
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.

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北京京城機電股份有限公司
Beijing Jingcheng Machinery Electric Company Limited
(a joint stock limited company established in the People's Republic of China)
(Stock Code: 0187)

POSSIBLE MAJOR TRANSACTION
DISPOSAL OF EQUITY INTERESTS IN SHANDONG TIANHAI
AND
ELECTION OF SUPERVISOR

The EGM will be held at the first Conference Room, No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing on Monday, 4 March 2019 at 9:30 a.m. Further details of the EGM are set out in the notice issued by the Company dated 16 January 2019.

A form of proxy in respect of the EGM was despatched by the Company on 16 January 2019. Whether or not you intend to attend the EGM, you are requested to complete the form of proxy for use at the EGM in accordance with the instructions printed thereon and return the same to the business address of the Company at No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing, the PRC, or the Company's H Share Registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The completion and delivery of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof if you so wish.

15 February 2019

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DEFINITIONS

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

| | |
|---|--|
| “A Share(s)” | domestic ordinary Share(s) with a par value of RMB1.00 each in the share capital of the Company which are listed on the Shanghai Stock Exchange and traded in RMB |
| “Beijing SASAC” | Beijing Municipal People’s Government State-owned Assets Supervision and Administration Commission |
| “Beijing Tianhai” | 北京天海工業有限公司 (Beijing Tianhai Industry Co., Ltd.), a company incorporated in the PRC with limited liability, which is 100% owned by the Company |
| “Board” | the board of Directors of the Company |
| “CBEX” | 北京產權交易所有限公司 (China Beijing Equity Exchange Co., Ltd.), an institution authorised by the Beijing SASAC for transaction of assets and equity of State-owned enterprises under the central government of the PRC |
| “Company” | 北京京城機電股份有限公司 (Beijing Jingcheng Machinery Electric Company Limited), a joint stock company incorporated in the PRC with limited liability and the shares of which are listed on the Main Board of the Stock Exchange and the Shanghai Stock Exchange |
| “Connected Person(s)” | has the meaning as ascribed to it under the Listing Rules |
| “Directors” | the directors of the Company |
| “Equity Transaction Agreement” or “Agreement” | the equity transaction agreement to be entered into between the Company and the Potential Transferee in relation of the Potential Disposal |
| “EGM” | the extraordinary general meeting of the Company to be convened on 4 March 2019 (Monday) at 9:30 a.m. at first Conference Room, No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing |
| “Group” | the Company and its subsidiaries |

DEFINITIONS

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|--------------------------------|---|
| “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 Machinery Electric” | 北京京城機電控股有限責任公司 (Beijing Jingcheng Machinery Electric Holding Co., Ltd.), a company incorporated in the PRC and holding 43.30% interest in the Company |
| “Latest Practicable Date” | 13 February 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Minimum Consideration” | the listing price of 51% of RMB120,410,500 for the 51% equity interest in Shandong Tianhai, which is the estimated value of Shandong Tianhai based on the Valuation Report |
| “Potential Disposal” | the proposed disposal of 51% equity interests in Shandong Tianhai by the Company through CBEX |
| “Potential Transferee” | the bidder who won the bidding for the Potential Disposal through public tender |
| “PRC” or “State” | the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SFO” | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Shandong Tianhai” | 山東天海高壓容器有限公司 (Shandong Tianhai High Pressure Containers Co., Ltd.), a company incorporated in the PRC with limited liability, which the Company indirectly owns 51% equity interests |
| “Shareholders” | holders of the Shares |

DEFINITIONS

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|-------------------------|---|
| “Share(s)” | A Shares and H Shares of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Supervisors” | Supervisors of the Company |
| “Supervisory Committee” | Supervisory Committee of the Company |
| “Transfer Price” | the final bid price of the 51% equity interests in Shandong Tianhai |
| “Valuation Report” | the “Asset Valuation Report on the Value of All the Shareholders’ Interest of Shandong Tianhai High Pressure Containers Co., Ltd. in relation to the Proposed Transfer of Equity Interests in Shandong Tianhai High Pressure Containers Co., Ltd. Held by Beijing Tianhai Industry Co., Ltd.” (Zhong Qi Hua Ping Bao Zi (2018) No. 4028) issued by 北京中企華資產評估有限責任公司 (China Enterprise Appraisals Co., Ltd.) in respect of all the equity interests (net assets) of Shandong Tianhai for valuation purpose as at 30 April 2018, being the base date for valuation |
| “Yong’an Heli” | 山東永安合力鋼瓶股份有限公司 (Shandong Yong’an Heli Steel Cylinder Co., Ltd.), a company incorporated in the PRC with limited liability, which owns 49% equity interests in Shandong Tianhai |
| “%” | 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 Jun
Mr. Li Junjie
Mr. Zhang Jiheng

Non-executive directors:

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

Independent non-executive directors:

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

Registered office:

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

15 February 2019

To the Shareholders

Dear Sir or Madam,

**POSSIBLE MAJOR TRANSACTION
DISPOSAL OF EQUITY INTERESTS IN SHANDONG TIANHAI
AND
ELECTION OF SUPERVISOR**

INTRODUCTION

Reference is made to the announcement of the Company dated 16 January 2019 in relation to the Potential Disposal.

The purpose of this circular is to provide you with information regarding, among others, (i) further information in respect of the Potential Disposal and the Equity Transaction Agreement; and (ii) the election of the Supervisor of the ninth session of the Supervisory Committee.

LETTER FROM THE BOARD

THE PUBLIC TENDER

The Company proposes to dispose of the 51% equity interests in Shandong Tianhai held by the Company through Beijing Tianhai by public tender to be quoted on CBEX. The Company is a State-controlled listed company and the disposal of its State-controlled assets is required to undergo the process of public tender through an approved equity exchange in accordance with the laws and regulations of the PRC concerning the disposal of State-controlled assets. The Potential Disposal will be carried out through CBEX. According to the regulations of CBEX, the Potential Transferee is required to enter into the Equity Transaction Agreement with the Company.

Qualification of the Potential Transferee

The Potential Transferee shall satisfy, among others, the following descriptions and qualifications:

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

Date and Procedures of the Public Tender

The Company intends to submit the tender notice to CBEX before the end of March 2019 after the Shareholders have passed the relevant resolution at the EGM.

The publication period will be open for 20 working days from the date of the tender notice. During the publication period, bidders qualified to be the Potential Transferee may indicate their interest in purchasing the 51% equity interests in Shandong Tianhai and register themselves as bidders. Upon the expiry of the publication period, CBEX will notify the Company the identity of the Potential Transferee.

Within 3 working days upon notification of the Potential Transferee by CBEX, the Company is required to enter into the Equity Transaction Agreement with the Potential Transferee.

As at the date of this circular, material information of the Equity Transaction Agreement including the Potential Transferee, Transfer Price, payment method, delivery and transfer time, etc. have not been determined. The Company will enter into the Equity Transaction Agreement upon confirmation of the Potential Transferee and perform its relevant approval procedures and information disclosure obligations. As at the date of this circular, no equity transfer agreement has been entered into between the Company and any other party in relation to the Potential Disposal.

LETTER FROM THE BOARD

Consideration

The Minimum Consideration (i.e. the listing price of 51% equity interests in Shandong Tianhai) is 51% of RMB120,410,500. The Minimum Consideration is based on the results of the Valuation Report issued by an independent valuer, Beijing China Enterprise Appraisals Co., Ltd., in respect of the 51% equity interests in Shandong Tianhai using the asset-based approach with 30 April 2018 being the base date for valuation. The Valuation Report (excluding annexes) is set out in Appendix II of this circular. Such valuation results have not been approved by Beijing SASAC and the final report will be subject to the approval of Beijing SASAC.

The Minimum Consideration is RMB61,409,355, which represents 51% of the appraised value of Shandong Tianhai of RMB120,410,500. The book value of the net assets which represents the Company's interests in Shandong Tianhai is RMB54,545,265, being 51% of the book value of the net assets of Shandong Tianhai of RMB106,951,500. Therefore, the excess of the Minimum Consideration over the book value of the net assets representing the Company's interests in Shandong Tianhai is RMB6,864,090.

Shareholders should note that the Transfer Price will depend on the final bid price, but will in any event be no less than the Minimum Consideration.

The Equity Transaction Agreement

The Company will enter the Equity Transaction Agreement after the Potential Transferee is determined. The principal terms of the Equity Transaction Agreement are set out as below:

Equity transfer:

The Company shall transfer its 51% equity interests in Shandong Tianhai through Beijing Tianhai to the Potential Transferee, and its capital contribution of RMB58,420,500 in respect of the 51% equity interests in Shandong Tianhai has been settled in full.

Shandong Tianhai has not engaged in any forms of guarantee, including but not limited to pledging of the relevant assets and equity, or any limitations or obligations that will hinder the Potential Disposal or the exercise of any shareholder's rights. Shandong Tianhai has not been the subject of any seizure or any injunctive measures by the competent authorities.

Mode of transfer:

Through public tender to be quoted on CBEX, the bidder who wins the bidding will be the Potential Transferee.

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Transfer Price and payment method:

The Potential Transferee shall pay the Company the Transfer Price subject to the final bid price through public tender, which shall not be lower than the listing price.

The Potential Transferee shall pay for the deposit as requested by the Company and CBEX, which shall form part of the consideration.

The Transfer Price shall be denominated in RMB. If the Transfer Price is paid in foreign currency by the Potential Transferee, the amount of the foreign currency paid by the Potential Transferee will be determined by the average price of the buying price and the selling price of RMB and such foreign currency as the exchange rate as announced by the People's Bank of China one day before the Potential Transferee pays the Transfer Price. If the Potential Transferee fails to pay the Transfer Price when due, the exchange rate risks for the period from the due date of payment of the Transfer Price to the overdue payment date.

The Potential Transferee shall pay the Transfer Price to the Company by installment as follows:

- (1) The Potential Transferee shall remit 70% of the Transfer Price into the settlement account designated by CBEX within 3 days upon the Agreement becoming effective.

LETTER FROM THE BOARD

- (2) The Potential Transferee shall pay the Company the balance of the Transfer Price together with the interests incurred for the period from the effective date of the Agreement until the date of actual payment calculated at the prevailing bank loan interest rate for the same period, with full settlement of such balance of the Transfer Price and corresponding interests to the Company within 6 months upon effectiveness of the Agreement. Details relating to the balance of the Transfer Price stated in this clause, and the legal means for the provision of guarantee such as equity pledge by the Potential Transferee or joint and several guarantee to be provided by third party (if any) will be set out in the guarantee agreement and/or equity pledge agreement between the parties.

Completion:

1. The Company and the Potential Transferee shall perform or assist to perform the obligation regarding the reporting to relevant vetting authorities and cooperate to handle any reasonable requests and enquires made by such vetting authorities, on a best effort basis, for the purpose of obtaining the approval from such vetting authorities for the Agreement and the Potential Disposal contemplated thereunder.
2. Within 30 working days upon the Potential Disposal contemplated under the Agreement of obtaining the equity transaction certificate issued by CBEX, the Company shall procure Shandong Tianhai to complete the equity transfer registration procedures with relevant authority and the Potential Transferee shall provide necessary assistance and cooperation. The completion of the Potential Disposal shall take place on the date upon the completion of equity transfer registration procedures and issuance of new business license of Shandong Tianhai by the relevant authority.

LETTER FROM THE BOARD

3. Within 30 days upon the completion of the Potential Disposal, both parties shall determine the specific date, place and subject matters to be completed in relation to the Potential Disposal. Pursuant to the “assets and information list” of Shandong Tianhai required under the Agreement, the assets and list, ownership certificate, approval documents, financial statements, filing information, chops and seals, construction plans and technical information of Shandong Tianhai shall be transferred by the Company to and verified by the Potential Transferee.
4. The Company shall take responsibilities for the information in terms of completeness and truthfulness of the abovementioned information and whether it is consistent with the information provided by Shandong Tianhai, and bear all legal liabilities arisen from concealment and misrepresentation of facts.
5. The Company shall transfer the assets, power of control and management of Shandong Tianhai to the Potential Transferee within the above agreed period and Shandong Tianhai will be managed and controlled by the Potential Transferee.
6. Where the original Shandong Tianhai is cancelled by the Potential Transferee and its assets are consolidated into its corporate or associated entities under its control, the Company shall assist in completing the registration and transfer procedures for obtaining relevant certificates and approvals.

