development cost is audited and confirmed by Shinewing Certified Public Accountants. The internal control system of the entity appraised is strict and perfect. The accounting records are complete and clear. The accounts, sheets and bills are consistent. The book value after verification is presented as the appraisal value.

(iii) Finished goods

Finished goods are products of all specifications that are produced and sold by the entity appraised. According to the sales known from the sales department, the products are in normal sales.

The appraisal value is determined by the sales price (tax excluded) less the selling expenses and all taxes. The sales taxes and expense include the sales expenses and relevant taxes. The sales expense is considered from the average sales expenses in recent years; relevant taxes are subject to the actual taxation of the enterprise, including the business taxes and surcharges, and the income tax; the after-tax net profit in proper amount is determined as 50% of the after-tax profit.

The formula is as follows:

$$\text{The appraisal value of finished goods} = A \times \{1 - r_1 - r_2 - r_3 [T + r_4 (1 - T)]\}$$

In which:

A: the sales price (tax excluded) of products

$r_1$ : the sales expense rate of the products

$r_2$ : the rate of sales tax and surcharges of the products

$r_3$ : the sales profit rate of the products

$r_4$ : the after-tax net profit rate

T: the income tax rate

## 2. *Non-current assets*

Non-current assets include long-term equity investments, investment properties, fixed assets, intangible assets, and deferred assets, etc.

### (1) Long-term equity investments

The valuers conduct an overall valuation to the investee with the same valuation principles, approaches and valuation process for all assets and liabilities as the parent company (i.e. the same standards and criteria).

The appraisal value of long-term equity investments controlled = the appraisal value of all shareholders' equity in the investee  $\times$  investment proportion

If the appraisal value of all shareholders' equity in the investee is negative, the long-term investment is appraised to be 0.

### (2) Investment properties

The buildings and constructions under the investment properties are environment protection workshops. As of the reference day, relevant completion settlement for the investment properties of the entity appraised have not been handled, and the auxiliary facilities such as the fire protection and power distribution are constructed by Beijing Jingcheng Tianyi Environment Technology Co., Ltd., which is a related party. The project payment that has not been made cannot be determined accurately. Therefore, the appraisal of the investment properties in the valuation is presented as the book value on the basis that such book value is verified to be authentic.

### (3) Valuation of fixed assets

#### (i) Buildings and constructions

The buildings and constructs are appraised at replacement cost method.

##### ① Replacement cost method

Buildings and construction with no income or deals are appraised and estimated at replacement cost method based on the principle that the property and lands are appraised respectively.

The replacement cost method is a method, in which the appraisal value of the property appraised is determined by the investment required for replacement of similar property (hereinafter referred to as the “replacement price”) based on the market condition at the time point of valuation and the structural features of the property appraised multiplied by the comprehensive newness rate of buildings and constructions subject to a comprehensive valuation.

The appraisal value = full replacement price × comprehensive newness rate

Full replacement price = construction and installation cost + upfront fees and other expenses + capital cost

Comprehensive newness rate = theoretical newness rate × weight + surveyed newness rate × weight

A. Determination of full replacement price

a. Estimate of construction and installation cost

There are three structures according to the specific situation of the buildings and construction appraised. The valuers systematically classify the buildings in the scope of the valuation by the type of structure, function and geographical distribution and group the buildings with similar or same structure. Then, the valuers select typical projects in all the structures and collect the budget/settlement statement, as-built drawing; spot check and verify the project quantities; and calculate the construction and installation cost in accordance with the Budget Norm of Beijing Municipality for Construction Engineering in 2001, the Budget Norm of Beijing Municipality for Construction and Decoration Engineering in 2001 and Information of Construction Cost in Beijing (Issue of December 2013). The construction and installation cost of other buildings with the same structure is calculated at the discrimination factor adjustment method in comparison with the typical projects. Factors affecting the construction and installation cost include the number of floors, the height between floors, the appearance, the planar form, depth, the standard width of rooms, the materials of walls, the decoration standards, equipment and facilities and construction difficulties, etc. the comprehensive adjustment factor is obtained by comparing the valuation target with the typical projects. The

construction and installation cost of the target to be appraised is the construction and installation cost of the typical project multiplied by the comprehensive adjustment factor.

The replacement price of small-sized buildings and construction is estimated with the local unilateral cost of buildings with similar structure as at the reference day subject to discrimination factor adjustment.

b. Upfront fees and other expenses

According to the provisions of local governments and industry standards, the standards for upfront fees and other expenses are as follows:

| No. | Name of Expenses                                | Pricing Basis                      | Charging Standard | Charging Basis  |
|-----|---|------------------------------------|-------------------|---|
| 1   | Engineering survey and design fee               | Construction and installation cost | 3.09%             | Circular of the State Development Planning Commission and the Ministry of Construction on Issuing the Administrative Provisions on Charges of Engineering Survey and Design (Ji Jia Ge [2002] No. 10) |
| 2   | Management fee of construction unit             | Construction and installation cost | 1.15%             | Circular of the Ministry of Finance on Issuing the Provisions on Basic Construction of Financial Management (Cai Jian [2002] No. 394)   |
| 3   | Cost of supervision of engineering construction | Construction and installation cost | 2.24%             | The Administrative Provisions on Charges of Supervision of Construction Projects and Relevant Service (Fa Gai Jia Ge [2007] No. 670)  |
| 4   | Fee for assessment of environmental impact      | Construction and installation cost | 0.20%             | Notice of the National Planning Commission and State Environmental Protection Administration on Regulating Environmental Impact Consultation Fees (Ji Jia Ge [2002] No. 125)                          |

| No. | Name of Expenses                            | Pricing Basis                      | Charging Standard | Charging Basis   |
|-----|---|------------------------------------|-------------------|--|
| 5   | Services fee for bidding agency             | Construction and installation cost | 0.32%             | Order of the State Development Planning Commission No. 3, 2000; the Interim Administrative Measures for Service Fees of Tendering Agencies (Ji Jia Ge [2002] No. 1980); and Circular of the General Office of the State Development Planning Commission on Issues Concerning Fees for Tendering Agency Fees (Fa Gai Ban Jia Ge [2003] No. 857) |
| 6   | Special fund for new type of wall materials | Building area                      | 8.00              | (Jing Cai Jing Er [2003] No. 802)  |
| 7   | Urban infrastructure construction fee       | Building area                      | 200.00            | (Jing Ji Tou Zi [2002] No. 1792)   |

c. Capital cost

According to the scale of construction and original information, the construction period is determined by the norm of construction period of the country. In the circumstance of normal construction period and that the capital is evenly invested over the construction period, the capital cost is calculated based on the RMB loan interest rate as at the reference day.

The loan interest rates of financial institutions released on 6 July 2012:

| Loan Period                    | APR %   |
|--------------------------------|---|
| 1. Short-term loan             |   |
| 6 months (inclusive)           | 5.60%   |
| 6 months to 1 year (inclusive) | 6.00%   |
| 2. Medium and long-term loan   |   |
| 1 to 3 years (inclusive)       | 6.15%   |
| 3 to 5 years (inclusive)       | 6.40%   |
| Over 5 years                   | 6.55%   |
| 3. Discount                    | Based on discount interest rate plus certain points |

Capital cost = (construction and installation cost + upfront fees and other expenses) × construction period × interest rate × 1/2

Full replacement price = construction and installation cost + upfront fees and other expenses + capital cost

B. Determination of comprehensive newness rate

The comprehensive newness rate of buildings and constructions is determined by the combination of theoretical newness rate and surveyed newness rate.

a. Calculation of theoretical newness rate

Theoretical newness rate = (the economic service life – the serviced life)/the economic service life × 100%

Or:

Theoretical newness rate = service life remained/ (the serviced life + the service life remained) × 100%

b. Determination of surveyed newness rate

First, the appraisal intact value of major factors determining the newness rate of buildings and constructions are determined by structure (bases, walls, bearing and roofing), decoration (grounds, internal and external decoration, doors and windows, ceilings), equipment and facilities (water and sanitation, heating, power and lighting) with reference to the standards for rating of damage condition of houses of the Ministry of Construction in combination with the actual situation of onsite survey, and then the surveyed newness rate is determined according to the weights

Surveyed newness rate = score value of structural parts × weight + decoration parts × weight + score value of installation part × weight

c. comprehensive newness rate

The weight for theoretical newness rate is 0.4 while the weight for the surveyed newness rate is 0.6.



