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## **Beijing Jingcheng Machinery Electric Company Limited**

*(a joint stock company incorporated in the People's Republic of China with limited liability)*  
(Stock Code: 187)

### **OVERSEAS REGULATORY ANNOUNCEMENT**

This overseas regulatory announcement is made by Beijing Jingcheng Machinery Electric Company Limited (the "Company") in compliance with Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Please see attached the announcement "Proposal In Relation To Acquisition Of Assets Through Issue Of Shares And Cash Payment As Well As Raising Of Supporting Funds And Connected Transaction For Beijing Jingcheng Machinery Electric Company Limited (Summary)" published on the website of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) for reference only.

The board of directors of

**Beijing Jingcheng Machinery Electric Company Limited**

Beijing, the PRC

26 November 2015

*As at the date of this announcement, the board of directors of the Company comprises Mr. Li Junjie as executive director, Mr. Xia Zhonghua, Ms. Jin Chunyu and Mr. Fu Hongquan as non-executive directors and Ms. Wu Yan, Mr. Liu Ning, Mr. Yang Xiaohui and Mr. Fan Yong as independent non-executive directors.*

Stock Code: 600860

Stock Abbreviation: Jingcheng Mac Place of listing:  
the Shanghai Stock Exchange

Stock Code: 0187

Stock Abbreviation: Jingcheng Mac Place of listing: the  
Hong Kong Stock Exchange



PROPOSAL IN RELATION TO  
ACQUISITION OF ASSETS THROUGH  
ISSUE OF SHARES AND CASH  
PAYMENT AS WELL AS RAISING OF  
SUPPORTING FUNDS AND  
CONNECTED TRANSACTION  
FOR BEIJING JINGCHENG  
MACHINERY ELECTRIC COMPANY  
LIMITED  
(SUMMARY)

Subscribers		Residential and correspondence address
Counterparties	Beijing Jingcheng Machinery Electric Holding Co., Ltd.	18/F, No 59 Mansion, Dongsanhuan Road Central, Chaoyang District, Beijing, PRC
	Jingcheng Holding Europe GmbH 京城控股（欧洲）有限公司	Hahnweg 116, 96450 Coburg, Germany

Investors of supporting funds	No more than 10 specified investors including Jingcheng Holding
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## Independent Financial Advisor



**November 2015**

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## Definitions

Unless the context requires otherwise, the following terms or expressions shall have the following meanings in the Proposal Summary:

Proposal Summary	means	the Proposal in relation to Acquisition of Assets through Issue of Shares and Cash Payment as well as Raising of Supporting Funds and Connected Transaction for Beijing Jingcheng Machinery Electric Company Limited (Summary) (北京京城机电股份有限公司发行股份及支付现金购买资产并募集配套资金暨关联交易预案（摘要）)
the Company or the Listed Company or Jingcheng Mac	means	Beijing Jingcheng Machinery Electric Company Limited
Jingcheng HK	means	Jingcheng Holding (Hong Kong) Company Limited (京城控股（香港）有限公司)
Jingcheng Holding or the Holding Company	means	Beijing Jingcheng Machinery Electric Holding Co., Ltd. (北京京城机电控股有限责任公司)
Jingcheng Europe	means	Jingcheng Holding Europe GmbH (京城控股（欧洲）有限公司)
Jingcheng International or the Financial Leasing Company	means	Beijing Jingcheng International Financial Leasing Co., Ltd. (北京京城国际融资租赁有限公司)
Subject Assets	means	75% equity interest in Jingcheng International held by Beijing Jingcheng Machinery Electric Holding Co., Ltd. and 25% equity interest in Jingcheng International held by Jingcheng Holding Europe GmbH
the Transaction or the Reorganization or the Assets Reorganization	means	proposed acquisition by Jingcheng Mac of 75% equity interest in Jingcheng International held by Jingcheng Holding through issue of A shares, and raising of supporting funds through non-public issue of A shares to no more than 10 specified investors including Jingcheng Holding by way of book-building to raise supporting funds of no more than 100% of the transaction price of the assets proposed to be acquired in the Transaction. Jingcheng Mac intends to utilize part of the proceeds for increase in capital of Jingcheng HK to finance the acquisition of 25% equity interest in the

		Financial Leasing Company held by Jingcheng Europe
Agreement for Acquisition of Assets through Issue of Shares	means	the agreement for acquisition of assets through issue of shares entered into by Jingcheng Mac and Jingcheng Holding
Share Subscription Agreement	means	the conditional agreement for subscription for non-publicly issued shares entered into by Jingcheng Mac and Jingcheng Holding
Equity transfer Framework Agreement	means	the equity transfer framework agreement entered into by Jingcheng HK and Jingcheng Europe
Beiren Group	means	Beiren Group Corporation (北人集團公司)
Beiren Printing	means	Beiren Printing Machinery Holdings Limited (北人印刷機械股份有限公司), the predecessor of the Listed Company
Huade Hydraulic	means	Beijing Huade Hydraulic Industrial Group Co., Ltd. (北京华德液压工业集团有限责任公司)
Date of Board Resolution Announcement or Price Determination Date	means	the date of announcement of the resolution of the Board in relation to the Acquisition of Assets through Issue of Shares and Cash Payment as well as Raising of Supporting Funds and Connected Transaction for Beijing Jingcheng Machinery Electric Company Limited
Base Date of Auditing or Valuation	means	31 October 2015
last two years and the Reporting Period	means	2013, 2014 and January to October 2015
Beijing SASAC	means	Beijing State-owned Assets Supervision and Administration Commission
CSRC	means	the China Securities Regulatory Commission
SSE	means	the Shanghai Stock Exchange
Independent Financial Advisor or China Securities	means	China Securities Co., Ltd. (中信建投证券股份有限公司)
Counsel or Kangda	means	Beijing Kangda Law Firm (北京市康达律师事务所)
Auditor or Shinewing	means	Shinewing Certified Public Accountants (special general partnership) (信永中和会计师事务所)
Valuer or China Alliance	means	China Alliance Appraisal Co., Ltd. (北京中同华资产评估有限公司)
Company Law	means	the Company Law of the People's Republic of China

Securities Law	means	the Securities Law of the People's Republic of China
Administrative Measures for Reorganizations	means	Administrative Measures for the Material Asset Reorganizations of Listed Companies (上市公司重大资产重组管理办法)
Standard No. 26	means	Standards concerning the Content and Format of Information Disclosure by Companies Offering Securities to the Public No. 26 – Significant Asset Restructuring by Listed Companies (公开发行证券的公司信息披露内容与格式准则——第26号上市公司重大资产重组申请文件)
Listing Rules	means	the Rules Governing the Listing of Securities on the Shanghai Stock Exchange (上海证券交易所股票上市规则)
Administrative Measures for Issuance	means	Administrative Measures for the Issuance of Securities by Listed Companies (上市公司证券发行管理办法)
Implementing Rules	means	Implementing Rules for Private Placement of Shares by Listed Companies (上市公司非公开发行股票实施细则)
Articles of Association	means	the Articles of Association of Beijing Jingcheng Machinery Electric Company Limited
RMB, RMB10,000 and RMB100 million	means	Renminbi, Renminbi 10,000 and Renminbi 100,000,000

In the Proposal Summary, there may be discrepancies between certain total figures and the arithmetic sum of respective figures due to rounding adjustments.



# Statements

## **I. Statement by the Listed Company**

The Company and all Directors, supervisors and senior management hereby warrant the truthfulness, accuracy and completeness of the Proposal and its summary and will be jointly and severally responsible for any false statement, misleading information or material omissions in the Proposal and its summary.

The auditing and valuation work in respect of the Material Asset Reorganization has yet to be finished and the Board of Directors of the Company and all Directors hereby warrant the truthfulness and rationality of the relevant data quoted in the Proposal.