LETTER FROM THE BOARD

7. The Company entered into the “Trademark License Agreement” with Shandong Tianhai on 28 May 2014 in respect of the Company’s authorisation to Shandong Tianhai to use the agreed trademark. Pursuant to the “Trademark License Agreement”, where the Company holds less than 40% equity interests in Shandong Tianhai, the Company has the right to terminate the “Trademark License Agreement”, therefore the Potential Transferee shall procure Shandong Tianhai to enter into an agreement with the Company to terminate the abovementioned “Trademark License Agreement” as requested by the Company.
8. The Potential Transferee shall procure Shandong Tianhai to complete the registration procedures for change of the name of Shandong Tianhai within 15 working days upon the completion date of the Potential Disposal and the wordings of “Tianhai” shall not be included in the new name of Shandong Tianhai.

Obligations of fees payment for the Potential Disposal:

Fees incurred in the Potential Disposal contemplated under the Agreement shall be borne by the Company and the Potential Transferee respectively in accordance with the relevant requirements.

Liability for breach of contract:

1. Upon the Agreement being effective, any party who proposes to terminate the Agreement without any reason shall pay 30% of the Transfer Price to the other party as one-off liquidated damages in accordance with the Agreement and shall be liable for any losses suffered by the other party.

LETTER FROM THE BOARD

2. Where the Potential Transferee fails to pay the Transfer Price within the agreed period under the Agreement, the Potential Transferee shall pay the Company the liquidated damages for late payment. Such liquidated damages shall be calculated according to the 0.05% of the Transfer Price payable within the overdue period. In case the overdue payment exceeds 30 days, the Company shall be entitled to terminate the Agreement and require the Potential Transferee to pay 10% of the Transfer Price as liquidated damages according to the Agreement and compensate for any losses suffered by the Company and Shandong Tianhai therein.
3. Where the Company fails to transfer Shandong Tianhai according to the Agreement, the Company shall pay liquidated damages to the Potential Transferee. Such liquidated damages shall be calculated at 0.05% of the Transfer Price payable for each day overdue. In case the overdue period exceeds 30 days, the Potential Transferee shall be entitled to terminate the Agreement and require the Company pays the Potential Transferee 10% of the Transfer Price as liquidated damages.
4. If there is any undisclosed or omitted matters regarding the assets and liabilities of Shandong Tianhai which may cause material and adverse impacts to Shandong Tianhai or the price of the Potential Disposal, the Potential Transferee shall be entitled to terminate the Agreement and require the Company to pay 10% of the Transfer Price as liquidated damages to bear the liability for breach of contract according to the Agreement. If the Potential Transferee does not terminate the Agreement, it shall be entitled to ask the Company for compensation regarding relevant matters. The compensation amount shall be equal to the relevant portion of the losses incurred by the above undisclosed or omitted assets and liabilities of Shandong Tianhai.

LETTER FROM THE BOARD

5. Where Shandong Tianhai fails to enter into relevant agreement(s) under the Agreement with the Company within the period that the Company requested or Shandong Tianhai fails to complete the registration procedures for change of corporate name within the agreed period under the Agreement, the Potential Transferee shall pay 0.05% of the Transfer Price to the Company as liquidated damages for every overdue day and compensate the Company for all losses incurred thereof.

Effective date of the Agreement: The Agreement shall take effect upon the date of signature and sealing by legal representatives or authorised representatives of the Company and the Potential Transferee.

REASONS FOR AND BENEFITS FOR THE POTENTIAL DISPOSAL AND THE USE OF PROCEEDS

The reasons for the Potential Disposal is to lower the operating cost of the Company, to optimize its asset structure and resources allocation, and to focus more on its core business, so as to improve the quality of the assets of the Company and increase the profitability of the Company.

The main products produced by Shandong Tianhai are 219-type seamless industrial gas cylinders, which are the low-end products of the Company. In recent years, due to increasingly fierce market competition, there is a relatively large fluctuation in products profitability, and operational risks have increased significantly. According to the Group's "13th Five-Year Strategic Plan", it intends to optimise and adjust its product structure, to concentrate profitable resources, to develop products with high profitability potential, and to reduce the scale of 219-type seamless industrial gas cylinders in order to achieve the development from producing low-end products to mid-end and high-end products.

The Board consider the transaction contemplated under the Potential Disposal will be on normal commercial terms, which is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Upon completion of the Potential Disposal, Shandong Tianhai will no longer be a subsidiary of the Company.

The Transfer Price of the Potential Disposal is subject to the final bid price, it is expected that there will be no impact on the Company's operating results for the year 2018 and will have an impact on the Company's profit and loss for the year 2019. The specific amount will be calculated and disclosed based on the results of the Potential Disposal.

LETTER FROM THE BOARD

The Company intends to use the proceeds for its production and operation. Specifically, the Company intends to use all the proceeds to purchase raw materials such as steel, steel piece and carbon fiber for the production of gas cylinders.

FINANCIAL EFFECT OF THE POTENTIAL DISPOSAL

Earnings

It is estimated that the Group will receive gains of approximately RMB8,000,000 to RMB10,000,000 upon the completion of the Potential Disposal (the aforementioned range is estimated based on the approved assessed value of RMB120,410,500 as the initial bidding price of the public tender and is subject to the final consideration after the completion of transaction under the public tender). Such gains are estimated based on the Minimum Consideration receivable from the Potential Disposal after deducting the net asset value of Shandong Tianhai as at 30 April 2018 and related transaction expenses. Shareholders are reminded that (i) the actual gains will be recognised in the financial statements of the Company after the disposal through public tender and subject to the audited profit or loss by auditor after the date of completion of the Potential Disposal, therefore the actual gains may differ from the abovementioned amounts; (ii) if there are changes in the PRC accounting policies, the Company will comply with such changes.

Assets and liabilities

After the completion of the Potential Disposal, Shandong Tianhai will no longer be a subsidiary of the Company, and its financial statements will not be consolidated into the consolidated financial statements of the Group. Changes in total asset of the Group will be consistent with the impact of gains and the total liabilities remain unchanged, and the final information is subject to the audited amount after the public tender.

The Board intends to use the net proceeds arising from the Potential Disposal as the Group's working capital.

IMPLICATIONS UNDER THE LISTING RULES

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

Yong'an Heli holds 49% equity interests in Shandong Tianhai, and is therefore a connected person of the Company at the subsidiary level pursuant to Chapter 14A of the Listing Rules. Yong'an Heli has not given up its preemptive right as an original Shareholder of Shandong Tianhai. If Yong'an Heli finally obtains the qualification as the Potential Transferee of the Potential Disposal, the Company will enter an Equity Transaction Agreement with Yong'an Heli, and the transaction contemplated thereunder will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. Given that

LETTER FROM THE BOARD

the Potential Disposal will be carried out by public tender through CBEX and the Transfer Price will not be lower than the Minimum Consideration, taking into account the reasons and benefits of the Potential Disposal, the Board (including the independent non-executive Directors) considers that the terms of the transactions contemplated under the Potential Disposal are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole. In contemplation of such case, the Company has obtained (i) the Board's approval of such transaction and (ii) the confirmation from the independent non-executive Directors that the terms of such transaction are fair and reasonable, on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole. As such, the transaction would be subject to the reporting and announcement requirements to be complied with by the Company but would be exempted from the circular, independent financial advice and independent Shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

As far as the Company is aware, among the connected persons of the Company, only Yong'an Heli has shown interest that it may participate in the public tender relating to the Potential Disposal. After checking with all the connected persons of the Company at the issuer level, the Company confirms that there will not be any connected person of the Company at the issuer level participating in the public tender.

To the best of knowledge, information and belief of the Directors after having made all reasonable enquiries, no Shareholder has material interest in the Potential Disposal and thus no Shareholder would be required to abstain from voting on the resolution for approving the Potential Disposal at the EGM.

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

As at the date of this circular, the Potential Disposal has not yet been materialised, the Potential Transferee is still uncertain, no Equity Transaction Agreement has been signed by the Company, and no arrangement on contract performance has been made. Therefore, the Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

GENERAL

Information on the Company

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

The authorised scope of operation of the Company includes general logistics and professional contractor.

The Company's general operation projects include developing, designing, selling, installing, adjusting and maintaining cryogenic containers, compressors (piston compressor, membrane compressor and membrane compressor of nuclear grading) and accessories; machinery equipment and electrical equipment; technical consultancy and technical services; import and export of commodities and technology and acting as import and export agency.

LETTER FROM THE BOARD

Information on Shandong Tianhai

Shandong Tianhai is a company established under the laws of the PRC with limited liability on 12 June 2014. The Company holds 51% equity interests in Shandong Tianhai through its controlling subsidiary Beijing Tianhai, and Yong'an Heli holds 49% equity interests. The business scope of Shandong Tianhai includes: production of seamless gas cylinders (steel seamless gas cylinders only) and welding gas cylinders; sales of industrial gas cylinders and their accessories (for projects requiring approval according to law, the operating activities can be commenced upon approval of the relevant departments).

In accordance with the generally accepted accounting principles in the PRC, the profits before and after taxation of Shandong Tianhai for the financial years ended 31 December 2016 and 2017 were as follows:

| | For the year ended 31 December 2016 RMB | For the year ended 31 December 2017 RMB |
|------------------------|--|--|
| Profit before taxation | 15,459,416.08 | (6,623,910.39) |
| Profit after taxation | 13,235,662.58 | (6,623,910.39) |

As at 30 September 2018, the book value of Shandong Tianhai was RMB115,742,483.89.

As at 30 April 2018, Shandong Tianhai was valued at RMB120,410,500 based on the Valuation Report.

THE ELECTION OF THE SUPERVISOR OF THE NINTH SESSION OF THE SUPERVISORY COMMITTEE

Reference is made to the announcement of the Company dated 16 January 2019 in relation to the resignation and election of Supervisor

On 16 January 2019, Mr. Li Gejun (“**Mr. Li**”) submitted his resignation notification to the Supervisory Committee to resign from the position of Supervisor due to job reallocation. The Supervisory Committee fully respects the decision of Mr. Li and has accepted his resignation application. The resignation of Mr. Li shall take effect after new supervisor is elected at the EGM. Mr. Li confirmed that there is no matter relating to his resignation that needs to be brought to the attention of the Shareholders. The Supervisory Committee and Mr. Li have confirmed that he is not aware of any unfulfilled personal obligation of Mr. Li towards the Group, nor any impact on such obligation as a result of his resignation, and there is no disagreement between Mr. Li and the Company which has led to the resignation of Mr. Li.

LETTER FROM THE BOARD

Proposed appointment of Supervisor

The seventeenth meeting of the ninth session of the Supervisory Committee considered and approved that Mr. Miao Junhong was nominated as a Supervisor candidate of the ninth session of the Supervisory Committee, and the resolution shall be submitted to the EGM for consideration. The Company will enter into a service contract with Mr. Miao Junhong, the proposed supervisor, the terms of service contract shall be from the date of approval at the EGM until the expiration of 2019 annual general meeting.

Mr. Miao Junhong, Chinese, male, aged 54. He is an on-the-job postgraduate student of Chinese Social Science Post-graduate Economic Faculty with major in enterprise management. Mr. Miao was the deputy secretary of discipline inspection commission, the department head of supervisory department, the vice chairman of labour union of Beijing Jingcheng Machinery Electric Holding Co., Ltd. He was a member of the party, the secretary to the Board of Directors, the head of the party office, the head of the Board of Directors office, the head of the supervisory office of the Board of Directors of the Company. He was the party secretary and a director of Beiyi Digital Company. He was also the party secretary, secretary of discipline inspection commission, the chairman of labour union of Beijing Beiyi Machine Tool Co., Ltd., and the general manager and secretary of the branch of party of Beijing Jingcheng Zhidi Co., Ltd.. Currently, he is a despatched supervisor of office of directors and supervisors of Beijing Jingcheng Machinery Electric Holding Co., Ltd..

Save as disclosed in this circular, Mr. Miao Junhong has no relationship with other Directors, Supervisors, senior management, substantial shareholder or controlling shareholder of the Company.