Comprehensive newness rate = theoretical newness rate  $\times$  0.4+ surveyed newness rate  $\times$  0.6

C. Calculation of appraisal value

Appraisal value = full replacement price  $\times$  comprehensive newness rate

(ii) Equipment

The equipment is appraised at the replacement cost method with the equipment, which can be used for normal production and operation with the market price of similar brand new equipment available according to the valuation purpose and the principle of sustained used and based on the market price in combination with the features of the equipment and the information collected; equipment for long-term use, the second-hand market of which is active with no market price of similar branch new equipment available in the market such as ordinary motor vehicles and electronic office equipment, the market approach is adopted for valuation.

① Replacement cost method

Appraisal value = full replacement price  $\times$  comprehensive newness rate

A. Determination of full replacement price

a. Machinery equipment

For domestic equipment, the full replacement price is mainly determined with reference to the existing market price of equipment of the same type or model in the domestic market, as well as a consideration of the freight and miscellaneous charges, installation and debugging charges, the basic fees, the other expenses and the capital cost.

For imported equipment, the full replacement price is mainly determined with reference to the CIF price or FOB price of similar equipment in recent period as well as a consideration of the overseas transportation and insurance fees of such equipment, foreign trade expenses, bank fees, inspection fees, customs taxes, VAT, domestic freight and miscellaneous charges, installation and debugging charges, basic fees, the other expenses and capital cost.

Full replacement price = Purchase price of equipment (tax excluded) + freight and miscellaneous charges + installation and debugging expense + basic expenses + other expenses + capital cost – VAT of freight

a) Purchase fee

The purchase fee is determined by making quotations to manufacturers, trading markets, trading companies or with reference to price data such as 2013 Quotation Manual of Electromechanical Products as well as the contract price of similar equipment.

b) Freight and miscellaneous charges

The charge is calculated on the basis of the purchase fee and by different rates depending on the distance between the manufacturer and the location of the equipment, the weight, shape and size of the equipment.

c) Installation and debugging charges

The charge is calculated on the basis of the purchase price and by different rates depending on the features, weights and difficulty in installation of the equipment.

For small equipment and equipment with no need of installation, the charge is not considered.

d) Basic expenses

The basic expenses is calculated by different rates depending on the features of the equipment on the basis of the purchase price and with reference to the Methods for Preparation of Estimates of Construction Projects and Indexes for Estimates issued by the Ministry of Machinery Industry.

e) Other expenses

The other expenses include the administrative expenses, the expenses for feasibility report and valuation, design fee, engineering supervision fee,

etc. It is calculated according to the other fee standard of the construction projects in combination with the features of the equipment on the basis of the sum of the purchase price, the freight and miscellaneous charges, basic expenses and installation and debugging charges.

f) Capital cost

The capital cost is calculated evenly over the construction period according to the reasonable period of the project and based on the loan interest rate applicable on the reference day.

Capital cost = (purchase fee + freight and miscellaneous charges + installation and debugging charges + basic charges + other expenses) × loan interest rate × construction period × 1/2

b. Electronic equipment

For the equipment, the same model of which is available for sale in the market, it is deemed to be purchased in the same city. The traders will cover the transportation and drop-in installation and debugging for the products purchased. There is usually no expense other than the purchase price.

Full replacement price = purchase price

c. Vehicles

The full replacement price of vehicles is made up of the purchase price, the purchase tax and other expenses (such as the vehicle validation fee, license fee and handling fee).

B. Determination of comprehensive newness rate

a. Machinery equipment

Comprehensive newness rate = surveyed newness rate × weight + theoretical newness rate × weight

## a) Surveyed newness rate

The surveyed newness rate is mainly determined according to the actual situation of the equipment. The components of the equipment are scored one by one according to the onsite survey of the technical status, work environment and maintenance of the equipment to determine the surveyed newness rate.

## b) Theoretical newness rate

Theoretical newness rate is determined by the economic service life and the serviced life.

Theoretical newness rate = (the economic service life – the serviced life)/the economic service life × 100%

Or:

Theoretical newness rate = service life remained/(the serviced life + the service life remained) × 100%

## c) Weight

For equipment with large size or complicated structure, the newness rate is determined with a combination of the service life method and survey method. The weight for the service life method is 0.4 while that for the survey method is 0.6.

For equipment with light and simple structure and normal use, the newness rate is determined at service life method based on the time of use in combination of the maintenance.

## b. Electronic equipment

The newness rate is determined at service life method based on the time of use in combination of the maintenance.

## c. Vehicles

The newness rate of vehicles is comprehensively determined by the mileage newness rate in combination the surveyed newness rate with respective weights of 40% and 60%.

## C. Determination of the appraisal value

The appraisal value = full replacement price × comprehensive newness rate

## ② The market approach

## A. Vehicles

The vehicle transaction case with strong relevant and substitution is selected in relevant second-hand vehicle trading market within the same scope of demand and supply as the valuation target, and factors affecting the market price of second-hand vehicles such as the remaining service life, remaining mileage, transaction date and the situation of the vehicles are analysed and modified to determine the market price of the valuation target. The calculation formula is as follows:

Comparative and corrective price = comparable case price × correction coefficient of mileage of vehicles × correction coefficient of service life of vehicles × correction coefficient of vehicle situation × correction coefficient of transaction date of vehicles × correction coefficient of transaction

Comparative and corrective price = (Case A + Case B + Case C)/3

The appraisal value of vehicles based on the market approach = comparative and corrective price

## B. Electronic office equipment

The approval result of the equipment to be appraised is the arithmetic mean value of the cases (at least 3) of market transaction with the same or similar model as the equipment to be appraised and the same or similar time of transaction.

(4) Construction in progress

The construction in progress includes the civil engineering construction in progress and the equipment under construction. The specific methods are as follows:

(i) Civil engineering construction in progress

According to the features of the construction in progress, the valuation approach adopted is the replacement cost method. For the construction in progress that is normally under construction with short construction period and little change in price of construction materials, on the basis that the enterprise pay the project according to the progress and the provisions of the contract, the project image and progress are investigated and verified and the reasonability of the engineering budgets is determined, the verified book value is recognised as the appraisal value. For projects with paid amount of money over RMB 500,000 and the construction period of over half a year, the appraisal value is recognised with a consideration of proper capital cost.

For the repairing and waterproof project of employees' dormitories, as the project is completed, the appraisal value is included in the employees' dormitories, and the value appraised here is 0.

(ii) Equipment under construction

The equipment under construction is the prepayment of equipment made to Changshu Electrical Flat Car Factory and Xinxiang Xinqi Machinery Equipment Company. The appraisal value in the valuation is determined by the assets or rights formed correspondingly.

(5) Intangible assets

Intangible assets include land use rights and other intangible assets.

(i) Land use rights

According to the information provided by the entity appraised and the information collected by the valuers from onsite survey and investigation, and after a comprehensive analysis and comparison, the land use rights are appraised with cost approach method and adjusted benchmark land price coefficient method, and the appraisal value is determined by the weights of two methods.