The matters mentioned in the Proposal and its summary do not constitute any substantive judgment, confirmation or approval by the CSRC or the Shanghai Stock Exchange of the matters relating to the Material Asset Reorganization. The effectiveness and completion of the matters mentioned in the Proposal and its summary relating to the Material Asset Reorganization is conditional upon the approval of the CSRC.

The Company will be responsible for any changes in the operation or revenue of the Company upon completion of the Transaction, and any investment risks arising from the Transaction will be borne by the investors. Should any investor have any doubt as to the Proposal and its summary, he/she shall seek opinions from his/her own stockbroker, lawyer, professional accountant or other professional advisors.

## **II. Statement by the counterparties**

Each of Jingcheng Holding and Jingcheng Europe, being the counterparties to the Material Asset Reorganization, has issued a letter of undertaking to provide the Listed Company with the information on the Reorganization in a timely manner and warrant the truthfulness, accuracy and completeness of the information provided. They will be responsible in accordance with the law for any losses incurred by the Listed Company or the investors as a result of any false statement, misleading information or material omissions in the information provided.

### **III. Statement by the securities service agency**

Each of China Securities and its handling officers, Kangda Law Firm and its handling officers, Shinewing and its handling officers; and China Alliance and its handling officers has issued a letter of undertaking that:

“We and our handling offices hereby warrant the truthfulness, accuracy and completeness of the Proposal in relation to Acquisition of Assets through Issue of Shares and Cash Payment as well as Raising of Supporting Funds and Connected Transaction for Beijing Jingcheng Machinery Electric Company Limited and related disclosure documents.”

## **Important Notes**

Terms or expressions or abbreviations in this section shall have the same meanings as those defined in the section headed “Definitions” in the Proposal Summary. The Proposal in relation to Acquisition of Assets through Issue of Shares Cash Payment as well as Raising of Supporting Funds and Connected Transaction for Beijing Jingcheng Machinery Electric Company Limited (Summary) is prepared by the Company in accordance with laws and regulations including the Company Law, the Securities Law, the Administrative Measures for Reorganizations, the Standard No. 26 and the Administrative Measures for the Issuance of Securities by Listed Companies and is for the information of investors.

Jingcheng Holding has adjusted the strategic importance of the Company to Jingcheng Holding and has positioned the Company for a listing platform of Jingcheng’s capital operation. The transaction is the first step for Jingcheng Holding achieving the strategic positioning from operating single business.

Jingcheng Holding undertakes that, upon completion of Reorganization, it will have a consolidation for the business and asset size on Huade Hydraulic and within 24 months after the date it fulfills the conditions of the injection into the Company, Jingcheng Holding will inject Huade Hydraulic into the Company, in order to realize its objective of becoming bigger and stronger.

### **I. Introduction to the Proposal for the Transaction**

The proposal for the Material Asset Reorganization include:

In accordance with the Framework Agreement for Acquisition of Assets through Issue of Shares entered into by Jingcheng Mac and Jingcheng Holding, the proposal for the Transaction relates to the acquisition of 75% equity interest in Jingcheng International held by Jingcheng Holding. Approximately RMB124,596,200 of the supporting funds raised through the share issue will be utilized by the Company to

increase the capital of Jingcheng HK, a wholly-owned subsidiary of the Company, in order for Jingcheng HK to acquire 25% equity interest in Jingcheng International held by Jingcheng Europe.

## **(II) Issue of shares to raise supporting funds**

The Listed Company intends to raise supporting funds of no more than RMB200 million or 100% of the transaction price of the assets proposed to be acquired in the Transaction through non-public issue of shares. The subscribers under the non-public issue of A shares are no more than 10 specific legal person, individual and other legal investors including Jingcheng Holding, securities investment fund management companies, insurance institution investors, finance companies and qualified foreign institutional investors.

In particular, Jingcheng Holding has undertaken to subscribe for shares under the non-public issue using RMB30 million of total supporting funds to be raised. Subject to the approval by the CSRC of the non-public issue, the final subscribers will be determined in the principle of price first and other principles and methods specified by the regulators based on the quotes made by the subscribers.

The supporting funds to be raised will be principally applied towards the acquisition of equity interest in the Target Company, payment for the expenses for the Transaction, and replenishment of working capital of the Financial Leasing Company. The raising of supporting funds is conditional upon the successful completion of the acquisition of assets through share issue, but it is not a condition to the Transaction. Whether or not the supporting funds will be raised and the amount raised will not affect the successful completion of the acquisition of assets through share issue.

Under the Reorganization, the transaction price of the Subject Assets shall be determined based on the results of valuation in the valuation report issued by an asset appraisal institution with qualifications for securities business and filed with the Beijing SASAC. Upon completion of the Reorganization, Jingcheng Holding will remain the controlling shareholder of the Company and Beijing SASAC will remain

the actual controller of the Company. The Reorganization will not result in the change of the actual controller of the Company. The Reorganization does not constitute a backdoor listing.

## **II. Estimates on and price of the Subject Assets**

The Subject Assets have been valued through estimation of the value of 100% equity interest in the Financial Leasing Company as at 31 October 2015, being the Base Date, using the income approach and the assets approach. The appraisal institution has adopted the results of valuation derived from the assets approach as the results of valuation of 100% equity interest in Jingcheng International.

Under the assets approach, the value of 100% equity interest in Jingcheng International is estimated at RMB481,718,100. As at 31 October 2015, the carrying value of net assets of Jingcheng International was RMB481,106,900, 0.13% higher than the appraised value. Based on the results of valuation, adding the registered capital of RMB16,666,700 of Jingcheng International after the base date for valuation, the transaction price of the Subject Assets has been preliminarily set at RMB498,384,800. The final transaction price will be agreed between Jingcheng Mac and Jingcheng Holding based on the results of valuation set out in the asset valuation report issued by an asset appraisal institution with qualifications for securities and futures business and filed with the Beijing SASAC, adding the registered capital of RMB16,666,700 of Jingcheng International after the base date for valuation.

Investors are hereby informed that the relevant information on the Subject Assets in the Transaction set out in the Proposal Summary is subject to auditing and valuation and may be different than the results of final auditing and valuation. The audited financial information and filed results of valuation for the Subject Assets will be disclosed in the Report on the Material Asset Reorganization.

### **III. The Transaction constitutes a material asset reorganization and connected transaction**

Based on the estimated price of the Subject Assets, the assets proposed to be acquired by the Listed Company in the Transaction represent more than 50% of the total assets of the Listed Company as at the end of the reporting period as shown in its audited consolidated financial statements for the last financial year. Under the Administrative Measures for Reorganizations, the Transaction constitute a material asset reorganization of the Listed Company and disclosures shall be made in accordance with the relevant regulations. In addition, the Transaction involves acquisition of assets through issue of shares and is subject to the review and approval by the Review Committee for the Merger, Acquisition and Restructuring of Listed Companies under the CSRC.

Among the counterparties to the Reorganization, Jingcheng Holding is the controlling shareholder of the Company, and Jingcheng Europe is a wholly-owned subsidiary of Beijing Beiyi Machine Tool Co., Ltd., which in turn is a subsidiary of Jingcheng Holding. As each of them is a connected person of the Company, the Transaction constitutes a connected transaction of the Company.

### **IV. Summary of the acquisition of assets through issue of shares**

#### **(i) Counterparty**

The counterparty to the acquisition of assets through issue of shares under the Reorganization is Jingcheng Holding.

#### **(ii) Subject assets**

The Subject Assets under the Reorganization is 75% equity interest in Jingcheng International held by Jingcheng Holding.

#### **(iii) Method of transaction**

Jingcheng Mac will issue shares to Jingcheng Holding as a consideration for the

acquisition of 75% equity interest in Jingcheng International held by Jingcheng Holding.

**(iv) Transaction price**

The transaction price of the Subject Assets proposed to be acquired under the Reorganization will be agreed between Jingcheng Mac and Jingcheng Holding based on the appraised value determined by an appraisal institution with qualifications for securities business and filed with the Beijing SASAC, adding the registered capital of RMB16,666,700 of Jingcheng International after the base date for valuation. As at 31 October 2015, the estimated value of the Subject Assets proposed to be acquired through issue of shares under the Reorganization is approximately RMB361,288,600 and the transaction price is approximately RMB373,788,600.

