

---

## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

---

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

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

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

---



# 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)

### 2013 ANNUAL REPORT

#### 2013 WORK REPORT OF THE BOARD OF DIRECTORS

#### 2013 WORK REPORT OF THE SUPERVISORY COMMITTEE

#### 2013 AUDITOR'S AUDITED FINANCIAL REPORTS

#### 2013 AUDITOR'S AUDITED INTERNAL CONTROL REPORT

#### NO PROFIT DISTRIBUTION PLAN FOR 2013

#### APPOINTMENT OF THE AUDITOR FOR 2014 FINANCIAL REPORTS

#### APPOINTMENT OF THE AUDITOR FOR 2014 INTERNAL CONTROL REPORT

#### REPORT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS FOR THE YEAR 2013

#### MANAGEMENT MEASURES ON THE EFFICIENCY ASSESSMENT OF SENIOR MANAGEMENT

#### FUND RAISING MANAGEMENT MEASURES

#### CONTINUING CONNECTED TRANSACTIONS

#### PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

#### AND

#### NOTICE OF ANNUAL GENERAL MEETING

*Independent Financial Adviser*

*to the Independent Board Committee and the Independent Shareholders*



**China Everbright Capital Limited**

---

A letter from the Board is set out on pages 5 to 15 of this circular and a letter from the Independent Board Committee is set out on pages 16 to 17 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 18 to 26 of this circular.

A notice convening the 2013 annual general meeting ("AGM") of Beijing Jingcheng Machinery Electric Company Limited (the "Company") to be held at the First Conference Room, 18/F, Jingcheng Machinery Electric Building, No. 59 Mansion, Dongsanhuan Road Central, Chaoyang District, Beijing, PRC, on 26 June 2014 (Thursday) at 9:00 a.m. is set out on pages 61 to 63 of this circular.

Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it as soon as possible and in any event not later than 24 hours before the time appointed for the holding of the AGM. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting should you so wish.

23 May 2014

---

## CONTENTS

---

	<i>Pages</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	5
<b>Letter from the Independent Board Committee</b> .....	16
<b>Letter from Everbright Capital</b> .....	18
<b>Appendix I – General Information</b> .....	27
<b>Appendix II – 2013 Work Report of the Supervisory Committee</b> .....	32
<b>Appendix III – Report of the Independent Non-Executive Directors for the year 2013</b> .....	42
<b>Appendix IV – Management Measures on the Efficiency Assessment of Senior Management</b> .....	51
<b>Appendix V – Fund Raising Management Measures</b> .....	57
<b>Notice of AGM</b> .....	61

---

## DEFINITIONS

---

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

“Articles of Association”	the articles of association of the Company as amended from time to time
“Announcements”	the announcements of the Company dated 3 March 2014, 25 March 2014 and 27 March 2014 in relation to the Gas Cylinder Pipe Transactions
“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
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“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”	has the meaning as ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning as ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“AGM”	the annual general meeting of the Company to be convened at the First Conference Room, 18/F, Jingcheng Machinery Electric Building, No. 59 Mansion, Dongsanhuan Road Central, Chaoyang District, Beijing, PRC on 26 June 2014 (Thursday) at 9:00 a.m.
“Gas Cylinder Pipe Sale and Purchase Framework Agreement”	a sale and purchase agreement (氣瓶管購銷框架合同) entered into by Tianjin Tianhai and Tianjin Pipe on 3 March 2014 in relation to the sale and purchase of gas cylinder pipes

---

## DEFINITIONS

---

“Gas Cylinder Pipe Transactions”	the continuing connected transactions contemplated under the Gas Cylinder Pipe Sale and Purchase Framework Agreement and the Supplemental Agreement
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign 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
“Jingcheng HK”	Jingcheng Holding (Hong Kong) Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Jingcheng Holding”	北京京城機電股份有限公司 (Beijing Jingcheng Machinery Electric Holding Co., Ltd.), a company incorporated in the PRC and holding 47.78% interest in the Company
“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 Gas Cylinder Pipe Sale and Purchase Framework Agreement, the Supplemental Agreement and the Gas Cylinder Pipe Transactions
“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 Gas Cylinder Pipe Sale and Purchase Framework Agreement, the Supplemental Agreement and the Gas Cylinder Pipe Transactions
“Independent Shareholder(s)”	Shareholders who are not required to abstain from voting at the AGM for the relevant resolution of approving the Gas Cylinder Pipe Transactions

---

## DEFINITIONS

---

“Latest Practicable Date”	22 May 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
“PRC” or “State”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, Macau and Taiwan
“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
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	a supplemental agreement to the Gas Cylinder Pipe Sale and Purchase Framework Agreement entered into by Tianjin Tianhai and Tianjin Pipe on 27 March 2014 to extend the term of the Gas Cylinder Pipe Sale and Purchase Framework Agreement from the original 1 year ending 31 December 2014 to 3 years ending 31 December 2016
“Tianhai Industrial”	北京天海工業有限公司 (Beijing Tianhai Industry Co., Ltd.), a limited liability company established in the PRC and is 100% owned by the Company
“Tianjin Pipe”	天津鋼管鋼鐵貿易有限公司 (Tianjin Pipe Steel Trade Co., Ltd.), a company incorporated in the PRC and is 100% wholly owned by Tianjin Pipe Group
“Tianjin Pipe Group”	天津鋼管集團股份有限公司 (Tianjin Pipe Group Co., Ltd.), a company incorporated in the PRC
“Tianjin Seamless”	天津大無縫投資有限公司 (Tianjin Seamless Investment Co. Ltd.), a company incorporated in the PRC and is 100% owned by Tianjin Pipe Group

---

## DEFINITIONS

---

“Tianjin Tianhai”

天津天海高壓容器有限責任公司 (Tianjin Tianhai High Pressure Containers Co., Ltd.), a company incorporated in the PRC and is 45.52%, 45% and 9.48% owned by Tianhai Industrial, Tianjin Seamless and Jingcheng HK, respectively

“%”

percent

---

LETTER FROM THE BOARD

---



**北京京城机电股份有限公司**

**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

23 May 2014

*To the Shareholders*

Dear Sir or Madam,

**2013 ANNUAL REPORT  
2013 WORK REPORT OF THE BOARD OF DIRECTORS  
2013 WORK REPORT OF THE SUPERVISORY COMMITTEE  
2013 AUDITOR'S AUDITED FINANCIAL REPORTS  
2013 AUDITOR'S AUDITED INTERNAL CONTROL REPORT  
NO PROFIT DISTRIBUTION PLAN FOR 2013  
APPOINTMENT OF THE AUDITOR FOR 2014 FINANCIAL REPORTS  
APPOINTMENT OF THE AUDITOR FOR 2014 INTERNAL CONTROL REPORT  
REPORT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS FOR THE YEAR 2013  
MANAGEMENT MEASURES ON THE EFFICIENCY ASSESSMENT OF SENIOR MANAGEMENT  
FUND RAISING MANAGEMENT MEASURES  
CONTINUING CONNECTED TRANSACTIONS  
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION  
AND  
NOTICE OF ANNUAL GENERAL MEETING**

**1. INTRODUCTION**

The purpose of this circular is to give you notice of the AGM and to provide you with the necessary information regarding the resolutions to be proposed at the AGM.

---

## LETTER FROM THE BOARD

---

At the 2013 AGM, ordinary resolutions will be proposed to consider and approve (1) the Company's Annual Report for the year 2013; (2) the 2013 Work Report of the Board; (3) the 2013 Work Report of the Supervisory Committee of the Company; (4) the 2013 audited financial reports of the Company; (5) the 2013 audited internal control report of the Company; (6) no profit distribution plan for the year 2013; (7) the appointment of the auditor for 2014 financial reports; (8) the appointment of the auditor for 2014 internal control report; (9) Report of the independent non-executive Directors for the year 2013; (10) Management measures on the efficiency assessment of senior management; (11) Fund raising management measures; (12) continuing connected transactions in relation to Gas Cylinder Pipe Transactions and a special resolution to consider and approve (13) the proposed amendments to the Articles of Association.

### **2013 Annual Report of the Company, 2013 Work Report of the Board, the 2013 audited financial reports, the 2013 audited internal control report and no profit distribution plan for the year 2013**

For details, please refer to the 2013 Annual Report of the Company which has been published on the website of the Company and the website of the Stock Exchange and the relevant sections thereof.

### **2013 Work Report of the Supervisory Committee**

For details, please refer to Appendix II of this circular.

### **Appointment of auditor for 2014 financial reports**

The Board proposes that the Company to re-appoint ShineWing Certified Public Accountants LLP as its auditor for preparing the financial reports of the Company for the year 2014, and to authorize the Board to enter into a service contract with it and determine its remuneration.

### **Appointment of Auditor for 2014 Internal Control Report**

The Board proposes that the Company to re-appoint BDO China Shu Lun Pan Certified Public Accounts LLP as its auditor for preparing the internal control report of the Company for the year 2014, and to authorize the Board to enter into a service contract with it and determine its remuneration.

### **Report of the Independent Non-executive Directors for the year 2013**

For details, please refer to Appendix III.

### **Management Measures on the Efficiency Assessment of Senior Management**

For details, please refer to Appendix IV.



---

## LETTER FROM THE BOARD

---

### Fund Raising Management Measures

For details, please refer to Appendix V.

### 2. CONTINUING CONNECTED TRANSACTIONS IN RELATION TO GAS CYLINDER PIPE TRANSACTIONS

Reference is made to the Announcements, the Board announced that Tianjin Tianhai, a subsidiary of the Company, entered into the Gas Cylinder Pipe Sale and Purchase Framework Agreement with Tianjin Pipe, pursuant to which Tianjin Tianhai will purchase gas cylinder pipes from Tianjin Pipe for a term of one year commencing 1 January 2014 to 31 December 2014 with a cap of RMB300,000,000. Tianjin Tianhai further entered into the Supplemental Agreement with Tianjin Pipe, pursuant to which the term of the Gas Cylinder Pipe Sale and Purchase Framework Agreement is extended from the original 1 year ending 31 December 2014 to 3 years ending 31 December 2016.

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 Gas Cylinder Pipe Sale and Purchase Framework Agreement, the Supplemental Agreement and the Gas Cylinder Pipe Transactions. Everbright Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders regarding the Gas Cylinder Pipe Transactions.

This circular will provide you, inter alia, (i) the recommendation of the Independent Board Committee to the Independent Shareholders with respect to the Gas Cylinder Pipe Transactions; and (ii) the advice from Everbright Capital to the Independent Board Committee and the Independent Shareholders with respect to the Gas Cylinder Pipe Transactions.

#### The Gas Cylinder Pipe Sale and Purchase Agreement

**Date** : 3 March 2014

#### Parties

**Vendor** : Tianjin Pipe, a wholly-owned subsidiary of Tianjin Pipe Group. Tianhai Seamless is also a wholly-owned subsidiary of Tianjin Pipe Group and a controlling shareholder of Tianjin Tianhai holding 45% interest in Tianjin Tianhai. Thus, Tianjin Pipe is an associate of Tianjin Seamless and also a connected person of the Company

**Purchaser** : Tianjin Tianhai, a subsidiary of the Company

**Term** : A term of one year commencing from 1 January 2014 to 31 December 2014.

---

## LETTER FROM THE BOARD

---

### **Subject matter:**

Tianjin Pipe agreed to sell and Tianjin Tianhai agreed to purchase gas cylinder pipes in accordance with the provisions of the Gas Cylinder Pipe Sale and Purchase Framework Agreement.

### **Material terms:**

Tianjin Pipe shall supply the gas cylinder pipes with quality that meets the national standards, industry standards and the technological standards as agreed by Tianjin Tianhai and Tianjin Pipe. Tianjin Pipe shall provide certificate of quality guarantee of the gas cylinder pipes to Tianjin Tianhai.

### **Price of the gas cylinder pipes:**

Since Tianjin Tianhai is one of the biggest direct clients of Tianjin Pipe, it can enjoy the most favourable pricing policy of Tianjin Pipe. Such price shall be determined on an arm's length basis between Tianjin Tianhai and Tianjin Pipe, the actual price and quantity of gas cylinder pipes shall be determined by individual agreement to be entered into between Tianjin Tianhai and Tianjin Pipe every month. On or before the 18th day of every month, Tianjin Tianhai shall send the preliminary demand plan of gas cylinder pipes for the following month to Tianjin Pipe. Tianjin Pipe shall then provide the pricing policy of the gas cylinder pipes on or before the 25th day of every month. On or before the 30th day of every month, an individual agreement shall be entered into between Tianjin Tianhai and Tianjin Pipe in accordance with the demand plan and pricing level.

Notwithstanding the fact that the actual purchase price of gas cylinder pipes payable by the Group is subject to the terms of individual agreement to be entered into monthly, such purchase price shall be determined based on the monthly pricing policy issued by Tianjin Pipe. The selling prices of the gas cylinder pipes are adjusted monthly according to iron ore prices, steel prices and other production costs of Tianjin Pipe. So far as the Board is aware, it is a market practice to adopt similar monthly pricing arrangement for gas cylinder pipes, and same pricing basis is applied to all customers of gas cylinder pipe of Tianjin Pipe, including independent third parties or connected persons. Therefore, the Board considers that the prices offered to the Group are no less favorable than those available for independent third parties. On this basis, the Board considers that the pricing terms under the Gas Cylinder Pipe Transactions are on normal commercial terms and are not prejudicial to the interests of the Company and its minority Shareholders.