## ① Cost approach method

## A. Principle

Cost approach method is a valuation method, with which the land price is determined on the basis of the sum of all expenses paid for the development of the land plus certain profit, interests, payable tax and income from land appreciation.

## B. Formula

The basic formula of the method is:

Land price = land acquisition fee + land development fee + tax + interest + investment profit + income from land appreciation

## ② Adjusted benchmark land price coefficient method

## A. Principle

The adjusted benchmark land price coefficient method is to utilise the appraisal results such as the benchmark land price in urban and town areas and the benchmark land price coefficient to compare the regional factors with individual factor indexes in the statement of correction coefficients of benchmark land prices with respect to the extent of impact of the land parcel to be appraised on regional and individual factors to obtain the correction coefficient, which is then corrected. Finally, the appraisal date and service life of the land parcel to be appraised are corrected by the benchmark date of appraisal of the land price and the service life to obtain the price of the land parcel on the appraisal date.

## B. Basic formula

Calculation formula is

Price of land parcel = applicable benchmark land price  
 $\times K1 \times K2 \times K3 \times K4 \times (1 + \Sigma K)$

In which:

K1: correction coefficient of day

K2: correction coefficient of year

K3: correction coefficient of extent of development

K4: correction coefficient of plot ratio

$\Sigma K$ : sum of all correction coefficients of factors affecting the land price

(ii) Other intangible assets

- A. Other intangible assets are patent rights and trademarks, which are appraised with present value of income, i.e. a method to estimate the expected future excess income brought by the patent rights and trademarks appraised and discount the estimate into present value at certain discount rates, which is then recognised as the appraisal value. The calculation formula is as follows:

$$P = \sum_{t=1}^n k F^t / (1 + i)^t$$

$$k = R \times (1 - T)$$

in which:

P: appraisal value of intangible assets

$F^t$ : product income corresponding to the year t

k: share rate of income (excluding tax)

R: share rate of income (including tax)

T: enterprise income tax rate

i: discount rate

n: economic service life

t: discount period

- B. For the valuation of other intangible assets – office software, which is required to be custom-made according to the actual facts of the enterprise and have no market price available in the market, the residual value verified is recognised as the appraisal value.



(6) Long-term deferred expenses

The valuers are determined after understanding the accounting and period-end measurement methods of long-term deferred expenses, amortization methods and period that the residual value is reasonable and accurate. For the remaining rights or assets, the appraisal value in the remaining beneficiary period is determined by the cost method.

(7) Deferred income tax assets

The deferred income tax assets are formed by the temporary difference of provisions for bad debts of inventories and receivables. The appraisal value of the deferred income tax assets are recognised according to the difference between the appraisal value and the book value of the assets, for which the provisions for bad bets are made.

3. *Liabilities*

The appraisal value is determined by the liability items and amounts actually assumed by the entity appraised on the reference day after verifying the actual debtors and amount of liabilities of all liabilities.

**(II) *The income approach***

1. *Definition and principle*

The income approach in valuation of enterprise value is the idea that the expected income will be capitalised or discounted to determine the value of the valuation target.

2. *Prerequisite for application of the income approach*

The following conditions shall be satisfied for the valuation of shareholders' equity with the income approach:

- (1) The entity appraised must have the ability of sustainable operation and the remaining economic life is remarkable;
- (2) Future income of the valuation target can and must be measured with money;
- (3) Future risks of the valuation target can and must be measured with money; and
- (4) The valuation target can achieve the expected income of the asset owners in operation.

### 3. Valuation model

Combined with the valuation purpose and targets, the discounted cash flow (DCF) method is adopted for the valuation. The enterprise cash flow is adopted as the future expected income of the enterprise and the weighted average return rate of capital is adopted as the discount rate. The calculation formula is:

$$E = B - D$$

In which:

E: all shareholders' equity in the entity appraised

B: the overall value of the entity appraised

D: the value of the interest-bearing liabilities of the entity appraised

The calculation formula of the overall value of the entity appraised, B is:

$$B + P + \sum C_i$$

In which:

P: the value of operating assets of the entity appraised

$\sum C_i$ : the value of existing non-operating and excessive and surplus assets and the value of long-term equity investment of the entity appraised on the reference day

(1) The calculation formula of the value of the operating assets of the entity appraised, P, is as follows:

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i} + \frac{R_{i+1}}{r(1+r)^i}$$

In which:

$R_i$ : expected income of the entity appraised in the year i in the future (free cash flow of the enterprise)

r: discount rate

n: The future sustainable operation period of the entity appraised

- (i) The determination of the discount rate  $r$

The weighted average return rate of capital is adopted as the discount rate of the discount rate, which is calculated according to the capital weighted average cost of capital model (WACC) with the formula as follows:

$$r = r_d \times W_d + r_e \times W_e$$

In which:

$r_d$ : the interest rate of long-term interest-bearing liabilities after the income tax;

$$r_d = r_0 \times (1 - t)$$

$r_0$ : the interest rate of long-term interest bearing liabilities before the income tax;

$t$ : the applicable income tax rate;

$W_d$ : debt ratio of the entity appraised;

$$W_d = \frac{D}{(E + D)}$$

$W_e$ : the equity ratio of the entity appraised;

$$W_e = \frac{E}{(E + D)}$$

$r_e$ : the return rate on equity capital, determined by the capital asset pricing mode (CAPM)

$$r_e = r_f + \beta \times (r_m - r_f) + \varepsilon$$

In which:

$r_e$ : the return rate on equity capital

$r_f$ : the risk-free return rate

$r_m$ : market expected return rate

$\beta$ : the expected market risk factor of equity capital of the entity appraised

$\varepsilon$ : the adjustment coefficient of characteristic risk of the entity appraised

- (ii) The determination of the forecast period, n

The valuation with the income approach is made on the condition of sustainable operation of the enterprise. Therefore, the income period determined is infinite. According to the history of operation and the industry development trend, a two-stage mode is adopted, i.e. in five years after the reference day, reasonable forecast is conducted for the income, cost and expenses and profit of the actual situation, policies and the market, and the forecast data is basically the same in the 6th year as in the 5th year.

- (2) The calculation formula for value of the non-operating and excessive and surplus assets on the reference day  $\sum C_i$  is:

$$\sum C_i = C_1 + C_2 + C_3$$

In which:

C1: the value of cash assets of the entity appraised existing on the reference day

C2: the other excessive and surplus and non-operating the entity appraised

C3: Value of long-term equity investments

Non-operating assets and excessive and surplus assets do not generate operating cash flows. Therefore, it is not suitable to adopt the discount cash flow method. The value of non-operating assets and excessive and surplus assets is calculated with its appraisal value by the cost plus method.

The value of long-term equity investments is first wholly appraised, and the appraisal value is determined by the valuation result of the shareholders' equity in the investee of such long-term equity investments multiplied by the proportion of the parent company in such investment.

**VIII. Implementation of Valuation Process**

Beijing Golden Standard & Headmen Appraisal and Advisory Co., Ltd. (hereinafter referred to as “Golden Standard & Headmen”) has accepted the commission of Beijing Jingcheng Machinery Electric Company Limited to appraise the shareholders’ equity in Beijing Jingcheng Compressor Co., Ltd. with respect to the transfer of equity held by Beijing Jingcheng Machinery Electric Company Limited. Upon negotiation, the reference date is determined to be 31 December 2013. Beijing Golden Standard & Headmen Appraisal and Advisory Co., Ltd. proposed the valuation plan and determined the scheme on 10 March 2014. The valuation commenced officially on 15 March 2014. The onsite work ended on 25 March 2014 and the formal report was issued on 11 April 2014. The main valuation process is as follows:

***(I) Preparation before the valuation***

1. On 2 March 2014, Golden Standard & Headmen negotiated the valuation purpose, scope and reference day with the Client and the entity appraised and reached consensus, and the signed the Engagement Letter with the Client and formulated the work plan for valuation;
2. Golden Standard & Headmen cooperated with the entity appraised to check the assets and fill the Detailed Statement of Asset Valuation. The personnel of valuation team went on site to have an initial understanding of the assets to be appraised, assisted in declaration of the assets to be appraised and collect documents and information required for the assets valuation.

