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

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

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北京京城机电股份有限公司

Beijing Jingcheng Machinery Electric Company Limited

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

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION
TRANSFER OF WU FANG QIAO ASSETS
(2) ELECTION OF SUPERVISOR
AND
NOTICE OF EGM**

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



A letter from the Board is set out on pages 4 to 11 of this circular and a letter from the Independent Board Committee is set out on pages 12 to 13 of this circular. A letter from Vinco Capital, the independent financial advisor, containing its advice to the Independent Board Committee is set out on pages 14 to 32 of this circular.

A notice convening the EGM to be held at Conference Room of the Company, No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing on 28 October 2020 at 9:30 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

Whether or not you intend to attend the meeting, you are requested to complete the form of proxy for use at the meeting in accordance with the instructions printed thereon and return the same to the business address of the Company at No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing, the PRC, or the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for the convention of the meeting. The completion and return of the form of proxy will not preclude you from attending and voting in person at the above meetings or any adjournment thereof if you so wish.

13 October 2020

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	4
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	12
LETTER FROM VINCO CAPITAL	14
APPENDIX I – VALUATION REPORT	I-1
APPENDIX II – GENERAL INFORMATION	II-1
NOTICE OF EGM	EGM-1

DEFINITIONS

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

“A Share(s)”	ordinary shares of the Company with a nominal value of RMB1.00 each, which are issued in the PRC, subscribed for in RMB and listed on the Shanghai Stock Exchange (stock code: 600860)
“Agreement”	the “Tangible Assets Transaction Contract” dated 21 September 2020 entered into between Beijing Tianhai and Asset Company, in respect of the transfer of the Wu Fang Qiao Assets
“Asset Company”	Beijing Jingcheng Machinery Electric Asset Management Co., Ltd (北京京城機電資產管理有限責任公司), a company incorporated in the PRC with limited liability, is a wholly-owned subsidiary of Jingcheng Machinery Electric
“Beijing Tianhai”	Beijing Tianhai Industry Co., Ltd. (北京天海工業有限公司), a company incorporated in the PRC with limited liability, is an indirect wholly-owned subsidiary of the Company
“Board”	the board of directors of the Company
“Company”	Beijing Jingcheng Machinery Electric Company Limited (北京京城機電股份有限公司), 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
“controlling shareholder(s)”	has the meaning as ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the Extraordinary General Meeting to be convened by the Company at Conference Room of the Company, No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing on 28 October 2020 at 9:30 a.m.
“Group”	the Company and its subsidiaries

DEFINITIONS

“Independent Board Committee”	the committee established by the Board, comprising the four independent non-executive Directors
“Independent Shareholder(s)”	Shareholders other than those who have material interests and are required to abstain from voting at the EGM in accordance with the Listing Rules, and such Shareholders are not required to abstain from voting at the EGM in accordance with the Listing Rules
“H Share(s)”	overseas listed foreign share(s) with a nominal value of RMB1.00 each, which are issued in Hong Kong, subscribed for in HKD and listed on the Main Board of the Stock Exchange (stock code: 00187)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jingcheng Haitong”	Beijing Jingcheng Haitong Technology Culture Development Co., Ltd. (北京京城海通科技文化發展有限公司), a company incorporated in the PRC with limited liability
“Jingcheng Machinery Electric”	Beijing Jingcheng Machinery Electric Holding Co., Ltd. (北京京城機電控股有限責任公司), a company incorporated in the PRC, holding 50.67% of total Shares of the Company
“Latest Practicable Date”	13 October 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Lease”	the “Lease of the Site and Plant at No. 9 Tianying North Road, Chaoyang District, Beijing between Beijing Tianhai Industry Co., Ltd. and Beijing Jingcheng Haitong Technology Culture Development Co., Ltd.” entered into between Beijing Tianhai and Jingcheng Haitong on 4 September 2018, pursuant to which, the Wu Fang Qiao Assets were leased to Jingcheng Haitong by Beijing Tianhai
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	A Share(s) and H Share(s) of the Company
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“Transfer”	the transfer of the Wu Fang Qiao Assets contemplated under the Agreement
“Vinc Capital” or “Independent Financial Adviser”	Vinc Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser engaged by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the terms of the Transfer and the Agreement
“Wu Fang Qiao Assets”	the industrial land with an area of 87,541.76 sq.m. and buildings thereon with a total floor area of 45,143.62 sq.m. located at No. 9 Tianying North Road, Chaoyang District, Beijing
“%”	per cent

English names of the PRC established companies/entities in this circular are only translations of their official Chinese names. In case of inconsistency, the Chinese names prevail.

LETTER FROM THE BOARD



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 People's Republic of China with limited liability)
(Stock Code: 0187)

Executive Directors:

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

Non-executive Directors:

Ms. Jin Chunyu
Mr. Wu Yanzhang
Mr. Xia Zhonghua
Ms. Li Chunzhi

Independent non-executive Directors:

Mr. Xiong Jianhui
Mr. Zhao Xuguang
Mr. Liu Jingtai
Mr. Luan Dalong

Registered office:

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

13 October 2020

To the Shareholders

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION
TRANSFER OF WU FANG QIAO ASSETS
(2) ELECTION OF SUPERVISOR
AND
NOTICE OF EGM**

1. INTRODUCTION

Reference is made to the announcements of the Company dated 21 September 2020 in relation to the Agreement and the Transfer and the resignation and election of Supervisor.

The purposes of this circular are, among others, (i) to provide you with details of the terms of the Agreement and the Transfer; (ii) to set out the letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders; (iii) to set

LETTER FROM THE BOARD

out the recommendation and advice of the Independent Board Committee, (iv) to provide you with further information on the election of Supervisor, and (v) to provide you with the notice of EGM.

2. THE AGREEMENT

On 21 September 2020, Beijing Tianhai, an indirect wholly-owned subsidiary of the Company, entered into the Agreement with Asset Company in respect of the transfer of the Wu Fang Qiao Assets, the principal terms of which are set out below:

Date:	21 September 2020
Parties:	(i) Beijing Tianhai, as the transferor (ii) Asset Company, as the transferee
Conditions precedent to the effectiveness of the Agreement	the Agreement shall come into effect on the date on which the Transfer is considered and approved at the general meeting of the Company and it is signed by the legal representatives or authorised representatives of the parties with the affixing of corporate seals.
Assets to be transferred:	Wu Fang Qiao Assets, being the industrial land with an area of 87,541.76 sq.m. and buildings thereon with a total floor area of 45,143.62 sq.m. located at No. 9 Tianying North Road, Chaoyang District, Beijing. The land certificate number is Jing Chao Guo Yong (2005 Chu) No. 0242, with a term expiring on 28 October 2054. The buildings ownership certificates are X Jing Fang Quan Zheng Chao Zi No. 607418 and X Jing Fang Quan Zheng Chao Zi No. 727497.
Transfer price:	The transfer price is RMB410,195,000 (tax inclusive). The transfer price is based on the appraised value of the Wu Fang Qiao Assets by China Alliance Appraisal Co., Ltd. (北京中同華資產評估有限公司) as at the base date for valuation (i.e. 30 April 2020), and has been filed to Jingcheng Machinery Electric.

LETTER FROM THE BOARD

Payment method: Within 10 days from the effective date of the Agreement, Asset Company shall pay 50% of the total transfer price (“**First Transfer Payment**”) to Beijing Tianhai in a lump sum of RMB205,097,500. The remaining 50% of the transfer price (“**Second Transfer Payment**”) of RMB205,097,500 shall be paid in a lump sum to the designated account of Beijing Tianhai by Asset Company after the completion of the delivery procedures of Wu Fang Qiao Assets by 31 December 2020.

Delivery: Beijing Tianhai and Asset Company shall transfer the Wu Fang Qiao Assets within 30 days from the effective date of the Agreement and complete the procedures for the registration of changes in respect of the Wu Fang Qiao Assets.

Asset Company shall be entitled to the rental income arising from the lease of the Wu Fang Qiao Assets during the period from the base date for valuation (i.e. 30 April 2020) to the date of completion of the procedures for the registration of changes in respect of the Wu Fang Qiao Assets.

3. OTHER INFORMATION IN RESPECT OF THE WU FANG QIAO ASSETS

At present, the Wu Fang Qiao Assets are leased to Jingcheng Haitong for the development of the Science, Technology, Cultural and Innovative Industry Park and there has not been invitation for business or leases. On 4 September 2018, Beijing Tianhai and Jingcheng Haitong entered into the Lease with a term of 18 years commencing on the effective date of the Lease. The monthly rental under the Lease would be increased by 5% every three years for the remaining term of the Lease. For the period from 20 April 2019 to 19 April 2022, the approximate monthly rental under the Lease is RMB1.96 million.

According to requirements of PRC law, Jingcheng Haitong, as the lessee of the Wu Fang Qiao Assets, shall have the right of first refusal under the same terms. Beijing Tianhai has notified Jingcheng Haitong in writing of the Transfer. Jingcheng Haitong has expressly agreed to unconditionally and irrevocably waive the right of first refusal, and issued a written resolution of the general meeting (document number: Bei Hai Fa Gu (Jue) [2020] No. 1).