**(v) Issue of shares**

**1. Price determination date**

The Price determination date for the issue of shares will be the date of announcement of the resolution of the sixth meeting of the eighth session of the Board of Jingcheng Mac at which matters regarding the Material Asset Reorganization are considered.

**2. Issue price**

The price for the non-public issue represents 90% of the average trading price of the shares of Jingcheng Mac for the 120 trading days preceding the date of announcement of the resolution of the Board regarding the Proposal for the Material Asset Reorganization (price determination date) (average trading price of the shares for the 120 trading days preceding the date of announcement of the resolution of the Board = total trading value of shares for the 120 trading days preceding the date of announcement of the resolution of the Board/total trading volume of shares for the 120 trading days preceding the date of announcement of the resolution of the Board). The issue price calculated using the formula above is RMB10.86/share.



The final issue price is subject to the approval at the general meeting of the Listed Company. In the event that there is any event regarding ex-right and ex-dividend for the Listed Company such as dividend distribution, bonus issue, placing of shares, issue of additional shares and capitalization of capital reserve between the price determination date and the date of completion of the issue, the issue price shall be adjusted in accordance with the following formula, with results rounded upwardly to two digits after the decimal point. The adjustment formula for the issue price is as follows:

In case of distribution of dividends or capitalization of capital reserve:  
 $P1 = P0 / (1 + n)$ ;

In case of placing of shares:  $P1 = (P0 + A \times k) / (1 + k)$ ;

In case of both of the two items above are conducted at the same time:  
 $P1 = (P0 + A \times k) / (1 + n + k)$ ;

Distribution of dividends in cash:  $P1 = P0 - D$ ;

In case of all of the three items above are conducted at the same time:  
 $P1 = (P0 - D + A \times k) / (1 + n + k)$ .

where: P0 is the effective issue price before adjustment, n is the ratio of bonus shares or ratio of capitalization of capital reserve, k is the ratio of share placing, A is the share placing price, D is the cash dividend per share, and P1 is the effective issue price after adjustment.

### **3. Size of issue**

The calculation formula for the number of shares to be issued under the non-public issue of shares for asset acquisition is: Number of shares to be issued = Transaction price of the Subject Assets/90% of the average trading price of the shares of the company for the last 120 trading days preceding the price determination date for the issue.

In accordance with the calculation formula above, the total number of shares to

be issued by Jingcheng Mac to Jingcheng Holding is 34,418,800. The final size of issue shall be subject to the approval by the CSRC. In the event that there is any event regarding ex-right and ex-dividend for Jingcheng Mac such as dividend distribution, bonus issue and capitalization of capital reserve between the price determination date and the date of issue, the size of issue shall be adjusted based on the adjustment to the issue price.

#### **4. Arrangements for lock-up period for the issue**

Jingcheng Holding has undertaken that: “We will not transfer in any way any of the shares acquired by us by way of subscription through assets under the Reorganization within 36 months of completion of the issue, including but not limited to public transfer on the securities market or transfer through agreement. If within 6 months of completion of the Reorganization the closing price of the shares of Jingcheng Mac is lower than the issue price for 20 consecutive trading days, or if the closing price of the shares of Jingcheng at the end of the six-month period of completion of the Reorganization, the lock-up period for the shares of the Listed Company acquired by us by way of subscription through assets under the Reorganization will be automatically extended by 6 months.”

#### **5. Proposed place of listing for the shares to be issued**

the Shanghai Stock Exchange.

#### **6. Validity period**

The Board of Jingcheng Mac will present the proposal for the acquisition of assets through share issue at the general meeting of the Company, and the resolution on the issue proposal will be effective for 12 months of approval at the general meeting. If Jingcheng Mac obtains the approval by the CSRC during the validity period, the validity period will be automatically extended to the date of completion of the Transaction.

## **V. Acquisition of assets through cash payment**

### **(i) Counterparty**

The counterparty to the acquisition of assets through cash payment under the Reorganization is: Jingcheng Holding Europe GmbH.

### **(ii) Subject assets**

The Subject Assets under the Reorganization is 25% equity interest in Jingcheng International held by Jingcheng Europe.

### **(iii) Method of transaction**

Jingcheng Mac will finance the consideration for the acquisition of the Subject Assets above through raising of supporting funds. The raising of supporting funds is conditional upon the acquisition of assets through issue of shares and cash payment, but whether the supporting funds will be successfully raised will not affect the successful completion of the acquisition of assets through share issue.

### **(iv) Transaction price**

The transaction price of the Subject Assets proposed to be acquired under the Reorganization will be agreed between Jingcheng Mac and Jingcheng Holding based on the appraised value determined by an appraisal institution with qualifications for securities business and filed with the Beijing SASAC. As at 31 October 2015, the estimated value of the Subject Assets to be acquired through cash payment under the Reorganization is approximately RMB120,429,500 and the transaction price is approximately RMB124,596,200.

## **VI. Brief introduction to the raising of supporting funds**

### **(i) Type and nominal value of shares to be issued**

The shares to be issued to raise supporting funds will be domestically listed Renminbi ordinary shares (A shares) with a nominal value of RMB1.00 each.

**(ii) Method of issue**

The method of the issue is that Jingcheng Mac will non-publicly issue shares to no more than 10 specified investors including Jingcheng Holding.

**(iii) Method of subscription**

No more than ten specified investors including Jingcheng Holding will subscribe the shares in cash.

**(iv) Issue price**

In the Transaction, the price for the non-public issue of shares by the Listed Company to specific investors to raise supporting funds will be determined by way of book-building, and the price determination date will be the date of announcement of the resolution of the general meeting of Jingcheng Mac at which the matters regarding the Material Asset Reorganization are considered. Under the Administrative Measures for Issuance and the Implementing Rules, the price for shares to be issued to raise supporting funds will not be less than 90% of the average trading price of the shares of Jingcheng Mac for 20 trading days prior to the price determination date.

The Listed Company will reasonably choose among the subscribers and determine the issue price and the number of shares to be issued in accordance with the requirements of applicable laws, regulations and regulatory documents including the Implementing Rules and the principle of price first and based on the quotes by the subscribers.

In the event that there is any event regarding ex-right and ex-dividend for the Listed Company such as dividend distribution, bonus issue and capitalization of capital reserve between the price determination date and the date of issue of shares, the issue price shall be adjusted based on the adjustment to the issue price.

**(v) Amount of supporting funds to be raised and size of issue**

Based on the total transaction price of the Subject Assets, the total amount of supporting funds to be raised in the Transaction will be no more than RMB200

million or 100% of the transaction price of the assets proposed to be acquired, and the number of shares to be issued shall be determined through the book-building results. The amount of supporting funds to be raised through issue of shares to Jingcheng Holding is RMB30 million. If the number of shares to be subscribed determined in accordance with the requirements above is not a whole multiple of the board lot, it will be rounded downwardly to one digit before the decimal point.

In the event that there is any event regarding ex-right and ex-dividend for the Listed Company such as dividend distribution, bonus issue and capitalization of capital reserve between the price determination date and the date of issue of shares, the size of issue shall be adjusted based on the change in the issue price and in accordance with the relevant requirements.

**(vi) Lock-up of shares**

Jingcheng Holding shall not transfer its shares in any way within 36 months of the date of listing of the new shares listed, and other investors shall not transfer their shares in any way within 12 months of the date of listing of the new shares listed.

**(vii) Use of supporting funds to be raised**

The supporting funds raised in the Transaction will be applied towards payment of the consideration for the acquisition of the Subject Assets in cash, increasing working capital of Jingcheng International, and payment for professional fees. The supporting funds to be raised will improve the consolidation results of the Reorganization.