***(II) Onsite verification and valuation***

1. Golden Standard & Headmen listened to the introduction of the Client and the relevant personnel of the entity appraised on the general information of the enterprise and the history and current situation of the assets to be appraised, and had a general knowledge of the financial system, operation conditions, fixed assets and technical status of the enterprise;
2. Golden Standard & Headmen verified the Detailed Statement of Asset Valuation with relevant financial records and data and made any adjustments to the issues found with the entity appraised;
3. Golden Standard & Headmen conducted an overall verification to the fixed assets, verified the intangible assets item by item and spot-checked the inventories under the current assets;
4. Golden Standard & Headmen referred to and collected the certification documents with respect to the ownership in law;
5. Golden Standard & Headmen determined the specific valuation approaches for all the assets according to the actual situation and practical situations of the assets to be appraised;

6. Golden Standard & Headmen reviewed and collected asset-related technical information and acceptance information; and collect price data through market investigation and queries; and
7. Golden Standard & Headmen made initial estimates and appraisal on a verified basis.

***(III) Summary of valuation***

Golden Standard & Headmen analysed and summarised the initial results of valuation of all kinds of assets and made necessary adjustments, corrections and improvements to the valuation results.

***(IV) Preparation and submission of the valuation report***

Golden Standard & Headmen prepared the asset valuation report, exchanged opinions with the Client on the first draft of the valuation. After a comprehensive consideration of relevant opinion, Golden Standard & Headmen made corrections and amendments to the report accordance with the internal three-level examination and verification system and procedures of valuation institutions and finally issued the official asset valuation report.

**IX. Valuation Assumptions**

1. The assumptions on transactions;
2. The assumption of open markets;
3. The assumption of continuing usage of assets;
4. The assumption of continuing operations;
5. There will be no material changes in the existing macro-economy in China;
6. There will be no material changes in the social and economic environments where the entity appraised is located, or in policies related to taxation and tax rate;
7. The future operation and management team of the entity appraised will faithfully fulfill their duties and realise the sustainable operation under the existing operation and management mode. The operation plans after the reference day will be successfully achieved;
8. On the basis of existing management manner and level of the entity appraised, the business scope, methods are consistent with current ones;
9. The effect of inflation is not considered in the valuation;

10. It is presumed that the controlling and non-controlling equity will not generate any premium or discount;
11. It is presumed that the entity appraised can continue to apply for and become a high-tech enterprise after the expiration of the certificate of high-tech enterprises so as to be entitled to 15% of enterprise income tax rate.

The valuers, according to the requirements of asset valuation, determine that the assumptions are established on the reference day. Where there is any significant change in the economic environment and assumption, the valuers will not assume any liabilities for different valuation results due to changes in the assumptions.

**X. Conclusion**

The asset-based approach and the income approach are adopted for appraisal and estimates in the valuation.

**(I) The asset-based approach***1. Valuation result*

The book value of all shareholders' equity (net assets) of Beijing Jingcheng Compressor included in the scope of valuation as at the referenced day amounted to RMB 160,472,700.00; and the appraisal value amounted to RMB 250,202,800.00, up by RMB 89,730,100.00 or 55.92%. The valuation results of all kinds of assets and liabilities are as follows:

**Summary of Asset Valuation Results***Unit: RMB 0'000*

| Item | Book Value                    | Appraisal Value | Reduction/<br>Growth | Growth Rate %  |        |
|------|-------------------------------|-----------------|----------------------|----------------|--------|
|      | A                             | B               | C=B-A                | D=C/A<br>×100% |        |
| 1    | Current assets                | 16,791.53       | 17,232.57            | 441.04         | 2.63   |
| 2    | Non-current assets            | 12,689.52       | 20,764.68            | 8,075.17       | 63.64  |
| 3    | Including: Available-for-sale |                 |                      |                |        |
|      | financial assets              | –               | –                    | –              |        |
| 5    | Long-term receivables         | –               | –                    | –              |        |
| 6    | Long-term equity              |                 |                      |                |        |
|      | investment                    | 6,261.70        | 7,836.78             | 1,575.08       | 25.15  |
| 7    | Investment properties         | 951.97          | 951.97               | –              | –      |
| 8    | Fixed assets                  | 2,286.62        | 3,208.13             | 921.51         | 40.30  |
| 9    | Construction in progress      | 1,898.32        | 1,789.32             | -108.99        | -5.74  |
| 10   | Construction materials        | –               | –                    | –              |        |
| 14   | Intangible assets             | 904.18          | 6,591.58             | 5,687.39       | 629.01 |
| 15   | Research and                  |                 |                      |                |        |
|      | development expenses          | –               | –                    | –              |        |
| 16   | Good will                     | –               | –                    | –              |        |
| 17   | Long-term deferred            |                 |                      |                |        |
|      | expenses                      | 37.57           | 37.74                | 0.18           | 0.48   |
| 18   | Deferred income tax           |                 |                      |                |        |
|      | assets                        | 349.16          | 349.16               | –              | –      |
| 19   | Other non-current assets      | –               | –                    | –              |        |
| 20   | Total assets                  | 29,481.05       | 37,997.25            | 8,516.21       | 28.89  |
| 21   | Current liabilities           | 11,776.97       | 11,776.97            | –              | –      |
| 22   | Non-current liabilities       | 1,656.80        | 1,200.00             | -456.80        | -27.57 |
| 23   | Total liabilities             | 13,433.77       | 12,976.97            | -456.80        | -3.40  |
| 24   | Net assets (owners' equity)   | 16,047.28       | 25,020.28            | 8,973.01       | 55.92  |



**(II) The income approach**

As at the reference day, the book value of the owners' equity (net asset) of Beijing Jingcheng Compressor Co., Ltd. amounted to RMB 160,472,700.00, and the appraisal value amounted to RMB 103,701,900.00, down by RMB 56,770,800.00, or 35.38%.

**(III) Determination of the valuation results**

As there are uncertainties in future income, and combined with the valuation purpose, the valuers finally adopted the valuation results acquired from the asset-based approach as the final conclusion, i.e. the market value of shareholders' right of Beijing Jingcheng Compressor Co., Ltd. as at 31 December 2013 amounted to RMB 250,202,800.