Furthermore, according to the procurement policy of the Group's procurement department, the Group has maintained a directory of qualified suppliers, comprising independent suppliers and suppliers which are connected persons to the Group. To ensure the Company is offered the most favorable pricing, the procurement department of the Company, would review two to three qualified suppliers selected for the raw materials procured by the Group every month. Although Tianjin Tianhai has been purchasing gas cylinder pipes manufactured by Tianjin Pipe, the Company will also

---

## LETTER FROM THE BOARD

---

consider gas cylinder pipes produced by other manufacturers. The most important criteria for the Company to select the supplier would be (i) the pricing terms; (ii) transportation costs; (iii) quality; and (iv) previous business relationship. The Company usually procures gas cylinder pipes from the supplier with quotation that enables the Company to achieve highest cost-effectiveness.

Tianjin Tianhai will strictly implement the Company's procurement management measures. In accordance with the demand plan of gas cylinder pipes for the following month which will be sent to Tianjin Pipe by Tianjin Tianhai, Tianjin Tianhai's business personnel will prepare individual agreements to be entered into between Tianjin Tianhai and Tianjin Pipe every month. The head of procurement department and head of the marketing department of Tianjin Tianhai will respectively review the quantity and pricing of gas cylinder pipes under such individual agreements based on the monthly demand plan and pricing policy. The Company's legal department will review and ensure the individual agreements and transactions contemplated thereunder comply with the relevant laws and regulations, including but not limited to, the annual caps requirement under the Listing Rules.

With such internal control procedures in place, the Board considers that the pricing offered to the Company is in the interests of the Company and its Shareholders as a whole.

### **Payment terms:**

50% of the consideration of the gas cylinder pipes purchased in the current month shall be paid on or before the 20th day of every month and the remaining 50% of the consideration shall be paid at the end of every month by Tianjin Tianhai.

### **The Supplemental Agreement**

On 27 March 2014, Tianjin Pipe entered into the Supplemental Agreement to the Gas Cylinder Pipe Sale and Purchase Framework Agreement with Tianjin Tianhai to extend the term of the Gas Cylinder Pipe Sale and Purchase Framework Agreement from the original 1 year ending 31 December 2014 to 3 years ending 31 December 2016 and to set out the proposed annual caps for the two years ending 31 December 2015 and 2016. Save as disclosed in this paragraph, all the terms of the Gas Cylinder Pipe Sale and Purchase Framework Agreement remain unchanged.

### **Proposed annual caps and basis of determination**

	<b>1 January 2014 to 31 December 2014</b>	<b>1 January 2015 to 31 December 2015</b>	<b>1 January 2016 to 31 December 2016</b>
Annual caps	RMB300,000,000	RMB300,000,000	RMB300,000,000

---

## LETTER FROM THE BOARD

---

The Gas Cylinder Pipe Sale and Purchase Framework Agreement and the Supplemental Agreement are new agreements. The above annual caps are determined with reference to the anticipated quantity of gas cylinder pipes to be purchased by Tianjin Tianhai and the estimated market price of pipes.

*(i) Anticipated quantity of gas cylinder pipes*

The anticipated quantity of gas cylinder pipes to be purchased by Tianjin Tianhai is determined after taking into account the following main factors: (a) historical purchase quantity during the three years ended 31 December 2013; (b) the sustained demand for the Group's products; and (c) the Board contemplates that the PRC government will impose stronger environmental protection measures which will lead to increasing demand in natural gas and gas storage equipment, therefore the Board expects there will be increase in quantity demand for the three years ending 31 December 2016.

*(a) Historical purchase amount and quantity during the three years ended 31 December 2013*

The total annual purchase amounts of gas cylinder pipes by Tianjin Tianhai from its suppliers, including Tianjin Pipes, were approximately RMB385 million, RMB295 million and RMB261 million during the three years ended 31 December 2013, respectively. Meanwhile, the total annual purchase volume of gas cylinder pipes by Tianjin Tianhai from its suppliers, including Tianjin Pipe, were approximately 53,000 tonnes, 48,000 tonnes and 48,000 tonnes during the same period, respectively. The historical annual purchase volume decreased from approximately 53,000 tonnes in 2011 to approximately 48,000 tonnes in 2012. The decrease was mainly attributable to weak domestic demand as a result of the poor economic sentiment in 2012. In 2013, the historical annual purchase volume was maintained at approximately 48,000 tonnes. However, due to the fluctuations of iron ore prices, steel prices and other production costs, the historical annual purchase amount of gas cylinder pipes decreased slightly from approximately RMB295 million in 2012 to approximately RMB261 million in 2013.

*(b) Expected sustained demand for the Group's products*

In calculating the annual caps, the Company estimated a stable and sustained demand for gas cylinder pipes needed for the production of its container products.

---

## LETTER FROM THE BOARD

---

*(c) PRC government measures which will lead to increasing demand in natural gas and gas storage equipment*

In March 2014, the PRC government has announced to strengthen its efforts in curbing pollution such as closing down outdated steel mills; and using cleaner fuel such as natural gas. These environmental measures will result in greater demand for natural gas and gas storage and transmission equipment including but not limited to the container products.

*(ii) Estimated market price of pipes*

The price of gas cylinder pipes is affected by a number of factors including the prices of iron ore, being the raw material of steel, energy costs, technical costs and the prices of steel billets, as well as the prevailing national macroeconomic policy and structural adjustments in the steel industry. At present, the prices of iron ore and coke are stabilised at low levels. On the other hand, a growth of approximately 7 to 7.5% in national GDP and a consumption growth of approximately 8% in steel as compared with the corresponding period of the previous year are expected, indicating a stable growth in the national demand of steel. To that end, the Company anticipates that the market price of pipes will stabilise or will experience a slight increase for the three years ending 31 December 2016.

The Annual Caps represent approximately 15.0% annual growth from the historical annual purchase amounts of gas cylinder pipes by Tianjin Tianhai from its suppliers, including Tianjin Pipe, of RMB261 million in 2013. The annual caps took into account (i) the sustained demand for the Group's products; (ii) the stable with slight increase in market prices of gas cylinder pipes; (iii) a moderate buffer allowed for any unforeseeable circumstances, in particular, for any unexpected market fluctuations such as raw material costs, labor cost and other production costs for the three years ending 31 December 2016; and net off by (iv) the more favourable pricing obtained directly from Tianjin Pipe rather than the purchase agents.

**Reasons for and benefits of entering into the Gas Cylinder Pipe Sale and Purchase Framework Agreement and the Supplemental Agreement**

As the long-term co-operation partner of the Group, Tianjin Pipe guarantees the supply and the quality of gas cylinders pipes, and the price of gas cylinder pipes remained at a lower level within the country. Meanwhile, with the proximity between Tianjin Pipe and the Group, it saves the transportation costs and reduces the product costs. Further, by entering into the Supplemental Agreement to extend the term of the Gas Cylinder Pipe Sale and Purchase Framework Agreement from 1 year to 3 years, it would be conducive to a better co-operation between Tianjin Tianhai and Tianjin Pipe, which in turn would minimise the cost of raw materials and enhance the market competitiveness of the products of Tianjin Tianhai.

---

## LETTER FROM THE BOARD

---

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) are of the view that the Gas Cylinder Pipe Transactions will be conducted in the ordinary and usual course of business of the Group, and on normal commercial terms, fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

None of the Directors have a material interest in the Gas Cylinder Pipe Transactions.

### **General**

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

Tianjin Tianhai is principally engaged in the design, production and sales of high pressure containers and after-sales services; export of self-produced products and technologies of the Company and the import of machinery and equipment, components, raw and auxiliary materials and technologies as required by the Company, except for the products and technologies restricted by the State or those forbidden for exports and imports.

Tianjin Pipe is principally engaged in the sales of steel pipes, metal products, metal materials, billets, steel boiler materials and minerals (except coal). For special projects of the State, operations are implemented according to the requirements, and business operations involving industry licensing are carried out according to the permits and approval documents.

### **Listing Rules Implications**

As at the Latest Practicable Date, Tianhai Seamless is a controlling shareholder of Tianjin Tianhai holding 45% interest in Tianjin Tianhai. Both Tianhai Seamless and Tianjin Pipe are the wholly-owned subsidiaries of Tianjin Pipe Group. Therefore, Tianjin Pipe is an associate of Tianjin Seamless and also a connected person of the Company under Chapter 14A of the Listing Rules. Since the Gas Cylinder Pipe Sale and Purchase Framework Agreement and the Supplemental Agreement shall be carried out on a continuing basis and is expected to extend over a period of time, the Gas Cylinder Pipe Transactions constitute continuing connected transactions 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 Gas Cylinder Pipe Sale and Purchase Framework Agreement and the Supplemental Agreement are more than 5%, the Gas Cylinder Pipe Sale and Purchase Framework Agreement and the Supplemental Agreement are subject to the reporting, annual review, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

---

## LETTER FROM THE BOARD

---

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Shareholders has direct or indirect material interest in the Gas Cylinder Pipe Transactions and accordingly, no Shareholder is required to abstain from voting at the AGM.

### 3. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

After implementing the material assets reorganisation, the Company becomes a joint-stock company. The Board proposes to make the following amendments to the Articles of Association in order to maintain its smooth operation of the Company:

#### **Original text of the Articles of Association:**

Article 14            Authorised scope of operation: general 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.

The Company shall file application with registration authority based on the scope of operation set out in this article. The scope of business of the Company shall be consistent with and subject to that approved by the authority responsible for the registration of the Company.

The Company is allowed to set up branches, subsidiaries, jointly controlled enterprises and offices overseas based on the scope of operation set out in this article upon gaining approval in accordance with the approval procedures.

#### **is proposed to be amended as:**

Article 14            Authorised scope of operation: general 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; information consulting services; import and export of commodities and technology and acting as import and export agency.

---

## LETTER FROM THE BOARD

---

The Company shall file application with registration authority based on the scope of operation set out in this article. The scope of business of the Company shall be consistent with and subject to that approved by the authority responsible for the registration of the Company.

The Company is allowed to set up branches, subsidiaries, jointly controlled enterprises and offices domestically and overseas based on the scope of operation set out in this article upon gaining approval in accordance with the approval procedures.

### **Original text of the Articles of Association:**

Article 162      The board of directors may set aside a special fund as per 1‰ of annual sales income, for paying independent non-executive directors' remunerations and allowances, exchange and training expenses of relevant persons and other items approved by the chairman of the board.

### **is proposed to be amended as:**

Article 162      The board of directors may set aside a special fund as per 3‰ of annual sales income, for paying independent non-executive directors' remunerations and allowances, exchange and training expenses of relevant persons and other items approved by the chairman of the board.

The Articles of Association is written in Chinese and the translation into English language is for reference only. In case of any inconsistency, the Chinese version shall prevail.

## **4. RECOMMENDATION**

Your attention is drawn to (i) the letter from the Independent Board Committee dated 23 May 2014 set out on pages 16 to 17 of this circular which contains the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Gas Cylinder Pipe Sale and Purchase Framework Agreement, the Supplemental Agreement and the Gas Cylinder Pipe Transactions; and (ii) the letter from Everbright Capital dated 23 May 2014 as set out on pages 18 to 26 of this circular which contains the recommendation from Everbright Capital to the Independent Board Committee and the Independent Shareholders in relation to the Gas Cylinder Pipe Sale and Purchase Framework Agreement, the Supplemental Agreement and the Gas Cylinder Pipe Transactions 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 Gas Cylinder Pipe Sale and Purchase Framework Agreement, the Supplemental Agreement and the Gas Cylinder Pipe Transactions are fair



---

## LETTER FROM THE BOARD

---

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 resolution to be proposed at the AGM to approve the Gas Cylinder Pipe Sale and Purchase Framework Agreement, the Supplemental Agreement and the Gas Cylinder Pipe Transactions.

The Directors also consider that the proposed amendments to the Articles of Association and the proposals as mentioned above are in the interests of the Company and its Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of the relevant resolutions proposed at the AGM.

### 5. THE AGM

A notice convening the AGM to be held on 26 June 2014 (Thursday) at 9:00 a.m. are set out on pages 61 to 63 of this circular. Whether or not you are able to attend the AGM, you are requested to complete and return the enclosed form of proxy 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 form of proxy should be returned to the business address of the Company at Directors' office, No. 9 North Tianying Road, Chaoyang District, Beijing 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 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 is also enclosed in this circular. You have been reminded to complete and sign the reply slip and return the signed slip to the Company at its business address at Directors' office, No. 9 North Tianying Road, Chaoyang District, Beijing on or before 5 June 2014 in accordance with the instructions printed thereon.

### 6. VOTING BY WAY OF POLL

Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the AGM will be taken by poll and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

### 7. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices I to V 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)**

23 May 2014

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS  
IN RELATION TO  
GAS CYLINDER PIPE SALE AND PURCHASE FRAMEWORK AGREEMENT  
AND  
SUPPLEMENTAL AGREEMENT**

We refer to the circular of the Company to the Shareholders dated 23 May 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 Gas Cylinder Pipe Sale and Purchase Framework Agreement and the Supplement 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 18 to 26 of the Circular and the letter from the Board as set out on pages 5 to 15 of the Circular.