After signing the Agreement, Beijing Tianhai, Jingcheng Haitong and Asset Company will separately sign an “Agreement on the Change of Party of the Lease”, so as to change the lessor of the Lease from Beijing Tianhai to Asset Company upon the transfer of the Wu Fang Qiao Assets. Subsequently, Asset Company will replace Beijing Tianhai as the lessor under the Lease and continue to perform the Lease and inherit all rights and obligations under the Lease while the rights and obligations of Beijing Tianhai under the Lease will be terminated immediately.

LETTER FROM THE BOARD

For the years ended 31 December 2018 and 2019, Beijing Tianhai's net profit after tax arising from the lease of the Wu Fang Qiao Assets was RMB4,105,896.25 and RMB21,709,814.51 respectively (net profit before tax was RMB4,105,896.25 and RMB21,709,814.51 respectively).

The Wu Fang Qiao Assets are accounted for using the cost method in the Group's financial statements. As of 30 June 2020, the unaudited original book value, the accumulated amortization, and the net book value amounted to RMB74,434,111.59, RMB46,919,280.93 and RMB27,514,830.66, respectively. The Wu Fang Qiao Assets are valued at RMB410,195,000 as at the base date for valuation (i.e. 30 April 2020), according to the results of the asset valuation report (Zhong Tong Hua Ping Bao Zi [2020] No. 050665) issued by China Alliance Appraisal Co., Ltd. (北京中同華資產評估有限公司) on 4 September 2020. As at 31 August 2020, the Wu Fang Qiao Assets are valued at RMB405,100,000, according to the results of the valuation report issued by Asia-Pacific Consulting and Appraisal Limited on 16 September 2020.

4. REASONS FOR AND BENEFITS OF THE TRANSFER

The Transfer is a strategic adjustment made by Beijing Tianhai based on its own development. The cash flow generated from the transfer of the Wu Fang Qiao Assets can effectively support the sustainable and stable development of Beijing Tianhai's principal business.

The Transfer is beneficial to the sustainable and stable development of Beijing Tianhai's three principal business segments, namely hydrogen energy, industrial gas and natural gas, during the 14th Five-Year Plan period.

First, it is necessary for the strategic hydrogen energy business segment of Beijing Tianhai to consolidate its leading position in technology, increase its investment, and facilitate rapid development. For the 14th Five-Year Plan period, Beijing Tianhai has clearly defined its strategic direction of "rational analysis of market demand, precise positioning of products, timely utilization of capital and resources of strategic partners, expansion of production scale, and capture of industry opportunities", and more capital support is required to seize development opportunities. In addition, the development of Beijing Tianhai's traditional industrial gas segment faces the strategic requirements of process optimization and enhancement of the level of computerisation and informatisation, which require more capital investment. Furthermore, the development of the natural gas segment requires the support of a stable cash flow as it is affected by factors such as high capital occupation, long investment return periods, and large market fluctuations. As a result, cash flow support will be acquired from the transfer of the Wu Fang Qiao Assets, which will strategically support the development of the three principal business segments.

The Directors (including the independent non-executive Directors) consider that the Transfer are on normal commercial terms or better and in the ordinary and usual course of business of the Group, the terms of the Agreement are fair and reasonable, and the Transfer is in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

5. FINANCIAL IMPACT OF THE TRANSFER AND THE USE OF PROCEEDS

Upon the completion of the Transfer, the Group expects to recognize a gain of approximately RMB382,680,169.34 (calculated based on the transfer price of RMB410,195,000 less the unaudited net book value of RMB27,514,830.66 of the Wu Fang Qiao Assets as at 30 June 2020) from the Transfer. The above financial impact is for illustrative purposes only, and the actual gain to be recognized in the Group's consolidated financial statements is subject to, among other things, actual costs and expenses in relation to the Transfer, the net book value of the Wu Fang Qiao Assets on the completion date of the Transfer and the review by the Company's auditors when the consolidated financial statements of the Group are finalised.

The net proceeds from the Transfer are intended to be used for general operating expenses of the Group to support the development of the three principal business segments described in the section "4. Reasons for and Benefits of the Transfer" above.

6. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Asset Company is a wholly-owned subsidiary of Jingcheng Machinery Electric. Jingcheng Machinery Electric holds 245,735,052 Shares of the Company, representing approximately 50.67% of the total Shares and is a controlling shareholder of the Company. As such, Asset Company is a connected person of the Company and the Transfer constitutes a connected transaction of the Company under the Listing Rules. Accordingly, the Company is subject to requirements of reporting, announcement, circular, independent financial advice and approval from Independent Shareholders under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules in respect of the Transfer exceed 5% but are less than 25%, the Transfer also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

The Independent Board Committee has been established in compliance with the Listing Rules to consider the Transfer and advise the Independent Shareholders as to whether the Transfer are on normal commercial terms or better and in the ordinary and usual course of business of the Group, the terms of the Agreement are fair and reasonable and the Transfer is in the interests of the Company and its Shareholders as a whole.

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

LETTER FROM THE BOARD

7. INFORMATION ON THE PARTIES

The Company's general scope of operation includes general logistics; professional contracting; 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; economic trade consulting; import and export of commodities and technology and acting as agent for import and export.

Beijing Tianhai, an indirect wholly-owned subsidiary of the Company, is principally engaged in the production of gas storage and transportation equipment.

Asset Company, a wholly-owned subsidiary of Jingcheng Machinery Electric, is principally engaged in asset management; property management; investment management; investment; leasing of properties (public transport, industry and transportation, office); providing public car park services; technology development, technical training, technical services; economic information consultation (excluding projects involving administrative permissions); involving in, producing, acting as agent for and publishing advertisement; providing meeting services, exhibition and display services, office services; designing and maintaining machinery and equipment (excluding projects involving administrative permissions); selling machinery and equipment (excluding small vehicles), computers, daily necessities, hardware and electrical equipment, building materials, handicrafts and auto parts.

Jingcheng Machinery Electric is a state-owned enterprise. The authorized business scope of Jingcheng Machinery Electric includes labor dispatch; operation and management of state-owned assets within the authorized scope; investment and investment management; property development, sale of real estate; property leasing; property management; technology transfer, technical training, technical consultation, technical services; sale of mechanical and electrical equipment (excluding vehicles); technology development.

8. THE ELECTION OF SUPERVISOR

On 21 September 2020, Mr. Miao Junhong ("**Mr. Miao**") submitted his resignation notification to the Supervisory Committee to resign from the positions of chairman of the Supervisory Committee and Supervisor due to changes in work arrangement. The Supervisory Committee fully respects the decision of Mr. Miao and has accepted his resignation. The resignation of Mr. Miao shall take effect after a new Supervisor is elected at the EGM.

Mr. Miao 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. Miao have confirmed that they are not aware of any unfulfilled personal obligation of Mr. Miao towards the Company and its subsidiaries or any impact on such obligation as a result of his resignation, and there is no disagreement between Mr. Miao and the Company which has led to the resignation of Mr. Miao.

LETTER FROM THE BOARD

The seventh meeting of the tenth session of the Supervisory Committee considered and approved that Mr. Tian Dongqiang (“**Mr. Tian**”) be nominated as a Supervisor candidate of the tenth session of the Supervisory Committee, and the term of office shall commence upon approval at the EGM and end at the annual general meeting of 2022.

Supervisors are not entitled to any Supervisors’ remuneration, but are entitled to receive remuneration based on their positions in the Company and its subsidiaries (except for the duties as Supervisors). The Company proposes to enter into a service contract, which is subject to consideration and approval at the EGM, with Mr. Tian, the new Supervisor, after he is elected.

Mr. Tian, Chinese, male, aged 54, is a professor level senior engineer. Mr. Tian graduated from the School of Energy and Power Engineering of Xi’an Jiaotong University, majoring in thermal turbines, and from the Business School of Renmin University of China, majoring in EMBA. Mr. Tian is an expert entitled to government allowance from the State Council. Mr. Tian was the chief engineer and deputy general manager of Beijing BEIZHONG Steam Turbine Generator Co., Ltd., and the general manager, party secretary, director and chairman of the board of Beijing Jingcheng New Energy Co., Ltd. At present, Mr. Tian is a despatched supervisor of the board and supervisory office of Jingcheng Machinery Electric.

Save as disclosed in this circular, Mr. Tian has no relationship with other Directors, Supervisors and senior management of the Company. Mr. Tian is a despatched supervisor of the board and supervisory office of Jingcheng Machinery Electric, the controlling shareholder of the Company.

Mr. Tian does not hold any interests in the Shares as defined in Part XV of the SFO, nor did he hold any directorship or supervisorship in any other Hong Kong or overseas listed public companies in the last three years.

Save as disclosed above, in respect of Mr. Tian, 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 needs to be brought to the attention of the Shareholders.

As at the Latest Practicable Date, according to the register maintained pursuant to section 352 of the SFO, Mr. Tian does not have any interest or short position in the Shares, underlying shares and debentures of the Company.

9. THE EGM

The EGM will be convened on 28 October 2020 at 9:30 a.m. at Conference Room of the Company, No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing to consider and, if thought fit, approve resolutions relating to, among other things, the Agreement and the Transfer, and the election of Supervisor.

The voting in relation to the Agreement and the Transfer, and the election of Supervisor will be conducted by way of poll.