## **VII. Effect of the Transaction on the Listed Company**

**(i) Effect on the shareholding structure of the Listed Company**

Before the Transaction, the Company has a total share capital of 422,000,000 shares. In the Transaction, Jingcheng Mac proposes to acquire 75% equity interest in Jingcheng International held by Jingcheng Holding through issue of A shares, and to raise supporting funds through non-public issue of A shares to no more than 10

specified investors including Jingcheng Holding by way of book-building to raise supporting funds of no more than RMB200,000,000 or 100% of the transaction price of the assets proposed to be acquired in the Transaction.

The Transaction will issue additional 34,418,800 shares (excluding the shares to be issued through raising of supporting funds). The shareholding structure of the Company before and after the Transaction are as follows:

Name of shareholders	Before the Transaction		After the Transaction (excluding the shares to be issued through raising of supporting funds)	
	Number of shares held (share)	Percentage of shareholding	Number of shares held (share)	Percentage of shareholding
Beijing Jingcheng Machinery Electric Holding Co., Ltd.	180,620,000	42.80%	215,038,840.00	47.11%
HKSCC NOMINEES LIMITED	99,155,199	23.50%	99,155,199	21.72%
Other floating shares	142,224,801	33.70%	142,224,801	31.16%
<b>Total</b>	<b>422,000,000</b>	<b>100.00%</b>	<b>456,418,840.00</b>	<b>100.00%</b>

Upon completion of the Transaction and excluding the shares to be issued through raising of supporting funds, Jingcheng Holding will hold 47.12% shares of Jingcheng Mac. Upon completion of the Transaction, Jingcheng Holding will remain the controlling shareholder of Jingcheng Mac.

## **(ii) Effect on financial indicators of the Listed Company**

Through the Transaction, a large size of assets relating to finance leasing business with differentiated competitive strengths will be injected into the Company, and a diversified business structure focusing on the manufacture and sale of gas storage and transportation equipment complemented by finance leasing business will be formed. Upon completion of the Transaction, the size of assets and profitability of the Company will improve while the scope of its principal activities will be expanded, which will enhance its ability to withstand risks. Further increase in the size of the Company will lay a solid foundation for the mergers and acquisitions in the industry

and the improvement in its consolidation capability.

The subject companies proposed to be injected under the Reorganization have strong profitability which is expected to see further improvement in the future. Upon completion of the Reorganization, the competitiveness of Jingcheng Mac will be further enhanced. The Transaction will be conducive to improving the Listed Company's ability to operate on a going concern basis, its ability to withstand risks and its profitability.

As the auditing and valuation work in respect of the Transaction has yet to be finished, currently it is unable to conduct an accurate quantitative analysis of the financial position and profitability of the Listed Company upon completion of the Transaction. Upon issue of the Proposal, the Company will arrange to have auditing and valuation work finished as soon as practicable, hold another Board meeting to decide on the Transaction, and analyze in detail the effects of the Transaction on the financial position and profitability of the Company.

### **(iii) Effects on the connected transactions**

Before completion of the Transaction, the connected transactions of Jingcheng Mac mainly involved purchase of raw materials necessary for its production such as steel from its connected persons, leasing houses and motor vehicles to its connected persons, renting houses from its connected persons and receiving guarantee provided by its connected persons for its bank borrowings. The Company has performed its obligations to disclose information in accordance with the rules governing connected transactions.

Upon completion of the Transaction, the connected transactions of Jingcheng Mac will increase short-term capital for developing finance leasing business from Jingcheng International to Jingcheng Holding and the number of connected transactions such as purchase of finance leasing equipment from the connected persons specified by the lessees.

Details of the connected transactions of the Listed Company upon completion of

the Reorganization, including the historic annual transaction amounts and percentages of connected transactions and measures to be adopted to regulate the connected transactions, will be analyzed in the Reorganization Report (Draft) following the completion of the auditing and valuation work in respect of the Transaction and the holding of another Board meeting.

## **VIII. Approval procedures required for the implementation of the proposal for the Transaction**

### **(i) Decision-making procedures and approval procedures completed for the Reorganization**

The consent in principle has been obtained from the Beijing SASAC for the proposal for the Transaction;

On 23 November 2015, the board of directors of Jingcheng Holding considered and approved the proposal of the Reorganization;

On 26 November 2015, the Company entered into the Agreement for Acquisition of Assets through Issue of Shares and the Share Subscription Agreement with Jingcheng Holding;

On 26 November 2015, Jingcheng HK and Jingcheng Europe entered into the Equity Transfer Framework Agreement;

On 26 November 2015, the proposal of the Reorganization was considered and approved at the sixth meeting of the eighth session of the Board of the Company.

### **(ii) Further approvals required for the implementation of the Reorganization**

Further approvals required for the implementation of the Reorganization include but without limitation:

1. following the issue of the auditor's report and the valuation report on the Reorganization, the filing of the valuation report on the Subject Assets with the Beijing SASAC and the passing of a resolution on the matters regarding the



Reorganization at a Board meeting of the Company;

2. approval of the Beijing SASAC for the matters regarding the Reorganization;

3. passing of a resolution on the matters regarding the Reorganization at a general meeting of the Company;

4. approval of the SFC for Whitewash Waiver;

5. approval of Beijing Municipal Commission of Commerce for the Reorganization;

6. approval of the CSRC for the matters regarding the Reorganization.

The proposal for the Reorganization shall not be implemented unless and until the approvals above have been obtained. There is uncertainty about whether and when the approvals above will be obtained for the Reorganization. Investors should be reminded of investment risks.

## **IX. Important undertakings made by the parties involved in the Transaction**

<b>No.</b>	<b>Name of undertaking</b>	<b>Covenant or</b>	<b>Summary of undertaking</b>
<b>1</b>	Letter of undertaking in relation to the truthfulness, accuracy and completeness of the materials provided	the Listed Company	We warrant the truthfulness, accuracy and completeness of the information provided by us for the Transaction and that there are no false statements, misleading information or material omissions in the information provided. We also undertake that all of the information provided by us to the intermediaries involved in the Reorganization are truthful, accurate and complete original information in writing or their copies; the copies of the information are consistent with the originals; and all signatures on and chops affixed to the documents are genuine. We will be jointly and severally responsible for the truthfulness, accuracy and completeness of the information provided.

		Jingcheng Holding	<p>As a counterparty to the Material Asset Reorganization of the Listed Company, we warrant the truthfulness, accuracy and completeness of the information provided by us for the Transaction of the Listed Company and that there are no false statements, misleading information or material omissions in the information provided. We will indemnify and hold harmless the Listed Company or investors against any losses suffered by them as a result of any false statement, misleading information or material omission in the information provided by us. We also undertake that all of the information provided by us to the intermediaries involved in the Reorganization are truthful, accurate and complete original information in writing or their copies; the copies of the information are consistent with the originals; and all signatures on and chops affixed to the documents are genuine. We will be jointly and severally responsible for the truthfulness, accuracy and completeness of the information provided.</p> <p>This letter of undertaking is legally binding on us. If the Transaction is investigated by any judiciary authority or the CSRC for suspected false statement, misleading information or material omission in the information provided or disclosed by us, we will not transfer any of our shares in the Listed Company until the issue of a clear investigation conclusion on the case.</p>
		Jingcheng Europe	<p>As a counterparty to the Material Asset Reorganization of the Listed Company, we warrant the truthfulness, accuracy and completeness of the information provided by us for the Transaction of the Listed Company and that there are no false statements, misleading information or material omissions in the information provided. We will indemnify and hold harmless the Listed Company or investors against any losses suffered by them as a result of any false statement, misleading information or material omission in the information provided by us. We also undertake that all of the information provided by us to the intermediaries involved in the Reorganization are truthful, accurate and complete original information in writing or their copies; the copies of the information are consistent with the originals; and all signatures on and chops affixed to the documents are genuine. We will be jointly and severally responsible for the truthfulness, accuracy and completeness of the information provided.</p>