Having considered the terms of the Gas Cylinder Pipe Sale and Purchase Framework Agreement, the Supplemental Agreement and taken into account the advice of Everbright Capital as stated in its letter, we consider that the Gas Cylinder Pipe Sale and Purchase Framework Agreement, the Supplemental Agreement and the Gas Cylinder Pipe Transactions 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

---

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

---

to vote in favour of the resolutions to be proposed at the AGM to approve the Gas Cylinder Pipe Sale and Purchase Framework Agreement, the Supplemental Agreement and the Gas Cylinder Pipe Transactions.

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*

---

## LETTER FROM EVERBRIGHT CAPITAL

---

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



23 May 2014

*To the Independent Board Committee  
and the Independent Shareholders*

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS IN RELATION TO GAS CYLINDER PIPE SALE AND PURCHASE FRAMEWORK AGREEMENT AND SUPPLEMENTAL AGREEMENT**

#### **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 supply of gas cylinder pipes by Tianjin Pipe to Tianjin Tianhai (the “**Continuing Connected Transactions**”) in accordance with the terms of the Gas Cylinder Pipe Sale and Purchase Framework Agreement and the Supplemental Agreement (collectively, the “**Framework Agreements**”), 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 23 May 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 at the Latest Practicable Date, Tianjin Tianhai was owned as to 55% by the Group and 45% by Tianhai Seamless, respectively. Both Tianhai Seamless and Tianjin Pipe are the wholly-owned subsidiaries of Tianjin Pipe Group. Therefore, Tianjin Pipe is an associate of Tianjin Seamless and also a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the arrangements under the Framework Agreements, including the annual caps (“**Annual Caps**”), constitute continuing connected transactions of the Company under the Listing Rules.

As the relevant percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Framework Agreements are more than 5%, the Framework Agreements are subject to reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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 consider the terms of the Framework Agreements, and to advise the Independent Shareholders, so far as the Independent Shareholders are concerned,

---

## LETTER FROM EVERBRIGHT CAPITAL

---

as to whether the Framework Agreements, including the Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned, and whether they are in the interests of the Company and the Shareholders as a whole. 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, Tianhai Seamless, Tianjin Pipe Group or any of their respective associates. We are independent from and not connected with the Group, Tianhai Seamless, Tianjin Pipe Group 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 Continuing Connected Transactions.

### **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 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.

### **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 Continuing Connected Transactions**

According to the Company’s circular dated 3 December 2012, details of material asset reorganisation (the “**Material Asset Reorganisation**”) was proposed by the Company.

Pursuant to the Material Asset Reorganisation, the Company exchanged all its assets and liabilities as at 29 December 2012 with 88.50% equity interest in Beijing Tianhai Industry Co., Ltd. (“**Tianhai Industrial**”), 100% equity interest in Jingcheng Holding (Hong Kong) Company Limited (“**Jingcheng Hong Kong**”) and 100% equity interest in Beijing Jingcheng Compressor Co., Ltd. (“**Jingcheng Compressor**”). On 26 September 2013, the

---

## LETTER FROM EVERBRIGHT CAPITAL

---

Company received the approval in relation to the Material Asset Reorganisation from the China Securities Regulatory Commission. According to the “Material Asset Reorganisation Agreement between Beiren Printing Machinery Holdings Limited, Beijing Jingcheng Machinery Electric Holding Co., Ltd. and Beiren Group Corporation” and its supplemental agreement between the parties, the completion period for the Material Asset Reorganisation started from 26 September 2013.

Upon the completion of the Material Asset Reorganisation, the Group’s business has been changed from the manufacturing of printing machines originally to the manufacturing and sales of (i) industrial gas storage and transportation equipment; (ii) liquefied natural gas storage and transportation equipment; and (iii) gas compressor machinery.

As at the Latest Practicable Date, the Company, through Tianhai Industrial and Jingcheng Hong Kong, owned 55% equity interest in Tianjin Tianhai. Tianjin Tianhai is principally engaged in the design, production and sales of high pressure containers and after-sales services; export of self-produced products and technologies of the Company and the import of machinery and equipment, components, raw and auxiliary materials and technologies as required by the Company.

As advised by the Management, Tianjin Tianhai, during its normal course of business, has procured gas cylinder pipes manufactured by Tianjin Pipe, being the leading gas cylinder pipes manufacturer in the PRC, for over 10 years via various purchase agents in the past. Since November 2013, Tianjin Tianhai began to procure gas cylinder pipes directly from Tianjin Pipe.

In order to govern the Continuing Connected Transactions under the requirements of the Listing Rules, on 3 March 2014, Tianjin Tianhai entered into the Framework Agreement with Tianjin Pipe, pursuant to which Tianjin Tianhai will purchase gas cylinder pipes from Tianjin Pipe for a term of one year commencing from 1 January 2014 to 31 December 2014 with a cap of RMB300,000,000. On 27 March 2014, Tianjin Tianhai entered into the Supplemental Agreement to the Framework Agreement with Tianjin Pipe, pursuant to which the term of the Framework Agreement is extended from the original 1 year ending 31 December 2014 to 3 years ending 31 December 2016.

Based on the below reasons and factors, we consider that the Continuing Connected Transactions are in line with the existing business of the Group, and are fair and reasonable and in the interests of the Shareholder and the Company as a whole:

1. Tianjin Pipe is one of PRC’s largest pipes makers with largest market share in the gas cylinder pipes manufacturing industry. As advised by the Management, Tianjin Group has an annual production capacity of approximately 3.5 million tonnes of quality seamless pipes. Tianjin Pipe has also been granted quality authentication and acceptance certificates issued by a number of reputational international and domestic institutions. Therefore, Tianjin Pipe is considered a reliable supplier to the Group which meet the Group’s stringent quality requirements and delivery schedules;

---

## LETTER FROM EVERBRIGHT CAPITAL

---

2. proximity of Tianjin Pipe enables the Group to streamline and centralise its direct materials procurement process, which can reduce overall transportation and production cost of the Group;
3. Tianjin Tianhai has been purchasing gas cylinder pipes manufactured by Tianjin Pipe for over 10 years since 2003; and
4. the Continuing Connected Transactions are of the type that are entered into in the ordinary and usual course of business of the Group and are expected to be conducted on a frequent and regular basis, if necessary.

### **(B) The Major Terms of the Framework Agreements**

Pursuant to the Framework Agreements, Tianjin Pipe agreed to sell and Tianjin Tianhai agreed to purchase gas cylinder pipes from time to time as requested by Tianjin Tianhai for three years commencing from 1 January 2014.

The purpose of the Framework Agreements is to provide a framework to the agreed general terms and conditions governing the purchase of relevant gas cylinder pipes by the Group from Tianjin Pipe and each of such transactions to be undertaken by Tianjin Tianhai will be subject to specific terms and conditions (including the actual purchase price, purchase quantity, and product specifications) under the definitive purchase order and agreement to be entered into between Tianjin Tianhai and Tianjin Pipe generally on a monthly basis. Pursuant to the Framework Agreements, on or before the 18th day of every month, Tianjin Tianhai shall send the preliminary demand plan of gas cylinder pipes for the following month to Tianjin Pipe. Tianjin Pipe shall then provide the pricing policy of the gas cylinder pipes on or before the 25th day of every month. On or before the 30th day of every month, a definitive agreement shall be entered into between Tianjin Tianhai and Tianjin Pipe in accordance with the demand plan and the pricing level.

Notwithstanding the fact that the actual purchase price of gas cylinder pipes payable by the Group is subject to the terms of definitive agreement to be entered into monthly, such purchase price shall be determined based on the monthly pricing policy issued by Tianjin Pipe. As advised by the Management, the selling prices of the gas cylinder pipes are adjusted monthly according to iron ore prices, steel prices and other production costs of Tianjin Pipe. So far as the Management is aware, it is a market practice to adopt similar monthly pricing arrangement for gas cylinder pipes, and same pricing basis is applied to all customers of gas cylinder pipe of Tianjin Pipe, including independent third parties or connected persons. We, therefore, take the view that the prices offered to the Group are no less favorable than those available for independent third parties. On this basis, the Company takes the view that the pricing terms under the Continuing Connected Transactions are on normal commercial terms.

We have obtained and reviewed the monthly pricing policy for December 2013 for gas cylinder pipes prepared by Tianjin Pipe to (i) Tianjin Tianhai and (ii) independent third parties. We noted that the same monthly pricing policy is offered to both Tianjin Tianhai and independent third parties, pursuant to which the pricing for different types of gas cylinder pipes are clearly stipulated on the pricing policy. We further checked to the definitive

---

## LETTER FROM EVERBRIGHT CAPITAL

---

agreements entered into between Tianjin Pipe and its customers and noted that the actual selling prices are determined based on such pricing policy plus a certain discount. As advised by the management, discounts may be offered to customers, depending on (i) relationship with the customers; (ii) ordered quantity and amount; (iii) payment terms; and (iv) frequencies of purchases. We noted that for the same products, after taking into account the discounts, the Company was offered pricing terms that are no less favorable than other independent customers.

Prior to the Material Assets Reorganisation and the entering into the Framework Agreements, Tianjin Tianhai purchased only gas cylinder pipes manufactured by Tianjin Pipe due to its high quality and competitive pricing. However, Tianjin Tianhai procured gas cylinder pipes manufactured by Tianjin Pipe previously from several purchase agents instead of directly from Tianjin Pipe until November 2013. Pricing of the pipes were then determined based on the pricing policy issued by Tianjin Pipe plus a certain mark-up imposed by the purchase agents. The entering into the Framework Agreements directly with Tianjin Pipes allows the Company to streamline direct materials procurement process, which can reduce the overall transportation and production costs of the Company. We have obtained and reviewed copies of sales and purchase contracts entered into between Tianjin Tianhai and previous purchase agents and the corresponding monthly pricing policy. We noted that previous selling prices offered to the Tianjin Tianhai by purchase agents were moderately higher than that the prices offered by Tianjin Pipes for the same products. As such, we are of the view that the entering into the Framework Agreements is in the interests of the Company and the shareholder as a whole.

Furthermore, as advised by the Management, according to the procurement policy of the Group's procurement department, the Group has maintained a directory of qualified suppliers, comprising independent suppliers and suppliers which are connected persons to the Group. To ensure the Group is offered the most favorable pricing and payment terms, the procurement department of the Company, would review two to three qualified suppliers selected for the raw materials procured by the Group every month. Although Tianjin Tianhai has been purchasing gas cylinder pipes manufactured by Tianjin Pipe, the Company will also consider gas cylinder pipes produced by other manufacturers. The procurement department will, on a yearly basis, assess and compare the shortlisted suppliers for gas cylinder pipes, including both purchase agents and other pipe manufacturers. As advised by the Management, the most important criteria for the Company to select the supplier would be (i) the pricing and payment terms; (ii) transportation costs; (iii) quality; and (iv) previous business relationship. After discussion with the Management, we were advised that the Company usually procure gas cylinder pipes from the supplier with quotation that enables the Company to achieve highest cost-effectiveness. In addition, Tianjin Tianhai will strictly implement the Company's procurement management measures. In accordance with the demand plan of gas cylinder pipes for the following month which will be sent to Tianjin Pipe by Tianjin Tianhai. Tianjin Tianhai's business personnel will prepare individual agreements to be entered into between Tianjin Tianhai and Tianjin Pipe every month. The head of procurement department and head of the marketing department of Tianjin Tianhai will respectively review the quantity and pricing of gas cylinder pipes under such individual agreements based on the monthly demand plan and pricing policy. The Company's legal department will review and ensure the individual agreements and transactions contemplated thereunder comply with the relevant laws and regulations, including but not limited to, the



---

## LETTER FROM EVERBRIGHT CAPITAL

---

annual caps requirement under the Listing Rules. With the aforementioned internal control procedures in place, we are of the view that the pricing offered to the Company is in the interests of the Company and shareholders as a whole.

Shareholders should also note that there is no provision in the Framework Agreements requiring the Group to exclusively transact with Tianjin Pipe. Therefore, we consider the Framework Agreements provide flexibility to the Group to transact with other potential suppliers in the event that the Group might not be able to agree with any terms or pricing with Tianjin Pipe. As such, we are of the view that the Framework Agreements are a normal commercial approach and should result in market prices or fair and reasonable prices for the relevant transactions.

Under the Framework Agreements, 50% of the consideration of the gas cylinder pipes purchased in the current month shall be paid on or before the 20th day of every month and the remaining 50% of the consideration shall be paid at the end of every month by Tianjin Tianhai. We have discussed with the Management and were advised that Tianjin Pipe normally require its customers to settle all payments upon signing of the definitive contracts and prior to the delivery of products. We further obtained copies of sample contract entered into between Tianjin Pipe and its independent customers, noting that the independent customers are required to settle all consideration within few days upon signing of the definitive contract and prior to the delivery of products. Therefore, we are of the view that the payment terms offered to the Group are no less favorable than other independent customers of Tianjin Pipe and are in the interests of the Company and its shareholders.