LETTER FROM THE BOARD

Any connected person of the Company with a material interest in the Agreement and the Transfer, and any Shareholder with a material interest in the Agreement and the Transfer and its associates, shall not vote upon the proposed resolution in respect of the Agreement and the Transfer at the EGM. Accordingly, Jingcheng Machinery Electric and any of its associates (who control and are entitled to exercise control over the voting right in respect of their respective Shares as at the Latest Practicable Date) will abstain from voting in relation to the relevant proposed resolution at the EGM.

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

10. RECOMMENDATION

The Directors (excluding the independent non-executive Directors whose view is set out in the section headed "Letter from the Independent Board Committee" in this circular below) consider that the Transfer is on normal commercial terms or better and in the ordinary and usual course of business of the Group, the terms of the Agreement are fair and reasonable, and the Transfer is in the interests of the Company and its Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Agreement and the Transfer.

The Directors further consider that the election of Mr. Tian as a Supervisor is in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

11. ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 12 to 13 of this circular; (ii) the letter from Vinco Capital to the Independent Board Committee and the Independent Shareholders set out on pages 14 to 32 of this circular; and (iii) the additional information set out in Appendices I and II to this circular.

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



北 京 京 城 機 電 股 份 有 限 公 司

Beijing Jingcheng Machinery Electric Company Limited

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

13 October 2020

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
TRANSFER OF WU FANG QIAO ASSETS**

We refer to the circular of the Company to the Shareholders dated 13 October 2020 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, terms used in this letter will have the same meanings as given to them in the section headed “Definitions” of the Circular.

We have been established by the Board as the Independent Board Committee to advise the Independent Shareholders on whether the Transfer are on normal commercial terms or better and in the ordinary and usual course of business of the Group, the terms of the Agreement are fair and reasonable, and the Transfer is in the interests of the Company and its Shareholders as a whole. Vinco Capital has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard.

We wish to draw your attention to the “Letter from the Board” as set out on pages 4 to 11 of the Circular and the “Letter from Vinco Capital” as set out on pages 14 to 32 of the Circular.

Having considered the terms of the Agreement and having taken into account the principal factors and reasons considered by Vinco Capital, its conclusion and advice, we concur with the opinion of Vinco Capital that (i) the Transfer are on normal commercial terms or better and in the ordinary and usual course of business of the Group, (ii) the terms of the Agreement are fair and reasonable, and (iii) the Transfer is in the interests of the Company and the Shareholders as a whole.

LETTRE FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Agreement and the Transfer.

Yours faithfully,

The Independent Board Committee

Xiong Jianhui

Independent non-executive Director

Liu Jingtai

Independent non-executive Director

Zhao Xuguang

Independent non-executive Director

Luan Dalong

Independent non-executive Director

LETTER FROM VINCO CAPITAL

The following is the text of a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders in respect of the Transfer contemplated under the Agreement, which has been prepared for the purpose of incorporation in this Circular:



Vinco Capital Limited

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

13 October 2020

*To the Independent Board Committee and the Independent Shareholders of
Beijing Jincheng Machinery Electric Company Limited*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION TRANSFER OF WU FANG QIAO ASSETS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Transfer pursuant to the Agreement, details of which are set out in the “Letter from the Board” of the circular issued by the Company dated 13 October 2020 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 21 September 2020 (the “**Announcement**”). On 21 September 2020, Beijing Tianhai, an indirect wholly-owned subsidiary of the Company, entered into the Agreement with Asset Company, pursuant to which, Beijing Tianhai will transfer the Wu Fang Qiao Assets to Asset Company at a transfer price of RMB410,195,000 (tax inclusive).

As at the Latest Practicable Date, Asset Company is a wholly-owned subsidiary of Jingcheng Machinery Electric. Jingcheng Machinery Electric is a controlling shareholder of the Company as it holds 245,735,052 Shares, representing approximately 50.67% of the total Shares of the Company. As such, Asset Company is a connected person of the Company and the Transfer constitutes a connected transaction of the Company under the Listing Rules. Accordingly, the Company is subject to requirements of reporting, announcement, circular, independent financial advice and approval from Independent Shareholders under Chapter 14A of the Listing Rules.

LETTER FROM VINCO CAPITAL

As one or more of the applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules in respect of the Transfer exceed 5% but are less than 25%, the Transfer also constitutes a discloseable transaction of the Company and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

Any connected person of the Company with a material interest in the Agreement and the Transfer, and any Shareholder with a material interest in the Agreement and the Transfer and its associates, shall not vote upon the proposed resolution in respect of the Agreement and the Transfer at the EGM. Accordingly, Jingcheng Machinery Electric and any of its associates (who control and are entitled to exercise control over the voting right in respect of their respective Shares as at the Latest Practicable Date) will abstain from voting in relation to the relevant proposed resolution at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Xiong Jianhui, Mr. Zhao Xuguang, Mr. Liu Jingtai and Mr. Luan Dalong has been formed to advise the Independent Shareholders as to whether the terms of the Agreement are fair and reasonable, the terms of the Transfer are on normal commercial terms or better, in the ordinary and usual course of business and the Transfer is in the interests of the Company and the Shareholders as a whole.

We, Vinco Capital, have been appointed and have been approved by the Independent Board Committee, as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Listing Rules, our role is to give the Independent Board Committee and the Independent Shareholders an independent opinion as to whether the terms of the Agreement are fair and reasonable, the terms of the Transfer are on normal commercial terms or better, in the ordinary and usual course of business and the Transfer is in the interests of the Company and the Shareholders as a whole.

As the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We were not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rule to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Agreement and the Transfer. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Non-executive Directors, no arrangement existed whereby we had received or will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

LETTER FROM VINCO CAPITAL

During the past two years, we were appointed as the independent financial adviser to advise the independent board committee and the independent shareholders of the Company in respect of (i) a connected transaction in relation to proposed subscription of A shares by Jincheng Machinery Electric; and (ii) application for whitewash waiver (the “**Past Appointment**”). Details of the relevant transaction is set out in the circular of the Company dated 27 June 2019. The professional fees in connection with the appointment have been fully settled and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on the terms of the Agreement and the Transfer.

BASIS OF OUR OPINION AND RECOMMENDATION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed.

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

We consider that we have reviewed all currently available information and documents particularly, (i) the interim report of the Company for the six months ended 30 June 2020; (ii) the annual report of the Company for the year ended 31 December 2019; (iii) the certificates for the use of state-owned land and the certificates for the property ownership certificates in the Wu Fang Qiao Assets; (iv) the lease agreement of the Lease; (v) list of mortgage of the properties in the Wu Fang Qiao Assets; (vi) legal documents in relation to the Transfer; (vii) list of fixed assets in the Wu Fang Qiao Assets and their relevant copies

LETTER FROM VINCO CAPITAL

of documents in relation to their costs and net book values; (viii) the valuation report prepared by China Alliance Appraisal Co., Ltd. in respect of the appraised value of the Wu Fang Qiao Assets; (ix) the valuation report prepared by Asia-Pacific Consulting and Appraisal Limited in respect of the appraised value of the Wu Fang Qiao Assets; and (x) the basis and assumptions on the transfer price under the Agreement, which are made available to us and enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the terms of the Agreement and the Transfer, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

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

A. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and Independent Shareholders in respect of the terms of the Agreement and the Transfer, we have considered the principal factors and reasons set out below.

I. Information of the parties

Information of the Company

The Company's general scope of operation include general logistics; professional contracting; 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; economic trade consulting; import and export of commodities and technology and acting as import and export agency.

LETTER FROM VINCO CAPITAL

Financial and business overview of the Group

Set out below is a summary of the consolidated financial information of the Group for the years ended 31 December 2018 and 2019 as extracted from the Company's annual report for the year ended 31 December 2019 (the “**2019 Annual Report**”) and the six months ended 30 June 2020 as extracted from the Company's interim report for the six months ended 30 June 2020 (the “**2020 Interim Report**”), respectively:

	For the six months ended 30 June 2020 (Unaudited) RMB million	For the year ended 31 December 2019 (Audited) RMB million	2018 (Audited) RMB million
Revenue from main businesses	485	1,136	1,064
Loss for the period/year	(37)	(163)	(133)

	As at 30 June 2020 RMB million	As at 31 December 2019 RMB million	As at 31 December 2018 RMB million
Total assets	1,867	1,671	1,775
Total liabilities	1,018	970	912
Net assets	849	701	863

For the year ended 31 December 2019

As disclosed in the 2019 Annual Report, the Group recorded the revenue derived from main business of approximately RMB1,136 million for the year ended 31 December 2019, representing an increase of approximately RMB71 million, as compared to the corresponding period of last year of approximately RMB1,064 million. However, the loss for the year of the Group increased by approximately RMB30 million for the year ended 31 December 2019 as compared to the year ended 31 December 2018, which was mainly due to the changes in industry demand and fierce product competition. In order to compete for the limited market demand, some products were sold at reduced prices. At the same time, expenses such as transportation costs, labour costs, and energy and power costs also led to higher costs and decrease in gross profit margin, which led to the decrease in operating profit year-on-year and caused the increase in loss for the year.

As at 31 December 2019, the Group's total assets and total liabilities were approximately RMB1,671 million and RMB970 million, respectively. The net assets of the Group amounted to approximately RMB701 million as at 31 December 2019.