**XI. Special Instructions**

(I) Up to the reference day, the entity appraised had 5 houses without the certificate of the ownership of real estate. The entity appraised provided relevant vouchers, some of formalities for reporting and construction and commitment on property rights. The conclusion in the valuation is made on the assumption that the property right is complete, and the expenses required for handling the properties are not considered. The final determination of property rights and the building area of the houses shall be subject to the certificate of ownership issued by local real estate administration departments. The effect brought by any inconsistency between the building area surveyed by professional qualified surveyors and the building area adopted for the valuation has not been considered. The details of houses without property rights are set out as follows:

| Name of Building                         | Structure       | Date of Completion | Building Area<br>( $m^2$ ) | Book Value (RMB)     |                      |
|--|-----------------|--------------------|----------------------------|----------------------|----------------------|
|  |                 |                    |                            | Original Value       | Net Value            |
| Headquarter office building              | Mixed           | 16 November 2004   | 1,998.00                   | 2,533,877.00         | 2,047,425.88         |
| Headquarter workshop of structural parts | Steel structure | 30 March 2005      | 2,947.00                   | 3,892,483.74         | 3,145,208.35         |
| Headquarter training center              | Mixed           | 20 January 2005    | 1,200.00                   | 2,545,000.52         | 2,058,860.38         |
| Headquarter assembly workshop            | Steel structure | 30 March 2005      | 2,981.40                   | 4,630,457.16         | 3,752,726.44         |
| Total                                    |                 |                    | <u>9,126.40</u>            | <u>13,601,818.42</u> | <u>11,004,221.05</u> |

- (II) In October 2012, the name of Beijing Jingcheng Environmental Protection Development Co., Ltd was changed to Beijing Jingcheng Compressor Co., Ltd. Up to the reference day, the holder of the certificate of land use right was not changed.
- (III) The restrictions of valuation process
1. The valuers did not make technical tests on the technical specifications and performance on the equipment as at the reference date but presumed that the technical information and operation records provided by the entity appraised were authentic and effective, and the valuers made judgments through onsite survey without the help of any testing instruments;
  2. The valuers did not make technical tests on the hidden projects and internal structures (that could not be seen with eyes) of all buildings and constructions, but presumed that the technical information and operation records provided by the entity appraised were authentic and effective, and the valuers made judgments through onsite survey without the help of any testing instruments.
- (IV) The valuers conducted due diligence but did not find any material events that might have significant effect on the valuation conclusions from the reference day to the date of the Report. After the reference day and within the effective period of the valuation conclusion, if there is any change in quantity or the pricing standard of assets, the following principles shall be followed:
1. Where there is any change in the quantity of assets, the amount of assets shall be adjusted correspondingly with the original valuation approach;
  2. Where there is any change in the pricing standard of assets that have had obvious effects over the appraisal value of assets, the Client shall engage qualified valuation institutions to re-determine the appraisal value;
  3. In case of changes in quantities and pricing standard of assets after the reference day, the Client shall give full consideration and make corresponding adjustments when the assets are actually appraised.
- (V) In the valuation of the long-term equity investments, the certified public valuers are fully aware that the liquidity of the assets may have a material effect on the valuation target. As it is impossible to obtain the industry information and relevant transaction of property rights of assets, and due to the absence of analysis basis for the liquidity of the assets, the effect of liquidity of assets on the value of the valuation target is not considered in the valuation.
- (VI) In the valuation of the long-term equity investments, the certified public valuers are fully aware that the value of some shareholders' equity is not necessarily the product of the proportion of equity and all the shareholders' equity. As it is impossible to gain access to the industry information and relevant equity

transaction, and due to the absence of analysis basis, the premium or discount generated from the controlling or minority interest is not considered in the valuation.

- (VII) With respect to potential defect events in the enterprise that may affect the asset valuation and have not been stated during the commission, while the valuers have performed valuation processes but still fail to be aware of such events, the valuation institutions and valuers will not assume any relevant liabilities.

Users of the Report are requested by valuers to pay attention to the special instructions above.

## **XII. Notes on Restricted Use of the Valuation Report**

1. The Report is only used for the purposes set out in the report and shall not be used for other purposes. Any consequence arising from misuse of the Report has no connection in any way with the valuers signed on the Report and their valuation institutions;
2. The Report shall only be used by users of valuation reports set out in the Letter of Engagement Asset Valuation signed between Beijing Golden Standard & Headmen Appraisal and Advisory Co., Ltd. and the Client and those specified by national laws and regulations;
3. The valuation conclusion shall not be used if the Report is not approved or filed for records;
4. Any or all parts of the Report shall not be extracted, referenced or disclosed to public media without the consent of the valuation institution;
5. Since the reference day, if there is no material change in the market condition or the situation of assets, the valuation conclusion of the Report shall be and remain effective for one year as of the reference day, i.e. commencing on 31 December 2013 and ending on 30 December 2014;
6. In case of policy adjustments that have material effects on the conclusion of the Report, the reference day shall be re-determined for valuation.

No Text Below; Signature Page Follows.

**XIII. Date of Valuation Report**

The date of the Report is 11 April 2014.

Beijing Golden Standard & Headmen Appraisal  
and Advisory Co., Ltd.

Legal Representative: Chen Dongmei

Certified Public Valuers: Yang Yang, Yu Hongtao

11 April 2014

## EXECUTIVE DIRECTORS

- (1) **Hu Chuanzhong**, Chinese, male, aged 44. He obtained a bachelor degree in mechanical engineering from Tsinghua University and an Executive Master of Business Administration from the University of Texas at Arlington, United States of America. He is a senior engineer. Mr. Hu was a technician, assistant engineer, deputy director, director, vice president of engineering, deputy manager of technical quality department, and deputy general manager of Tianhai Industry Co., Ltd. He was also the chairman of Tianjin Tianhai High Pressure Containers Co., Ltd. He is currently the general manager, director and party secretary of Beijing Tianhai Industry Co., Ltd, director and general manager of Jingcheng Holding (Hong Kong) Company Limited as well as the director of Tianjin Tianhai High Pressure Containers Co., Ltd. and Langfang Tianhai High Pressure Containers Co., Ltd. He was appointed as the general manager of the Company on 31 October 2013 and was appointed as the director of seventh board of directors of the Company on 16 December 2013.
- (2) **Li Junjie**, Chinese, male, aged 36. He obtained a bachelor degree in industrial economics from Taiyuan Heavy Machinery Institute and an Executive Master of Business Administration degree from Guanghua School of Management of Peking University. He was an accountant of finance department, salesman of marketing department and deputy manager of human resources department in Beijing Tianhai Industry Co., Ltd. He is currently the deputy party secretary and deputy general manager of Beijing Tianhai Industry Co., Ltd. He was appointed as deputy general manager of the Company on 31 October 2013 and director of seventh board of directors of the Company on 16 December 2013.
- (3) **Wu Yanzhang**, Chinese, male, aged 49. He obtained a bachelor's degree in Machinery Manufacturing Management at Hefei University of Technology and Executive Master of Business Administration at China Europe International Business School. Mr. Wu served as the dispatcher of the production department, the deputy department head, assistant to factory head and the director of office of Beijing No. 1 Machine Tool Plant (北京第一機床廠), the Sino General Manager of OKUMA-BYJC (Beijing) Machine Tool Co. Ltd (北一大假公司), the director of Communications Office, the director of office, the head of Legal Department, the head of Non-financial Corporate Management Department and the head of Asset Management Department of Beijing Jingcheng Machinery Electric Holding Co., Ltd. He is currently the director and the general manager of Jingcheng Compressor Co., Ltd. He was appointed as the deputy general manager and director of the Company on 5 November 2013 and 16 December 2013 respectively.
- (4) **Jiang Chi**, Chinese, female, aged 38, graduated from Beijing Technology and Business University with a degree in Economics. Ms. Jiang is a senior accountant and worked in Beijing DoubleCrane Pharmaceutical Co., Ltd. as the accountant, Century Industry Investment Co., Ltd. as financial officer, China National Pharmaceutical Group Corporation as assistant to financial manager, Huayi Pharmaceutical Co. Ltd. as financial manager, Beijing Jingcheng Mechanical & Electrical Holding Co., Ltd. as budget financial officer and deputy head of Financial Planning Department. Ms. Jiang has served Beiren Printing Machinery Holdings Limited (currently renamed as Beijing

Jingcheng Machinery Electric Company Limited) since October 2011 and has been appointed as the director and chief accountant. At present, Ms Jiang is the director, deputy general manager and chief legal counsel of Beijing Tianhai Industry Co., Ltd., the director and financial controller of Beijing Jingcheng Compressor Co., Ltd. and the director and financial controller of Jingcheng Holding (Hong Kong) Company Limited.