### **(C) The Annual Caps**

The Continuing Connected Transactions are subject to the Listing Rules' requirements and conditions as discussed in detail under the section headed "Reporting requirements and conditions of the Continuing Connected Transactions" below. In particular, the Continuing Connected Transactions are subject to Annual Caps.

As stated in the Letter from the Board, the Annual Caps are determined with reference to (i) the anticipated quantity of gas cylinder pipes to be purchased by Tianjin Tianhai; and (ii) the estimated market price of pipes.

As advised by the Management, the total annual purchase amounts of gas cylinder pipes by Tianjin Tianhai from its suppliers, including Tianjin Pipes, were approximately RMB385 million, RMB295 million and RMB261 million during the three years ended 31 December 2013, respectively. Meanwhile, the total annual purchase volume of gas cylinder pipes by Tianjin Tianhai from its suppliers, including Tianjin Pipes, were approximately 53,000 tonnes, 48,000 tonnes and 48,000 tonnes during the same period, respectively.

We noted that the historical annual purchase volume decreased from approximately 53,000 tonnes in 2011 to approximately 48,000 tonnes in 2012. After discussion with the Management, we were informed that the decrease was mainly attributable to weak domestic demand as a result of the poor economic sentiment in 2012. In 2013, the historical annual purchase volume was maintained at approximately 48,000 tonnes. However, due to the

---

## LETTER FROM EVERBRIGHT CAPITAL

---

fluctuations of iron ore prices, steel prices and other production costs, the historical annual purchase amount of gas cylinder pipes decreased slightly from approximately RMB295 million in 2012 to approximately RMB261 million in 2013.

Pursuant to the Framework Agreements, the Annual Caps, which refer to the annual maximum transaction amount between Tianjin Tianhai and Tianjin Pipe, are maintained at RMB300 million during the three years ending 31 December 2016. The Annual Caps represent approximately 15.0% annual growth from the historical annual purchase amounts of gas cylinder pipes by Tianjin Tianhai from its suppliers, including Tianjin Pipe, of RMB261 million in 2013. Upon our further discussion with the Management, the Annual Caps took into account (i) the sustained demand for the Group's products; (ii) the stable with slight increase in market prices of gas cylinder pipes; net off by (iii) the more favorable pricing obtained directly from Tianjin Pipes rather than the purchase agents.

### *The expected sustained demand for the Group's products*

In calculating the Annual Caps, the management estimated a stable and sustained demand for gas cylinder pipes needed for the production of its container products. In March 2014, the Chinese government has announced to strengthen its efforts in curbing pollution such as closing down outdated steel mills; and using cleaner fuel such as natural gas. These environmental measures will result in greater demand for natural gas and gas storage and transmission equipment including but not limited to our container products. According to the National Statistic Bureau of China, natural gas output has increased by 7.6% to 11 billion cubic meters in April, which is highest since 2012.

### *The expected market prices of gas cylinder pipes*

The market prices of gas cylinder pipes are affected by a number of factors including the prices of iron ore, being the raw material of steel, the prices of energy and other production costs. The Management anticipated that the market prices for gas cylinder pipes to stabilise or will experience slight increase for the three years ending 31 December 2016.

Currently, China is in the mid-stage of industrialization and urbanization. Therefore, steel industry will remain the pillar industry of the national economy in the PRC as construction projects and rapid advancement of urbanization have called for increase in steel consumption, in particular, in areas of infrastructure, transportation and durable consumer goods. As a result, iron ore demand has also risen. Despite the overcapacity of steel and consolidation in Chinese steel sector to eliminate outdated steel mills, the production of steel continued to increase by 4.9% and 5.3% in February and March 2014, respectively, when comparing with that of 2013, according to the National Bureau of Statistics of China, in order to cope with the rising demand for steel. A central urbanization work conference was held in Beijing by the highest level of Chinese leadership in December 2013 to map out more detailed measures to push forward the country's urbanization. The meeting pledged proactive yet steady moves in pushing forward urbanization. These initiatives will certainly revitalize various related industries and fuel domestic demand for steel products in the upcoming years. Also, in the 2014 Report on the Work of the Government set the expected development

---

## LETTER FROM EVERBRIGHT CAPITAL

---

objective of economy and society as an increase of around 7.5% increase in GDP, which would drive the demands for steel products. As such, it is expected that the sustained demand for iron ore and steel consumption will increasingly provide support to its prices in the coming years. Based on the above analysis and a moderate buffer is created to cater for any unforeseeable circumstances, in particular, for any unexpected market fluctuations such as raw material costs, labor cost and other production costs for the three years ending 31 December 2016, we are of the view that the basis adopted by the Management in determining the Annual Caps is fair and reasonable so far as the Independent Shareholders are concerned. However, Shareholders should note that the Annual Caps relate to future events and do not represent a forecast of turnover to be generated from the Continuing Connected Transactions.

### **(D) Reporting Requirements and Conditions of the Continuing Connected Transactions**

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) each year the independent non-executive directors must review the continuing connected transactions and confirm in the annual report and accounts that the continuing connected transactions have been entered into:
  - in the ordinary and usual course of business of the group;
  - either on normal commercial terms or, if there are not sufficient comparable continuing connected transaction to judge whether they are on normal commercial terms, on terms no less favourable to the group than terms available to or from (as appropriate) independent third parties; and
  - in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole;
- (b) each year the auditors of the company must provide a letter to the board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the company's annual report) confirming that the continuing connected transactions:
  - have received the approval of the board;
  - are in accordance with the pricing policies of the group;
  - have been entered into in accordance with the terms of the relevant agreements governing the continuing connected transactions; and
  - have not exceeded the Annual Caps;

---

## LETTER FROM EVERBRIGHT CAPITAL

---

- (c) the company shall allow, and shall procure the relevant counterparties to the continuing connected transactions to allow, the company's auditors sufficient access to their records for the purpose of reporting on the continuing connected transactions as set out in paragraph (b); and
- (d) the company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive directors and/or auditors of the company will not be able to confirm the matters set out in paragraphs (a) and (b) respectively.

In light of the reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the maximum value of the Continuing Connected Transactions by way of the Annual Caps; (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Continuing Connected Transactions and the Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders.

### RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the terms of the Framework Agreements, including the Annual Caps, are on normal commercial terms, are in the ordinary and usual course of business of the Company, are fair and reasonable 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 to the Framework Agreements, including the Annual Caps, as detailed in the notice of AGM as set out at the end of the Circular.

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

**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, and chief executive of the Company or their respective associates had any interest or short positions in any Shares, underlying Shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, so far as was known to the Directors, 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, Supervisor 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 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)
Jingcheng Holding	Beneficial owner	A Shares	201,620,000 (62.61%)	47.78%
Pictet & CIE	Beneficial owner	H Shares	5,978,000 (5.98%)	1.42%
788 China Fund Ltd.	Beneficial owner	H Shares	5,124,000 (5.12%)	1.21%

**Interests in other members of the Group**

<b>Name of the member of the Group</b>	<b>Name of person</b>	<b>Approximate percentage of interest</b>
America Fortune Company	鄭國祥 (ZhengGuoxiang)	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. EXPERT'S QUALIFICATION AND CONSENT**

The following is the qualification of the expert who has given its 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 Gas Cylinder Pipe Transactions

The letter and recommendation given by Everbright Capital are given as at the date of this circular for incorporation herein. Everbright Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter/statements and reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, Everbright Capital was not interested in any Shares or shares in any member of the Group nor did it 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, Everbright Capital 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 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.

**9. 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 Gas Cylinder Pipe Sale and Purchase Framework Agreement;
- (c) the Supplemental Agreement;
- (d) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 16 to 17 of this circular;
- (e) 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 18 to 26 of this circular;
- (f) the written consent of Everbright Capital referred to in the paragraph headed “Expert’s Qualification and Consent” in this appendix; and
- (g) this circular.

---

## **APPENDIX II 2013 WORK REPORT OF THE SUPERVISORY COMMITTEE**

---

During 2013, the Supervisory Committee adhered to the principle of being responsible to all shareholders to supervise the lawful operation of the Company and performance of duty by the Company's Directors and senior management officers strictly in accordance with the Company Laws, Security Laws, Articles of Association and the Rules of Procedure for the Supervisory Committee of the Company. During the reporting period, the Supervisory Committee held 6 meetings and attended the 2012 AGM, the first extraordinary meeting for the year 2013 as well as all board meetings. The Supervisory Committee earnestly heard the Company's position on production and operation, investment activities and financial control, participated in the decision-making process for material events of the Company, reviewed the Company's periodic report and supervised the operation of the Company as well as the performance of duty by the Company's Directors and senior management officers, which enhanced the Company's the standard operation level and practically protected the Company's and Shareholders' legal interests. 2013 Work Report of the Supervisory Committee is set out below:

### **(I) Work of the Supervisory Committee in 2013**

Supervisory Committee of the Company establishes a sound meeting and working system, which can be implemented strictly. Supervisory Committee convened six meetings in 2013, details of which are set out below:

- (I) The tenth Meeting of the Seventh Supervisory Committee was held at the Conference Room of the Company on 27 February 2013. Major details of the meeting are as follows:
1. The 2012 Supervisory Committee's Work Report was considered and passed, and was proposed to the 2012 annual general meeting for consideration.
  2. The 2012 Annual Report of the Company and its summary were considered and passed.

At the meeting, all supervisors unanimously considered that:

- (1) The preparation of and the procedures for considering the Annual Report of the Company are in compliance with the laws, regulations, provisions of the articles of association of the Company and all stipulations of the Company's internal control system;
- (2) The content and format of the Annual Report of the Company are in compliance with all requirements of China Securities Regulatory Commission and The Stock Exchange of Hong Kong Limited. The information contained therein can truly reflect the operation, management and financial position of the Company in the year;
- (3) Before arriving at this opinion, persons participating in the preparation and consideration of the Annual Report were not found to have acted in breach of the rules of confidentiality.

---

## APPENDIX II 2013 WORK REPORT OF THE SUPERVISORY COMMITTEE

---

3. The 2012 audited financial statements of the Company were considered and passed.
4. The proposal of the Company not to distribute any profit for the year 2012 was considered and passed.
5. The resolution in respect of provision for impairment on assets of the Company for the year 2012 was considered and passed.

As the Supervisory Committee is aware of after review, no provision for impairment on assets is in breach of relevant accounting rules or requirements; nor is there any violation of the laws, regulations, the articles of association or internal control system of the Company during the course of reviewing such resolutions by the Board.

6. The resolution regarding the write-off of bad debts of the Company was considered and passed.
7. The 2012 self-assessment report on the Company's internal control was considered and passed.
8. The 2012 audited internal control report of the Company was considered and passed.
9. The 2012 social responsibility report of the Company was considered and passed.
10. The following connected transactions of the Company were considered and passed:
  - (1) The resolution in respect of the signing of the agreement between the Company and associated company Beijing Monigraf Automatic Systems Company Limited on the purchase of remote colour control system from was considered and passed.
  - (2) The resolution in respect of commissioning associated company Beijing Beiying Casting Company Limited by the Company for the processing of casting parts was considered and passed;
  - (3) The resolution in respect of the Company leasing buildings to associated company Beijing Beiying Casting Company Limited was considered and passed;

---

## APPENDIX II 2013 WORK REPORT OF THE SUPERVISORY COMMITTEE

---

(II) The eleventh Meeting of the Seventh Supervisory Committee was held at the Conference Room of the Company on 26 April 2013. Major details of the meeting are as follows:

1. The 2013 First Quarterly Report of the Company was considered and passed.

The Supervisory Committee of the Company had reviewed the Company's 2013 First Quarterly Report prepared by the Board of Directors of the Company in accordance with the relevant requirements of "Contents and Formats for Information Disclosure by Companies Offering Securities to the Public (No. 13): Specification on Contents and Format of Quarterly Reports" of the China Securities Regulatory Commission and "Rules Governing the Listing of Stocks on Shanghai Stock Exchange". At the meeting, all supervisors unanimously considered that:

- (1) the preparation of and the procedures for considering the First Quarterly Report are in compliance with the laws, regulations, provisions of the Articles of Association of the Company and all stipulations of the Company's internal control system;
  - (2) the content and format of the First Quarterly Report are in compliance with all requirements of China Securities Regulatory Commission and the Shanghai Stock Exchange. The information contained therein can truly reflect the operation, management and financial position of the Company for the first quarter in all aspects;
  - (3) before arriving at this opinion, persons participating in the preparation and review of the First Quarterly Report were not found to have acted in breach of the requirement of confidentiality.
  - (4) the Supervisory Committee agreed that the First Quarterly Report has made due disclosure of information.
2. The resolution on the connected transaction in respect of the Company leasing part of the plant and office premises to Beijing Jingcheng Nagano Construction Machinery Company Limited was considered and passed.
  3. The resolution regarding the write-off of bad debt of the Company was considered and passed.