LETTER FROM VINCO CAPITAL

For the six months ended 30 June 2020

As disclosed in the 2020 Interim Report, the Group recorded the revenue derived from main business of approximately RMB485 million for the six months ended 30 June 2020, representing a decrease of approximately RMB90 million, as compared to the corresponding period of last year of approximately RMB576 million, which was probably due to various adverse impacts such as the global economic contraction, the novel coronavirus epidemic and protection of international trade during the first half of 2020. The loss for the period had decreased by approximately RMB11 million from approximately RMB49 million for the six months ended 30 June 2019 to approximately RMB37 million for the six months ended 30 June 2020.

As at 30 June 2020, the Group's total assets and total liabilities were approximately RMB1,867 million and RMB1,018 million, respectively. The net assets of the Group amounted to approximately RMB849 million as at 30 June 2020.

Information of Beijing Tianhai

Beijing Tianhai, an indirect wholly-owned subsidiary of the Company, is principally engaged in the production of gas storage and transportation equipment.

Information of Asset Company

Asset Company, a wholly-owned subsidiary of Jingcheng Machinery Electric, is principally engaged in asset management; property management; investment management; investment; leasing of properties (public transport, industry and transportation, office); providing public car park services; technology development, technical training, technical services; economic information consultation (excluding projects involving administrative permissions); involving in, producing, acting as agent for and publishing advertisement; providing meeting services, exhibition and display services, office services; designing and maintaining (excluding projects involving administrative permissions) machinery and equipment; selling machinery and equipment (excluding small vehicles), computers, daily necessities, hardware and electrical equipment, building materials, handicrafts and auto parts.

Under the Listing Rules, Asset Company is a connected person of the Company, and the transaction contemplated under the Agreement constitutes a discloseable and connected transaction of the Company. Having considered that (i) the principal business of the Group; (ii) the purpose of the Transfer as mentioned below "Reasons for and benefits of the transaction", we consider that entering into the Agreement is in the ordinary and usual course of business of the Group.

LETTER FROM VINCO CAPITAL

II. Principal terms of the Agreement

On 21 September 2020, Beijing Tianhai, an indirect wholly-owned subsidiary of the Company, entered into the Agreement with Asset Company in respect of the transfer of the Wu Fang Qiao Assets, principal terms of which are set out below:

Date	:	21 September 2020
Parties	:	(1) Beijing Tianhai, as the transferor (2) Asset Company, as the transferee
Conditions precedent to the effectiveness of the Agreement	:	The Agreement shall come into effect on the date on which the Transfer is considered and approved at the general meeting of the Company and it is signed by the legal representatives or authorised representatives of the parties with the affixing of corporate seals.
Assets to be transferred	:	Wu Fang Qiao Assets, being the industrial land with an area of 87,541.76 sq.m. and buildings thereon with a total floor area of 45,143.62 sq.m. located at No. 9 Tianying North Road, Chaoyang District, Beijing. The land certificate number is Jing Chao Guo Yong (2005 Chu) No. 0242, with a term expiring on 28 October 2054. The buildings ownership certificates are X Jing Fang Quan Zheng Chao Zi No. 607418 and X Jing Fang Quan Zheng Chao Zi No. 727497.

LETTER FROM VINCO CAPITAL

- Transfer price** : The transfer price is RMB410,195,000 (tax inclusive).
- The transfer price is based on the appraised value of the Wu Fang Qiao Assets by China Alliance Appraisal Co., Ltd. (北京中同華資產評估有限公司) as at the base date for valuation (i.e. 30 April 2020), and has been filed to Jingcheng Machinery Electric.
- Payment method** : Within 10 days from the effective date of Agreement, Asset Company shall pay 50% of the total transfer price (“**First Transfer Payment**”) to Beijing Tianhai in a lump sum of RMB205,097,500. The remaining 50% of the transfer price (“**Second Transfer Payment**”) of RMB205,097,500 shall be paid in a lump sum to the designated account of Beijing Tianhai by Asset Company after the completion of the delivery procedures of Wu Fang Qiao Assets by 31 December 2020.
- Delivery** : Beijing Tianhai and Asset Company shall transfer the Wu Fang Qiao Assets within 30 days from the effective date of the Agreement and complete the procedures for the registration of changes in respect of the Wu Fang Qiao Assets.
- Asset Company shall be entitled to the rental income arising from the lease of the Wu Fang Qiao Assets during the period from the benchmark date for valuation (i.e. 30 April 2020) to the date of completion of the procedures for the registration of changes in respect of the Wu Fang Qiao Assets.

1. Reasons for and benefits of the transaction

As stated from the letter from the Board, the Transfer is a strategic adjustment made by Beijing Tianhai based on its own development. The cash flow generated from the transfer of the Wu Fang Qiao Assets can effectively support the sustainable and stable development of Beijing Tianhai’s principal business.

The Transfer is beneficial to the sustainable and stable development of Beijing Tianhai’s three principal business segments, namely hydrogen energy, industrial gas and natural gas, during the 14th Five-Year Plan period.

We have discussed with the management of the Group and noted that it is necessary for strategic hydrogen energy business segment of Beijing Tianhai to consolidate its leading position in technology, increase its investment, and facilitate rapid development. For the 14th Five-Year Plan period, Beijing Tianhai has clearly defined its strategic direction of “rational analysis of market demand, precise positioning of products, timely utilization of capital and resources of strategic partners,

LETTER FROM VINCO CAPITAL

expansion of production scale, and capture of industry opportunities”, and more capital support is required to seize development opportunities. In addition, the development of Beijing Tianhai’s traditional industrial gas segment faces the strategic requirements of process optimization and enhancement of the level of computerisation and informatization, which require more capital investment. Furthermore, the development of the natural gas segment requires the support of a stable cash flow as it is affected by factors such as high capital occupation, long investment return periods, and large market fluctuations. As a result, cash flow support will be acquired from the transfer of the Wu Fang Qiao Assets, which will strategically support the development of the three principal business segments.

As mentioned in the 2020 Interim Report, the PRC had strategic plan on hydrogen fuel development: put forward development goals of the field of hydrogen energy technical equipment in stages of 2025, 2035 and 2050, as well as the major missions in terms of hydrogen production, hydrogen storage, hydrogen transportation, hydrogen utilisation, and hydrogen safety, which provided targeted strategic safeguard measures and recent policy recommendations. We have performed our own desktop search and noted that can be produced using diverse, domestic resources, including fossil fuels, such as natural gas and coal, nuclear energy, and other renewable energy sources, such as wind, solar, geothermal, and hydro-electric power by using a wide range of processes. The hydrogen fuel cell can provide for wide range of application such as cars, buses and buildings. The environmental impact and energy efficiency of hydrogen depends on how it is produced. Compared to conventional gasoline vehicles, fuel cell vehicles can even reduce carbon dioxide by up to half if the hydrogen is produced by renewable energy, such as wind and solar. In accordance with the strategic plan and suggestions made by the National Energy Administration of the PRC, the government will develop the distribution of electricity in cities of the PRC by using the hydrogen energy.

We note that the outbreak of COVID-19 (the “**Pandemic**”) in the PRC since December 2019 may cause pressure on the PRC economy and its economic activities has slowed down. As at the Latest Practicable Date, the virus has been found in a number of countries around the world. The Pandemic has caused a global health emergency and travel disruptions within the PRC and around the world, and will inevitably, unfavorably affect commercial and industrial activities in the short term. Following the outbreak of the Pandemic, the Company has conducted a prudent assessment on the impacts of the Pandemic on the Transfer in aspects of cost and benefit, and cash flow. Based on our discussion with the management of the Group, although in the 2020 Interim Report it was disclosed that the cash at bank and on hand of the Group was approximately RMB295 million as at 30 June 2020, the Transfer would allow the Group to acquire additional cash flow to strengthen the Group’s current assets for emergency use during the Pandemic, especially the Group is planning its new development as mentioned above.

As such, taking into account (i) the Group’s new development; (ii) our desktop search on hydrogen energy; and (iii) the assessment of the Pandemic by the Group, we are of the view that the Transfer is on normal commercial terms or better and is in the interests of the Company and its Shareholders as a whole.

2. Evaluation of the transfer price

(a) PRC valuation of the Wu Fang Qiao Assets

China Alliance Appraisal Co., Ltd. (the “**PRC Valuer**”) was appointed to conduct an asset valuation of the Wu Fang Qiao Assets as at the base date for the valuation, being 30 April 2020, and had issued a valuation report (Zhong Tong Hua Ping BaoZi [2020] No. 050665) (the “**PRC Valuation Report**”). According to the valuation report, the value of the Wu Fang Qiao Assets was RMB410,195,000 as at 30 April 2020. As such, the transfer price of the Wu Fang Qiao Assets is RMB410,195,000.

The transfer price has been arrived at arm’s length negotiations between Beijing Tianhai and Asset Company and was based on the valuation results of the Wu Fang Qiao Assets as at 30 April 2020, which was appraised by using asset-based approach and income approach, and approved by the relevant authority(ies) for the supervision and administration of state-owned assets (being RMB410,195,000).

Based on the website of 中國證券監督管理委員會 (China Securities Regulatory Commission of the PRC) (the “**CRSC**”) at <http://www.csrc.gov.cn/>, the PRC Valuer is one of the 70 asset valuation firms with securities business valuation qualification authorised by the CSRC and 中華人民共和國財政部 (the Ministry of Finance of the PRC) to perform asset appraisal works in the PRC. The acquisition price was finally calculated and arrived at based on asset-based approach, income approach and the general industry standards recognised and adopted nationally, which was further verified and approved by the competent state-owned asset authority.