Mr. Miao Junhong has no relationship with substantial shareholder or controlling shareholder of the Company.

Mr. Miao Junhong does not hold any interests in shares of the Company as defined in Part XV of the SFO, nor does he hold directorship or supervisorship in any other listed public companies in the last three years.

Save as disclosed above, in respect of Mr. Miao Junhong, there is no other information which is required to be disclosed pursuant to any provisions under Rule 13.51(2) of the Listing Rules nor other information that need to be brought to the attention of the Shareholders. As at the date of this circular, according to the register maintained pursuant to section 352 of the SFO, Mr. Miao Junhong does not have any interest or short positions in the shares, underlying shares and debentures of the Company.

RECOMMENDATION

The Directors consider that the Potential Disposal is fair and reasonable and on normal commercial terms and is in the interests of the Company and the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Potential Disposal.

LETTER FROM THE BOARD

THE EGM

Whether or not you are able to attend the EGM, you are requested to complete and return the form of proxy which has been despatched on 16 January 2019 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 EGM or any adjournment thereof. The form of proxy should be returned to the business address of the Company at No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing, PRC, or the Company's H Share Registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time appointed for the commencement of the EGM 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 EGM or at any adjournment thereof if you so wish.

Reply slip for the EGM has been despatched on 16 January 2019. You have been reminded to complete and sign the reply slip and return the signed slip to the Company at Board office, No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing, PRC, before 11 February 2019 in accordance with the instructions printed thereon.

ADDITIONAL INFORMATION

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

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

1. STATEMENT OF INDEBTEDNESS

As at 31 December 2018, the Group had interest-bearing loans of RMB295,998,046.30, which included pledged bank borrowings of RMB137,998,046.30 and unpledged bank borrowings of RMB158,000,000.00, and such bank borrowings were guaranteed.

As at 31 December 2018, the note payable of the Group was RMB30,000,000.00, which was pledged by bank deposits of RMB14,500,000.00, The Housing Ownership Certificate (J.Z. No. 115021201217) and Land-use Right No.31-6. Except for the above or otherwise disclosed in this circular, as at 31 December 2018, the Group had no loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or bonds, mortgage, loans or other similar indebtedness or commitments under finance leases, hire purchase commitments, liabilities under acceptance (other than normal trade bills), acceptance credits, guarantees or other contingent liabilities.

2. WORKING CAPITAL

The Directors are of the opinion that, after due and careful enquiry, after taking into account the Group's internal resources, the effect of the Potential Disposal and the transactions contemplated thereunder and existing cash and bank balances, the Group will have sufficient working capital for its present requirements for a period of at least 12 months from the date of this circular, in the absence of unforeseeable circumstances.

3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The completion of the Potential Disposal will enable the Company to significantly reduce operating costs, optimize its asset structure and resource allocation, further focus on its core businesses, enhance assets quality and improve the profitability of the Company. The Company will accelerate the progress of business transformation, strengthen its capabilities on fund using and business-risk control and enhance its entire risk resistance capacity, in the pursuit of striving for balance between profits-gaining and sustainable development.

This Asset Valuation Report was prepared in accordance to the Assets Evaluation Standards of China.

Asset Valuation Report
on the Value of All the Shareholders' Interest of
Shandong Tianhai High Pressure Containers Co., Ltd.
in relation to the Proposed Transfer of Equity Interests in
Shandong Tianhai High Pressure Containers Co., Ltd.
Held by Beijing Tianhai Industry Co., Ltd.

Zhong Qi Hua Ping Bao Zi (2018) No. 4028
(Volume 1 of 1)

China Enterprise Appraisals Co., Ltd.
15 August 2018

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STATEMENT

1. This Asset Valuation Report was prepared in accordance with the Asset Valuation Standards – Basic Standards issued by the Ministry of Finance and practice guidelines and code of ethics for asset valuation issued by China Appraisal Society.
2. The asset appraisal institute and its asset appraisers have complied with the laws, administrative rules and regulations and asset valuation standards on the principles of independence, objectivity and impartiality, and are responsible, under the laws, for the asset valuation report issued by them.
3. The client or other users of the asset valuation report shall use the Asset Valuation Report in accordance with laws, administrative rules and regulations and the scope of use set out in the Asset Valuation Report. The asset appraisal institute and its asset appraisers disclaim any liability arising from the use of this Asset Valuation Report by the client or other users of the report in violation of the aforesaid requirements.

This Asset Valuation Report shall only be used by the client, other users of the asset valuation report specified in the asset valuation engagement contract, and users of asset valuation report stipulated in laws, administrative rules and regulations. Save for the above, any other entity or individual shall not be a user of the Asset Valuation Report.

The asset appraisal institute and the asset appraisers advise that users of this Asset Valuation Report should establish a proper understanding of the valuation conclusion. The valuation conclusion is not equal to, and should not be regarded as a guarantee for the realizable value of the valuation target.

4. The list of assets and liabilities and business operation forecast of the valuation target have been reported by the client and the evaluated entity and confirmed with their signatures and chops or otherwise as permitted by laws; the truthfulness, legality and completeness of the information provided shall be the responsibility of the client and other relevant parties under the laws.
5. The asset appraisers have carried out on-site inspection on the valuation target and its assets; we have given necessary attention to the legal ownership of the valuation target and the assets involved, verified the information on the legal ownership of the valuation target and the assets involved, made proper disclosure of issues identified, and requested the client and other relevant parties to perfect the title to meet the requirements for the issuance of an asset valuation report.
6. The asset appraisal institute and the asset appraisers have no existing or expected relationship of interests with the valuation target set out in the Asset Valuation Report or with the relevant parties, and have no prejudice against the relevant parties.
7. The analyses, judgements and results in the Asset Valuation Report issued by the asset appraisal institute are subject to the assumptions and limitations set out in the Asset Valuation Report. Users of the Asset Valuation Report shall take into full account of the assumptions, limitations and special notes stipulated in the Asset Valuation Report and their impact on the conclusion of valuation.

SUMMARY OF ASSET VALUATION REPORT

IMPORTANT NOTICE

This summary is extracted from the text of the Asset Valuation Report. For the purpose of understanding the details of this valuation and a reasonable comprehension of the conclusion of valuation, please read the text of the Asset Valuation Report.

Beijing Tianhai Industry Co., Ltd.:

Engaged by Beijing Tianhai Industry Co., Ltd., China Enterprise Appraisals Co., Ltd. appraised, in accordance with relevant laws, administrative rules and regulations and asset valuation standards on the principles of independence, objectivity and impartiality, as well as the necessary valuation procedures, the market value on the Benchmark Date of all of the shareholders' interests of Shandong Tianhai High Pressure Containers Co., Ltd. The summary of the Asset Valuation Report is as follows:

Purpose of valuation: Beijing Tianhai Industry Co., Ltd. intends to transfer its equity interests held in Shandong Tianhai High Pressure Containers Co., Ltd.. In this regard, Beijing Tianhai Industry Co., Ltd. engaged China Enterprise Appraisals Co., Ltd. to conduct valuation of the value of all of the shareholders' interests of Shandong Tianhai High Pressure Containers Co., Ltd. involved in such economic activity, and provide the reference value for the said economic activity.

Valuation Target: Value of all of the shareholders' interests of Shandong Tianhai High Pressure Containers Co., Ltd.

Scope of valuation: Total assets and liabilities of the entity to be evaluated. The assets within the scope of valuation included current assets, fixed assets, construction-in-progress, intangible assets, etc. The book value of total assets was RMB267.1730 million. All liabilities were current liabilities. The book value of total liabilities was RMB160.2215 million. The book value of net assets was RMB106.9515 million.

Benchmark Date: 30 April 2018

Valuation type: Market value

Valuation Methods: Asset-based approach, income approach

Conclusion of valuation: The result based on the asset-based approach is adopted as the conclusion of valuation in this Asset Valuation Report. The specific conclusion of valuation is as follows:

As of the Benchmark Date, the book value of total assets of Shandong Tianhai High Pressure Containers Co., Ltd. was RMB267.1730 million, the appraised value was RMB280.6320 million and the amount of appreciation was RMB13.4590 million, representing an appreciation rate of 5.04%; the book value of total liabilities was RMB160.2215 million, the appraised value was RMB160.2215 million, which represented no

difference; the book value of net assets was RMB106.9515 million, the appraised value of net assets was RMB120.4105 million and the amount of appreciation was RMB13.4590 million, representing an appreciation rate of 12.58%.

The results of the valuation using the asset-based approach are detailed in the following summary of valuation results:

Summary of valuation results by using the asset-based approach

Benchmark Date: 30 April 2018

Unit: RMB0'000

| Items | | Book value | Appraised value | Increase or decrease | Appreciation rate% |
|---------------------------------------|----|------------|-----------------|----------------------|--------------------|
| | | A | B | C=B-A | D=C/A×100% |
| I. Current assets | 1 | 14,435.78 | 14,479.89 | 44.11 | 0.31 |
| II. Non-current assets | 2 | 12,281.52 | 13,583.31 | 1,301.79 | 10.60 |
| In which: Long-term equity investment | 3 | | | | |
| Investment properties | 4 | | | | |
| Fixed assets | 5 | 10,992.08 | 12,161.81 | 1,169.73 | 10.64 |
| Construction-in-progress | 6 | 62.11 | 62.11 | 0.00 | 0.00 |
| Intangible assets | 7 | 1,227.33 | 1,359.39 | 132.06 | 10.76 |
| In which: land use rights | 8 | 1,227.33 | 1,347.94 | 120.61 | 9.83 |
| Other non-current assets | 9 | | | | |
| Total assets | 10 | 26,717.30 | 28,063.20 | 1,345.90 | 5.04 |
| III. Current liabilities | 11 | 16,022.15 | 16,022.15 | 0.00 | 0.00 |
| IV. Non-current liabilities | 12 | 0.00 | 0.00 | 0.00 | |
| Total liabilities | 13 | 16,022.15 | 16,022.15 | 0.00 | 0.00 |
| Net assets | 14 | 10,695.15 | 12,041.05 | 1,345.90 | 12.58 |

This Asset Valuation Report is solely designed to provide the reference value for the economic activity described in the Asset Valuation Report. The conclusion of valuation is valid for one year from the Benchmark Date.

Users of the Asset Valuation Report shall take into full account the assumptions, limitations, special notes stipulated in the Asset Valuation Report and their impact on the conclusion of valuation.

This summary is extracted from the text of the Asset Valuation Report. For the purpose of understanding the details of this valuation and a proper comprehension of the conclusion of valuation, please read the text of the Asset Valuation Report.

**TEXT OF THE ASSET VALUATION REPORT
ON THE VALUE OF ALL THE SHAREHOLDERS' INTEREST OF
SHANDONG TIANHAI HIGH PRESSURE CONTAINERS CO., LTD.
IN RELATION TO THE PROPOSED TRANSFER OF EQUITY INTERESTS IN
SHANDONG TIANHAI HIGH PRESSURE CONTAINERS CO., LTD.
HELD BY BEIJING TIANHAI INDUSTRY CO., LTD.**

Beijing Tianhai Industry Co., Ltd.:

Engaged by the Company, China Enterprise Appraisals Co., Ltd. appraised, by using the asset-based approach and the income approach and in accordance with relevant laws, administrative rules and regulations and asset valuation standards on the principles of independence, objectivity and impartiality, as well as the necessary valuation procedures, the market value on 30 April 2018 of all of the shareholders' interests of Shandong Tianhai High Pressure Containers Co., Ltd. in relation to the proposed transfer of equity interests in Shandong Tianhai High Pressure Containers Co., Ltd. held by Beijing Tianhai Industry Co., Ltd. Details of the asset valuation are reported as follows:

**I. THE CLIENT, EVALUATED ENTITY AND OTHER USERS OF THE ASSET
VALUATION REPORT SPECIFIED IN THE ASSET VALUATION
ENGAGEMENT CONTRACT**

The client of this valuation is Beijing Tianhai Industry Co., Ltd. The entity to be evaluated is Shandong Tianhai High Pressure Containers Co., Ltd. Other than the superior units of the client and the users of the Asset Valuation Report specified in national laws and regulations, there is no other user of the Asset Valuation Report.