#### NON-EXECUTIVE DIRECTORS

- (5) **Zhou Yongjun**, Chinese, male, aged 48. He obtained a Bachelor's Degree of Engineering from Xi'an Jiaotong University and Master's Degree from Cheung Kong Graduate School of Business. He is a senior engineer. Mr. Zhou was deputy director, director, deputy chief engineer, and deputy general manager of the Technology Department of Beijing BEIZHONG Steam Turbine Generator Co., Ltd. He is currently the minister of the Strategic and Investment Department of Beijing Jingcheng Machinery Electric Holding Co., Ltd, director of Beijing Jingcheng Heavy Industry Co., Ltd., Global Industrial Supply Co., Ltd, Beijing Huade Hydraulic Industrial Group Co., Ltd, GD Jingcheng Handan Thermal Energy Co., Ltd. (國電京城邯鄲熱電有限公司) and Beijing Jingcheng Nagano Engineering Machinery Co., Ltd.
- (6) **Chang Yun**, Chinese, female, aged 39. She obtained a Bachelor's Degree in economics from China Coal Economic College (中國煤炭經濟學院), Master of Business Administration of China Europe International Business School. She is a senior accountant, certified public accountant and certified tax agent. Ms. Chang was the cost accounting supervisor, deputy director of the finance department of Beijing Research Institute of Mechanical & Electrical Technology, finance manager of BMEI Co., Ltd. and chief financial officer of Beijing Jingcheng Heavy Industry Co., Ltd. She is currently the Minister of the Audit Department of Beijing Jingcheng Machinery Electric Holding Co., Ltd. (the headquarter).
- (7) **Xia Zhonghua**, Chinese, male, aged 49. He obtained a Bachelor's Degree in Engineering from Hefei University of Technology. He is a senior engineer. Mr. Xia was designer of construction of Beijing Metal Structure Factory (new factory) of Beijing Machinery Industrial Engineering Contract Corporation (北京機械工業建設工程承發包公司) and its technical director, project assistant manager and project manager, director in basic construction of Beijing Jingcheng Machinery Electric Holding Co., Ltd., director of the construction project planning department of Beijing Jianji Real Estate Co., Ltd. (北京建機房地產公司) (Part-time), head of Resource Allocation and Restructuring of Beijing Jingcheng Machinery Electric Holding Co., Ltd., head of project investment of Beijing Jingcheng Machinery Electric Holding Co., Ltd., vice-president of Party School of Beijing Machinery Industry Administrative Bureau (北京機械工業管理局黨校) and deputy minister of the asset management department of Beijing Jingcheng Machinery Electric Holding Co., Ltd.. He is currently the vice minister of the Ministry of the Securities and Reform of Beijing Jingcheng Machinery Electric Holding Co., Ltd. (taking charge of works), director of Beijing Xihai Industrial and Trading Company and Beijing Jingcheng Mechanical & Electrical Asset Management Co., Ltd.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

- (8) **Wu Yan**, Chinese, female, aged 67, graduated from Xi'an Jiaotong University majoring in boiler design and manufacturing. Ms. Wu was the technician of the First Research & Design Institute of Nuclear Industry (核工業第一設計研究院), technician of Tianjin Bureau of Labor, deputy director and director in the Boiler and Pressure Vessel Detection & Research Center under the Ministry of Labour, director and assistant inspector of Boiler and Pressure Vessel Safety Supervision Bureau under the State Bureau of Quality Technical Supervision, assistant inspector of Special Equipment Safety Supervision Bureau under the State Administration for Quality Supervision and Inspection and Quarantine, deputy secretary general and secretary general of China Gas Cylinders Standardization Technical Committee, and currently serves as the consultant of the committee.
- (9) **Liu Ning**, Chinese, male, aged 56. He obtained a Bachelor of Laws from China University of Political Science and Law. He was the postgraduate in international economic law of Institute for International Economics of Nankai University and a lawyer. Mr. Liu obtained his qualification of lawyer in 1984 and have been practicing as a lawyer for over twenty years, during which he had dealt with various representative cases and legal affairs, and participated in legislation and other work. Mr. Liu served as director of Tianjin Dongfang Law Office and Beijing New Era Law Firm. He is currently the director and senior partner of B.J.H & New Era Law Firm (北京市公元博景泓律師事務所), member of the Economics Committee of All-China Lawyers Association, member of the Legislative Committee of the Central Committee of China Democratic League, researcher of Food and Drug Industry Development and Regulatory Research Center of Chinese Academy of Social Sciences, legislative consultant of Beijing Municipal People's Congress, member of the Eighth Committee of Chinese People's Political Consultative Conference of Haidian District of Beijing, member of Beijing Municipal Committee of China Democratic League, deputy director of the Social and Legal Affairs Committee of Beijing Municipal Committee of China Democratic League and executive member of Beijing Federation of Industry & Commerce. From 30 May 2006 to 31 May 2012, Mr. Liu served as two sessions of independent non-executive director of the board of directors of China Resources Double-crane Pharmaceutical Co., Ltd. (formerly known as Beijing Double-Crane Pharmaceutical Co., Ltd.) (listed on the Shanghai Stock Exchange, stock code 600062). On 31 May 2012, Mr. Liu ceased to be the independent non-executive director of China Resources Double-crane Pharmaceutical Co., Ltd. due to the general election of the board of directors of the company.
- (10) **Yang Xiaohui**, Chinese, male, aged 46. He has a bachelor's degree and is a certified public accountant, certified tax agent, certified public valuer (non-practicing member) and senior accountant in China. Mr. Yang was a teacher of North China University of Technology, department manager, deputy general manager and partner of Zhonghengxin, China Rightson Certified Public Accountants and RSM China Certified Public Accountants, and also served as the member of the technical committee of Beijing Institute of Certified Public Accountants. He is currently the senior partner of Ruihua Certified Public Accountants.

- (11) **Fan Yong**, Chinese, male, aged 42. He obtained a master degree from Tsinghua University. Mr. Fan worked as the head of Investment Banking Division in Qinghai Securities, deputy director of general office of Shengli Oil Field Dynamic Group Co., Ltd. (Dynamic), deputy general manager of Felsted (Beijing) Investment Co., Ltd. (佛爾斯特(北京)投資有限責任公司), general manager of Capital Investment Department of Rising Securities Co., Ltd., business director of Investment Bank Headquarters of Qilu Securities Co., Ltd., director of Investment Banking of Zhong De Securities Co., Ltd. He is currently a founding partner of Beijing Yi Hui Jin Tong Asset Management Co., Ltd. (北京易匯金通資產管理有限責任公司).

Save as disclosed above, the Director candidates referred in Appendix III are not connected with other Directors, Supervisors and senior management of the Company. Mr. Zhou Yongjun, Ms. Chang Yun and Mr. Xia Zhonghua respectively serve as the Minister of the Ministry of Strategy and Investment, the Minister of the Audit Department, and the Vice Minister of the Ministry of the Securities and Reform of Beijing Jingcheng Machinery Electric Holding Co., Ltd., the substantial shareholder of the Company. Mr. Hu Chuanzhong, Mr. Li Junjie, Mr. Wu Yanzhang, Ms. Jiang Chi, Ms. Wu Yan, Mr. Liu Ning, Mr. Yang Xiaohui and Mr. Fan Yong are not connected with the substantial shareholders or controlling shareholders of the Company. The 11 Director candidates do not have any interest in shares of the Company as defined in Part XV of the SFO. Except for Mr. Liu Ning, the other 10 Director candidates did not hold any directorships in any other listed companies in Hong Kong or overseas in last three years. In respect of the 11 Director candidates, save as disclosed above, there is no other information which is required to be disclosed pursuant to any provisions under Rule 13.51(2) of the Listing Rules, and there is no other matter which needs to be brought to the attention of the Shareholders.