In assessing the fairness and reasonableness of the appraised value of the Wu Fang Qiao Assets, we have performed additional due diligence on the valuation report issued by the PRC Valuer, we have reviewed the valuation report and interviewed the PRC Valuer regarding, among other things, the basis and assumptions made and the methodology adopted by the PRC Valuer in conducting the appraisal for the major assets and properties of the Wu Fang Qiao Assets. When performing the valuation for enterprise value, the valuer shall, based on the purpose of valuation, the target of valuation, type of value and materials collection and other relevant conditions, analyze the applicability of the three assets valuation approaches, namely income approach, market approach and asset-based approach, and appropriately select one or more assets valuation approach. We understand that the PRC Valuer has adopted both asset-based approach and income approach for evaluating the value of the Wu Fang Qiao Assets. Market approach was not adopted for the valuation of the Wu Fang Qiao Assets. Market approach in the valuation for value of an asset refers to the valuation method of determining the value of the asset by comparing the asset of valuation with comparable transaction cases. The PRC Valuer considered that market approach is not an appropriate approach to appraise the value of the Wu Fang Qiao Assets since the transaction record of similar assets cannot be found in

LETTER FROM VINCO CAPITAL

the district where the Wu Fang Qiao Assets locate. The PRC Valuer is of the view that the lack of comparable transactions resist them from making precise appraisal to the value of the Wu Fang Qiao Assets. Therefore, they adopted asset-based approach and income approach instead in their appraisal on the Wu Fang Qiao Assets.

Asset-based approach is a cost approach of assets valuation. Under asset-based approach, the value of the assets is equivalent to the replacement cost less the depreciation of the construction. The replacement cost is calculated based on cost of lands, reconstruction cost of the buildings, related tax, cost of investment with reference to the market interest rate, profitability rate of the redevelopment and remaining useful life, which can be estimated with reference to the construction cost of similar buildings. The PRC Valuer had made the following basis and analysis and have considered: (i) cost of land of the Wu Fang Qiao Assets is appraised under standard land pricing method and market approach. Under the standard land pricing method, the valuation considers a basket of factors including but not limited to the production level, traffic, landscape and environment while under the market approach, the valuer had accessed three comparables of similar land of the land use (industrial land). With respect to the abovementioned market approach used as one of the methods in arriving the cost of land of the Wu Fan Qiao Assets, we have discussed with the PRC Valuer (a) the selection criteria of the comparables; and (b) suitability of the comparables. Based on our discussion with the PRC Valuer, we understand that their selection criteria is to select those comparables in the market which is in their opinion the most comparable to the Wu Fang Qiao Assets after having taken into account factors such as the vicinity and the latest transaction price of the comparables and the PRC Valuer has included three most suitable and recent comparables meeting their selection criteria as identified by them based on regulations for valuation on urban land implemented by General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and their best information, knowledge and belief. We have performed our own desktop search and reviewed comparables in close proximity to the Wu Fang Qiao Assets which are based on the selection criteria set out by the PRC Valuer. Details and criteria of the comparables have been set out in Table A below:

Table A	Comparable 1	Comparable 2	Comparable 3
Comparables	R&D and Manufacturing Base of Environmental Protection Proprietary Equipment (環保專有設備 研發製造基地)	Beijing Headquarters Project of Jingdongfang Advanced Technology Laboratory Phase II (京 東方先進技術實驗室二期工 程北京總部專案)	Integrated Circuit Engineering Technology Innovation Center Project (積體電路工程技術 創新中心專案)

LETTER FROM VINCO CAPITAL

Table A	Comparable 1	Comparable 2	Comparable 3
Location	Plot 76M2, Core Area of Beijing Economic and Technological Development Zone (北京經濟技術開發區核心區 76M2地塊)	Plot 55M4-2, Core Area of Beijing Economic and Technological Development Zone (北京經濟技術開發區核心區 55M4-2地塊)	Plot 34M3, Core Area of Beijing Economic and Technological Development Zone (北京經濟技術開發區核心區 34M3地塊)
Type of land use	Industrial	Industrial	Industrial
Level of development	Cultivated land	Cultivated land	Cultivated land
Unit price per each floor area (FA) (RMB/square meter)	1,008	1,500	1,080

It is noted that the comparables may have different factors such as environment and traffic that affect the selection of comparables and such factors may not be identical to the Wu Fang Qiao Assets. Based on the criteria set out in Table A, namely location, type of land use, level of development and unit price per each FA, we have identified three comparables same as the PRC Valuer's comparables. We consider our selected comparables to be fair and exhaustive and we are of view that such comparables are in line with the PRC Valuer's selection criteria. We are of the view that the comparables selected by the PRC Valuer are comparative to the Wu Fang Qiao Assets; (ii) reconstruction cost is made reference to cost of construction of similar buildings in the same district, for example, cost of civil engineering, electrical and mechanical engineering and safety engineering; (iii) related tax includes value-added tax, tax for maintaining and building cities and education supplementary tax; (iv) cost of investment which is the opportunity cost of capital used in constructing a new building and its interest receivables, is calculated with reference to two-year construction period and loan prime rate plus 0.4%. We have reviewed the loan prime rate, being 3.85% as determined by the People's Bank of China. Based on our discussion with the PRC Valuer, we have obtained and reviewed the announcement by the People's Bank of China (中國人民銀行公告[2019]第15號) and noted that the additional 0.4% is the difference between the RMB loan rate for one-to-five-year (4.75%) and one year (4.35%); (v) the PRC Valuer have applied a profitability rate of redevelopment of 34% with reference to the profitability rates from seven real estate companies which had been listed in the exchange in PRC. We have reviewed the annual reports of the listed companies and noted the profitability rates are accurate; and (vi) depreciation rate is calculated to be 52% with reference to the remaining useful life of the land. The appraised value of the Wu Fang Qiao Assets under asset-based approach is RMB408,626,400. On the other hand, income approach in the valuation for enterprise value refers to the valuation method of determining the value of the target by capitalizing or discounting the expected income. The valuer shall consider the applicability of the income approach appropriately after taking into account a combination of the historical operating conditions and the predictability of future earnings, and the adequacy of the valuation data obtained. The valuer shall consider the applicability of the

LETTER FROM VINCO CAPITAL

market approach appropriately based on the adequacy and reliability of the market information available of the comparable transactions, and the number of comparable transactions that can be collected. The expected rental income of Wu Fang Qiao Assets can be expected and measured with reference to the lease agreement of the Lease. The comparable cases of tenancy can also be found in the market. The PRC Valuer had made the following basis and analysis and have considered: (i) pursuant to an existing tenancy agreement, the property was rented to Beijing Jingcheng Haitong Technology and Culture Development Co. Ltd. (北京京城海通科技文化發展有限公司) for a term of 18 years. Given that the PRC Valuer has accessed and confirmed the occupancy rate of 92%, the rent was RMB1.43 per square meter per day for the first year and would be increased by 5% every year within the tenancy period and the rent would be RMB3.01 per square meter per day for the first year and would be increased by 2.4% every year after the tenancy period; (ii) they applied a market rent based on the comparable transactions which was in the same district, taking into account location, traffic, height of the buildings and etc; (iii) they have applied a market yield of 6% as the capitalisation rate for commercial part in the valuation; and (iv) the remaining usage life of the land and buildings would be approximately 34 years. We have discussed with the PRC Valuer (a) the selection criteria of the comparable transactions; and (b) suitability of the comparable transactions. We have performed our own desktop search and reviewed comparable transactions in close proximity to the Wu Fang Qiao Assets which are based on the selection criteria set out by the PRC Valuer. Details and criteria of the comparable transactions have been set out in Table B below:

Table B	Comparable transaction 1	Comparable transaction 2	Comparable transaction 3
Comparable transactions	Ciqu, Tongzhou (通州次渠)	Ying Hai Town (瀛海鎮)	Mentougou Science and Technology Park (門頭溝科技園)
Location	Ma Ju Qiao Town, Tongzhou District (Beijing City) (通州區馬駒橋鎮 (北京市))	Kechuang Shiyi Street, Yizhuang Development Zone, Daxing District (Beijing City) (大興區亦莊開發區科創十一街 (北京市))	Base of Jianlei Group, No.4 Yong An Road, Mentougou (Beijing City) (門頭溝永安路4號建磊集團基地 (北京市))
Rent (RMB/square meter/day)	1.75	2.00	2.20
Type of assets	Industrial estate	Industrial estate	Industrial estate

It is noted that the comparable transactions may have different factors such as environment and traffic that affect the selection of comparable transactions and such factors may not be identical to the Wu Fang Qiao Assets. Based on the criteria set out in Table B, namely location, rent and type of assets, we have identified three comparable transactions same as the PRC Valuer's comparable transactions. We consider our selected comparable transactions to be fair and exhaustive and we are of view that such comparable transactions are in line with the PRC Valuer's selection criteria. We are of the view that the comparable

LETTER FROM VINCO CAPITAL

transactions selected by the PRC Valuer are comparative to the Wu Fang Qiao Assets. We understand that their selection criteria is to select those comparable transactions in the market which is in their opinion the most comparable to the Wu Fang Qiao Assets after having taken into account factors such as the vicinity and rent of the latest comparable transaction and the PRC Valuer has included three most suitable and recent comparable transactions meeting their selection criteria as identified by them based on regulations for valuation on urban land implemented by General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and their best information, knowledge and belief. We have also reviewed the lease agreement of the Lease and noted that the tenancy period is 18 years and the rent was RMB1.43 per square meter per day and would be increased by 5% every year. It is also noted that the land use right has been granted until 28 October 2054 with reference to the certificates for the use of state-owned land in the Wu Fang Qiao Assets. In addition, we have obtained and reviewed the guideline announced by the People's Government of Beijing Municipality (《北京市基準地價更新成果》京政發[2014]26號) and noted that the capitalisation rate of 6% is adopted by referring to one-year benchmark interest rate of 1.5% as determined by the People's Bank of China and rate of risk return on investment of 4.5% which is in accordance with the industry practice. The appraised value of the Wu Fang Qiao Assets under income approach is RMB411,763,600. In addition to the abovementioned work performed by us, we have also reviewed the list of fixed assets in the Wu Fang Qiao Assets with costs and net book values. Based on the above, the PRC Valuer is of the view that the valuation based on both asset-based approach and income approach is fair and reasonable.