---

## APPENDIX II 2013 WORK REPORT OF THE SUPERVISORY COMMITTEE

---

(III) The twelfth Meeting of the Seventh Supervisory Committee was held at the Conference Room of the Company on 25 July 2013. Major details of the meeting are as follows:

1. The 2013 Interim Report of the Company and its summary were considered and passed;

The Supervisory Committee reviewed the 2013 Interim Report (hereinafter referred to as “Interim Report”) prepared by the Board of Directors, and issued its opinion as follows:

- (1) The preparation of the Interim Report and the procedures for considering the Interim Report is in compliance with the laws, regulations, provisions of the Articles of Association of the Company and all stipulations of the Company’s internal control system;
  - (2) The content and format of the Interim Report are in compliance with all requirements of China Securities Regulatory Commission and the stock exchange, the information contained therein can truly reflect the operation, management and financial position of the Company during the reporting period;
  - (3) Before arriving at this position, no person participating in preparation and consideration of the Interim Report had been found to have acted in breach of the rules of confidentiality;
  - (4) The Supervisory Committee has agreed that the information disclosure in the Interim Report is on schedule.
2. The resolution in relation to the provision for impairment of the Company for the half year of 2013 was considered and passed.

(IV) The thirteenth Meeting of the Seventh Supervisory Committee was held at the Conference Room of the Company on 30 October 2013. Major details of the meeting are as follows:

1. The 2013 Third Quarterly Report of the Company was considered and passed;

The Supervisory Committee reviewed the 2013 Third Quarterly Report prepared by the Board of Directors, and issued its opinion as follows:

- (1) The preparation of and the procedures for considering the Third Quarterly Report are in compliance with the laws, regulations, provisions of the Articles of Association of the Company and all stipulations of the Company’s internal control system;

---

## APPENDIX II 2013 WORK REPORT OF THE SUPERVISORY COMMITTEE

---

- (2) The content and format of the Third Quarterly Report are in compliance with all requirements of China Securities Regulatory Commission and the Shanghai Stock Exchange. The information contained therein can truly reflect the operation, management and financial position of the Company for the first quarter in all aspects;
  - (3) before arriving at this opinion, persons participating in the preparation and review of the Third Quarterly Report were not found to have acted in breach of the requirement of confidentiality.
  - (4) the Supervisory Committee agreed that the Third Quarterly Report has made due disclosure of information.
- (V) The fourteenth Meeting of the Seventh Supervisory Committee was held at the Conference Room of the Company on 31 October 2013. Major details of the meeting are as follows:

1. The resolution in relation to the change in the Company's Supervisors.

Starting from 31 October 2013, all the original assets and liabilities of the Company were received by Beiren Group Corporation and the personnel were also received and deployed by Beiren Group Corporation. To ensure the ordinary operation of the Supervisory Committee of the Company in accordance with laws after the settlement of the Material Asset Reorganization, it was proposed to change the Supervisors.

According to the recommendation of the Company's controlling shareholders, the Supervisory Committee was intended to nominate Ms. Liu Zhe and Mr. Han Bingkui (please refer to the attachment for their biographies) as candidates for the election as supervisors of the Seventh Supervisory Committee of the Company. The proposed term of office of the supervisors will be from the date of approval at 2013 first extraordinary general meeting to 2013 AGM of the Company. There will be another supervisor representing the staff and workers elected at a meeting held by the staff and workers of the Company in accordance with statutory procedures.

The original supervisors continued to perform their duties. After the new supervisors take the office, Mr. Wang Liansheng, Mr. Guo Xuan and Ms. Wang Huiling will cease to be the supervisors of the Company.

2. The remuneration and written contracts of the supervisors were considered and passed.

The annual remuneration of the supervisors of the Company shall not exceed RMB40,000.

---

## APPENDIX II 2013 WORK REPORT OF THE SUPERVISORY COMMITTEE

---

3. The amendments to the Rules and Procedures of the Supervisory Committee were considered and passed.

The wordings, “Beiren Printing Machinery Holdings Limited”, appear in the original Rules and Procedures of the Supervisory Committee was amended into “Beijing Jingcheng Machinery Electric Company Limited”.

(VI) The fifteenth Meeting of the Seventh Supervisory Committee was held at the Conference Room of the Company on 16 December 2013. Major details of the meeting are as follows:

1. The resolution in relation to the election of the chairman of the Supervisory Committee was considered and passed.

Consequent upon the material asset organization of Beiren Printing Machinery Holdings Limited (the “Company”) and the exchange of related businesses, Mr. Wang Lian Sheng, Mr. Guo Xuan and Ms. Wang Hui Ling have submitted their resignations as the Supervisors and Mr. Wang Lian Sheng has submitted his resignation as the chairman of Supervisory Committee, which have been duly accepted. Ms. Liu Zhe was elected as the chairman of the Seventh the Supervisory Committee of the Company for a term of office starting from 16 December 2013 and ending at the conclusion of 2013 annual general meeting of the Company.

Mr. Wang Lian Sheng, Mr. Guo Xuan and Ms. Wang Hui Ling have confirmed that is no matter relating to his/her resignation that needs to be brought to the attention of the shareholders of the Company. The Supervisory Committee of the Company and each of Mr. Wang Lian Sheng, Mr. Guo Xuan and Ms. Wang Hui Ling have confirmed that they were not aware of any personal obligations that he/she shall be responsible to the Company and its subsidiaries or the effects on such obligations as a result of the resignation. The Supervisory Committee of the Company and each of Mr. Wang Lian Sheng, Mr. Guo Xuan and Ms. Wang Hui Ling have also confirmed that he/she has no disagreement with the Supervisory Committee of the Company which would have caused his/her resignation.

The Supervisory Committee of the Company hereby expresses its appreciation for the contribution made by Mr. Wang Lian Sheng, Mr. Guo Xuan and Ms. Wang Hui Ling to the Company and the Supervisory Committee during their terms of office.

2. The resolution in relation to the changes in accounting estimation was considered and passed.

Given the material asset reorganization of the Company, the relevant business was changed from manufacturing and distributing printing machinery to gas storage and transportation equipment business, which was a relatively material change in business nature, resulting in the changes in

---

## **APPENDIX II 2013 WORK REPORT OF THE SUPERVISORY COMMITTEE**

---

estimated useful lives of fixed assets and the percentage of bad debt provision to account receivables. Hence, it is proposed to make changes to certain accounting estimation to make them more in conformity with our production and operation.

Upon considering such resolution, the Supervisory Committee expresses the following opinions in respect of the changes in accounting estimation of the Company:

- (1) Such changes in the accounting estimation of the Company are made in conjunction with the Company's actual situation and in accordance with the requirements under relevant laws and regulations;
  - (2) The revised accounting estimation can more fairly and accurately reflect the Company's financial situation and business result and improve the quality of the Company's financial information;
  - (3) The members of Supervisory Committee unanimously agreed the changes in accounting estimation of the Company.
3. The appointment of Mr. Zheng Wen as the secretary to the Supervisory Committee was considered and passed.

Taking into consideration of the work of Supervisory Committee, it was agreed to appoint Mr. Zheng Wen as the secretary to the Supervisory Committee to deal with the ordinary operation of the Supervisory Committee for a term of office starting from 16 December 2013 and ending at the conclusion of 2013 annual general meeting of the Company.

### **(II) Independent Opinion of the Supervisory Committee on Operating in Compliance with Laws by the Company**

The Supervisory Committee is of the view that, during the reporting period, the work of the Board strictly complied with the Company Law, Securities Law, the Listing Rules, Articles of Association of the Company and other relevant laws and regulations. The material decisions of the Company were scientific and reasonable and the procedures of decision were lawful and effective. Meanwhile, the Company has established and improved its internal management and control system. Directors and General Manager of the Company were able to carry out their duties earnestly. There had been no violation of the laws, regulations, the Articles of Association of the Company or behavior in detrimental to the interests of the Company.

### **(III) Independent Opinion of the Supervisory Committee on Review of the Company's Financial Position**

The Supervisory Committee considers that the 2013 Financial Report of the Company truly reflects the financial status and operating results of the Company. The Supervisory Committee has diligently reviewed the Financial Statements and other accounting data of the



---

## **APPENDIX II 2013 WORK REPORT OF THE SUPERVISORY COMMITTEE**

---

Company and is of the view that the income and expenditure were clearly stated in the accounts of the Company, and that accounting and financial management had complied with the relevant requirements, and no problem was found. ShineWing Certified Public Accountants LLP audited the 2013 Financial Report of the Company according to the PRC accounting standards and issued the auditors' report without qualification. The Supervisory Committee considers that the auditors' report truly reflects the financial status, operating results and cash flows of the Company and that the auditors' report is fair, objective, true and reliable.

### **(IV) Independent Opinion of the Supervisory Committee on Use of the Last Raised Proceeds by the Company**

The last fund raising activity of the Company was conducted at the end of 2002 and completed for the year ended 31 March 2003. The use of the proceeds raised was in line with the intended use without any changes.

### **(V) Independent Opinion of the Supervisory Committee on Acquisition and Disposal of Assets of the Company**

During the reporting period, the Company did not acquire and dispose of any assets.

### **(VI) Independent Opinion of the Supervisory Committee on Connected Transactions of the Company**

During the reporting period, the Company completed the entering into the following connected transaction: (1) the resolution in respect of the signing of the agreement between the Company and associated company Beijing Monigraf Automatic Systems Company Limited on the purchase of remote colour control system from was considered and passed; (2) the resolution in respect of commissioning associated company Beijing Beiying Casting Company Limited by the Company for the processing of casting parts was considered and passed; (3) the resolution in respect of the Company leasing buildings to associated company Beijing Beiying Casting Company Limited was considered and passed; (4) the resolution in respect of the Company leasing part of the plant and office premises to Beijing Jingcheng Nagano Construction Machinery Company Limited was considered and passed.

The above connected transactions during the reporting period strictly complied with the procedures of relevant requirements of the Company Law and Articles of Association of the Company and the terms of them are fair and reasonable. They were entered into on normal commercial terms and in the interests of the Company and the shareholders as a whole. The transaction prices are objective and fair without harming the interests of the Company and non-connected shareholders and minority shareholders. The decision is in line with our development strategy and development needs in production and operation.

---

## **APPENDIX II 2013 WORK REPORT OF THE SUPERVISORY COMMITTEE**

---

### **(VII) Review of the Supervisory Committee on the Self Assessment Report on Internal Control**

The Supervisory Committee has reviewed the self assessment report on internal control of Beijing Jingcheng Machinery Electric Company and considers that the internal control system of the Company is sound with effective implementation from 1 January 2013 to the end of the reporting period. The report objectively and fairly reflects the internal control of the Company and there is no disagreement on the assessment report.

All members of the Supervisory Committee attended all 14 Board of Directors' meetings and all shareholders' general meeting in the year of 2013, and during the meetings exercised supervision over whether the resolutions of the Board complied with the laws, regulations of the PRC and the Company's Articles of Association and whether in accordance with the resolutions of the general meetings as well as in the lawful interests of shareholders of the Company. The Supervisory Committee considers that the Board was strictly conscientious in carrying out their duties in accordance with the resolutions passed at the general meetings.

During the reporting period, there has been no matter needing negotiation by supervisors on behalf of the Company with the Board nor proceedings against the directors.

### **(VIII) Work Plan of the Supervisory Committee for the year 2014**

In 2014, the Supervisory Committee will strictly comply with the requirements of the Company Law, the Articles of Association and the relevant laws, regulations and policies of the state, truthfully perform its duties, and further promote regulated operations of the Company. Major work arrangements are outlined as below:

1. Transition to the next session of the Supervisory Committee. The term of office of the current session the Supervisory Committee of the Company will expire in 2014. The Supervisory Committee will complete all necessary works to transit into next session of the Supervisory Committee in accordance with the requirements under the Company Laws, Articles of Associations, Rules and Procedures of the Supervisory Committee and other relevant laws and regulations and to elect the members for the eighth session of the Supervisory Committee in order to ensure the Supervisory Committee could perform duty in accordance with laws and to protect the legal interests of the Company and all shareholders.
2. Comply with the laws and regulations and discharge duties conscientiously. In 2014, the Supervisory Committee will strictly implement the relevant requirements of the Company Law and the Articles of Association and supervise the Board and the senior management according to the laws with the purpose to further regulate the decision-making and operation activities to ensure their compliance with the laws. First, it will urge the Company to further improve the corporate governance structure and enhance governance standards according to the requirements of modern corporate system. Second, in accordance with the Rules of Procedure for the Supervisory Committee of the Company, it will continue to strengthen the enforcement of its supervisory functions and attend the Board meetings according

---

## APPENDIX II 2013 WORK REPORT OF THE SUPERVISORY COMMITTEE

---

to the laws so as to timely grasp the Company's major decisions and the lawfulness of the decision-making procedures, thereby further safeguard the interests of the shareholders. Third, it will convene working meetings of the Supervisory Committee on a regular basis to implement the Rules of Procedure for the Supervisory Committee of the Company.