As at the Latest Practicable Date, according to the register kept under section 352 of the SFO, the above 11 Director candidates of the Company do not hold any interests or short positions in the Shares, underlying Shares and debentures of the Company.

## SUPERVISORS

- (1) **Liu Zhe**, Chinese, female, aged 36, is a lecturer with a bachelor's degree in engineering. Ms. Liu was a teacher, group leader of teaching and research, Youth League secretary, secretary of student party branch of Light Industry Branch of Beijing Industry and Trade Technicians College, Youth League secretary and director of publicity department of the party/company of Beijing Jingcheng Machinery Electric Holding Co., Ltd. Currently, she is deputy party secretary, secretary of discipline inspection commission and chairman of labour union of Beijing Tianhai Industry Co., Ltd.
- (2) **Han Bingkui**, Chinese, male, aged 59, graduate of economics and management and is a senior accountant. Mr. Han was chief of finance division and accountant of Beijing High Pressure Gas Cylinder Factory (北京高壓氣瓶廠), deputy head of finance department, director and chief accountant of Beijing Tianhai Industry Co., Ltd. Currently, he is the director, chief financial officer and department head of finance department of Beijing Tianhai Industry Co., Ltd.



Save as disclosed above, none of the proposed Supervisors to be elected at the AGM has any relationship with any other Directors, Supervisors, senior management, substantial or controlling shareholder of the Company. They do not have any interest in shares of the Company within the meaning of Part XV of the SFO, and did not act as Supervisor in other listed companies for the last three years. Save as disclosed above, in respect of all proposed Supervisors to be elected at the AGM, there is no other information which is required to be disclosed pursuant to any provisions under Rule 13.51(2) of the Listing Rules nor other matters that need to be brought to the attention of the Shareholders.

As at the Latest Practicable Date, according to the register maintained pursuant to section 352 of the SFO, all of the proposed Supervisors do not have any interest or short positions in the Shares, underlying Shares and debentures of the Company.

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, so far as was known to the Directors, none of the Directors, the 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 for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

The following is a list of Directors and proposed 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/<br>proposed Director | Name of<br>Shareholder | Capacity of<br>Director/<br>proposed<br>Director in<br>Shareholder | Number of<br>Shares held by<br>Shareholder | Approximate<br>percentage of<br>shareholding<br>in the entire<br>share capital<br>of the<br>Company (A<br>Shares and H<br>Shares) |
|--|------------------------|--|--|---|
| Jiang Zili                             | Jingcheng<br>Holding   | Deputy general<br>manager  | 201,620,000<br>A Shares                    | 47.78%  |
| Zhou Yongjun                           | Jingcheng<br>Holding   | Minister of the<br>Strategic and<br>Investment<br>Department       | 201,620,000<br>A Shares                    | 47.78%  |
| Chang Yun                              | Jingcheng<br>Holding   | Minister of the<br>Audit<br>Department                             | 201,620,000<br>A Shares                    | 47.78%  |

| Name of Director/<br>proposed Director | Name of<br>Shareholder | Capacity of<br>Director/<br>proposed<br>Director in<br>Shareholder  | Number of<br>Shares held by<br>Shareholder | Approximate<br>percentage of<br>shareholding<br>in the entire<br>share capital<br>of the<br>Company (A<br>Shares and H<br>Shares) |
|--|------------------------|---|--|---|
| Xia Zhonghua                           | Jingcheng<br>Holding   | Vice minister of<br>the Ministry of<br>the Securities<br>and Reform | 201,620,000<br>A Shares                    | 47.78%  |

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or proposed 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.

### 3. DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, according to the Shareholders' register and related application documents received by the Company, so far as the Directors and senior management of the Company are aware, each of the following persons, not being a Director or senior management of the Company, had an interest in the Shares which is required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in ten percent, or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

#### Interests in the Company

| Name of Shareholder | Type of<br>interest | Class    | Number of<br>Shares in<br>class<br>(Approximate<br>percentage<br>shareholding<br>in class) | Approximate<br>percentage of<br>shareholding<br>in the entire<br>share capital<br>of the<br>Company (A<br>Shares and H<br>Shares) |
|---------------------|---------------------|----------|--|---|
| Jingcheng Holding   | Beneficial<br>owner | A Shares | 201,620,000<br>(62.61%)  | 47.78%  |
| Pictet & CIE        | Beneficial<br>owner | H Shares | 5,978,000<br>(5.98%)   | 1.42%   |

| Name of Shareholder | Type of interest | Class    | Number of Shares in class (Approximate percentage shareholding in class) | Approximate percentage of shareholding in the entire share capital of the Company (A Shares and H Shares) |
|---------------------|------------------|----------|--|---|
| 788 China Fund Ltd. | Beneficial owner | H Shares | 5,124,000 (5.12%)  | 1.21%   |

#### Interests in other members of the Group

| Name of the member of the Group   | Name of person  | Approximate percentage of interest |
|---|---|------------------------------------|
| Amercia Fortune Company   | 鄭國祥 (Zheng Guoxiang)  | 24.50%                             |
|   | 郭志紅 (Guo Zhihong)   | 24.50%                             |
| 上海天海德坤復合氣瓶有限公司 (Shanghai Tianhai Gas Cylinder Co., Ltd.)                  | 吳壽宗 (Wu Shouzong)   | 12.16%                             |
| 天津天海高壓容器有限責任公司 (Tianjin Tianhai High Pressure Containers Co., Ltd.)       | 天津大無縫投資有限公司 (Tianjin Dawufeng Investment Co., Ltd.)         | 45.00%                             |
| 北京天海低溫設備有限公司 (Beijing Tianhai Cryogenic Equipment Co., Ltd.)              | 北京科瑞尼克科貿有限公司 (Beijing Kerui Nike Science Trading Co., Ltd.) | 25.00%                             |
| 廊坊天海高壓容器有限公司 (Langfang Tianhai High Pressure Cylinder Co., Ltd.)          | 吳壽宗 (Wu Shouzong)   | 17.92%                             |
| 北京天海西港環境技術有限公司 (Beijing Tianhai Xigang Environmental Technique Co., Ltd.) | 西港能源公司 (Xigang Energy Co, Ltd.)                             | 50.00%                             |

Save as disclosed above and so far as the Directors and senior management of the Company are aware, as at Latest Practicable Date, no substantial Shareholder or other person held any interest or short position in the Shares or underlying Shares (as the case may be) which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 Part XV of the SFO, or who is, directly or indirectly, interested in ten percent, or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

**4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors or proposed Directors had any existing or proposed service contracts with the Company which does not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

**5. DIRECTORS' INTERESTS IN ASSETS**

As at the Latest Practicable Date, none of the Directors or proposed Directors had any direct or indirect interest in any asset which had been, since 31 December 2013, 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 which was significant in relation to the business of the Company.

**6. COMPETING INTERESTS**

As at the Latest Practicable Date, so far as the Directors and the proposed Directors were aware, none of the Directors or their respective associates had any interest in a business which competes or is likely to compete with the business of the Group.

**7. QUALIFICATIONS AND CONSENTS OF EXPERTS**

The following are the qualifications of the experts who have given their opinion or advice which is contained in this circular:

| <b>Name</b>  | <b>Qualification</b>   |
|--|--|
| China Everbright Capital Limited                                 | a corporation licensed to Type 1(dealing in securities), Type 4 (advising on Securities) and Type 6 (advising on corporate finance) regulated activity under the SFO, the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Preliminary Asset Transaction Agreement and Disposal |
| Golden Standard & Headman<br>Appraisal and Advisory Co.,<br>Ltd. | an independent valuer  |

Each of Everbright Capital and Golden Standard & Headman Appraisal and Advisory has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter/report and reference to their names in the form and context in which it appears.