Both asset-based approach and income approach determine the value of the Wu Fang Qiao Assets, of which the valuation is based on reasonable assessment of various assets of the Wu Fang Qiao Assets. Therefore, both asset-based approach and income approach could reasonably reflect the value of the Wu Fang Qiao Assets. As confirmed by the PRC Valuer, the selection of both asset-based approach and income approach is based on the PRC Valuer's independent judgement and the requirements of "Code for Real Estate Appraisal" under the PRC's national standards. Based on the above facts and our discussion, the PRC Valuer is of the view that both asset-based approach and income approach fairly reflect the valuation of the Wu Fang Qiao Assets. Under "Code for Real Estate Appraisal" GB/T 50291-2015, it is necessary for valuer to apply all valuation methods where they are applicable and reasonable. Taking account into (i) both asset-based approach and income approach fairly reflects the valuation of the Wu Fang Qiao Assets; and (ii) the difference of the appraised value of both asset-based approach and income approach was approximately 0.8% which is considered immaterial, the PRC Valuer is of the view that the final appraised value which is arrived at by using weighted average, i.e. 50% of each of the appraised value under both asset-based approach and income approach, is fair and reasonable.

Since the PRC Valuer considered that (i) the appraised value under asset-based approach is RMB408,626,400 and the appraised value under income approach is RMB411,763,600; (ii) the difference of the appraised value under two

LETTER FROM VINCO CAPITAL

approaches is RMB3,137,200 or approximately 0.8% which is immaterial; and (iii) the appraised value has been arrived at by considering all replacement costs and depreciation of the Wu Fang Qiao Assets under the asset-based approach and the present value of the expected future rental income under the income approach, both approaches will be used and the final appraised value will be arrived at by using weighted average, i.e. 50% of each of the appraised value under both asset-based approach and income approach. The weighted average method has been conducted in accordance with relevant valuation standard, which has also been approved by relevant authorities.

Furthermore, we have been furnished with the qualifications and experience of the PRC Valuer in relation to the conduct of valuation of the Wu Fang Qiao Assets, and note that the PRC Valuer has possessed sufficient qualifications and experience in valuing assets similar to that of the Wu Fang Qiao Assets for listed companies in the PRC and Hong Kong over 20 years. The responsible officer in the appraisal project of the Wu Fang Qiao Assets is Ms. Yang who has 20-year experience in assets appraisal. The PRC Valuer is independent to the shareholders, directors, and any associates of Asset Company, Beijing Tianhai and the Company. Based on our review of the PRC Valuation Report and discuss with the PRC Valuer as aforesaid, including but not limited to the valuation methodologies and assumptions in preparing the valuation report and the qualifications and experience of the PRC Valuer in valuations of assets similar to the Wu Fang Qiao Assets, nothing has come to our attention that causes us to doubt the fairness and reasonableness of the preparation of the PRC Valuation Report. We have also reviewed the PRC Valuer's terms of engagement with the Group (including its scope of work) and are not aware of any irregularities during our discussion with PRC Valuer and in our review of their work. In view of this, we consider that the procedures of the valuation carried by the PRC Valuer as well as the bases, assumptions and methodologies adopted for the PRC Valuation Report are appropriate. Based on the above, the value of the Wu Fang Qiao Assets as set in the valuation report prepared by the PRC Valuer is therefore considered indicative to the transfer price of the Wu Fang Qiao Assets. As such, we consider that the valuation is fair reference for the transfer price.

Having considered above, we concur that market approach is not applicable and we are of the view and concur with the PRC Valuer that (i) basis and assumption adopted by the PRC Valuer for the valuation of the Wu Fang Qiao Assets is fair and reasonable; (ii) both asset-based approach and income approach adopted by the PRC Valuer as the valuation methodology for the Wu Fang Qiao Assets justifiable and reasonable as far as the Shareholders as a whole are concerned; and (iii) the valuation of the Wu Fang Qiao Assets of RMB410,195,000 after applying the weight-average, i.e. 50% of each of the appraised value under both asset-based approach and income approach is fair and reasonable. We have not identified and major factors which cause us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for the valuation report prepared by the PRC Valuer, we are of the view that the PRC Valuation Report has been reasonably prepared and are normal in nature without any unusual assumptions; and the transfer price is fair and reasonable.

LETTER FROM VINCO CAPITAL

(b) Hong Kong valuation of the Wu Fang Qiao Assets

We understand from the management of the Company that the Wu Fang Qiao Assets have also been valued by Asia-Pacific Consulting and Appraisal Limited (the “**HK Valuer**”), an independent firm of qualified valuer in Hong Kong, for Independent Shareholders’ reference purpose. We have made reference to such valuation by the HK Valuer to supplement our evaluation of the consideration of the Acquisition. We have reviewed and discussed with the HK Valuer on the valuation methodologies used in valuing the Wu Fang Qiao Assets. We have also discussed with the HK Valuer regarding its expertise and understand that the personnel signing the valuation reports has over 10 years of professional experience of property/business valuation. The full text of the HK Valuer’s valuation report of the Wu Fang Qiao Assets are set out in Appendix I to the Circular (the “**HK Valuation Report**”).

As stated in the HK Valuer’s valuation report of the Wu Fang Qiao Assets and based on our discussions with the HK Valuer, in appraising the value of the Wu Fang Qiao Assets, the HK Valuer adopted the income approach as the main source of income of Wu Fang Qiao Assets is rental income. We note from the HK Valuer’s valuation report that the value of the Wu Fang Qiao Assets is RMB405,100,000. The HK Valuer had made the following basis and analysis and have considered: (i) pursuant to a Tenancy Agreement, the property was rented to Beijing Jingcheng Haitong Technology and Culture Development Co. Ltd. (北京京城海通科技文化發展有限公司) for a term of 18 years from 4 September 2018 to 3 September 2036. The rent was RMB1.43 per square meter per day for the first year and would be increased by 3% every three years; (ii) they applied a market rent based on the comparable transactions; and (iii) they have applied a market yield of 6% as the capitalisation rate for commercial part in the valuation. Under the income approach, the HK Valuer has taken into account the net rental income of the properties derived from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalized to determine the fair value at an appropriate capitalization rate. We have discussed with the HK Valuer (i) the selection criteria of the comparable transactions; and (ii) suitability of the comparable transactions. We have performed our own desktop search and reviewed comparable transactions in close proximity to the Wu Fang Qiao Assets which are based on the selection criteria set out by the HK Valuer. Details and criteria of the comparable transactions have been set out in Table C below:

Table C	Comparable transaction 1	Comparable transaction 2	Comparable transaction 3
Comparable transactions	Ciqu, Tongzhou (通州次渠)	Ying Hai Town (瀛海鎮)	Mentougou Science and Technology Park (門頭溝科技園)

LETTER FROM VINCO CAPITAL

Table C	Comparable transaction 1	Comparable transaction 2	Comparable transaction 3
Location	Ma Ju Qiao Town, Tongzhou District (Beijing City) (通州區馬 駒橋鎮 (北京市))	Kechuang Shiyi Street, Yizhuang Development Zone, Daxing District (Beijing City) (大興區亦 莊開發區科創十一街 (北京 市))	Base of Jianlei Group, No.4 Yong An Road, Mentougou (Beijing City) (門頭溝永安路4號建 磊集團基地 (北京市))
Rent (RMB/square meter/day)	1.75	2.00	2.20
Type of assets	Industrial estate	Industrial estate	Industrial estate