3. Strengthen supervision and inspection to avoid operational risks. The Supervisory Committee will constantly strengthen the supervision of the directors and other senior management on their performance of duties, execution of resolutions and compliance with the laws and regulations. First, the financial supervision will be maintained as a focus, and the Supervisory Committee will monitor the financial position of the Company in accordance with the laws. Second, the internal control system will be further strengthened to prevent corporate risks and the loss of the Company's assets. The Supervisory Committee will regularly keep informed of and understand the operation state of the Company from the holding companies, especially the major operation activities and investment projects, and provide prompt suggestions to stop and remedy the situation when problems are found. Third, the Supervisory Committee will maintain communications and liaison with internal audit function and external accountants (auditors) entrusted by the Company, taking full use of internal and external audit information to keep abreast of the updates. Fourth, the Supervisory Committee will focus on the high risk areas of the Company, carry out inspections on the critical matters, such as major investments, management of raised proceeds and connected transactions.
4. Uplift professional capabilities through self-improvement. To better perform the role of the Supervisory Committee, it should uplift its professional qualifications first in order to work efficiently. In this regard, members of the Supervisory Committee will receive more trainings, attend relevant programs in a planned manner and persist in self-improvement this year in an attempt to broaden their professional knowledge and improve their professional capabilities so as to further safeguard the interests of the Company and the shareholders. It will strictly comply with the laws, regulations and the Articles of Association of the Company, conscientiously discharge their duties and better perform the supervisory duties of the Supervisory Committee.

By the order of the Supervisory Committee  
**Liu Zhe**  
*Chairman of the Supervisory Committee*

27 March 2014

---

## APPENDIX III REPORT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS FOR THE YEAR 2013

---

During our tenure as Independent Non-executive Directors of Beijing Jingcheng Machinery Electric Company (“the Company”), we strictly complied with laws and regulations such as the Securities Law, the Company Law, the Rules for Corporate Governance of Listed Companies and Guiding Opinions on the Establishment of Systems of Independent Directors of Listed Companies (《關於在上市公司建立獨立董事制度的指導意見》), as well as the Articles of Association and the Work system for Independent Directors. We sincerely performed our responsibilities and duties diligently and conscientiously adhering to the principle of independence, objectivity and fairness, grasped the production and management condition of the Company timely, paid close attention to the comprehensive development of the Company, proactively attended relevant meetings, carefully considered board resolutions, gave independent opinions on affairs of the Company, gave full play to the role of independent non-executive directors, secured the scientific decision-making of the Board and the regulated operation of the Company, properly ensured the standardized operations of the Company and protected the legitimate interests of shareholders, and earnestly performed our responsibilities and duties as Independent Non-executive Directors.

We report the performance of our duties as the Independent Non-executive Directors during 2013 as follows:

### I. Basic information about independent directors

Zhang Shuangru (張雙儒), Chinese nationality, male, aged 70, Independent Non-executive Director, is a senior economist graduated from Archaeology, Department of History, Peking University. Mr. Zhang has served as Deputy Director of the personnel department and Deputy Manager in China Printing Corporation (中國印刷公司). He was appointed as the chairman of China Printing Corporation, the deputy general manager of China Printing Group Corporation (中國印刷集團) and the chairman of C&C Joint Printing Co., (Beijing) Ltd. (北京華聯印刷有限公司), and presently the vice-officer of the National Technical Committee on Printing of Standardization of Administration of China (全國印刷標準化技術委員會) and managing vice-chairman of Printing Technology Association of China (中國印刷技術協會). Mr. Zhang received special subsidy from the State Council in 1994 and The Bisheng Printing Outstanding Achievement Award in 2009. Mr. Zhang was appointed as an Independent Non-executive Director of the seventh Board of Directors of the Company in 2012.

Wang Hui, Chinese nationality, female, aged 52, Independent Non-executive Director, a postdoctor, a deputy researcher. Ms. Wang was a technician and engineer of Tianjin Engineering Mechanics Institute of Department of Mechanics; Chief of Quality Control Section, Chief of Technology Department of Guangdong Shunde Zhenhua Automotive Rearview Mirror Limited of China Auto Corporation; Chief of Technology Innovation and Development and Research Center of Economic and Management College of Tsinghua University; Senior Manager of China Huarong Asset Management Corporation; Senior Business Director of Debenture Business Department, General Manager of M&A Business and Management Department, Senior Manager of Institutional Enterprise M&A and Development Strategy Department of China Securities Co., Ltd. She is now Chairman of the

---

## APPENDIX III REPORT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS FOR THE YEAR 2013

---

board and General Manager of Zhonghai Kaitian (Beijing) Asset Management Co., Ltd. (中海凱天(北京)資產管理有限責任公司). Ms. Wang was appointed as an Independent Non-executive Director of the seventh Board of Directors of the Company in 2011.

Xie Bingguang, Chinese nationality, male, aged 58, Independent Non-executive Director, LL.M., a solicitor. Mr. Xie is now Head and a senior solicitor of Beijing Hualian Law Firm, and an interceder of China International Trade Arbitration Commission and International Chamber of Commerce of China; an arbitrator of Beijing Arbitration Commission; Member of Criminal Committee of All China Lawyers Association; Member of Civil Law Affairs Committee of Beijing Municipal Lawyers Association; Member of Real Estate Affairs Committee of Beijing Municipal Lawyers Association; and Director of Beijing Law Society and Economic Society. Mr. Xie was appointed as an Independent Non-executive Director of the seventh Board of Directors of the Company in 2011.

Wang Deyu, Chinese nationality, male, aged 39, Independent Non-executive Director, MBA, a qualified Chinese Certified Public Accountant. Mr. Wang was a loan officer of Yantai branch of Bank of China; an auditor of Zeng Fu Cheng Accounting Firm in Zheng Fu Cheng Accounting Firm (曾福成會計公司) in Singapore; Special Assistant to General Manager of Yantai Wanhua Polyurethanes Co., Ltd.; Senior Consultant of BearingPoint (Shanghai) Limited; and Manager of PricewaterhouseCoopers (Beijing) Company. He is currently Financial Director of Sichuan Lessin Department Store Ltd. Mr. Wang was appointed as an Independent Non-executive Director of the seventh Board of Directors of the Company in 2011.

During 2013, as the Independent Non-executive Directors of the Company, we earnestly executed our powers, performed our duties according to laws and regulations, put our role as Independent Non-executive Directors into full play, and properly ensured the standardized operations of the Company and protected the interests of shareholders as a whole, without allowing any issue to affect our independence.

### II. Attendance of Meetings

As Independent Directors, we proactively understood and obtained conditions and materials required for making decisions before the Board meetings, understood the operation of the Company in detail and made full preparation for making important decisions of the Board meetings. At the meetings, we carefully considered the resolutions, actively participated in discussions and proposed rational proposals, thereby playing a positive role in the scientific decision-making of the Board.

In 2013, the Company held 2 general meetings and 14 Board meetings (of which 5 meetings were held on-site and 9 meetings were held through communication equipment). Our attendance and votes are as follows:

---

## APPENDIX III      REPORT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS FOR THE YEAR 2013

---

### *(1) Attendance of the Board meetings*

Name of director	Independent director or not	Required attendance during the year	Attendance in person	Attendance by communication equipment	Attendance by proxy	Absence	Absence from two consecutive meetings or not	Number of general meetings attended
Zhang Shuangru	Yes	14	13	9	1	0	No	1
Wang Hui	Yes	14	14	9	0	0	No	2
Xie Bingguang	Yes	14	13	9	1	0	No	1
Wang Deyu	Yes	14	13	9	1	0	No	2

### *(2) Objection to the Relevant Matters of the Company*

Name of director	Independent director or not	Objections raised	Details of objection	Remark
Zhang Shuangru	Yes	No	No	—
Wang Hui	Yes	No	No	—
Xie Bingguang	Yes	No	No	—
Wang Deyu	Yes	No	No	—

During 2013, the Company's committees of the Board convened three Nomination Committee meetings, three Remuneration and Monitoring Committee meetings, six Audit Committee meetings and two Strategic Committee meeting. As committee members of the Board, we attended all meetings that we should attend respectively.

## **III. Expressing independent opinions**

### *(1) Connected Transactions*

#### *1. Ordinary connected transactions*

On 27 February, 26 April and 25 July 2013, we expressed independent opinions for ordinary connected transactions as follows:

At the ninth, tenth and eleventh meeting of the seventh Board, the resolution relating to the ordinary connected transactions of the Company was considered in compliance with the requirements for information disclosure and decision-making procedures of the Company.

The prices of the above connected transactions are objective, fair and reasonable and complied with relevant laws, regulations and Articles of Association.

---

## APPENDIX III      REPORT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS FOR THE YEAR 2013

---

During the consideration and voting of different resolutions, connected directors Mr. Zhang Peiwu, Mr. Teng Mingzhi, Ms. Wu Dongbo, Mr. Li Shenggao and Ms. Wei Li abstained from voting. The above connected transactions will not harm the interests of the Company and its shareholders, especially minority shareholders.

### 2. *Connected transaction*

On 31 October 2013, after carefully reviewing the relevant materials, we expressed the following opinion in relation to the resolution on the connected transaction of the disposal of certain assets by Beijing Tianhai Industrial Co., Ltd., which was considered and passed at the twelfth meeting of the Seventh the Board:

- (1) at the twelfth meeting of the Seventh the Board, the resolution relating to the connected transactions of the Company was considered in compliance with the requirements for information disclosure and decision-making procedures of the Company.
- (2) The Company entrusted China Faith Appraisers Co., Ltd. to evaluate the market value of the college student apartment owned by Tianhai Industrial as of 31 March 2013 and to issue a valuation report. China Faith Appraisers Co., Ltd. is a professional appraiser authorized to engage in security business. The preparation of the appraisal report was in accordance with the relevant requirements. The asset appraisal report issued by China Faith Appraisers Co., Ltd. was valid and lawful.
- (3) The transaction price for this connected transaction was determined based on the appraisal result stated on the appraisal report issued by the qualified appraiser. The pricing principle was fair and reasonable. The price of the above connected transaction is objective, fair and reasonable and complied with relevant laws, regulations and Articles of Association.
- (4) During the consideration and voting of the resolution, connected directors Mr. Zhang Peiwu, Mr. Teng Mingzhi, Ms. Wu Dongbo, Mr. Li Shenggao and Ms. Wei Li abstained from voting. The above connected transactions will not harm the interests of the Company and its shareholders, especially minority shareholders.

### (2) *External guarantee*

On 27 February 2013, we, as the independent non-executive directors of the Company, in a pragmatic and prudent manner, seriously reviewed the external guarantee provided by the Company in accordance with the relevant requirements under the Notice of Certain Issues in relation to Capital Transactions between Listed Companies and the Connected Parties and External Guarantees Granted by Listed



---

## APPENDIX III REPORT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS FOR THE YEAR 2013

---

Companies (《關於上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》) (Zheng Jian Fa (2003) No. 56) and Notice regarding the Regulation of Third-party Guarantees made by Listed Companies (Zheng Jian Fa (2005) No. 120) issued by China Securities Regulatory Commission as well as the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange. The specified details are set out below:

After a careful review, as of the end of the reporting period, the Company had not provided guarantee for neither shareholders, beneficial controllers or their connected parties, nor any guaranteed party whose gear ratio is larger than 70%, or any other connected party, non-legal person institutions or individual in which less than 50% of its equity is held by the Company.

Based on the independent opinion, we are of the view that, during the reporting period, the decision-making procedures of the external guarantees by the Company were in compliance with the Company Law, the Listing Rules and the Articles of Association of the Company and had no detriment to the interests of shareholders.

### ***(3) Appointment of Directors***

On 31 October 2013, the Company held the twelfth meeting of the Seventh Board. After a thorough review by the nomination committee of the Seventh Board, it was considered and passed to nominate Mr. Jiang Zili, who was nominated by the substantial shareholder, as candidates for the election as non-executive Director of the Seventh Board of the Company and Mr. Wang Pingsheng, Mr. Hu Chuanzhong, Mr. Kang Yiqing and Mr. Li Junjie, who were nominated by the nomination committee, as candidates for the election as executive Directors of the Seventh Board of the Company.

Having reviewed relevant documents on the above candidates' statements of declaration and biographies, we, being independent non-executive Directors of the Seventh Board of the Company, are of the opinion that:

1. Procedures of nominating Mr. Jiang Zili, Mr. Wang Pingsheng, Mr. Hu Chuanzhong, Mr. Kang Yiqing and Mr. Li Junjie as candidates for the Directors of the Seventh Board of the Company are in compliance with the requirements of the Articles of Associations of the Company.
2. Mr. Jiang Zili, Mr. Wang Pingsheng, Mr. Hu Chuanzhong, Mr. Kang Yiqing and Mr. Li Junjie are in compliance with the qualification for appointment as directors required by relevant laws and regulations of the State and the Articles of Associations of the Company.
3. Consent to propose the nomination of Mr. Jiang Zili, Mr. Wang Pingsheng, Mr. Hu Chuanzhong, Mr. Kang Yiqing and Mr. Li Junjie as candidates for the Directors of the Seventh Board of the Company to the general meeting of the Company for consideration.



---

## APPENDIX III REPORT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS FOR THE YEAR 2013

---

On 5 November 2013, the Company held the fourteenth meeting of the Seventh Board. After a thorough review by the nomination committee of the Seventh Board, it was considered and passed to nominate Mr. Wu Yanzhang, who was nominated by the nomination committee, as candidate for executive Directors of the Seventh Board of the Company.