(I) Profile of the client

Name of company: Beijing Tianhai Industry Co., Ltd. (**"Beijing Tianhai Company"**)

Registered address: No. 9 North Tianying Road, Chaoyang District, Beijing

Legal representative: Li Junjie(李俊杰)

Registered capital: US\$61.4018 million

Type of enterprise: company with limited liability (Taiwan, Hong Kong, Macao and domestic joint venture)

Main scope of business: production of gas cylinders, accumulator shells, pressure vessels and auxiliary equipment, add-on components, fire extinguishers, fire extinguishing system products and components, gas cylinders for medical equipment, gas cylinders for life rescues, gas cylinders and components for food machineries, gas and wrapped cylinders and components for gas vehicles, gas storage special containers, bundled devices, cryogenic gas cylinders and components, LPG cylinders and components, aluminium cores, cylinders and components, new enhanced complex

materials (complex materials such as carbon fibre, organic fibre and high strength glass fibre) and products, complex gas cylinders (natural gas storage cylinders for vehicles, gas storage cylinders for respirators, containers for water treatment), testing equipment for complex gas cylinders; providing installation, adjustment, maintenance, technical consultancy and services of self-production products; sales of self-production products; wholesale of cryogenic containers for storage and transportation; providing after-sales service and maintenance; import and export of commodities and technology and acting as import and export agency. (Record should be filed at the Municipal Commission of Commerce after obtaining this licence. Items that required approval in accordance with laws shall commence operating activities in compliance with the content approved after obtaining the approval of relevant authorities.)

(II) Profile of the entity to be evaluated

1. Profile of the company

Name of company: Shandong Tianhai High Pressure Containers Co., Ltd.
(**“Shandong Tianhai Company”**)

Registered address: Industrial Park, Hedong District, Linyi City, Shandong Province

Legal representative: Chen Shaochun(陳少春)

Registered capital: RMB114.5500 million

Type of enterprise: Other company with limited liability

Main scope of business: production of seamless gas cylinders (steel seamless gas cylinders only) and welding gas cylinders; sales of industrial gas cylinders and their accessories. (Items that required approval in accordance with laws shall commence operating activities after obtaining the approval of relevant authorities.)

2. Shareholders, shareholding ratio and changes in equity of the company

Shandong Tianhai High Pressure Containers Co., Ltd. is jointly established by Beijing Tianhai Industry Co., Ltd. and Shandong Yong'an Heli Steel Cylinder Co., Ltd. on 12 June 2014, with an initial registered capital of RMB30,000,000, in which Beijing Tianhai Industry Co., Ltd. contributed RMB15,300,000 and

Shandong Yong'an Heli Steel Cylinder Co., Ltd. contributed RMB14,700,000. The amount and proportion of capital contribution of each shareholder are as follows:

| Shareholder | Contribution (RMB0'000) | Means of contribution | Shareholding proportion |
|---|----------------------------|--------------------------|----------------------------|
| Beijing Tianhai Industry Co., Ltd. | 1,530.00 | Cash | 51.00% |
| Shandong Yong'an Heli Steel Cylinder Co., Ltd. | 1,470.00 | Cash | 49.00% |
| Total | 3,000.00 | | 100.00% |

The board of directors of Shandong Tianhai High Pressure Containers Co., Ltd. resolved on 22 July 2014 to increase the registered capital of Shandong Tianhai High Pressure Containers Co., Ltd. from RMB30,000,000 to RMB114,550,000, in which Beijing Tianhai Industry Co., Ltd. injected RMB43,120,500 in cash and Shandong Yong'an Heli Steel Cylinder Co., Ltd. injected RMB41,429,500 in cash. As of the Benchmark Date, the amount and proportion of capital contribution of each shareholder are as follows:

| Shareholder | Contribution (RMB0'000) | Means of contribution | Shareholding proportion |
|---|----------------------------|--------------------------|----------------------------|
| Beijing Tianhai Industry Co., Ltd. | 5,842.05 | Cash | 51.00% |
| Shandong Yong'an Heli Steel Cylinder Co., Ltd. | 5,612.95 | Cash | 49.00% |
| Total | 11,455.00 | | 100.00% |

3. Structures of ownership and operation and management

Shandong Tianhai Company has board of shareholders which is the highest authority of the company. The company has a board of directors comprising five directors who are appointed by shareholders. The board of directors has one chairman who is nominated by Beijing Tianhai Company and elected by at least four-fifths of the directors. There is no supervisory committee for Shandong Tianhai Company. Two supervisors are appointed by the two shareholders. One general manager is engaged by the board of directors. Functional departments such as sales department, finance department, production department, comprehensive office and technical quality department are established.

4. Assets, financial and operation condition on the Benchmark Date and for the last three years

Financial position of the evaluated entity as of the Benchmark Date and for the last three years are as follows:

Unit: RMB0'000

| Items | 31 December 2015 | 31 December 2016 | 31 December 2017 | 30 April 2018 |
|--------------------------|------------------------|------------------------|------------------------|------------------|
| Current assets | 4,275.91 | 13,069.34 | 14,107.88 | 14,435.78 |
| Fixed assets | 10,594.62 | 11,229.30 | 11,635.95 | 10,992.08 |
| Construction-in-progress | 767.63 | 541.65 | – | 62.11 |
| Intangible assets | 247.91 | 1,267.14 | 1,235.85 | 1,227.33 |
| Total assets | 15,886.08 | 26,178.08 | 26,979.68 | 26,717.30 |
| Current liabilities | 3,822.17 | 13,473.79 | 16,128.99 | 16,022.15 |
| Non-current liabilities | – | – | – | – |
| Total liabilities | 3,822.17 | 13,473.79 | 16,128.99 | 16,022.15 |
| Owners' equity | 12,063.91 | 12,704.30 | 10,850.70 | 10,695.15 |

Income statement of the evaluated entity for the period as of the Benchmark Date and for the last three years are as follows:

Unit: RMB0'000

| Items | Year of 2015 | Year of 2016 | Year of 2017 | January – April 2018 |
|-------------------------------|-----------------|-----------------|-----------------|-------------------------|
| I. Operating revenue | 53,921.04 | 63,381.43 | 67,717.44 | 23,660.63 |
| Less: Operating cost | 51,171.36 | 58,701.81 | 65,342.42 | 22,499.33 |
| Business taxes and surcharges | 73.80 | 250.09 | 232.84 | 135.75 |
| Selling expenses | 712.99 | 1,381.23 | 927.76 | 233.15 |
| Administrative expenses | 1,281.10 | 1,268.00 | 1,737.02 | 504.04 |
| Financial expenses | 172.99 | 140.30 | 112.62 | 64.80 |
| Asset impairment loss | – | 5.43 | 9.28 | 379.12 |
| II. Operating profits | 508.81 | 1,634.58 | –644.50 | –155.56 |
| Add: Non-operating income | 206.97 | 12.47 | 1.86 | – |
| Less: Non-operating expenses | 5.00 | 88.10 | 19.75 | – |
| III. Total profits | 710.77 | 1,558.95 | –662.39 | –155.56 |
| Less: income tax expenses | 124.58 | 392.74 | – | – |
| IV. Net profits | 586.19 | 1,166.21 | –662.39 | –155.56 |

The accounting statements of the evaluated entity as of the Benchmark Date, Year of 2017 and Year of 2016 were audited by ShineWing Certified Public Accountants LLP, who issued unqualified opinions. The accounting statements of Year of 2015 was unaudited.

5. Relationship between the client and the evaluated entity

The client, Beijing Tianhai Industry Co., Ltd., holds 51% equity interest in the evaluated entity, Shandong Tianhai High Pressure Containers Co., Ltd.

6. Other users of the Asset Valuation Report specified in the asset valuation engagement contract

Other than the superior units of the client and the users of the Asset Valuation Report specified in national laws and regulations, there is no other user of the Asset Valuation Report.

II. PURPOSE OF VALUATION

Beijing Tianhai Industry Co., Ltd. intends to transfer its equity interests held in Shandong Tianhai High Pressure Containers Co., Ltd. In this regard, Beijing Tianhai Industry Co., Ltd. engaged China Enterprise Appraisals Co., Ltd. to conduct valuation of the value of all of the shareholders' interests of Shandong Tianhai High Pressure Containers Co., Ltd. involved in such economic activity, and provide the reference value for the said economic activity.

Beijing Tianhai Industry Co., Ltd. issued the Minutes of the Sixth Managers' Meeting in 2018 (Bei Tian Jing (Ji) [2018] No. 6) on 20 March 2018 in regard to this matter and considered and approved the resolution in respect of the engagement of an intermediary as the service institution for the transfer of 51% of equity interest in Shandong Tianhai High Pressure Containers Co., Ltd.

III. VALUATION TARGET AND SCOPE OF VALUATION**(I) Valuation Target**

The valuation target is the value of all of the shareholders' interests of Shandong Tianhai High Pressure Containers Co., Ltd..

(II) Scope of valuation

The scope of valuation covers all assets and liabilities of the entity to be evaluated. As of the Benchmark Date, the assets within the scope of valuation included current assets, fixed assets, construction-in-progress, intangible assets, etc. The book value of total assets was RMB267.1730 million. All liabilities were current liabilities. The book value of total liabilities was RMB160.2215 million. The book value of net assets was RMB106.9515 million.

The entrusted valuation target and the scope of valuation were consistent with the valuation target and the scope of valuation related to the economic activity. As of the Benchmark Date, the book values of the assets and liabilities within the scope of valuation were audited by ShineWing Certified Public Accountants LLP, who issued unqualified opinions.

1. Information of major assets within the scope of valuation:*(1) Inventory*

Inventory includes raw materials, finished products and unfinished products.

Raw materials are mainly 140 Huading steel pipes, seamless steel rings, Jinan Lifei hot-rolling coils (15 kg round plate), Shangang hot-rolling coils (5 kg round plate);

Finished products are mainly 219 cylinder tubes-JP, YA-140 oxygen export cylinder tubes, YA-152 gas cylinder tubes, YA-159 gas cylinder tubes, YA liquefied gas cylinders (15 kg);

Unfinished products are mainly intermediates including 219 semi-finished products in seamless plant 1 of Base One, seamless plastics-spray bottles (40L), 232 adjusted 34CRMO4 semi-finished products in seamless plant 1 of Base One.

(2) Buildings (structures)

Buildings (structures) mainly include: buildings, structures, tube channels.

Buildings (structures) mainly include: plant 1, plant 4, canteen, (South) Office building, North office building, apartment, eco glasshouse.

Major structures are mainly frame structures, steel structures, brick and concrete structures, which were constructed during 2014 to 2017, located in factory zone of Shandong Tianhai High Pressure Containers Co., Ltd. in the northeast of the intersection between Shunda Road and Junbu Street in the Industrial Park in Hedong District.

Structures mainly include greenery, a basketball court in Base One, a newly developed land in Base Three, wires and cables.

Tube channels are mainly for natural gas pipes.

(3) Equipment assets

Equipment assets are mainly machinery equipment, vehicles, electronic equipment.

There are 661 items under machinery equipment in total, mainly comprising steel-cylinder outer surface cleaning machine, normalizing furnace production line of oxygen gas cylinder, top-bottom forming machine, bottoming machine, newly added production line in plant 4;

There are 5 vehicles in total, most of which were acquired after 2014, mainly comprising Buick GL8 Commercial, Wuling van, Foton cargo van;

There are 210 electronic equipment in total, mainly comprising Inspur computers (servers), computers, air-conditioners, printers in the offices of various departments of the company.

(4) *Construction-in-progress*

Civil construction-in-progress

Construction-in-progress included in the scope of valuation is mainly the renovation construction of warehouse and isolation construction of secondary-level warehouse, with expected total investment amount of RMB263,854.19, and such project was commenced in April 2018 and is expected to be completed in May 2018. As of the Benchmark Date, major parts of such project were basically completed, with construction progress reaching 95% and being fully-paid.

Equipment-installation-in-progress

Equipment under installation mainly refers to those machineries and equipment currently not installed and put into operation, which include submerged-arc welding, elevating conveyor, blanking die, internal welding equipment and external welding equipment.