		Jingcheng International	<p>We warrant the truthfulness, accuracy and completeness of the information provided by us for the Transaction and that there are no false statements, misleading information or material omissions in the information provided. We also undertake that all of the information provided by us to the intermediaries involved in the Reorganization are truthful, accurate and complete original information in writing or their copies; the copies of the information are consistent with the originals; and all signatures on and chops affixed to the documents are genuine. We will be jointly and severally responsible for the truthfulness, accuracy and completeness of the information provided.</p>
2	Letter of undertaking in relation to lock-up period	Jingcheng Holding	<p>We will not transfer in any way any of the non-publicly issued shares acquired by us by way of subscription through assets under the Transaction within 36 months of completion of the issue, including but not limited to public transfer on the securities market or transfer through agreement. If within 6 months of completion of the Transaction the closing price of the shares of Jingcheng Mac is lower than the issue price for 20 consecutive trading days, or if the closing price of the shares of Jingcheng at the end of the six-month period of completion of the Transaction, the lock-up period for the shares of the Listed Company acquired by us by way of subscription through assets in the Transaction will be automatically extended by 6 months.</p> <p>If we fail to comply with the undertaking above, the gains from our transfer of the shares in Jingcheng Mac in violation of the undertaking will be vested in Jingcheng Mac.</p>

3	Letter of undertaking in relation to subscription	Jingcheng Holding	<p>We undertake to subscribe for shares of the Listed Company through non-public issue at an amount of no less than RMB30 million in cash. The funds to finance our subscription are from lawful sources and our internal resources and are not raised from any third party. The funds will not include any leveraged financing structured products and none of the shares of the Listed Company held by us will be held on trust or under entrustment arrangement. Following the approval of the Board of Jingcheng Mac and its general meeting for the Transaction, this letter of undertaking in relation to subscription is irrevocable unless the approval has not been obtained from the China Securities Regulatory Commission.</p> <p>We are responsible for the truthfulness of the representations and undertakings above and will assume any responsibility for any legal issues or disputes arising from our violation of any of the representations and undertakings above. We will indemnify and hold harmless Jingcheng Mac against any loss arising from our violation of any of the representations and undertakings above.</p>
4	Letter of undertaking in relation to minimizing and regulating connected transactions	Jingcheng Holding	<p>We will control and minimize our connected transactions with the Listed Company. As for the connected transactions for us and the companies under our control with the Listed Company and the companies under its control that cannot be avoided or have reasonable grounds, these connected transactions will be conducted in the principles of openness, fairness and justice for market transactions at fair and reasonable prices by us and the companies under our control, and the decision-making procedures for and information disclosure obligations in respect of connected transactions will be performed in accordance the requirements of laws, regulations and regulatory documents. We warrant that we and the companies under our control will not obtain any improper benefits or subject the Listed Company or any of the companies under its control to any improper obligations by way of any connected transactions with the Listed Company or any of the companies under its control.</p> <p>We will indemnify the Listed Company and any of the companies under its control against any losses incurred by them as a result of any transaction with them in violation of the undertakings above.</p> <p>As the controlling shareholder of the Listed Company, we hereby make the following undertakings:</p>

5	Letter of undertaking in relation to the independence of the Listed Company	Jingcheng Holding	<p>I. Management independence of the Listed Company</p> <p>1. We warrant that the general manager, deputy general manager, chief financial officer, Board secretary will hold positions only at and receive remuneration only from the Listed Company and do not hold any positions other than director or supervisor at us or any companies under the control of our connected persons (hereinafter collectively referred to as the “Affiliates”;</p> <p>2. We warrant that the management of human resources and remuneration of the Listed Company will be completely independent of those of us, our connected persons and the Affiliates;</p>
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			<p>3. We warrant that the nominations for candidates for directors, supervisors and managers of the Listed Company will be all conducted in compliance with legal procedures and we will not interfere with any decisions on appointment or removal of any officers made by the Board of the Listed Company or at the general meeting of the Listed Company.</p> <p>II. Independence and integrity of the assets of the Listed Company</p> <p>1. We warrant that the Listed Company will have an independent business system for its operations and independent and full assets;</p> <p>2. We warrant that none of the funds or assets of the Listed Company has been occupied by us, our connected persons and the Affiliates;</p> <p>3. We warrant that the residence of the Listed Company is independent of those of us, our connected persons and the Affiliates.</p> <p>III. Financial independence of the Listed Company</p> <p>1. We warrant that the Listed Company has established an independent financial department and an independent financial accounting system and has in place regulated and independent financial and accounting rules;</p> <p>2. We warrant that the Listed Company has maintained independent accounts with banks and does not share any bank account with us, our connected persons or the Affiliates;</p> <p>3. We warrant that the none of the financial personnel of the Listed Company also holds any position at any of the Affiliates;</p> <p>4. We warrant that the Listed Company will pay taxes independently in accordance with the laws;</p> <p>5. We warrant that the Listed Company is able to make financial decisions independently and none of us, our connected persons or the Affiliates will interfere with the utilization of funds by the Listed Company.</p> <p>IV. Institutional independence of the Listed Company</p> <p>1. We warrant that the Listed Company has established and improved the legal person governance structure and has its own complete organizational structure;</p> <p>2. We warrant that the general meeting, the Board, independent directors, the supervisory committee and the general manager of the Listed Company will exercise their duties and powers in accordance with the laws, regulations and the articles of association of Jingcheng Mac.</p>
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			<p>V. Business independence of the Listed Company</p> <p>1. We warrant that the Listed Company has assets, personnel, qualifications and capability to independently operate as well as the ability to carry on its business independently and on a going concern basis;</p> <p>2. We warrant that we will not interfere with the business activities of the Listed Company other than exercising our rights as a shareholder;</p> <p>3. We warrant that the we, our connected persons and the Affiliates will not carry out any business that competes with the Listed Company;</p> <p>4. We warrant that we will strive to minimize and avoid connected transactions of us, our connected persons or the Affiliates with the Listed Company; when conducting necessary connected transactions that are unavoidable, we will ensure that they are conducted in the market-based principle and at a fair price and we will perform the procedures and our obligation to disclose information in accordance with applicable laws, regulations, regulatory documents and the articles of association of Jingcheng Mac.</p> <p>This letter of undertaking is legally binding on us and we will assume any liability incurred as a result.</p>
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6	Undertaking in relation to no material illegal acts	Jingcheng Holding	<p>1. We are a limited liability company established and lawfully and validly existing in accordance with the laws of the People's Republic of China and have the capacity to enter into the Transaction.</p> <p>2. In the past five years we have not been subject to any administrative penalties (other than those clearly unrelated to the securities market), criminal penalties or material civil actions or arbitrations involving economic disputes. There are no material actions, arbitrations or administrative penalty cases pending or threatened against us, and nor have we done any material illegal acts that are harmful to the legitimate interests of investors or public interest.</p> <p>3. We further confirm that we have not conducted any illegal acts including inside trading and manipulation of the securities market and have not been under criminal investigation for inside trading in respect of the Material Asset Reorganization which have not been concluded. We have not been subject to any administrative penalties by the CSRC or any criminal penalties by judiciary authorities for inside trading in the past 36 months, nor have we been subject to any administrative regulatory measures by the CSRC or any penalties by the stock exchanges for failure to repay a significant amount of debts due or failure to comply with our undertakings in the past five years.</p>
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7	Letter of undertaking in relation to non-competition	Jingcheng Holding	<p>In relation to the businesses or business opportunities similar to those of the Listed Company including that we and other companies under our control anticipate or substantially in place to conduct, and assets and businesses of such businesses or business opportunities that may constitute potential competition:</p> <p>We will not, and will procure companies under our control not to, conduct any business same as or similar to those conducted by the Listed Company in order to avoid competition, direct or indirect, with the business of the Listed Company. In addition, in the event that there may be any adverse impact on the Listed Company in respect of market share, business opportunities or resource allocation caused by us or companies under our control, we will avoid and procure companies under our control to avoid business competition with the Listed Company.</p> <p>We undertake to indemnify and hold harmless the Listed Company against any losses or expenses suffered or incurred arising from our failure to comply with our undertaking with effect from the date of the letter of undertaking. The letter of undertaking will remain in full force for so long as the Listed Company is legally and validly existing and we remain the controlling shareholder (or actual controller) of the Listed Company.</p>
8	Letter of undertaking in relation to clear ownership of the Subject Assets	Jingcheng Holding	<p>As the controlling shareholder of Jingcheng International, we hereby make the following undertakings: 1. We have performed our obligation to make full capital contribution as required under the articles of association of Jingcheng International;</p> <p>2. We have valid rights to occupy, use, benefit from and dispose of the 75% equity interest in Jingcheng International legally owned by us;</p> <p>3. The assets of Jingcheng International held by us has clear ownership and are not subject to any ownership disputes or other legal disputes;</p> <p>4. The shares in Jingcheng International held by us are not subject to any pledge, mortgage, other security or third party right or restrictions, nor have they been frozen, seized or auctioned by any courts or any other competent authorities;</p> <p>5. There is no legal impediment for the transfer or assignment of the 75% equity interest in Jingcheng International legally owned by us.</p>