Having reviewed relevant documents on the above candidate's statement of declaration and biography, we, being independent non-executive Directors of the Seventh Board of the Company, are of the opinion that:

1. Procedures of nominating Mr. Wu Yanzhang as candidate for the Director of the Seventh Board of the Company are in compliance with the requirements of the Articles of Associations of the Company.
2. Mr. Wu Yanzhang is in compliance with the qualification for appointment as director required by relevant laws and regulations of the State and the Articles of Associations of the Company.
3. Consent to propose the nomination of Mr. Wu Yanzhang as candidate for the Director of the Seventh Board of the Company to the general meeting of the Company for consideration.

#### ***(4) Appointment of senior management officer***

On 31 October 2013, pursuant to the Guiding Opinions Regarding the Establishment of Systems of Independent Directors by Listed Companies (《關於在上市公司建立獨立董事制度的指導意見》), we, as an independent non-executive Directors of the Seventh Board of the Company, based on independent judgment, hereby issue my independent opinion on matters including the appointment of General Manager and Deputy General Manager at the twelfth meeting of the Seventh Board of the Company as follow:

1. After reviewing the biographies, performance records and other relevant materials of Mr. Hu Chuanzhong, Mr. Kang Yiqing and Mr. Li Junjie as provided by the Company before the meeting, we have not discovered any one of them who has the situations specified in Section 147 of the Company Law, nor are they prohibited from entry into the market by China Securities Regulatory Commission, or experiencing a prohibition not yet expired. They are legally qualified for the senior management appointment.
2. The nomination process and the appointment approval process of the above mentioned personnel are in compliance with relevant provisions of the Company Law and the Articles of Association of the Company. The senior management are engaged under legal nomination manner and appointment process.

---

## APPENDIX III REPORT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS FOR THE YEAR 2013

---

3. Based on my knowledge, I am of the view that each of Mr. Hu Chuanzhong, Mr. Kang Yiqing and Mr. Li Junjie has adequate academic background, professional experience and physical condition, will be able to meet the requirements of their respective duties in the Company, and will benefit the normal operation of the Company.

On 5 November 2013, pursuant to the Guiding Opinions Regarding the Establishment of Systems of Independent Directors by Listed Companies (《關於在上市公司建立獨立董事制度的指導意見》), we, as an independent non-executive Directors of the Seventh Board of the Company, based on independent judgment, hereby issue my independent opinion on matters including the appointment of Deputy General Manager and Chief Engineer at the fourteenth meeting of the Seventh Board of the Company as follow:

1. After reviewing the biographies, performance records and other relevant materials of Mr. Wu Yanzhang and Ms. Xie Yuemei as provided by the Company before the meeting, we have not discovered any one of them who has the situations specified in Section 147 of the Company Law, nor are they prohibited from entry into the market by China Securities Regulatory Commission, or experiencing a prohibition not yet expired. They are legally qualified for the senior management appointment.
2. The nomination process and the appointment approval process of the above mentioned personnel are in compliance with relevant provisions of the Company Law and the Articles of Association of the Company. The senior management are engaged under legal nomination manner and appointment process.
3. Based on my knowledge, I am of the view that each of Mr. Wu Yanzhang and Ms. Xie Yuemei has adequate academic background, professional experience and physical condition, will be able to meet the requirements of their respective duties in the Company, and will benefit the normal operation of the Company.

### ***(5) Changes in accounting estimation***

On 16 December 2013, pursuant to the requirements under the Guiding Opinions Regarding the Establishment of Systems of Independent Directors by Listed Companies, Code of Corporate Governance for Listed Companies and the Articles of Association of the Company, we have carefully and seriously reviewed the materials of the Company's Board meeting and expressed following opinions in respect of the changes in accounting estimation of the Company:

- (1) The Board of the Company has considered and passed the matters in relation to the changes in accounting estimation in accordance with the procedure under the Articles of Association of the Company and requirements under relevant laws and regulations;

---

## APPENDIX III REPORT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS FOR THE YEAR 2013

---

- (2) The revised accounting estimation can more accurately reflect the actual situation of the depreciation rate and the rate of salvage values of the fixed assets and the bad debt provision percentage for account receivables of the Company. Such changes are based on true and reliable situation and in accordance with relevant requirements under Accounting Standards for Enterprises, which can truly and objectively reflect the financial situation of the Company. Company's interests and minority interests are not prejudiced;
- (3) After careful consideration, independent Directors unanimously agreed the changes in accounting estimation of the Company.

### IV. Works on Protection of legal interests of Public Shareholders

#### *(1) Reviewing the connected transactions of the Company*

The Company considered 3 connected transactions on 27 February, 26 April and 31 October 2013 respectively. Based on our independent judgment and professional expertise, we carefully reviewed every key point and each key issue of the reorganisation, and proactively communicate with the major shareholder and ensured that there is no act undermining interests of the Company or its shareholders, especially minority shareholders.

#### *(2) Reviewing information disclosure of the Company*

During 2013, the Company disclosed information on a truthful, accurate, timely and complete basis, in strict compliance with the requirements under relevant laws and regulations, including Company Laws, Rules Governing the Listing of Stocks in Hong Kong and PRC and the Administrative Measures for Disclosure of Information of Listed Companies.

#### *(3) Investigation on corporate governance and management*

In 2013, we diligently and faithfully performed our duties as Independent Non-executive Directors of the Company, and listened to the reports of relevant personnel relating to production, operation, financial management, internal control system establishment, use of funds raised, connected transactions, etc. and investigated and obtained necessary circumstances and materials necessary for making decisions.

### V. Other Matters

- (1) We had not proposed to convene Board meetings;
- (2) We had not proposed to appoint or remove the accountant firms;
- (3) We had not independently engaged any external auditors and advisers.

---

## **APPENDIX III     REPORT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS FOR THE YEAR 2013**

---

### **VI. Overall comment and advice**

During 2013, we diligently and faithfully performed our duties as Independent Non-executive Directors and leveraged on our respective professional expertise to give advice to the Company. In 2014, we will continue to perform our duties earnestly and follow the principle of prudence, diligence and honesty; constantly enhance our learning and professional standards, strengthen communication and decision-making ability of the Board; proactively perform our duties as Independent Non-executive Directors and effectively play our role in decision-making and supervision, so as to safeguard the Company and all shareholders, especially the legitimate interest of minority shareholders and enhance the robust development of the Company and help the Company to establish a good image of being honest and trustworthy.

Independent Non-executive Directors: **Zhang Shuangru, Wang Hui, Xie Bingguang and Wang Deyu**

27 March 2014

---

## **APPENDIX IV      MANAGEMENT MEASURES ON THE EFFICIENCY ASSESSMENT OF SENIOR MANAGEMENT**

---

### **Chapter 1    General provisions**

Article 1    In order to further improve the incentive and restraint mechanism of the senior management (the “Senior Management”) of Beijing Jingcheng Machinery Electric Company Limited (the “Company”), achieve an organic integration of remuneration allocation, performance appraisal and the company results and shareholders’ value, These Measures have been formulated based on the Articles of Association and the relevant regulations of the state.

Article 2    These Measures apply to the senior management of the Company, including the general manager of the Company, the deputy general manager who is also serving as senior management of Tianhai Industrial, the deputy general manager who is not serving as the senior management of Tianhai Industrial etc.

The secretary and vice secretary of the Party Committee, chairman of the labour union who have not been appointed with duties at the operational level but who actually perform duties at the operational level, or who have been included in the operational management level, as well other personnel that the Remuneration and Monitoring Committee considers that they should be treated according to these Measures, will be proposed by the Remuneration and Monitoring Committee in the annual remuneration allocation proposal, which can be executed according to these Measures after it is reported to the Board for consent and approval.

The directors, supervisors who have not been appointed with duties at the operational level but who actually perform duties at the operational level, or who have been included in the operational management level will be proposed by the Remuneration and Monitoring Committee in the annual remuneration allocation proposal. After the proposal is reported to the Board and Supervisory Committee, and a consent is obtained, it is submitted to the shareholders’ meeting for decision, after it is approved, it can be executed according to these Measures.

Article 3    The performance appraisal of senior management follows the following principles:

1.    Principles of openness, fairness and justice;
2.    Principles of strategic orientation and clear targets;
3.    Principles of integration of quantitative management and qualitative management;
4.    Principles of integration of appraisal results and process control.

Article 4    These Measures will be implemented from the date of their approve for a validity ending at the conclusion of 2016 annual general meeting.

---

## APPENDIX IV      MANAGEMENT MEASURES ON THE EFFICIENCY ASSESSMENT OF SENIOR MANAGEMENT

---

### Chapter 2   Composition and determination of salary

Article 5   A salary system is implemented for the senior management. The annual salary of the senior management of the Company comprises of three parts: the basic annual remuneration, regular annual performance remuneration and special contribution income.

Article 6   The amount of the basic annual remuneration is determined by the following formula:

$$\text{Basic annual remuneration} = \text{the annual basic salary} \times \text{position coefficient} \times 50\%$$

Among them, the annual basic salary is determined by the Remuneration and Monitoring Committee of the Company at the beginning of each year based on factors such as the remuneration level of the industry, the operating conditions and the first six months and the sum of remuneration of the Company etc.

The determination of the position coefficient is based on the position assessment value. Normally the position coefficient of the general manager is 1, the position coefficient of the deputy general manager (who is also serving as senior management of Tianhai Industrial) is 0.5-0.85.

The basic annual remuneration will be paid in equal amounts every month, the monthly payment amount of the basic annual remuneration is determined by the following formula:

$$\text{Monthly payment amount} = \text{basic annual remuneration} \div 12$$

Article 7   The amount of the regular annual performance remuneration is determined by the following formula:

$$\text{Regular annual performance remuneration} = \text{annual basic salary} \times \text{position coefficient} \times 50\% \times \text{appraisal coefficient}$$

The appraisal coefficient is determined by the results of the performance appraisal, and its correlation with the appraisal result is as follows:

1.   If the appraisal result is A, the appraisal coefficient will be 1.5;
2.   If the appraisal result is B, the appraisal coefficient will be 1.2;
3.   If the appraisal result is C, the appraisal coefficient will be 1;
4.   If the appraisal result is D or below, the appraisal coefficient will be 0.8;
5.   If the appraisal result is D or below, the appraisal coefficient will be 0.6.

---

## **APPENDIX IV      MANAGEMENT MEASURES ON THE EFFICIENCY ASSESSMENT OF SENIOR MANAGEMENT**

---

Article 8 When the senior management has made significant outstanding contribution to the implementation of the strategies of the Company or has obtained significant managerial innovation, technological innovation, or has obtained remarkable achievements in investment, or the Company has obtained special praises from the government or industry, an income for special contribution can be paid to the senior management. After the income for special contribution is reviewed by the Remuneration and Monitoring Committee of the Board, it is reported to the Board for review and approval, its amount should not exceed RMB100,000.

### **Chapter 3 Annual operational performance appraisal**

Article 9 Organization structure of the senior management performance appraisal

1. The Board is the top decision-making organization of the remuneration and performance appraisal management of the senior management.
2. The Remuneration and Monitoring Committee of the Board is a task force group specially set up by the Board, which is mainly in charge of formulating the appraisal standards of the senior management of the Company. It is in charge of formulating, reviewing the remuneration policy and proposal of the senior management of the Company, it reports to the Board.

Article 10 The performance appraisal of the senior management is carried out basing on the performance contract, and the work flow for the determination of the performance contract is as follows:

1. The performance contract is determined once a year.
2. At the beginning of each year the Remuneration and Monitoring Committee collects the relevant data of the industry about the performance contract. Taking into account of such data and the operational plan and annual key tasks of the Company, the Committee selects suitable result indicators, and determines important elements such as the level and weightings of the indicators. It will then draft the contract and submit it to the Board for review and approval, upon which the contract will be finalised.
3. The Remuneration and Monitoring Committee signs the performance contracts with the senior management members at the end of March every year, and the chairman of the Remuneration and Monitoring Committee or chairman of the Company will be the offeror.
4. In principle, once a performance contract is signed, it will not be changed. If changes are needed due to substantial changes in the objective situations, the Remuneration and Monitoring Committee will express its opinion on the revision, and after it is reported to the Board and reviewed and finalised by the latter, it will be signed again.

---

## APPENDIX IV      MANAGEMENT MEASURES ON THE EFFICIENCY ASSESSMENT OF SENIOR MANAGEMENT

---

Article 11 The major indicators of the performance contract include the key performance indicators and operational management indicators.

1. Key performance indicator: It represents the completion status of the economic indicators of the value creation function undertaken by the senior management. The critical result indicator adopts the quantitative management method, and sets up the basic objectives and the weighting of that indicator in the overall critical result indicators.
2. Operational management indicator: Appraisal is carried out on work performance of the senior management in the areas of management, market exploration, execution, communication, coordination and organizational work, the operational management indicator adopts the qualitative management method.

For the specific scoring methods of the critical result indicators and operational management indicators, please refer to the 《Jingcheng Company Performance Contract of Senior Management》.

Article 12 At the beginning of a year, the Remuneration and Monitoring Committee arranges an appraisal of the completion status of all the indicators in the performance contract of the senior management for the last year, the appraisal results are reported to the Board for review and finalisation.

If the person being assessed disputes strongly the appraisal of this round of performance appraisal, he can lodge a complaint to the Remuneration and Monitoring Committee of the Board. If he is not satisfied with his communication with the Remuneration and Evaluation Committee, he can submit the case to the Board for final judgment. After the Board has examined the facts involved in the complaint, it will make the final judgment.