(5) *Intangible assets – land use right*

The land use right included in the scope of valuation refers to the land use right attached to a land granted to Shandong Tianhai High Pressure Containers Co., Ltd., which has currently obtained a State-owned Land Use Right Certificate as follows:

Table of status of unevaluated land right

| No. | Name of land parcel | Land user listed on the certificate | Land use right number | Location of land parcel | Area of land parcel (m ²) | Purpose of use | Type of land use right | Date of grant obtained | Term of use |
|-----|---------------------|---|---------------------------------|--|---------------------------------------|----------------|------------------------|------------------------|-------------|
| 1 | Land of Tianhai | Shandong Tianhai High Pressure Containers Co., Ltd. | Lin He Guo Yong [2016] No. 0084 | the northeast of the intersection between Shunda Road and Junbu Street in the Industrial Park in Hedong District | 51,844.00 | Industrial | Granting | April 2016 | 50 years |

(6) *Intangible assets – other intangible assets*

There is only one item under other intangible assets included in the scope of valuation, which is Kingdee Software, with initial accounting value of RMB114,446.60 and amortized book value of RMB0.00.

2. Ownership of major assets within the scope of valuation as follows:

(1) *Certification of properties*

There are 13 buildings included in the scope of valuation with total gross floor area of 60,874.17 square meters, and all of which have not been filed for obtaining ownership certificates. The evaluated entity undertakes that it shall be entitled to such uncertified ownership and there will be no dispute on the title. The construction floor area of the above properties was reported by the evaluated entity and confirmed by the appraisers through on-site verification.

Among the buildings included in the scope of valuation, a land use rights certificate has been granted for the land occupied by plant 1, plant 2, plant 3, canteen, connected-room between plants 1 and 2, (South) Office building, apartment, reception room and area for renovation of South office building, with the certificate number of Lin He Guo Yong [2016] No. 0084, and its land user is Shandong Tianhai High Pressure Containers Co., Ltd. The land occupied by plant 4, North office building, eco-zone and other factory zones with a total site area of 48,000.00 square meters (such area was reported by the evaluated entity and confirmed by the appraisers through on-site verification, the future certified area is subject to the surveying of the Bureau of Land and Resources) has not yet obtained land use rights certificate as payment of the land granting fee is pending due to Government's planning. The land is currently used on a free basis.

(2) *Mortgage of buildings*

As of the Benchmark Date, among the buildings included in the scope of valuation, plant 1, plant 2, plant 3, plant 4, newly added area of plant 4 and connection between plants 1 and 2 are subject to other right restrictions under mortgage. As ownership certificates have not been obtained for the above plants, relevant major materials (steel plates, steel cylinders and steel girders) in those plants are pledged as for chattel mortgage. The chattel mortgage number is Lin Dong Shi Jian 0539 Di Deng Zi [2018] No. 002 and the mortgagee is Shandong Linyi Hedong Rural Commercial Bank Co., Ltd (Jiuqu sub-branch), with a mortgage amount of RMB35,602,100.00 and a mortgage term until 11 January 2021.

As of the Benchmark Date, the land use rights under the certificate Lin He Guo Yong [2016] No. 0084 is subject to other right restrictions under mortgage. The other right certificate number is Lin He Ya Ta Xiang [2016]

No. 0061 and the mortgagee is Shandong Linyi Hedong Rural Commercial Bank Co., Ltd, with a mortgage amount of RMB16,000,000.00 and a mortgage term until 24 July 2019.

(3) Type and number of off-balance sheet assets

All assets reported by the enterprise for the purpose of valuation are on-balance sheet assets.

IV. TYPE OF VALUE

(I) Type and definition of value

The type of value to be evaluated is determined to be the market value.

Market value refers to the estimated value of an arm's-length transaction made by the evaluated entity in the ordinary course of business on the Benchmark Date between a willing buyer and a willing seller who has each acted rationally and without compulsion.

(II) Reasons for selecting the type of value

The purpose of this asset valuation is to provide a reference value for the transfer equity interest in Shandong Tianhai High Pressure Containers Co., Ltd. held by Beijing Tianhai Industry Co., Ltd. The valuation result of the Asset Valuation Report shall be just and fair as required by the users of the Asset Valuation Report and its conclusion shall be used by such users rationally without compulsion. The type of value to be evaluated is determined to be the market value according to the purpose of this valuation, the market conditions considered in valuation and the applicable scope of the conclusion of valuation.

V. BENCHMARK DATE

The Benchmark Date of this valuation is 30 April 2018.

The Benchmark Date has been determined by the client. Factors such as the end of accounting period and facilitating the realisation of such economic activity were taken into consideration in the determination of the Benchmark Date.

VI. BASIS OF VALUATION

(I) Basis of economic activity

The Minutes of the Sixth Managers' Meeting in 2018 (Bei Tian Jing (Ji) [2018] No. 6) of Beijing Tianhai Industry Co., Ltd.

(II) Legal bases

1. Asset Appraisal Law of the People's Republic of China (adopted at the 21st Meeting of the Standing Committee of the 12th National People's Congress on 2 July 2016);
2. Company Law of the People's Republic of China (revised at the 6th Meeting of the Standing Committee of the 12th National People's Congress on 28 December 2013);
3. Securities Law of the People's Republic of China (revised at the 10th Meeting of the Standing Committee of the 12th National People's Congress on 31 August 2014);
4. Financial Supervision and Management Measures of Assets Evaluation Industry (Decree No. 86 of the Ministry of Finance of the People's Republic of China);
5. The Urban Real Estate Administration Law of the People's Republic of China (Revised at the 10th Meeting of the Standing Committee of the 11th National People's Congress on 27 August 2009);
6. Land Administration Law of the People's Republic of China (adopted at the 11th Meeting of the Standing Committee of the 10th National People's Congress on 28 August 2004);
7. Income Tax Law of the People's Republic of China (adopted at the 5th Meeting of the 10th National People's Congress on 16 March 2007);
8. Law of the People's Republic of China on State-owned Assets of Enterprises (adopted at the 5th Meeting of the Standing Committee of the 11th National People's Congress on 28 October 2008);
9. Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises (Decree No. 378 of the State Council, revised by Decree No. 588 of the State Council);
10. Measures for the Administration of State-owned Assets Appraisal (Decree No. 91 of the State Council);
11. Notice on Publication and Distribution of the Detailed Rules for the Implementation of the Measures for the Administration of State-owned Assets Appraisal (Guo Zi Ban Fa [1992] No. 36);
12. Interim Measures on the Administration of State-owned Assets Appraisal of Enterprises (Decree No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);

13. Notice on Strengthening the Administration of State-owned Assets Appraisal (Guo Zi Wei Chan Quan [2006] No. 274);
14. Notice on Relevant Matters Concerning the Examination of Appraisal Reports on State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);
15. Guidelines on the Filing of State-owned Assets Appraisal Projects for Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);
16. Measures for the Supervision and Administration over the Trading of State-owned Assets in Enterprises (Decree No. 32 of the SASAC of the State Council and the Ministry of Finance);
17. Accounting Standards for Business Enterprises – Basic Standards (Decree No. 33 of the Ministry of Finance), The Decision of the Ministry of Finance on Amending the Accounting Standards for Business Enterprises – Basic Standards (Decree No. 76 of the Ministry of Finance);
18. Rules on the Implementation of the Provisional Regulations on Value-added Tax of the People’s Republic of China (Decree No. 65 of the Ministry of Finance and State Administration of Taxation);
19. Notice on Carrying out Pilot Operation of Change from Business Tax to Value-added Tax (Cai Shui [2016] No. 36);
20. Provisional Regulations of the People’s Republic of China on Land Use Tax in Cities and Towns (third revision according to the Decree No. 645 of the State Council on 7 December 2013);
21. Regulations on Grant of State-owned Land Use Rights by Agreements (Order No. 21 from the Ministry of Land and Resources);
22. Notice on Adjusting the Rate of Value-added Tax (Cai Shui [2018] No. 32);
23. Other laws and regulations.

(III) Evaluation criteria

1. Basic Standards on Assets Valuation (Cai Zi [2017] No. 43);
2. Code of Ethics for Assets Valuation (Zhong Ping Xie [2017] No. 30);
3. Practice Guidelines for Asset Valuation-Asset Valuation Procedures (Zhong Ping Xie [2017] No. 31);
4. Practice Guidelines for Asset Valuation-Asset Valuation Report (Zhong Ping Xie [2017] No. 32);

5. Practice Guidelines for Asset Valuation-Asset Valuation Entrustment Contract (Zhong Ping Xie [2017] No. 33);
6. Practice Guidelines for Asset Valuation-Asset Valuation File (Zhong Ping Xie [2017] No. 34);
7. Practice Guidelines for Asset Valuation – Utilization of Experts and Related Reports (Zhong Ping Xie [2017] No. 35);
8. Practice Guidelines for Asset Valuation-Enterprise Value (Zhong Ping Xie [2017] No. 36);
9. Practice Guidelines for Asset Valuation-Intangible Assets (Zhong Ping Xie [2017] No. 37);
10. Practice Guidelines for Asset Valuation-Real Estate (Zhong Ping Xie [2017] No. 38);
11. Practice Guidelines for Asset Valuation-Machinery and Equipment (Zhong Ping Xie [2017] No. 39);
12. Guidance on Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);
13. Quality Control Guidance on the Business of Asset Valuation Agency (Zhong Ping Xie [2017] No. 46);
14. Guiding Opinions on Types of Value under Asset Valuation (Zhong Ping Xie [2017] No. 47);
15. Guiding Opinions on Legal Ownership of the Target of Asset Valuation (Zhong Ping Xie [2017] No. 48).

(IV) Basis of ownership

1. State-owned Land Use Certificate;
2. Vehicle Registration Certificate;
3. Other title-related certificates.

(V) Pricing basis

1. Consumption Quota of Shandong Province for Construction Projects (2016);
2. Consumption Quota of Shandong Province for Installation Projects (2016);

3. Notice on the Implementation of Consumption Quota of Shandong Province for Construction Projects and Consumption Quota of Shandong Province for Installation Projects (Lu Jian Biao Zi [2016] No. 39);
4. Notice on the Issuance of the Composition of Fees and Calculation Rules for Construction Projects in Shandong Province (Housing and Urban-Rural Development Department of Shandong Province Lu Jian Biao Zi [2016] No.40);
5. Notice on the Publication of Quota of Unit Price of Labour and Pricing Quota List for Construction Projects in Shandong Province (Lu Jian Biao Zi [2017] No. 5);
6. Notice on the Adjustment to Social Insurance Rate (Lu Biao Ding Zi [2016] No.33);
7. Notice on the Issuance of Opinions on Implementation of Adjustment to Pricing Basis of Construction Projects on Change from Business Tax to Value-added Tax for Construction Industry by Housing and Urban-Rural Development Department of Shandong Province (Lu Jian Ban Zi [2016] No.20);
8. Pricing Quota List for Construction Projects in Shandong Province (2017.3);
9. Provisions on the Standards for Compulsory Retirement of Motor Vehicles (2012 Decree No. 12 of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection, adopted on 1 May 2013);
10. The benchmark deposit and lending rates and exchange rates on the Benchmark Date;
11. Fee Quote Manual for Mechanical and Electrical Products (2018);
12. Financial statements and audit reports for previous years provided by the enterprise;
13. Future operating plans provided by the relevant departments of the enterprise;
14. Other relevant information related to valuation which is recorded and collected by the appraisers during on-site survey;
15. Notice on the Issuance of the Management Regulations on the Costs of Basic Construction Projects by the Ministry of Finance (Cai Jian [2016] No. 504);

16. Notice on the Publication of Adjustment to Prefecture Level of Land and Updates on Basic Land Pricing in Linyi City by Linyi Municipal People's Government (Lin Zheng Zi [2016] No.135);
17. Other information related to this asset valuation.

(VI) Other references

1. Housing Maintenance Grade and Evaluation Criteria (Trial) (Cheng Zhu Zi [1984] No. 678);
2. The list of assets and the declaration form for valuation provided by Shandong Tianhai High Pressure Containers Co., Ltd.;
3. The audit reports issued by Shinewing Certified Public Accountants LLP;
4. Database of China Enterprise Appraisals Co., Ltd.

VII. VALUATION METHODOLOGY

Income approach refers to the approach in which the expected return shall be capitalized or discounted so as to determine the value of the evaluated entity.