As at the Latest Practicable Date, each of Everbright Capital and Golden Standard & Headman Appraisal and Advisory was not interested in any Shares or shares in any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Shares or shares in any member of the Group.

As at the Latest Practicable Date, each of Everbright Capital and Golden Standard & Headman Appraisal and Advisory did not have any direct or indirect interest in any asset which had been or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2013, being the date to which the latest published audited financial statements of the Company were made up.

## 8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business of the Group) have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material:

- (a) the reorganisation framework agreement dated 5 July 2012 between the Company and Jingcheng Holding setting out the framework of the exchange by the Company of all of its assets and liabilities with (i) 88.50% equity interests in Beijing Tianhai Industry Co., Ltd (北京天海工業有限公司); (ii) 100% interests in Jingcheng Compressor (after the disposal of its environmental protection business); and (iii) 100% interests in Jingcheng Holding (Hong Kong) Company Limited (the “**Reorganisation**”);
- (b) an equity transfer agreement dated 27 September 2012 between Jingcheng Compressor and Beijing Xihai Industrial & Trading Co., Ltd. (北京西海工貿公司) (“**Beijing Xihai**”) pursuant to which Jingcheng Compressor has agreed to transfer its 80% equity interest in Beijing Jingcheng Tianyi Environmental Technology Co., Ltd. (北京京城天義環保科技有限公司) to Beijing Xihai at nil consideration;
- (c) an asset transfer agreement dated 27 September 2012 entered into between Jingcheng Compressor and Beijing Xihai pursuant to which Jingcheng Compressor has agreed to transfer all its assets (including long-term equity investments and intangible assets such as trademarks and patents) relating to its environmental protection business to Beijing Xihai at nil consideration;
- (d) the material asset reorganisation agreement (“**Material Asset Reorganisation Agreement**”) dated 2 November 2012 between the Company, Jingcheng Holding and Beiren Group Corporation (北人集團公司) (“**Beiren Group**”) setting out terms and conditions of the Reorganisation, as amended and supplemented from time to time;

- (e) the supplemental agreement dated 29 November 2012 entered into between Jingcheng Holding, Beiren Group and the Company pursuant to which the parties have agreed to amend certain terms of the Material Asset Reorganisation Agreement;
- (f) the agreement dated 31 October 2013 entered into between Tianhai Industrial with Beijing Jingcheng Electric Management Co., Ltd (北京京城機電資產管理有限責任公司) for the disposal of the property situated at No.25, West Huaweili, Chaoyang District, Beijing, the PRC for RMB 105,779,500; and
- (g) the Preliminary Asset Transaction Agreement.

## **9. LITIGATION**

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or claims of material importance and, so far as the Directors are aware, no litigation or claims of material importance is pending or threatened against the Group.

## **10. GENERAL**

- (a) The Hong Kong branch share registrar and transfer office of the Company (for H Shares) is Hong Kong Registrars Limited at Room 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (b) The secretary of the Company is Jiao Ruifang, a graduate of Bachelor in Economics from Harbin University of Science and Technology, MBA in Financial Services Programme from The Chinese University of Hong Kong and a senior project manager.
- (c) The valuation report in Appendix II is prepared in Chinese. In case of inconsistency between the Chinese version and its English translation, the Chinese version shall prevail.

## **11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Messrs. Woo, Kwan, Lee & Lo at 26th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours within 14 days from the date of this circular:

- (a) the Articles of Association;
- (b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 15 to 16 of this circular;
- (c) the letter of advice from Everbright Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 17 to 27 of this circular;

- (d) the written consents of Everbright Capital and Golden Standard & Headman Appraisal and Advisory referred to in the paragraph headed “Qualification and Consents of Experts” in this appendix;
- (e) the Valuation Report, the text of which is set out in Appendix II to this circular;
- (f) the material contracts referred to under the section headed “Material Contracts” in this appendix;
- (g) the annual reports of the Company for the two financial years ended 31 December 2012 and 2013;
- (h) the circular dated 23 May 2014 issued by the Company; and
- (i) this circular.



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## SUPPLEMENTAL NOTICE OF AGM

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*The following corresponds to the supplemental notice of AGM which was published and despatched to the Shareholders on 16 May 2014.*

### **SUPPLEMENTAL NOTICE OF THE 2013 ANNUAL GENERAL MEETING WITH ADDITIONAL PROPOSED RESOLUTIONS**

The board of directors of the Company (the “Board”) and all members of the Board warrant that this announcement does not contain any false information, misleading statement or material omission and accept joint and several responsibilities for the truthfulness, accuracy and completeness of the contents herein contained.

Beijing Jingcheng Machinery Electric Company Limited (the “Company”) published the Notice of the 2013 Annual General Meeting on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) and on the HKExnews website of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) on 12 May 2014. The 2013 Annual General Meeting (“AGM”) will be held at the First Conference Room, 18/F, Jingcheng Machinery Electric Building, No. 59 Mansion, Dongsanhuan Road Central, Chaoyang District, Beijing on 26 June 2014 (Thursday) at 9:00 a.m..

On 15 May 2014, the Company received six extraordinary proposals from Beijing Jingcheng Machinery Electric Holding Co., Ltd. (a substantial shareholder which holds 201,620,000 shares of the Company, representing approximately 47.78% of the total share capital of the Company). According to the relevant requirements of Article 14 of the Rules and Procedures of the General Meetings of the Shareholders, “Shareholders that independently or collectively hold 3% or more of shares in the Company may make a temporary proposal and submit it to the convener(s) in written form ten days prior to a General Meeting. The convener(s) shall give a supplementary notice of the General Meeting to announce the content of the temporary proposal within 2 days upon receipt of the proposal”. The six extraordinary proposals will be submitted for consideration in the AGM.

The following resolutions are added to the AGM:

Ordinary resolutions:

1. To consider and approve the resolution on the proposed disposal of the 100% equity interest in Beijing Jingcheng Compressor Co., Ltd. by the Company by way of public tender;
2. To consider and approve the resolution on the proposed Asset Transaction Agreement to be entered into between the Company and Beijing Jingcheng Machinery Electric Holding Co., Ltd., subject to terms and conditions, and the connected transaction contemplated thereunder;
3. To elect Mr. Hu Chuanzhong, Mr. Li Junjie, Mr. Wu Yanzhang and Ms. Jiang Chi as the executive directors of the eighth Board of the Company; to elect Mr. Zhou Yongjun, Ms. Chang Yun and Mr. Xia Zhonghua as the non-executive directors of

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## SUPPLEMENTAL NOTICE OF AGM

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the eighth Board of the Company; to elect Ms. Wu Yan, Mr. Liu Ning, Mr. Yang Xiaohui and Mr. Fan Yong as the independent non-executive directors of the eighth Board of the Company;

4. To consider and approve the resolution on the remuneration of and the service contracts to be entered into with directors of the eighth Board of the Company;
5. To elect Ms. Liu Zhe and Mr. Han Bingkui as the supervisors of the eighth supervisory committee of the Company;
6. To consider and approve the resolution on the remuneration of and the service contracts to be entered into with supervisors of the eighth supervisory committee of the Company;

Apart from the addition of the above resolutions, no other amendments are made by this supplemental notice on the Notice of the 2013 Annual General Meeting of the Company.

*The Board of Directors*  
**Beijing Jingcheng Machinery Electric Company Limited**

16 May 2014

*As at the date of this announcement, the Board comprises Mr. Wang Pingsheng, Mr. Hu Chuanzhong, Mr. Wu Yanzhang, Mr. Li Junjie and Ms. Jiang Chi as executive directors, Mr. Jiang Zili and Ms. Wu Dongbo as non-executive directors and Mr. Zhang Shuangru, Ms. Wang Hui, Mr. Xie Bingguang and Mr. Wang Deyu as independent non-executive directors.*