It is noted that the comparable transactions may have different factors such as environment and traffic that affect the selection of comparable transactions and such factors may not be identical to the Wu Fang Qiao Assets. Based on the criteria set out in Table C, namely location, rent and type of assets, we have identified three comparable transactions same as the HK Valuer's comparable transactions. We consider our selected comparable transactions to be fair and exhaustive and we are of view that such comparable transactions are in line with the PRC Valuer's selection criteria. We are of the view that the comparable transactions selected by the HK Valuer are comparative to the Wu Fang Qiao Assets. We understand that their selection criteria is to select those comparable transactions in the market which is in their opinion the most comparable to the Wu Fang Qiao Assets after having taken into account factors such as the vicinity and rent of the latest comparable transactions and the HK Valuer has included three most suitable and recent comparable transactions meeting their selection criteria as identified by them based on the International Valuation Standards published by the International Valuation Standards Council and their best information, knowledge and belief. We have also reviewed the lease agreement of the Lease and noted that the tenancy period is 18 years and the rent was RMB1.43 per square meter per day. It is also noted that the land use right has been granted until 28 October 2054 with reference to the certificates for the use of state-owned land in the Wu Fang Qiao Assets. In addition, we have obtained and reviewed the guideline announced by the People's Government of Beijing Municipality (《北京市基準地價更新成果》京政發[2014]26號) and noted that the capitalisation rate of 6% is adopted by referring to one-year benchmark interest rate of 1.5% as determined by the People's Bank of China and rate of risk return on investment of 4.5% which is in accordance with the industry practice. Based on the HK Valuer's judgment and the International Valuation Standards published by the International Valuation Standards Council, the best valuation method will be selected which is income approach. Asset-based approach was not adopted because given that the main source of income is generated from the long-term lease of the Wu Fang Qiao Assets, of which the expected rental income can be accurately calculated and reflect the total value of the Wu Fang Qiao Assets, the HK Valuer is of the view that, using income approach is more accurate to appraise the value of the Wu Fang Qiao Assets while asset-based approach measures the value of Wu Fang Qiao Assets with replacement cost, depreciation and economic loss of similar assets to the Wu Fang Qiao Assets, which is

LETTER FROM VINCO CAPITAL

considered comparatively less accurate to reflect the market value of the Wu Fang Qiao Assets. Market approach was not adopted because the HK Valuer considered that market approach is not an appropriate approach to appraise the value of the Wu Fang Qiao Assets since the transaction record of similar assets cannot be found in the district where the Wu Fang Qiao Assets locate. Since (i) the Wu Fang Qiao Assets is rented out with reference to the Lease; and (ii) the comparable cases of tenancy can also be found in the market, the future rental income of Wu Fang Qiao Assets can be expected and measured. As such, the HK Valuer is of the view that income approach is fair and reasonable and is selected as the valuation method for the valuation of the Wu Fang Qiao Assets. Based on our discussion with the HK Valuer, we concur with the HK Valuer that the selection of income approach can fairly reflect the valuation of the Wu Fang Qiao Assets.

(c) Evaluation of the transfer price

The transfer price of the Agreement was determined after arm's length negotiations between Beijing Tianhai and Asset Company taking into account, among other factors, the value of the Wu Fang Qiao Assets as appraised by the PRC Valuer. In assessing the fairness of the transfer price of the Transfer, we consider it appropriate to refer to the independent valuation conducted by both the PRC Valuer and the HK Valuer in respect of the Wu Fang Qiao Assets, which forms the key basis for our opinion. Taking into account (i) as stated in the paragraph headed "PRC valuation of the Wu Fang Qiao Assets" and "Hong Kong valuation of the Wu Fang Qiao Assets" under the sub-section headed "Evaluation of the transfer price" above, we consider that the methodologies adopted by both the PRC Valuer and the HK Valuer for the valuation of the Wu Fang Qiao Assets are reasonable; (ii) the selection of valuation methodology was different due to the fact the PRC Valuation Report is based on the Code for Real Estate Appraisal while the HK Valuation Report is based on the International Valuation Standards published by the International Valuation Standards Council; and (iii) we note that the value appraised by the HK Valuer is lower than the value appraised by the PRC Valuer by approximately RMB5,095,000, since the transfer price is determined with reference to a higher value as at 30 April 2020 appraised by the PRC Valuer, we consider that this is favourable to the Company and the Shareholders as a whole. On this basis, we are of the view that the transfer price of the Agreement is fair and reasonable.

3. Financial impact of the Transfer and the use of proceeds

Earnings

As disclosed in the Letter from the Board, upon the completion of the Transfer, the Group expects to recognise a gain of approximately RMB382,680,169.34 (calculated based on the transfer price of RMB410,195,000 less the unaudited net book value of RMB27,514,830.66 of the Wu Fang Qiao Assets as at 30 June 2020) from the Transfer.

LETTER FROM VINCO CAPITAL

The net proceeds from the Transfer are intended to be used for general operating expenses of the Group to support the development of the three principal business segments described in the section “Reasons for and benefits of the transaction” above.

Working capital

As disclosed in the 2020 Interim Report, the Group’s cash at bank and on hand was approximately RMB295 million as at 30 June 2020. The transfer price of the Agreement of RMB410,195,000 will be paid separately. The Group expects to receive the full amount of the transfer price before 31 December 2020 and the unaudited net current assets of the Group would improve due to the increase in cash at bank and on hand upon completion of the Transfer.

Net assets

As disclosed in the 2020 Interim Report, the Group recorded unaudited net assets of approximately RMB849 million. Upon completion of the Transfer, the Group expects that its net assets would increase.

The aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be after the completion of the Transfer. Based on the aforementioned financial effects of the Transfer, we are of the view that the Transfer will have an overall positive financial effect on the Group and be in the interest of the Group and its Shareholders as a whole.

B. RECOMMENDATION

Having taken the above principal factors and reasons into consideration, we are of the view that the terms of the Transfer are on normal commercial terms or better, in the ordinary and usual course of business, terms of the Agreement are fair and reasonable and the Transfer is in the interests of the Company and the Shareholders as a whole. Therefore, we advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the terms of the Agreement and the Transfer.

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

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

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this circular received from Asia-Pacific Consulting and Appraisal Limited, an independent valuer, in connection with its valuation as at 31 August 2020 of the property interests of the Group.



Asia-Pacific Consulting and Appraisal Limited
Flat/Rm A 12/F Kiu Fu Commercial Building,
300 Lockhart Road, Wan Chai,
Hong Kong

13 October 2020

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

Dear Sirs,

Instructions, Purpose and Date of Valuation

Asia-Pacific Consulting and Appraisal Limited (“APA” or “we”) is instructed by Beijing Jingcheng Machinery Electric Company Limited (the “Company”) to provide valuation service on one property located in Beijing of the People’s Republic of China (the “PRC”) for disclosure purpose. The property is held by Beijing Tianhai Industry Co., Ltd. (北京天海工業有限公司) (“Beijing Tianhai”), a company incorporated in the PRC with limited liability, is an indirect wholly-owned subsidiary of the Company. We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing our opinion of the market value of the property interests as at 31 August 2020 (the “valuation date”).

Basis of Valuation

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

Methods of Valuation

We have adopted the income approach in our valuation. After taking into account the net rental income of these properties derived from the existing leases and/or achievable in the existing market, with due allowance for the potential reversionary income of the lease, then capitalize the rental income at an appropriate capitalization rate to determine the fair value.

Valuation Assumptions

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation (including Land Appreciation Tax) which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

Valuation Standards

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

Source of Information

We have relied to a very considerable extent on the information given by the Beijing Tianhai and have accepted advice given to us on such matters as tenure and all other relevant matters. Dimensions and measurements are based on the copies of documents collected from the Beijing Tianhai and are therefore only approximations. We have no reason to doubt the truth and accuracy of the information provided to us by the Beijing Tianhai. We have also been advised by the Beijing Tianhai that no material factors have been omitted from the information to reach an informed view and we have had no reason to suspect that any material information has been withheld.

Document and Title Investigation

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Real Estate Title Certificates and other title documents relating to the property interests and have made relevant enquiries. However, we have not searched the original documents to verify the ownership or to ascertain any amendment. We have relied to a very considerable extent on the information given by the Beijing Tianhai, and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters. We have relied considerably on the advice given by the Company's PRC legal advisers – Beijing Jincheng Tongda & Neal Law Firm, concerning the validity of the property interests in the PRC.

We have no reason to doubt the truth and accuracy of the information provided to us by the Beijing Tianhai. We have also sought confirmation from the Beijing Tianhai that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view, and we have no reason to suspect that any material information has been withheld.

Area Measurement and Inspection

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

The site inspection was carried out on 28 September 2020 by Mr. David Cheng who is a member of Royal Institution of Chartered Surveyor and has over 20 years' experience in property valuation in the PRC and Ms. Alice Dong who has 16 years' experience property valuation in the PRC.

Currency

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation certificate is enclosed hereby for your attention.

Yours faithfully,
for and on behalf of
Asia-Pacific Consulting and Appraisal Limited

David G.D. Cheng
MRICS
Executive Director

Note: David G.D. Cheng is a Chartered Surveyor who has 20 years' experience in the valuation of assets in the Greater China Region, the Asia-Pacific region, the United States and Canada.