		Jingcheng Europe	<p>As a shareholder of Jingcheng International, we hereby make the following undertakings:</p> <p>1. We have performed our obligation to make full capital contribution as required under the articles of association of Jingcheng International;</p> <p>2. We have valid rights to occupy, use, benefit from and dispose of the 25% equity interest in Jingcheng International legally owned by us;</p> <p>3. The assets of Jingcheng International held by us has clear ownership and are not subject to any ownership disputes or other legal disputes;</p> <p>4. The shares in Jingcheng International held by us are not subject to any pledge, mortgage, other security or third party right or restrictions, nor have they been frozen, seized or auctioned by any courts or any other competent authorities;</p> <p>5. There is no legal impediment for the transfer or assignment of the 25% equity interest in Jingcheng International legally owned by us.</p>
9	Letter of undertaking in relation to reducing borrowings from or to Jingcheng International	Jingcheng Holding	<p>Upon completion of the Material Asset Reorganization, Jingcheng International will become a wholly-owned subsidiary of the Listed Company. As the controlling shareholder of the Listed Company, we hereby make the following undertakings:</p> <p>With immediate effect, we will gradually reduce our connected transactions with Jingcheng International and ensure that statutory procedures are performed for existing connected transactions and the fairness of our connected transactions with Jingcheng International.</p>
10	Letter of undertaking in relation to injection of Huade Hydraulic	Jingcheng Holding	<p>Subject to completion of business consolidation and regulation of assets, within 24 months of meeting the conditions to injection into the Listed Company, we will inject Huade Hydraulic as whole into Beijing Jingcheng Machinery Electric Company Limited, a company controlled by us (hereinafter collectively referred to as the “Listed Company”), so as to realize full connection of capital and industry and further build Jingcheng Mac into a consolidation platform for high-end equipment manufacture and services. This undertaking in relation to capital injection is irrevocable unless the capital injection is not approved at the general meeting of the Listed Company or by the China Securities Regulatory Commission or any other regulatory authorities.</p>

## **X. Arrangements for the suspension and resumption of trading in the shares of the Listed Company**

On 29 June 2015, as Jingcheng Holding, the controlling shareholder of the Company, was planning a significant matter related to the Company which involves uncertainties, in order to protect investors' benefits, ensure fair disclosure of information, and avoid unusual price movement on the Company's share price, the trading in A shares of the Company had been suspended upon application made by the Company. On 13 July 2015, as the significant matter planned by Jingcheng Holding, the controlling shareholder of the Company, constitutes a material asset reorganization of the Company, an announcement in relation to the suspension of trading in relation to material asset reorganization was published by the Company and trading in the shares of the Company remained suspended.

On 26 November 2015, the Company held the sixth meeting of the eighth session of the Board, at which the proposal for the Material Asset Reorganization and related proposals were considered and approved. The Company will apply to the SSE for resumption of trading in the shares in the Company following the disclosure of the proposal for the Material Asset Reorganization by the Company. Upon resumption of trading in its shares, the Company will disclose information based on the progress of the Reorganization and in accordance with the requirements of the CSRC and the SSE.

## **XI. Notice on supplementary information to be disclosed**

The financial information and estimates for the Subject Assets mentioned in the Proposal are still subject to the auditing, valuation and filing by accounting firms and asset appraisal institutions with qualifications for securities and futures business. Investors are advised to exercise caution in using such information. Following the issue of a formal auditor's report and a valuation report on the subject matters involved in the Reorganization by accounting firms and asset appraisal institutions

with qualifications for securities and futures business, the audited financial information and the filed results of assets valuation will be disclosed in the report (Draft) on the Material Asset Reorganization.

Investors may visit the specified website at [www.sse.com.cn](http://www.sse.com.cn) for the full text of the Proposal and the opinions issued by intermediaries.

# WARNINGS ON MAJOR RISKS

## **I. Risks Relating to the Transaction**

### **(i) Risk relating to possible suspension, discontinuation or cancellation of the Transaction**

The Reorganization faces the following risk relating to the possible suspension, discontinuation or cancellation:

1. Given the huge workload for the legal due diligence, auditing and valuation for Jingcheng International, the Transaction may be suspended, discontinued or cancelled due to the Company's failure to hold a general meeting within 6 months of the announcement of the first resolution of the Board on the matters regarding the Reorganization.
2. In case of any unexpected significant decline in the performance of the Subject Assets, the Material Asset Reorganization may be suspended, discontinued or cancelled.
3. There may be other reasons that may result in the suspension, discontinuation or cancellation of the Reorganization. Investors should be reminded of investment risks.

If the Reorganization is suspended, discontinued or cancelled for the reasons above or any other reason and Jingcheng Mac plans to resume the Reorganization, the price of the Subject Assets involved may be re-determined. Investors should be reminded of investment risks.

### **(ii) Risk relating to the approval of the Transaction**

Completion of the Reorganization is subject to a number of conditions, including but not limited to the filing of the valuation report on the Subject Assets with and approval by the Beijing SASAC, the passing of the proposal for the Transaction at a

general meeting of Jingcheng Mac, the approval of the proposal for the Transaction by the CSRC and the approval of relevant commerce regulators.

There are uncertainties as to whether the Transaction and related matters will be passed at the general meeting and whether or not and when the filing with, review or approval of the relevant competent authorities will be obtained by Jingcheng Mac. As such, there are uncertainties about whether or not the Transaction will proceed.

**(iii) Risk relating to the use of financial data and assets valuation**

The base date for valuation of the Subject Assets in the Transaction is 31 October 2015. The final price of the Subject Assets in the Transaction is determined based on the valuation on the Subject Assets as at the valuation base date conducted by asset appraisal institutions with qualifications for relevant business and is subject to the results of valuation approved by the relevant competent authorities. As at the date of the Proposal, the auditing and valuation work for the Subject Assets as at the base date of 31 October 2015 is not finished yet.

Major financial indicators, description of operating results and estimated value of the Subject Assets involved in the Proposal are for the information of investors only. They may be different from the final results of auditing and valuation. Investors should be reminded of investment risks. The audited historic financial information and results of valuation for the Subject Assets will be disclosed in the formal proposal for the Reorganization (the Reorganization Report).

**(iv) Exchange rate risk**

The supporting funds to be raised will be applied towards acquisition of the 25% equity interest in the Finance Leasing Company held by Jingcheng Europe, and any change in the exchange rate may cause the decrease in the Company's gains. Investors should be reminded of such risk.

**(v) Risk in relation to failure to raise supporting funds or lower-than-expected finance**

In order to improve the results of the Reorganization and the profitability of the Listed Company, as part of the proposal for the Transaction, the Company intends to raise supporting funds through non-public issue of shares to no more than 10 financial investors including Jingcheng Holding by way of book-building to raise supporting funds of no more than RMB200,000,000 or 100% of the transaction price of the assets proposed to be acquired in the transaction.