Market approach refers to the approach in which the evaluated entity shall be compared with other comparable listed companies or transaction cases so as to determine the value of the evaluated entity.

Asset-based approach refers to the approach in which, based on the balance sheet of the evaluated entity on the Benchmark Date, the value of the identifiable assets and liabilities on-and off-balance sheet shall be appraised so as to determine the value of the evaluated entity.

As stated in the Practice Guidelines for Asset Valuation – Enterprise Value, when performing any evaluation of enterprise value, the suitability of the three basic asset valuation methods namely the income approach, the market approach and the asset-based approach shall be analyzed based on the purpose of valuation, the target to be evaluated, the type of value, the collected information etc. in its selection of valuation methods. If different valuation methods are suitable for any evaluation of enterprise value, asset valuation professionals should adopt two or more valuation methods for their valuation.

The reasons for using asset-based approach and income approach in the evaluation are as follows:

The enterprise to be evaluated of the report is under the premise of going concern. Each asset and liability on-and off-balance sheet as of the Benchmark Date can be identified while each identifiable asset and liability can be separately evaluated with appropriate valuation method. There was no asset or liability that is difficult to identify or evaluate which would materially affect the value of valuation target in the enterprise to be evaluated. As such, asset-based approach can be adopted.

The enterprise to be evaluated of the report has the basis and conditions for continuous operation with sufficient historical operative and financial data information. The profitability is satisfactory while the corresponding relationship between operation and income remains stable. The future income and risks can be forecasted and quantified. As such, income approach can be adopted.

As the enterprise to be evaluated is an unlisted company, factors such as business structure, operating models, corporate scale, allocation and use of assets, business stages, growth potential, operating risk and financial risk of the listed companies within the same industry would be greatly varied to those of the enterprise to be evaluated. In addition, cases of transactions, acquisitions and merges of comparable enterprises within the same industry in the PRC around the Benchmark Date were scarce, therefore relevant and reliable operative and financial data information of comparable transaction cases were difficult to obtain and appropriate value ratios cannot be computed. As such, market approach is not adopted in the evaluation.

(I) Income approach

The discounted cash flow method under the income approach is used to evaluate the overall enterprise value in order to indirectly obtain the total value of the equity interests of shareholders. The overall enterprise value consists of the value of operating assets arising from normal operating activities and the value of non-operating assets which is not related to normal operating activities. The discounted free cash flow model for enterprises was selected for the determination of the value of operating assets, which is based on the future free cash flow forecast of the enterprise in the coming years and discounting them by adopting an appropriate discount rate before adding up the values. The calculation model is as follows:

Value of all shareholders' equity = Overall enterprise value – value of interest-bearing debts

1. Overall enterprise value

The overall enterprise value refers to the sum of the total equity of shareholders and the value of interest-bearing debts. Based on the allocation and use of assets of the evaluated entity, the overall enterprise value is calculated as follows:

Overall enterprise value = value of operating assets + value of surplus assets
+ value of non-operating assets-value of non-operating liabilities

(1) *Value of operating assets*

Operating assets refer to assets and liabilities under the free cash flow forecast after the Benchmark Date relating to production and operation of the evaluated entity. Value of operating assets is calculated as follows:

$$p = \frac{F_0}{(1+r)^{1/3}} + \sum_{i=1}^n \frac{F_i}{(1+r)^{i+1/6}} + \frac{F_n}{r \times (1+r)^{n+1/6}}$$

Where, P: Value of operating assets as at the Benchmark Date;

F_0 : Free cash flow for May to December after the Benchmark Date;

F_i : Free cash flow forecast for Year i after the Benchmark Date;

F_n : Free cash flow forecast for the last year in the forecast period;

r : Discount rate (in this case, weighted average cost of capital (WACC));

n : Forecast period;

i : Year i in the forecast period.

Where, free cash flow is calculated as follows:

Free cash flow = Net profit before interest and after tax + depreciation and amortization – capital expenditure – increase in working capital

Where, discount rate (weighted average cost of capital, or WACC) is calculated as follows:

$$WACC = K_e \times \frac{E}{E+D} + K_d \times (1-t) \times \frac{D}{E+D}$$

Where, k_e : Cost of equity capital;

k_d : Cost of interest-bearing debt capital;

E: Market value of equity;

D: Market value of interest-bearing debts;

t: Income tax rate.

Where, cost of equity capital is calculated using the capital asset pricing model (CAPM) as follows:

$$K_e = r_f + MRP \times \beta_L + r_c$$

Where, r_f : Risk-free return rate;

MRP: Market risk premium;

β_L : Systematic risk coefficient of equity;

r_c : Enterprise specific risk adjustment coefficient.

(2) *Value of surplus assets*

Surplus assets refer to assets that exceed what is required by the production and operation of the enterprise as at the Benchmark Date and are not covered by the free cash flow forecast of the enterprise after the Benchmark Date. Surplus assets are to be analyzed and evaluated separately.

(3) *Value of non-operating assets and non-operating liabilities*

Non-operating assets and liabilities refer to assets and liabilities not relating to production and operation of the evaluated entity and are not covered by the free cash flow forecast of the enterprise after the Benchmark Date. Non-operating assets and liabilities are to be analyzed and evaluated separately.

(4) *Value of long-term equity investment*

The evaluated entity has no long-term equity investment as of the Benchmark Date.

2. Value of interest-bearing debts

Interest-bearing debts refer to the liabilities bearing interest payable by the evaluated entity as at the Benchmark Date. The book value after verification is recognised as the appraised value of interest-bearing debts.

(II) Asset-based approach

1. Current assets

- (1) For Monetary funds, including cash, bank deposits and other monetary funds, the appraised value of which is determined as the verified value arrived at through cash verification, checking of bank statements and bank confirmations, etc.
- (2) Bills receivable: The appraisers verified the consistency between the sub-ledger, general ledger, and balance in the statements and the valuation schedules, and verified the consistency between the nominal value, time of occurrence, details of transactions and coupon rate of the bills and the accounting records in order to verify the authenticity and completeness of bills receivable. The results indicated that amounts in the ledgers, statements, and bills were consistent. After verification, the bills receivable is authentic with accurate amount and without unaccrued interest. The book value after verification is recognised as the appraised value.

- (3) Accounts receivable and other receivables: The appraised value of receivables is determined by appraisers according to the respective recoverable amount of each receivable on a verified basis. For receivables which are believed to be fully recoverable on adequate grounds, the appraised value is calculated according to their full amount. For receivables of which a partial amount is likely to be irrecoverable, and in the event that it is difficult to determine the amount of receivables which is irrecoverable, historical information and on-site investigations are used to understand the situation, to specifically analyze the amount, time and reasons of such loans and recovery of the amount, as well as the capital, creditworthiness and current situation of the operation and management of the debtor to estimate the amount which is likely to be irrecoverable by aging analysis and the appraised value is calculated after deduction of risk-related losses. For receivables which are proved by conclusive evidences to be irrecoverable, the appraised value will be zero. The “provision for bad debts” on the accounts shall be accounted for as zero.
- (4) Prepayments: The appraisers reviewed relevant contracts on procurement of materials or supply agreements and learned about the services and goods received during the period from the Benchmark Date till the on-site verification date. Where there is no indication of bankruptcy or revocation of the suppliers or its failure to provide goods or labour services as scheduled under the contracts, the book value after verification is recognized as the appraised value. For prepayments which are proved by conclusive evidences to be unable to receive the corresponding goods or form corresponding assets or interest, the appraised value will be zero.
- (5) Raw materials: The raw materials of the evaluated entity adopted actual costs, including purchase price, freight costs, charges of loading and unloading and other reasonable charges in valuation. In respect of the raw materials, the appraisal value was determined based on the recent market prices as of the Benchmark Date plus reasonable freight and miscellaneous charges.
- (6) Finished products: The appraisal value of finished products was determined according to the net profit after tax computed from the ex-factory selling price minus selling expenses, all taxes and appropriate amount, based on its full cost.
- (7) Unfinished products: The unfinished products involved in valuation are those products under production process but not yet finished or intermediates under production process of the enterprise. The appraisers verified the relevant evidences and checked whether the valuation of the enterprise on the unfinished products is correct and complete. The verified book value was valued as the paid actual labour cost, material

cost and manufacturing costs allocated. The book value basically reflected the real value of the unfinished products. The book value after verification is recognized as the appraised value.

2. Machinery and equipment

The valuation mainly adopts the cost approach on the basis of relevant conditions such as features, types of appraised value, information collection condition and actual condition of assets. Equipment purchased long time ago or to be scrapped was valued based on the relevant prices in the second-hand market as of the Benchmark Date or realizable net value using market approach.

(1) Cost approach

The formula of the cost approach is as follows:

Appraised value = full replacement cost × integrated newness rate

(1) Determination of full replacement cost

For machinery and equipment, the full replacement cost generally includes purchase price of equipment, freight and miscellaneous charges, installation costs, upfront and other expenses of construction works and capital cost, etc. Meanwhile, as required by the Notice (Cai Shui [2008] No. 170), for normal taxpayers, relevant VAT should be deducted from the full replacement cost of equipment which meets the conditions of VAT deduction.

The full replacement cost of machinery and equipment is calculated as follows:

Full replacement cost = purchase price of equipment + freight and miscellaneous charges + installation costs + upfront and other expenses + capital cost – deductible VAT of purchase price of equipment, deductible VAT of freight charges, deductible VAT of installation costs and deductible VAT of upfront and other expenses

A. Purchase price

Purchase price for large key equipment is mainly determined by inquiring the manufacturers about the market price on the Benchmark Date or making reference to the latest contract price for similar equipment on the Benchmark Date. Purchase price for small equipment is mainly determined by inquiring about the market quotation price information on the Benchmark Date; purchase price for equipment without market quotation information is mainly determined by making reference to purchase price of similar equipment.

B. Freight and miscellaneous charges

Freight and miscellaneous charges represent the freight charges, charges of loading and unloading and other relevant miscellaneous charges of the equipment during transportation. The freight and miscellaneous charges is calculated as follows:

Freight and miscellaneous charges = equipment purchase price × rate of freight and miscellaneous charges

According to the terms of quotation of the seller, no more freight and miscellaneous charges would be charged if it is included in the quotation. The freight and miscellaneous charges, if not included in the quotation, is determined based on factors such as the distance between the manufacturing and selling enterprises and each user units of the equipment, size of the equipment, weight of the equipment, value (high or low) and the transportation used under specific circumstances.

C. Installation costs

According to the terms of quotation of the seller, no more installation costs would be charged if it is included in the quotation. The installation costs, if not included in the quotation, is reasonably determined based on the actual installation and commissioning costs computed from the budgets and final accounts deducting the unreasonable expenditures arising from abnormalities. The installation costs is reasonably determined with reference to the level of installation costs of similar equipment with same functions if there are no budgets and final accounts. The equipment foundation cost would be considered in the evaluation of buildings asset if the equipment foundation and the building are inseparable, otherwise would be considered in the installation costs of equipment.

D. Upfront and other expenses

The upfront and other expenses were calculated according to the charging standard of the industry, the State or local government, which mainly includes management fee of the construction entity, survey and design fee, feasibility study fee, environmental impact assessment fee, project bidding agency fee and project supervision fee, etc., that based on the construction investment amount of the evaluated entity.

E. Capital cost

The capital cost is calculated based on the reasonable construction period for construction projects of the evaluated entity (construction period being 1.0 year) with reference to the RMB lending interest rate of financial institutions published by the People's Bank of China for the same period as of the Benchmark Date, using expenses such as the purchase price of equipment, freight and miscellaneous charges, installation costs, upfront and other expenses as base assuming capital being evenly injected in a reasonable construction period. The capital cost is calculated as follows:

Capital cost = (purchase price of equipment + freight and miscellaneous charges + installation costs + upfront and other expenses) \times reasonable construction period \times benchmark lending interest rate \times 1/2

In respect of vehicles, full replacement cost is determined as its market price (tax exclusive) plus reasonable fees such as vehicle purchase tax and license fee.

The full replacement cost of vehicles is calculated as follows:

Full replacement cost = purchase price (tax exclusive) + purchase price \times 10%/(1+17%) + license fee

In respect of electronic equipment such as computers, printers and air conditioners, purchase price (tax exclusive) of the equipment is the full replacement cost.