VALUATION CERTIFICATE

Property interests held by Beijing Tianhai for Investment in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date RMB
A parcel of land, 35 buildings located at No. 9 Tianjing North Road, Chaoyang District, Beijing, the PRC	<p>The property comprises a parcel of land with a site area of approximately 87,541.76 sq.m., 35 buildings and various ancillary structures erected thereon which were completed in various stages between 1988 to 2020.</p> <p>The buildings have a total gross floor area of approximately 45,143.62 sq.m.</p> <p>The buildings mainly include industrial plants, office building, storage houses, staff canteen and ancillary buildings.</p> <p>The land use rights of the property have been granted for a term of 50 years with the expiry date of 28 October 2054 for industrial use.</p>	The property is currently occupied by a tenant for investment purpose.	405,100,000

Notes:

- Pursuant to a State-owned Land Use Rights Certificate – Jing Chao Guo Yong (2005 Chu) No. 0242, the land use rights of a parcel of land with a site area of approximately 87,541.76 sq.m. have been granted to Beijing Tianhai Industry Co., Ltd. (“Beijing Tianhai”), a company incorporated in the PRC with limited liability, is an indirect wholly-owned subsidiary of the Company, for a term of 50 years with the expiry date of 28 October 2054 for industrial use.
- Pursuant to 2 Building Ownership Certificates – X Jing Fang Quan Zheng Chao Zi Di Nos. 727497, and 607418, 35 buildings with a total gross floor area approximately 45,143.62 sq.m. are owned by Beijing Tianhai.
- Pursuant to a Tenancy Agreement, the property was rented to Beijing Jingcheng Haitong Technology Culture Development Co., Ltd. (北京京城海通科技文化發展有限公司) (“Jingcheng Haitong”), a company incorporated in the PRC with limited liability, for a term of 18 years from 4 September 2018 to 3 September 2036. The rent was RMB1.43 per sq.m. per day for the first year and would be increased by 5% every three years. For the period from 20 April 2019 to 19 April 2022, the approximate monthly rental under the tenancy agreement is RMB1.96 million.
- Our valuation has been made on the following basis and analysis:
 - The unit rent of the comparable transactions basis ranges from RMB1.75 to RMB2.2 per sq.m. per day, and we have applied a market rent of RMB2.06 per sq.m. per day.
 - Based on our research on the market of the same area of the property, considering the location, risks and characteristics of the property, we have applied a market yield of 6% as the capitalization rate in the valuation.
- We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, inter alia, the following: Beijing Tianhai, as the sole owner, has legally obtained the State-owned Land Use Rights Certificate and the Building Ownership Certificates of the property and there are no restrictions on transfer the property under the PRC laws.

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 INTERESTS

As at the Latest Practicable Date, so far as was known to the Directors, none of the Directors or chief executives of the Company was interested in any Shares, underlying Shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives of the Company were taken or deemed to have pursuant to Divisions 7 and 8 of Part XV of the SFO), or (ii) entered in the register required to be kept under Section 352 of the SFO or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) adopted by the Company.

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	Name of Shareholder	Capacity of Director in Shareholder	Number of Shares held by the Shareholder	Approximate percentage of shareholding in the entire share capital of the Company
				(A Shares and H Shares) as at the Latest Practicable Date ¹
Wang Jun	Jingcheng Machinery Electric	Deputy general manager and general counsel	245,735,052 A Shares	50.67%
Jin Chunyu	Jingcheng Machinery Electric	Assistant of general manager and head of planning and finance department	245,735,052 A Shares	50.67%

Name of Director	Name of Shareholder	Capacity of Director in Shareholder	Number of Shares held by the Shareholder	Approximate percentage of shareholding in the entire share capital of the Company (A Shares and H Shares) as at the Latest Practicable Date ¹
Wu Yanzhang	Jingcheng Machinery Electric	Head of investment and development department	245,735,052 A Shares	50.67%
Xia Zhonghua	Jingcheng Machinery Electric	Head of housing, land and resources department	245,735,052 A Shares	50.67%
Li Chunzhi	Beijing Jingcheng Machinery Electric Industrial Investment Co., Ltd. (北京京城機電產業投資有限公司) (a subsidiary of Jingcheng Machinery Electric)	Deputy general manager	245,735,052 A Shares	50.67%

Note:

1. The percentage was calculated based on 485,000,000 Shares in issue as at the Latest Practicable Date.

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 or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 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 member of the Group which is not determinable by the Group within one (1) year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors or proposed Directors had any direct or indirect interest in any asset which had been, since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up, acquired

or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to the Company or were proposed to be acquired or disposed of by or leased to the any member of the Group.

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

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 interests with the Group pursuant to the Listing Rules.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were of the view that there was no material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up.

7. EXPERTS AND CONSENT

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

Name	Qualification
Vinco Capital Limited	a licenced corporations to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
Asia-Pacific Consulting and Appraisal Limited	an independent property valuer
China Alliance Appraisal Co., Ltd. (北京中同華資產評估有限公司)	an independent valuer and consultant

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

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

As at the Latest Practicable Date, each of the above experts did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents (or copies thereof) will be available for inspection at the office of Messrs. Woo Kwan Lee & Lo at 26th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours from 9:30 a.m. to 5:30 p.m. on any weekday (except Saturdays, Sundays and public holidays) from the date of this circular up to and including 28 October 2020:

- (a) the Agreement;
- (b) the letter from the Independent Board Committee, the text of which is set out on pages 12 to 13 of this circular;
- (c) the letter from Vinco Capital, the text of which is set out on pages 14 to 32 of this circular; and
- (d) the consent letters of Vinco Capital, Asia-Pacific Consulting and Appraisal Limited and China Alliance Appraisal Co., Ltd. referred to in the section headed “Experts and Consent” of this Appendix.

NOTICE OF EGM



北京京城机电股份有限公司

Beijing Jingcheng Machinery Electric Company Limited

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0187)

NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING OF 2020

I. BASIC INFORMATION OF THE MEETING

NOTICE IS HEREBY GIVEN that the first extraordinary general meeting of 2020 (the “EGM”) of Beijing Jingcheng Machinery Electric Company Limited (the “**Company**”) will be convened by the board of directors of the Company (the “**Board**”) and the relevant matters of the meeting are as follows:

- (I) Type and session: the first extraordinary general meeting of 2020
- (II) Convenor: the Board
- (III) Voting methods: a combination of on-site voting by ways of poll and internet voting will be adopted for the EGM
- (IV) Share Record Date: 21 October 2020
- (V) Date, time and venue of the on-site meeting

Date and time of the meeting: 9:30 a.m. on 28 October 2020 (Wednesday)

Venue of the meeting: Conference Room of the Company, No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing

II. MATTERS TO BE CONSIDERED AT THE EGM

Ordinary resolution

1. To consider the resolution in relation to the connected transaction concerning the transfer of Wu Fang Qiao Assets by Beijing Tianhai Industry Co., Ltd. to Beijing Jingcheng Machinery Electric Asset Management Co., Ltd. and authorize the board of Beijing Tianhai Industry Co., Ltd. to handle the matters relating to the Transfer;

NOTICE OF EGM

2. To consider the resolution in relation to the election of Mr. Tian Dongqiang as a supervisor of the tenth session of the supervisory committee;
3. To consider the resolution in relation to the remuneration of the supervisor and entering into of a written contract.

III. ATTENDEES OF THE MEETING AND REGISTRATION METHOD

- (I) Directors, supervisors and senior management of the Company.
- (II) Lawyers engaged by the Company.
- (III) Shareholders of the Company whose names appear on the register of members of the Company at the close of market on 21 October 2020, shall have the right to attend the EGM after complying with the necessary registration procedures.

Holders of the Company's H shares should note that the register of members of the Company will be closed from 22 October 2020 to 28 October 2020 (both days inclusive), during which time no H Shares transfer will be registered. For holders of H Shares who intend to attend the EGM, transfer documents together with the related share certificates must be lodged with the H share registrar of the Company in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 21 October 2020.

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

1. Each shareholder who is entitled to attend and vote at the EGM may appoint one or more proxy(ies) who need not be a shareholder, to attend and vote on his or her behalf at the EGM.
2. For any shareholder who appoints more than one proxy, his or her proxies can only exercise the voting right by way of poll.

NOTICE OF EGM

3. The instrument appointing a proxy must be in writing under the hand of the appointer or his or her attorney authorised in writing. If that instrument is signed by an attorney on behalf of the appointer, the power of attorney authorising that attorney to sign, or other authorisation document, must be notarially certified. To be valid, the notarially certified copy of the power of attorney, or other authorisation document, together with the form of proxy must be delivered to the business address of the Company or lodged with the H share registrar of the Company in Hong Kong, 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 holding of the EGM.

IV. OTHER MATTERS

1. Contact for the meeting

Contact telephone : 8610-67365383/8610-58761949
Fax : 8610-87392058/8610-58766735
Contact person : Board office of the Company
Address : No. 2 Huo Xian Nan San Road, Huo Xian Town,
Tongzhou District, Beijing, the PRC
Postal Code : 101109

2. The EGM is expected to last for half a day. Shareholders attending the meeting should bear their own accommodation and travel expenses.
3. Personnel attending the meeting shall arrive half hour before the meeting time and bring along the originals of identity document, stock account card and power of attorney for verification.

The Board of
Beijing Jingcheng Machinery Electric Company Limited

Beijing, the PRC
13 October 2020

As at the date of this notice the Board comprises Mr. Wang Jun, Mr. Li Junjie and Mr. Zhang Jiheng as executive directors, Ms. Jin Chunyu, Mr. Wu Yanzhang, Mr. Xia Zhonghua and Ms. Li Chunzhi as non-executive directors and Mr. Xiong Jianhui, Mr. Zhao Xuguang, Mr. Liu Jingtai and Mr. Luan Dalong as independent non-executive directors.