The price determination date for the non-public issue of shares to raise supporting funds is the date of announcement of resolution on the Assets Reorganization at the general meeting. The issue price of the shares to be issued under the non-public issue by Jingcheng Mac to raise supporting funds is 90% not less than the average trading price of the shares of the Company for the last 20 trading days preceding the price determination date for the issue; and the final issue price for the acquisition of assets through share issue is still subject to the approval at the general meeting of the Company. The final size of issue will be determined based on the final issue price.

In case of any significant fluctuation in the trading price of the shares of the Company following the announcement of the proposal for the Transaction, the actual amount of supporting funds raised may be lower than the expectations of the investors as a result of these fluctuations. In addition, any adjustment to the proposal for the Transaction and any other unforeseeable factors may result in insufficient supporting funds raised or unsuccessful raising. If the raising of supporting funds is unable to proceed or the amount of funds raised is lower than expected, the Listed Company will cover the shortfall through its internal resources, debts financing from financial institutions, issue of bonds or other forms of self-financing. If the capital cost of other forms of financing is higher than that of this equity financing, the benefits for the profitability of the Listed Company brought by the Transaction may be reduced.

## **II. Operating Risks for the Subject Assets**

### **(i) Risk relating to policies for the finance leasing industry**

As the link between financial services and industries, finance leasing provides strong support for economic transformation and upgrade, facilitates the transformation of government functions and improves the people's well-being. In addition, finance leasing can play a role that cannot be played by traditional financial services in terms of serving real economy, facilitate industry revitalization, trade balance and financing of small- and medium-sized enterprises. Currently China is still in an important period of strategic opportunities. In light of the characteristics of China's economic development as this stage, a new normal state should be adapted to, under which economy grows at medium- and high speed rather than high speed, economic structure continues to be optimized and upgrade and element-driven and investment-driven economic growth is replaced by innovation-driven economic growth. In current macroeconomic environment, there is minimum risk that China's supporting policy for the leasing industry will experience significant changes. However, such changes may have an adverse impact on the operating results of Jingcheng International in the future.

#### **(ii) Market competition risk**

As the development of enterprises resulted in higher demand for finance leasing, the finance leasing industry developed quickly and is currently in a period of fast growth. More and more new players entered the industry, increasing the competition in China's finance leasing market. The market competition risk has increased.

#### **(iii) Macroeconomic fluctuation risk**

Macroeconomic fluctuation risk means the risk of changes in macroeconomic environment causing bright or gloomy prospects for the industries relating to the leasing projects. Jingcheng International operates in various basic areas such as engineering equipment, electrical equipment and printing equipment, and its leasing projects involve a large number of industries. Due to the overall macroeconomic conditions and different product cycles of various industries, fluctuations such as the



decrease in investments in downstream industries and industrial structure adjustment may cause a downturn of the business of Jingcheng International.

**(iv) Customer credit risk**

Credit risk is one of the major risks facing the finance leasing industry. It mainly represents the possibility that the lessor may suffer losses due to the failure to pay rental in time or in full or failure to perform obligations by the lessee and any other contractual parties for any reason. The Company has in place strict project approval workflow as well as deposit and third-party guarantee system and minimizes business dealings with uncreditworthy lessees. However, there is still possibility that the lessees may default in paying or fail to pay rental. Such risk is unavoidable.

**(v) Interest rate risk**

The main source of the working capital of the Company is short-term borrowings from Jingcheng Holding and bank loans. The interest rate on borrowings from Jingcheng Holding is determined based on the benchmark loan interest rate for the same period. Changes in the interest rate of bank loans have a huge impact on the operating cost of the Company. Any significant change in the interest rate of bank loans may lead to the change in financing costs and in turn the change in revenue of the Company.

**(vi) Connected transaction risk**

The main source of capital of Jingcheng International is short-term borrowings from Jingcheng Holding and bank loans. In particular, short-term borrowings from Jingcheng Holding amounted to RMB2,850 million and RMB3,220 million, respectively, in 2013 and 2014, representing 86.86% and 87.26%, respectively, of total borrowings for such periods. As at 31 October 2015, the balance of short-term borrowings provided by Jingcheng Holding to Jingcheng International was RMB1,950 million, representing 85.51% of the total balance of borrowings of RMB2,280.38 million. The interest on short-term borrowings provided by Jingcheng Holding to Jingcheng International is determined based on the benchmark loan

interest rate set by the People's Bank of China for the same period. If Jingcheng Holding no longer provides borrowings to Jingcheng International, Jingcheng International has to finance its working capital with borrowings from banks or other financial institutions.

**(vii) Liquidity risk**

Liquidity risk represents the risk that the lessor may suffer losses as a result of the mismatch between the rental recovery period of a leasing project and the term of borrowings obtained for the project in terms of timing and amount. Although Jingcheng International strives to keep the term of borrowings consistent with the lease term when conducting leasing business and takes into full consideration the term and method of repayment of borrowings in formulating rental recovery plans in order to mitigate the liquidity risk brought by the mismatch in terms of timing and amount, Jingcheng International still faces liquidity risk in the course of its operation due to factors such as changes in customers' demand for financing and credit policies of banks. Investors are reminded to exercise caution.

**(viii) Risk relating to disposal of leased items**

Jingcheng International may have to dispose of the leased item in its daily operation due to the default of the lessee, and the disposal of the leased item may be delayed or unable to proceed due to factors such as market conditions, equipment liquidity and operational condition of equipment. Although Jingcheng International has taken into full consideration the value, liquidity and difficulty for disposal of the leased item in project review and has established corresponding channels and teams for the disposal of leased items, it may still suffer losses due to inability to dispose of leased items in time.

**(ix) Litigation risk**

As at the date of the Proposal, Jingcheng International has a total of 9 pending actions and arbitration cases with claims of approximately RMB102,331,000 in total. One of the large amount claims relates to an action brought by Jingcheng

International against Hubei Xiangyang Feng He Sheng Grains & Oil Co., Ltd. (湖北襄阳丰禾盛粮油有限公司), Wanbao Grains & Oils Co., Ltd. (万宝粮油有限公司) and Zhongyuan Guoxin Credit Financing and Guarantee Co., Ltd. (中元国信信用融资担保有限公司), with a claim amounting to RMB89,434,700. All of the actions arose in the ordinary course of business of Jingcheng International and were brought by Jingcheng International as the plaintiff due to the lessees' failure to pay rental in time as agreed in the finance leasing contract. However, there are still uncertainties about the outcome of these actions and Jingcheng International may suffer losses if any unfavorable judgment is delivered against it.

**(x) Risk relating to the continued decrease of profitability**

In January to October 2013, 2014 and 2015, the revenues of Jingcheng International were RMB 302,065,600, RMB 260,728,600 and RMB 123,528,300, respectively, and net profits were RMB 37,671,300, RMB 25,745,000 and RMB 3,724,000, respectively. The revenues and net profits decreased gradually because Jingcheng International decided to suspend the entering into of the finance leasing contract for deleveraging since 2014, thus, the original leasing term increased but the interest income decreased, leading to a larger drop in the revenues and net profits of Jingcheng International. If Jingcheng International is unable to enter into the new finance leasing contract, there will be a risk that its revenue and net profit will continue to decrease. Investors are advised to be aware of the risk involved.

**III. Risk Relating to Fluctuation in Share Price**

Trading of shares in the stock market faces both income and risks. Trading prices of the shares of Jingcheng Maci is subject to the level of its profitability and its development prospects, as well as many other factors such as adjustment in China's macroeconomic policies, government control over financial policies, speculation in the stock market and expectations of investors. This acquisition for Jingcheng Mac is still subject to approval by the competent authorities and its completion may take a long period in which the trading price of its shares may experience wide fluctuations,

brining risks to investors. Fluctuation of share price is normal in the stock market. As such, the Company reminds investors that they shall be aware of the risks in order to make informed investment decisions. Furthermore, the Company will endeavor to improve its assets utilization efficiency and profitability with the ultimate objective of maximizing shareholder's interests, while operating in strict compliance with the requirements of laws and regulations such as the Company Law and the Securities Law on the other hand.