The full replacement cost of electronic equipment is calculated as follows:

Full replacement cost = purchase price (tax exclusive) of the equipment

(2) Determination of integrated newness rate

A. For special equipment and communication machinery and equipment, it is mainly based on the economic useful life and used life to determine its remaining useful life through understanding the utilization of the equipment and on-site survey of technical condition and following the formula below to determine its integrated newness rate.

Integrated newness rate = remaining useful life/(remaining useful life + used life) \times 100%

- B. For electronic equipment, its integrated newness rate is determined mainly according to its economic useful life. The formula is as follow:

Useful life approach newness rate = (economic useful life – used life)/economic useful life × 100%

- C. For vehicles, mainly in accordance with the Standards for Mandatory Scrapping of Motor Vehicles promulgated by the State, the theoretical newness rate is determined by vehicle miles of travel and useful life, whichever is the lower, and adjusted after on-site inspection. The formulae are set out below:

Useful life newness rate = (required useful life – used life)/required useful life × 100%

VMT newness rate = (required VMT – miles travelled)/required VMT × 100%

After that, observation approach newness rate is obtained through on-site survey.

At last, integrated newness rate is calculated by averaging the useful life approach newness rate or VMT newness rate, whichever is lower, with observation approach newness rate as set out below:

Integrated newness rate = MIN (useful life approach newness rate, VMT newness rate) × 50% + observation approach newness rate × 50%

For sedan and light passenger vehicles, according to Provisions on the Standards for Compulsory Retirement of Motor Vehicles (2012 Decree No. 12) of the Ministry of Commerce, National Development and Reform Commission, the Ministry of Public Security, and the Ministry of Environmental Protection, there is no requirement on their useful life. Therefore, it is chosen to calculate integrated newness rate by averaging the VMT newness rate with observation approach newness rate for that types of vehicles in this valuation. The formulae are set out below:

Integrated newness rate = VMT newness rate × 50% + observation approach newness rate × 50%

(3) Determination of Appraised value

Appraised value = full replacement cost × integrated newness rate

(2) *Market approach*

Equipment purchased long time ago or to be scrapped was valued based on the relevant prices in the second-hand market as of the Benchmark Date or realizable net value using market approach.

3. Buildings (structures)

According to the characteristics of each type of building, the types of valuation value, the collected information and other relevant conditions, cost approach is used for the valuation of self-constructed building used for production and supporting production.

The formula of cost approach is as follows:

Appraised value = full replacement cost × integrated newness rate

(1) *Determination of full replacement cost*

Full replacement cost of buildings usually included: construction installation fees, construction upfront and other expenses and capital cost. The formula of full replacement cost of buildings is as follows:

Full replacement cost = Integrated construction and installation cost (tax exclusive) + upfront and other expenses (tax exclusive) + capital cost

① Integrated construction and installation cost

For large, high value and important buildings (structure), budget adjustment approach is adopted to determine their integrated construction and installation cost (tax inclusive and tax exclusive), i.e. the construction costs (tax inclusive and tax exclusive), the decoration construction costs (tax inclusive and tax exclusive) and the installation costs (tax inclusive and tax exclusive) are respectively calculated based on the workload in the final accounting of the buildings (structures) to be estimated and according to the quota standards and documents on charges locally implemented to obtain the integrated construction and installation cost (tax inclusive and tax exclusive).

For small value and simple structure buildings (structure), the cost per square metre method is used to determine the integrated construction and installation cost (tax inclusive and tax exclusive).

② Upfront and other expenses

The upfront and other expenses of construction project is calculated according to the standard charge rates specified by the industry, state or local government based on the project construction investment amount of the construction project.

③ Capital cost

Capital cost is calculated according to capital being evenly injected and the reasonable construction period of the construction project, with reference to the RMB benchmark lending rate of financial institution published by the People's Bank of China for the same period on the Benchmark Date, and using the sum of integrated construction and installation cost, upfront and other expenses, etc. as the base.

Capital cost = (integrated construction and installation cost + upfront and other expenses) × reasonable construction period × benchmark lending interest rate × 1/2

(2) *Determination of newness rate*

For each type of building, according to its economic useful life, used life and through on-site survey to determine the actual utilization of its structure, decoration, ancillary equipment and other parts to comprehensively determinate its remaining useful life and determine its integrated newness rate using the following formula:

Integrated newness rate = remaining useful life/(remaining useful life + used life) × 100%

(3) *Determination of appraised value*

Appraised value = full replacement cost × integrated newness rate

4. Construction-in-progress

According to the characteristics of construction-in-progress, the types of valuation value, the collected information and other relevant conditions, cost approach is used for the valuation.

Construction projects which were commenced within one month prior to the Benchmark Date are evaluated at the verified book value as the time is relatively short.

Installation equipment projects which the equipment was not yet installed and purchased within one month prior to the Benchmark Date are evaluated at the verified book value as the time is relatively short.

5. Land use rights

According to Practice Guidelines for Asset Valuation – Real Estate (Zhong Ping Xie [2017] No. 38), current valuation approaches are market approach, income approach, cost approach, hypothetical development approach and benchmark land premium correction approach. Technical specifications of land premium valuation shall be followed when selecting valuation approaches. The selection of appropriate valuation approach is based on the development of local real estate market, combining with the specific characteristics and aim of valuation of the project.

Land of Tianhai, land parcel to be evaluated, is located in the northeast of the intersection between Shunda Road and Junbu Street in the Industrial Park in Hedong District, within the benchmark land premium area of Linyi City, and suitable for using the benchmark land premium correction approach when conducting valuation.

Within the area of the land parcel to be evaluated, there are more transactions of industrial land in last three years, which provide comparable cases and suitable for the use of market approach when conducting valuation.

Leasing of industrial land is rare in the area near the land parcel to be evaluated and it is not easy to derive an objective rent. It is not easy for an operating enterprise to divest its land use rights for profit and therefore, it is not suitable to use income approach when conducting valuation.

Most of the real estates on industrial land are for private use and the price of the overall real estates are not easy to ascertain. Therefore, it is not suitable to use hypothetical development approach when conducting valuation.

Relevant department did not announce the estimation of income from land appreciation which limits cost approach and therefore, cost approach is not used in this valuation.

To conclude, based on the characteristics of the land parcel to be evaluated and combined with the actual condition of the land and available information for appraisers, after examination, analysis and comparison, benchmark land premium correction approach and market approach were chosen for conducting valuation.

6. Other intangible assets

Other intangible assets which fall under the scope of this valuation are software purchased externally by the company. The software purchased externally which fall under the scope of this valuation belong to the evaluated entity and the price quoted by software developer is taken as the appraised value.

7. Liabilities

In respect of valuation of liabilities including medium and short term borrowings, accounts payable, accounts received in advance, payroll payable, tax payable, dividend payable and other payables, we based on the breakdown statements of items provided by the company and use the audited amounts after our verification as the appraised value.

VIII. IMPLEMENTATION AND PARTICULARS OF VALUATION PROCEDURES

The appraisers conducted valuation of the assets and liabilities of Shandong Tianhai High Pressure Containers Co., Ltd. during the period between 16 May 2018 and 15 August 2018. The implementation and particulars of the valuation procedures are mainly as follows:

(I) Acceptance of engagement

On 16 May 2018, our company and the client reached consensuses on the basic matters (including the purpose of valuation, the valuation target, the scope of valuation and the benchmark date, etc.) related to the valuation service and the rights and obligations of the parties, and we have, upon negotiations with the client, prepared an appropriate valuation plan.

(II) Preliminary preparation

1. Preparation of valuation plan
2. Formation of a valuation team
3. Implementation of project training

To ensure the quality of the valuation project and to improve efficiency, as well as to thoroughly implement the proposed Implementation Plan for Asset Valuation, our company provided relevant training to the project team members including the background of the relevant economic activity, the characteristics of the assets of the valuation target, technical ideas and requirements for conducting valuation.

(III) On-site investigation

During the period between 17 May 2018 and 31 May 2018, the appraisers conducted necessary investigations and verification on the assets and liabilities of the valuation target and carried out necessary due diligence on the operation and management of the evaluated entity.

1. Asset verification

- (1) Guiding the evaluated entity on how to complete the forms and to prepare materials to be provided to the appraisal institute

Provided that the financial and asset management personnel of the evaluated entity are required to conduct their own checking of assets, the appraisers guided them on how to correctly and carefully fill out each of the required forms covering the assets which fall under the scope of this valuation according to the Detailed Statement of Asset Valuation and their completion instructions and the list of information, which were provided by the appraisal institute. They are also required to collect and prepare title certification of the assets and documents and information that can reflect their performance, status and economic and technical indicators.

- (2) Preliminary review and improvement of the Detailed Statement of Asset Valuation filled out by the evaluated entity

The appraisers checked the relevant information to have an understanding of the details of the assets which fall under the scope of this valuation and carefully reviewed the various Detailed Statements of Asset Valuation to check if there are any incomplete information, errors, or unclear statements of asset items. Based on their experience and the information they had obtained, the appraisers reviewed the Detailed Statements of Asset Valuation to check if there is any omission before providing feedback to the evaluated entity to improve the Detailed Statements of Asset Valuation.

- (3) On-site survey

In accordance with the relevant asset valuation standards, the appraisers conducted, with the cooperation of the relevant personnel of the evaluated entity, on-site survey on various assets in terms of the types, quantity and distribution of the assets. Different survey methods were used in light of the nature and characteristics of the different types of assets.

- (4) Supplementation, modification and improvement of Detailed Statements of Asset Valuation

Based on the on-site survey result, the appraisers further improved the Detailed Statements of Asset Valuation after proper communication with the relevant personnel of the evaluated entity in order to ensure the consistency among the accounts, forms and actual circumstances.

- (5) Verification of property title certificates

After verifying the property title certificates of the assets (such as buildings, vehicles, land use right, software, construction-in-progress) which fall under the scope of this valuation, the appraisers requested the enterprise to verify or provide relevant supporting documents related to property title for assets with defective title or unclear ownership.

2. *Due diligence*

The appraisers conducted necessary due diligence in order to fully understand the operation and management of the evaluated entity and the risks which the entity is facing. The due diligence works mainly covered the following:

- (1) History, substantial shareholders and shareholding proportions of the evaluated entity, necessary property title and operation and management structure;
- (2) Assets, financial position, production, operation and management of the evaluated entity;
- (3) Business plans, development planning and financial forecast of the evaluated entity;
- (4) Previous valuations and transactions of the valuation target and the evaluated entity;
- (5) Macro and regional economic factors which affect the production and operation of the evaluated entity;
- (6) Development trend and outlook of the industry that the evaluated entity is engaged in;
- (7) Other relevant information.

(IV) Collection of information

The appraisers collected necessary information for the valuation project, including the information acquired directly and independently from the market and other channels, the information obtained from the client and relevant parties and the information obtained from government agencies, professional institutions and other relevant departments. They made necessary analysis, induction and collation of the collected information to develop the basis for valuation and estimate.

(V) Valuation and estimate

The appraisers adopted, in light of the specific situations of various assets, the corresponding formulae and parameters to make analysis, calculation and judgment on the assets using the selected valuation methods to reach a preliminary conclusion of valuation. Then the project leader summarized the preliminary conclusion of valuation concerning the various assets, and prepared the preliminary asset valuation report.

(VI) Internal audit

According to the Administrative Measures for Valuation Process of our company, the project leader would submit the asset valuation report for our internal audit after the preliminary asset valuation report has been prepared. Upon completion of the internal audit, the project leader will then communicate with the client or other relevant parties as agreed by the client on contents of the asset valuation report. We will issue and submit the asset valuation report after reasonable modification of the report based on the feedback.

IX. VALUATION ASSUMPTIONS

The following assumptions were used for the analysis and estimate in this Asset Valuation Report:

(I) General assumptions

1. It is assumed that the evaluated entity will continue to operate as a going concern after the Benchmark Date;
2. It is assumed that there will be no material changes in the political, economic and social environment of the country and area where the evaluated entity is located after the Benchmark Date;
3. It is assumed that there will be no material changes in the macro-economic policies, industrial policies and regional development policies of the PRC after the Benchmark Date;
4. It is assumed that there will be no material changes to the interest rates, exchange rates, tax bases, tax rates and policy-based levies related to the evaluated entity after the Benchmark Date;
5. It is assumed that the management of the evaluated entity is accountable, stable and competent to perform their duties after the Benchmark Date;
6. It is assumed that the evaluated entity fully complies with all the relevant laws and regulations;
7. It is assumed that there will be no force majeure which may materially and adversely affect the evaluated entity after the Benchmark Date. .