Article 13 The final score of the performance contract equals to the sum of the score of each indicator multiplied by its weighting, which is:

$$\text{Final score} = \sum (\text{Score of an indicator} \times \text{weighting of that indicator})$$

Among them, the weightings of two types of indicators in different positions are specified in the performance contract. The final score is rounded to the nearest cent.

Article 14 The appraisal result of the performance contract is determined by the range of final score, its correlation is as follows:

1. A final score above 120 is extremely excellent, the appraisal result is A;
2. A final score between 101 and 120 is excellent, the appraisal result is B;
3. A final score between 91 and 100 is very good, the appraisal result is C;



---

## **APPENDIX IV      MANAGEMENT MEASURES ON THE EFFICIENCY ASSESSMENT OF SENIOR MANAGEMENT**

---

4. A final score between 81 and 90 is good, the appraisal result is D;
5. A final score between 61 and 80 is pass, the appraisal result is E;
6. A final score below 60 is poor, the appraisal result is F.

### **Chapter 4    Payment and management of the remuneration of the senior management**

Article 15    The annual salary specified in these Measures is before tax, it is subject to personal income tax according to the law. The portion of housing provident fund and all kinds of social insurances of the senior management member which should be borne by the individual himself is deducted from his basic annual salary by the Company and paid on his behalf; the portion that should be borne by the Company should be paid for by the Company. The statutory social insurance, pension imposed by the state adopt the principle of residence, they are paid to the place of the “Hu Kou” concerned.

Article 16    The basic remuneration of the senior management is paid monthly in the form of basic salary.

Article 17    The annual performance remuneration is realized in one-off according to the appraisal result, based on the principle of First-review-then-realize. No annual performance remuneration of the senior management can be provided for or paid in advance without the approval of the supervisory management unit.

Article 18    For details of the payment of the excessive portion of the annual performance remuneration of the senior management, please refer to Beijing Jingcheng Machinery Electric Company Limited Senior Management Incentive Fund Administrative Measures.

Article 19    The income for special contribution of the senior management is paid in full as a lump sum by cash on a yearly basis after it is approved by the Board.

### **Chapter 5    Supplementary provisions**

Article 20    For any senior management member serving two or more posts, the higher of the annual salary standards will be used.

Article 21    If there are changes in the duties of the senior management during the year, the annual salary standards will be re-determined by the Remuneration and Evaluation Committee, and executed starting from the following month after the re-assignment of duties.

---

## **APPENDIX IV      MANAGEMENT MEASURES ON THE EFFICIENCY ASSESSMENT OF SENIOR MANAGEMENT**

---

Article 22 The Remuneration and Monitoring Committee is responsible for the interpretation of these Measures.

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

March 2014

### **Chapter 1 General Provisions**

Article 1: In order to standardize the management and utilization of the raised fund of Beijing Jingcheng Machinery Electric Company Limited (the “Company”) and safeguard the interest of investors, these Measures are formulated in accordance with the requirements of the Securities Law, the Companies Law”, the Code of Corporate Governance for Listed Companies and the Listing Rules, etc. and taking into account the Company’s actual conditions

Article 2: The raised fund referred in these Measures means funds raised from the public for specific use through the issuance of shares (including initial public offering, share placement and the issuance of additional shares after listing) or by issuing convertible bonds.

Article 3: When the raised fund is collected, capital verification procedures shall be carried out in a timely manner by the Company, and a capital verification report shall be prepared by an accounting firm qualified for securities business. The Company shall organize the utilization of the raised fund according to the plan for the use of proceeds as set forth in the prospectus immediately. The utilization of raised fund shall follow the careful planning, detailed consideration, standardized operation, openness and transparency principles of the Company.

Article 4: No one has the power to change the use of raised funds as announced in the prospectus of raised fund unless shareholders have passed a resolution at the general meeting in accordance with the law.

Article 5: In case any breach of these Measures has incurred any loss (including financial and reputational) on the Company, the responsible person shall receive punishment according to the specific situation and assume civil compensation liability if necessary.

### **Chapter 2 Deposit of the raised fund**

Article 6: The raised fund of the Company shall be deposited according to the principles of concentration and convenience for supervision.

Article 7: The raised fund shall be deposited in a specific bank account set up by the Company. A raised fund specific account management agreement for the raised fund account shall be entered into between the bank and the Company.

Article 8: In case when the raised fund is over RMB 50 million, and it is necessary to open specific accounts in more than one bank because of loan arrangements, the principle that the raised fund for the same investment objective should be deposited in the same specific account should be followed.

### **Chapter 3 Use of raised fund**

Article 9: The basis for the use of raised fund is the proposal for the use of raised fund.

Article 10: The proposal for the use of raised fund is prepared and approved according to the following procedures:

1. The department of the Company responsible for the project prepares a proposal for the use of raised fund (draft) based on the feasibility report of the investment project using the raised fund;
2. The proposal for the use of raised fund (draft) shall be reviewed by the general manager in a work meeting;
3. The proposal for the use of raised fund (draft) is subject to approval by the Board.

Article 11: When using the raised fund, an application form shall be completed by the department (unit) using the raised fund, which shall be jointly signed by the chairman, general manager and the chief accountant and executed by the finance department of the Company.

Article 12: When the use of raised fund exceeds the planned limit or requirement, if the exceeded amount is within 10% of the planned amount (including 10%), a decision shall be made by work meeting of the general manager; if the exceeded amount is above 10% of the planned amount, it shall be approved by the Board.

Article 13: The raised fund investment project shall be strictly funded according to the project's budget. In case there is any special reason in which the budget has to be exceeded, the following procedures have to be followed for consideration and approval:

1. The department of the Company responsible for the project prepares an over-budget report which states in details the reason for over-budget, explanation on the preparation of new budget and measures implemented to control over-budget;
2. If the actual investment amount exceeds the budget by 5% (including 5%) or less, it shall be approved by the general manager in work meeting;
3. If the actual investment amount exceeds the budget by more than 5% but within 10% (including 10%), it shall be approved by the Board;
4. If the actual investment amount exceeds the budget by more than 10%, it shall be approved by the general meeting.

Article 14: In the premise that the construction of the raised fund investment project will not be affected, the raised fund can be used to supplement the liquidity, or used in short-term investment not exceeding six months within the scope as permitted by laws, regulations and normative documents of securities regulatory authorities.

When the raised fund is used to supplement liquidity, it shall be approved by the general manager in a work meeting; when it is used for short-term investment, it shall be approved by the Board.

Article 15: The raised fund of the Company shall not be invested in stocks and futures, unless shareholders have passed a resolution at the general meeting in accordance with the law.

Article 16: When the raised fund investment project is in the form of establishing a joint venture company with third parties, the said joint venture company shall draw up a corresponding fund raising management measures, and submit it to the Board of the Company for consideration and approval together with the feasibility report of the fund raising investment projects.

#### **Chapter 4 Reporting and of usage of raised fund**

Article 17: Meetings shall be convened by the general manager or the chief accountant at least once a month to review the use of raised fund.

Article 18: The general manager or the chief accountant shall report to the Board in writing in respect of the use of the raised fund at the end of each quarter. A copy of the special report mentioned above shall also be sent to the Supervisory Committee.

Article 19: The Board shall report to the investors in the annual general meeting and regular reports, namely the annual reports, the interim reports and the quarterly reports in respect of the use of the raised fund.

Article 20: The draft of the information disclosure of the use of raised fund shall be led by the Secretary of the Board, and co-signed by the financial department and audit department.

#### **Chapter 5 Supervision of the use of raised fund**

Article 21: Daily supervision in respect of the raised fund shall be performed by the audit department of the Company. The use of raised fund shall be audited once every six months by the audit department. The audit report shall be delivered to the Board, and a copy shall also be provided to the Supervisory Committee, the chairman and the general manager.

Article 22: Independent directors have the right to review the use of raised fund. Subject to the approval from all independent directors, an accounting firm qualified for securities business can be appointed to perform specific audit in respect of the use of raised fund.

Article 23: Supervisory Committee has the power to supervise the use of raised fund.

**Chapter 6 Supplementary Provisions**

Article 24: These Measures are subject to approval from the Board and shall be submitted to the general meeting of the Company for shareholders' approval. The same applies to any amendment.

Article 25: These Measures are to be interpreted by the Board of the Company.

Article 26: These Measures are to be implemented from the date of obtaining shareholders' approval at the general meeting of the Company.

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

February 2014

---

## NOTICE OF AGM

---

*The following corresponds to the notice of AGM which was published and despatched to the Shareholders on 12 May 2013.*



**北京京城机电股份有限公司**

**Beijing Jingcheng Machinery Electric Company Limited**

*(a joint stock limited company established in the People's Republic of China)*

**(Stock Code: 0187)**

### NOTICE OF AGM

**NOTICE IS HEREBY GIVEN** that the 2013 annual general meeting (“AGM”) of Beijing Jingcheng Machinery Electric Company Limited (the “**Company**”) will be convened as follows:–

**I. Basic Information of the meeting:**

1. Convenor of the meeting: the board of directors (the “**Board**”) of the Company
2. Manner of the meeting: voting by way of poll at the meeting
3. Time of the meeting: 26 June 2014 (Thursday) at 9:00 a.m.
4. Place of the meeting: the First Conference Room, 18/F, Jingcheng Machinery Electric Building, No. 59 Mansion, Dongsanhuan Road Central, Chaoyang District, Beijing
5. Shares registration date: 26 May 2014 (Monday)

**II. Resolutions:**

**(I) Ordinary Resolutions**

1. To consider and approve the 2013 annual report of the Company;
2. To consider and approve the 2013 work report of the board of directors of the Company;
3. To consider and approve the 2013 work report of the supervisory committee of the Company;
4. To consider and approve the 2013 Financial Reports of the Company audited by ShineWing Certified Public Accountants LLP;

---

## NOTICE OF AGM

---

5. To consider and approve the 2013 internal control report of the Company audited by Shu Lun Pan Certified Public Accountants LLP;
6. To consider and approve the resolution of the Company not to distribute any profit for the year 2013;
7. To consider and approve re-appointment of SHINEWING Certified Public Accountants LLP for the Company's 2014 Financial Reports, and to authorise the Board to enter into a service contract with it and determine its remuneration;
8. To consider and approve re-appointment of Shu Lun Pan Certified Public Accountants LLP as the Company's 2014 internal control auditor, and to authorise the Board to enter into a service contract with it and determine its remuneration;
9. To consider and approve the report of the independent non-executive Directors of the Company for 2013;
10. To consider and approve the management measures on the efficiency assessment of senior management;
11. To consider and approve the fund raising management measures;
12. To consider and approve the continuing connected transactions in relation to Gas Cylinder Pipe Sale and Purchase Framework Agreement and the Supplemental Agreement;

(II) Special Resolution:

13. To consider and approve the proposed amendments to the Articles of Association.

III. Attendees of and Attendance at the AGM:

The directors, supervisors and senior management of the Company.

Shareholders of the Company ("Shareholders") whose names appear on the register of members of the Company at the close of business on 26 May 2014 have the right to attend the AGM after completion of registration procedures.

Shareholders or proxies who intend to attend the AGM are requested to deliver the reply slip of attending to the Company before 5 June 2014. The reply slip may be delivered in person, by post or facsimile.

Holders of the Company's H shares ("H Shares") should note that the register of members of the Company will be closed from 26 May 2014 to 26 June 2014 (both days inclusive), during which time no H Shares transfer will be registered. For holders of H Shares who intend to attend the AGM, transfer documents together with the related share certificates must be lodged with the Hong Kong



---

## NOTICE OF AGM

---

share registrar of the Company no later than 4:30 p.m. on 23 May 2014. The address is Hong Kong Registrars Limited, Room 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Corporate Shareholder should attend the meeting by its legal representatives or the proxy appointed by the legal representative. Legal representative who attends the meeting should present his own identity card, evidence of shareholding and valid documents evidencing his capacity as a legal representative. While appointing proxy to attend the meeting, the proxy should present his identity card and an authorisation instrument affixed with the seal of the corporate Shareholder and duly signed by its legal representative and evidence of shareholding.

1. Each Shareholder who is entitled to attend and vote at the AGM may appoint one or more proxy(ies) who need not be a Shareholder, to attend and vote on his or her behalf at the AGM.
2. For any Shareholder who appoints more than one proxy, his or her proxies can only exercise the voting right by way of poll.
3. The instrument appointing a proxy must be in writing under the hand of the appointer or his attorney authorised in writing. If that instrument is signed by an attorney on behalf of the appointer, the power of attorney authorising that attorney to sign, or other authority, must be notarially certified. To be valid, the notarially certified copy of the power of attorney, or other authority, together with the form of proxy must be delivered to the registered address of the Company not less than 24 hours before the time appointed for the holding of the AGM.

#### IV. Other matters:

The Company's registered address:	No. 9 North Tianying Road, Chaoyang District, Beijing
Contact telephone:	010-67365383
Fax:	010-87392058
Postal code:	100121
Contact person:	Jiao Ruifang

The AGM is expected to last for half a day. Attendees should bear their own accommodation and travel expenses.

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

12 May 2014