(II) Special assumptions

1. It is assumed that the accounting policies adopted by the evaluated entity after the Benchmark Date are consistent with the accounting policies adopted when preparing this Valuation Report in all material aspects;

2. It is assumed that the scope of business and the mode of operation of the evaluated entity after the Benchmark Date are consistent with the current ones based on the existing management mode and management level;
3. It is assumed that the evaluated entity will have an even cash outflow and cash inflow after the Benchmark Date;
4. It is assumed that the products or services of the evaluated entity will maintain the existing position in the market competition after the Benchmark Date;
5. It is assumed that when it comes to production and operation, the evaluated entity will achieve a balance between production and sales in the coming years;
6. As of the Benchmark Date, the evaluated entity rented some plants and equipment for operation. It is assumed that it will continue to use those plants and equipment by way of lease after the Benchmark Date;
7. It is assumed that the land which is occupied by the evaluated entity on a free basis will be used continuously by way of lease after the Benchmark Date.

The conclusion of valuation of this Asset Valuation Report is believed to be correct on the Benchmark Date based on the above assumptions. In the event of any material changes to the above assumptions, the undersigned appraisers and the appraisal institute shall not be responsible for deducing different conclusions of valuation due to any changes of the assumptions.

X. CONCLUSION OF VALUATION:

(I) Results by using the income approach

As of the Benchmark Date, the book value of total assets of Shandong Tianhai High Pressure Containers Co., Ltd. was RMB267.1730 million. The book value of total liabilities was RMB160.2215 million. The book value of net assets was RMB106.9515 million.

The value of all of the shareholders' interests by using the income approach was RMB112.7569 million, the amount of appreciation was RMB5.8055 million, representing an appreciation rate of 5.43%.

(II) Results by using the asset-based approach

As of the Benchmark Date, the book value of total assets of Shandong Tianhai High Pressure Containers Co., Ltd. was RMB267.1730 million, the appraised value was RMB280.6320 million and the amount of appreciation was RMB13.4590 million, representing an appreciation rate of 5.04%; the book value of total liabilities was

RMB160.2215 million, the appraised value was RMB160.2215 million, which represented no difference; the book value of net assets was RMB106.9515 million, the appraised value of net assets was RMB120.4105 million and the amount of appreciation was RMB13.4590 million, representing an appreciation rate of 12.58%.

The results of the valuation using the asset-based approach are detailed in the following summary of valuation results:

Summary of valuation results by using the asset-based approach

Benchmark Date: 30 April 2018

Unit: RMB0'000

| Items | | Book value | Appraised value | Increase or decrease | Appreciation rate % D=C/ A×100% |
|---------------------------------------|----|------------|-----------------|----------------------|---------------------------------------|
| | | A | B | C=B-A | |
| I. Current assets | 1 | 14,435.78 | 14,479.89 | 44.11 | 0.31 |
| II. Non-current assets | 2 | 12,281.52 | 13,583.31 | 1,301.79 | 10.60 |
| In which: Long-term equity investment | 3 | | | | |
| Investment properties | 4 | | | | |
| Fixed assets | 5 | 10,992.08 | 12,161.81 | 1,169.73 | 10.64 |
| Construction-in-progress | 6 | 62.11 | 62.11 | 0.00 | 0.00 |
| Intangible assets | 7 | 1,227.33 | 1,359.39 | 132.06 | 10.76 |
| In which: land use rights | 8 | 1,227.33 | 1,347.94 | 120.61 | 9.83 |
| Other non-current assets | 9 | | | | |
| Total assets | 10 | 26,717.30 | 28,063.20 | 1,345.90 | 5.04 |
| III. Current liabilities | 11 | 16,022.15 | 16,022.15 | 0.00 | 0.00 |
| IV. Non-current liabilities | 12 | 0.00 | 0.00 | 0.00 | |
| Total liabilities | 13 | 16,022.15 | 16,022.15 | 0.00 | 0.00 |
| Net assets | 14 | 10,695.15 | 12,041.05 | 1,345.90 | 12.58 |

(III) Conclusion of valuation

The value of all of the shareholders' interests was RMB112.7569 million by using the income approach and RMB120.4105 million by using the asset-based approach, represented a difference of RMB7.6536 million or 6.79%.

The main reason for the difference is the different focus of the two valuation approaches. The asset-based approach considers the way of replacement of assets which reflects the replacement value of the existing assets of the enterprise. The income approach considers the net cashflow generated from the future operating activities of the enterprise to reflect the enterprise value.

Shandong Tianhai High Pressure Containers Co., Ltd. was established in 2014. With a short history, changes in its historical annual revenue, cost and gross margin are large, and also, as steel purchase cost is its main cost, the impact of price fluctuation of the steel market has been significant. The unstable market prices of steel in recent years resulted in abnormal enterprise costs and gross profit margin, the future gross

profit margin is therefore difficult to predict. As such, under the prudence principle, we considered that the valuation results by using the asset-based approach can better reflect the overall value of the enterprise.

Based on the above analysis, the valuation conclusion of the valuation report adopted the results by using the asset-based approach, being the value of all of the shareholders' interests of Shandong Tianhai High Pressure Containers Co., Ltd. was RMB120.4105 million.

The asset valuation report did not consider the effects of liquidity to the value of the valuation target.

XI. SPECIAL NOTES

It was discovered in the course of valuation that the following matters may affect the conclusion of valuation but they are matters which are beyond the standards of valuation practice and professional competence of the appraisers to evaluate and estimate:

- (1) There are 13 asset items in terms of buildings in total included in the scope of valuation, with total construction floor area of 60,874.17 square meters, and all of which have not been filed for obtaining ownership certificates. The evaluated entity undertakes that it shall be entitled to such uncertified ownership and there will be no dispute on the title. The construction floor area of the above properties was reported by the evaluated entity and confirmed by the appraisers through on-site verification;
- (2) As at the Benchmark Date, the land occupied by plant 4, North office building, eco-zone and other factory zones with a total site area of 48,000.00 square meters (such area was reported by the evaluated entity and confirmed by the appraisers through on-site verification, the future certified area is subject to the surveying of the Bureau of Land and Resources) has not yet obtained land use rights certificate as payment of the land granting fee is pending due to Government's planning. The land is currently used on a free basis. Assuming that the above land will be continuously used by means of leasing in the coming years, its rents have been calculated by the annualized estimated value with reference to the estimated unit price of land with title certificate obtained;
- (3) As at the Benchmark Date, among the buildings included in the scope of valuation, plant 1, plant 2, plant 3, plant 4, newly added area of plant 4 and connection between plants 1 and 2 are subject to other right restrictions under mortgage. As ownership certificates have not been obtained for the above plants, relevant major materials (steel plates, steel cylinders and steel girders) in those plants are pledged as for chattel mortgage. The chattel mortgage number is Lin Dong Shi Jian 0539 Di Deng Zi [2018] No. 002 and the mortgagee is Shandong Linyi Hedong Rural Commercial Bank Co., Ltd (Jiuqu sub-branch), with a mortgage amount of RMB35,602,100.00 and a mortgage term until 11 January 2021. The impacts on the evaluated value of the above matters were not considered in this valuation;

- (4) As at the Benchmark Date, the land use rights under Lin He Guo Yong [2016] No. 0084 is subject to other right restrictions under mortgage. The other right certificate number is Lin He Ya Ta Xiang [2016] No. 0061 and the mortgagee is Shandong Linyi Hedong Rural Commercial Bank Co., Ltd, with a mortgage amount of RMB16,000,000.00 and a mortgage term until 24 July 2019. The impacts on the evaluated value of the above matters were not considered in this valuation;
- (5) On the Benchmark Date, upon auditing the financial statements of the evaluated entity, Shinewing Certified Public Accountants LLP issued an unqualified audit report (Report No.: XYZH/2018BJA30207).

Users of the Asset Valuation Report should be aware of the impacts of the above special notes on the conclusion of valuation.

XII. RESTRICTIONS ON THE USE OF THE ASSET VALUATION REPORT

- (1) This Asset Valuation Report can only be used for the objectives and purposes as stated in the Asset Valuation Report, and can only be used by the users as stated in the Asset Valuation Report. Extracts, quotes or disclosure of this Asset Valuation Report, in whole or in part, on any public media shall be subject to the review and approval of the appraisal institute, unless otherwise specified by laws, regulations or otherwise agreed by the relevant parties;
- (2) The asset appraisal institute and its professional appraisers will not assume any responsibilities arising from the failure of the client or other users to use the Asset Valuation Report in accordance with laws, administrative rules and regulations and the scope of use as set out in the Asset Valuation Report;
- (3) Except for the client, other users of the Asset Valuation Report as agreed in the engagement contract on asset valuation and users of the Asset Valuation Report stipulated in laws and administrative rules and regulations, any other entity or individual shall not be a user of the Asset Valuation Report;
- (4) Users of the Asset Valuation Report should establish a proper understanding of the valuation conclusion. The valuation conclusion is not equal to, and should not be regarded as a guarantee for the realizable value of the valuation target;
- (5) This Asset Valuation Report can be used officially only after being signed and stamped by the asset appraisers and sealed by the appraisal institute undertaking this valuation with approval of the State-owned assets supervision and administration authority or the invested enterprise;
- (6) The conclusion of valuation as stated in this Asset Valuation Report is only valid in relation to the economic activity described in the Asset Valuation Report, and is valid for one year from the Benchmark Date.

XIII.DATE OF ISSUANCE OF THE ASSET VALUATION REPORT

The date of issuance of the Asset Valuation Report is 15 August 2018.

Asset appraiser: Qi Xianzi

Asset appraiser: Ma Jiahong

China Enterprise Appraisals Co., Ltd.
15 August 2018

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, the Directors, the supervisors and chief executive of the Company or their respective associates had the following interest or short positions in the Shares, underlying Shares or debentures of the Company or any associated corporations below (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

Long position in Shares

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

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

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

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

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

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any members of the Group which did not expire or was not terminable by such member of the Group within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2017, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to the Company or were proposed to be acquired or disposed of by or leased to the any member of the Group.

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

5. COMPETING INTERESTS

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

6. MATERIAL CONTRACTS

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

- (a) Beijing Tianhai entered into the "Lease Agreement" with Beijing Jingcheng Haitong Technology Culture Development Co., Ltd. ("**Jingcheng Haitong**") on 4 September 2018, to lease 9 Tianying North Road, Chaoyang District, Beijing to Jingcheng Haitong. The land area of the leasing property stated in the relevant State-owned Land Use Right Certificate is 87,541.76 square metres, and the total gross floor area of the leasing property stated in the relevant Building Ownership Certificate is 45,143.62 square meters, with a term of lease of 18 years and rent-free period of 6 months. The standard rent is RMB1.43/sq.m./day, which shall be increased by 5% after every three years since the date of lease; and
- (b) the Equity Transaction Agreement.

7. LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, the Group was not involved in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

8. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

| Name | Qualification |
|--|------------------------|
| Beijing China Enterprise Appraisals Co., Ltd. ("BCEA") | Independent PRC valuer |

BCEA has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report as set out in this circular and references to its name in the form and context in which it appears in this circular.

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

As at the Latest Practicable Date, BCEA did not have any interest, direct or indirect, in any asset which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9. GENERAL

- (a) The registered office of the Company is at Room 901, No. 59 Mansion, Dongsanhuan Road Central, Chaoyang District, Beijing, PRC.
- (b) The Hong Kong branch share registrar and transfer office of the Company (for H Shares) is Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The joint company secretaries of the Company are Mr. Lo Tai On, who is a non-practising qualified accountant and Mr. Luan Jie.

10. 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 of the Company;
- (b) the material contracts referred to under the section headed "Material Contracts" in this appendix;
- (c) the Valuation Report;

- (d) the annual reports of the Company for the two financial years ended 31 December 2016 and 2017; and
- (e) this circular.