Upon completion of the Transaction, the Company will disclose sufficient and accurate information in a timely manner in accordance with the Listing Rules for investors to make informed investment decisions.

# Overview of the Transaction

## **I. Background and Purpose of the Transaction**

### **(i) Background of the Transaction**

#### **1. Fully implement the strategic requirements for deepening reforms and economic transformation and upgrading**

At the third plenary session of the 18th China Communist Party Central Committee, the Party stated the strategic requirements for “comprehensively deepening reforms” and passed the Decision of the China Communist Party Central Committee on Some Major Issues Concerning Comprehensively Deepening the Reform (中共中央关于全面深化改革若干重大问题的决定), specifically demanding to facilitate the improvement in the modern corporate system for state-owned enterprises and further deepen reforms of state-owned enterprises. Since the third plenary session of the 18th China Communist Party Central Committee, Jingcheng Holding continued to advance and deepen its reforms, accelerate its reorganization and consolidation and improve the efficiency of market-oriented resources allocation. It actively complied with the strategic requirements for comprehensively implementing and economic transformation and upgrading by striving to improve the performance of the Listed Company through assets reorganization and supporting the Listed Company in accelerating industrial structure adjustment.

#### **2. Actively respond to national policies to encourage enterprise mergers and reorganizations**

The Material Asset Reorganization is in compliance with applicable national policies including the Opinions of the State Council on Promoting Enterprise Merger and Restructuring (Guo Fa [2010] No. 27) (国务院关于促进企业兼并重组的意见) and the Circular on Encouraging Mergers and Reorganizations, Cash Dividends and Share Repurchases of Listed

Companies (Zheng Jian Fa [2015] No. 61) (关于鼓励上市公司兼并重组、现金分红及回购股份的通知).

The Material Asset Reorganization will effectively promote the transformation and upgrading of the Listed Company and enable it to better implement the State's requirements for enterprise mergers and reorganizations by making full use of the function of the Listed Company as a capital platform. In addition, it will enable Jingcheng Mac to realize resources consolidation in the capital market, adjust and optimize its industrial planning and structure and improve the quality and economic benefits of its development.

### **3. Actively promote the gradual injection of core assets into the Listed Company**

In accordance with the requirements of the Guiding Opinions about Promoting the Adjustment of State-owned Capital and the Reorganization of State-owned Enterprises (关于推进国有资本调整和国有企业重组指导意见的通知): "We will vigorously promote the transformation and listing of enterprises and improve the quality of listed companies. We will actively support the overall listing of enterprises with high-quality assets or high-quality core assets, and encourage listed state-owned holding companies to inject their core assets in full to their listed companies through capital increase, issue of shares and acquisition of assets." In recent years, Jingcheng Holding has been actively promoting the injection of its core assets into the Listed Company. Under the Transaction, it intends to inject its finance leasing assets into the Listed Company and further promote the listing of high-quality assets of Jingcheng Holding in other industries.

#### **(ii) Purpose of the Transaction**

##### **1. Enhance the strategic importance of the Listed Company to Jingcheng Holding**

The Transaction will further enhance the strategic importance of the Listed Company to Jingcheng Holding in its business planning. The shareholding of

Jingcheng Holding in the Listed Company will be further increased, which will be more beneficial for the Listed Company to seek more resources in the future.

Jingcheng Holding will vigorously support the development of Jingcheng Mac as a capital operation platform for Jingcheng Holding to become listed in the main board of the securities market in China. Upon the injection of the finance leasing business under the Reorganization, the hydraulic business with promising prospects will also be injected to secure new market in order to realize its objective of becoming bigger and stronger.

## **2. Continue to improve the operation of the Listed Company by injection of high-quality assets**

Jingcheng International, being the Subject Asset under the Reorganization, is a high-quality asset of its holding company that has been making profit and has a strong profitability. The injection of the Financial Leasing Company into the Listed Company by Jingcheng Holding will increase the earnings per share of the Listed Company, reduce its loss and help it to gradually turn into profit.

## **3. Diversify business structure, reduce the financing cost and improve overall strength of the Listed Company**

Through the Material Asset Reorganization, the finance leasing business which mainly serves the equipment manufacturing industry will be injected into the Listed Company and the industry chain of the Listed Company will be further expanded.

Jingcheng International is a foreign leasing company which owns a good platform for cross-border cash flow that allows cash outside the territory flows inside the territory for use and combines the characteristics of different regional economic to tailor-made leasing products and leasing proposals. This enables promotion of business of the Company and strengthens the creativity of products, in order to achieve the agreed development of Jingcheng Holding and Jingcheng International.

## **II. Details of the proposal for the Transaction**

### **(i) Acquisition of assets through issue of shares and cash payment**

On 26 November 2015, the Company entered into the Agreement for Acquisition of Assets through Issue of Shares with Jingcheng Holding. On the same date, Jingcheng HK and Jingcheng Europe entered into the Equity Transfer Framework Agreement. Details of the Transaction and the principal terms of the agreements are as follows:

#### **1. Counterparties**

The counterparty to the issue of shares in the Transaction is Jingcheng Holding. The counterparty to the cash payment in the Transaction is Jingcheng Europe.

#### **2. Subject Assets**

75% equity interest in Jingcheng International held by Jingcheng Holding and 25% equity interest in Jingcheng International held by Jingcheng Europe.

#### **3. Method of transaction**

Under the Reorganization, Jingcheng Mac will acquire the 75% equity interest in Jingcheng International held by Jingcheng Holding through issue of shares and 25% equity interest in Jingcheng International held by Jingcheng Europe with part of the supporting funds to be raised.

The parties to the Agreement for Acquisition of Assets through Issue of Shares hereby agree and confirm that the transaction price of the Subject Assets shall be determined based on the results of valuation in the Asset Valuation Report filed with the Beijing SASAC, adding the registered capital of RMB16,666,700 of Jingcheng International after the base date for valuation, and to be agreed by both parties.

The parties to the Agreement for Acquisition of Assets through Issue of Shares hereby agree to enter into a supplemental agreement following the filing of the Asset Valuation Report with the Beijing SASAC to determine the transaction price of the



Subject Assets based on the results of valuation in the Asset Valuation Report filed.

#### **4. Transaction price**

The transaction price of the Subject Assets proposed to be injected into the Listed Company under the Reorganization will be determined based on the appraised value concluded by an asset appraisal institution with qualifications for securities business and filed with the Beijing SASAC, adding the registered capital of RMB16,666,700 of Jingcheng International after the base date for valuation. Currently the asset appraisal institution has not finished the valuation of the Subject Assets. The pre-appraised value of the Subject Assets as at 31 October 2015 is RMB481,718,100 and the transaction price of the Subject Assets is initially set as RMB498,384,800.

#### **5. Details of acquisition of assets through issue of shares**

Jingcheng Mac will issue shares to Jingcheng Holding as a consideration for the acquisition of 75% equity interest of Jingcheng International held by Jingcheng Holding. Details of the proposal are as follows:

##### **(1) Price determination date**

The Price determination date for the issue of shares will be the date of announcement of the resolution of the sixth meeting of the eighth session of the Board of Jingcheng Mac at which matters regarding the Material Asset Reorganization are considered.

##### **(2) Issue price**

The price for the non-public issue represents 90% of the average trading price of the shares of Jingcheng Mac for the 120 trading days preceding the date of announcement of the resolution of the Board regarding the Proposal for the Material Asset Reorganization (price determination date) (average trading price of the shares for the 120 trading days preceding the date of announcement of the resolution of the Board = total trading value of shares for the 120 trading days preceding the date of announcement of the resolution of the Board/total trading volume of shares for the

120 trading days preceding the date of announcement of the resolution of the Board).  
The issue price calculated using the formula above is RMB10.86/share.

In the event that there is any event regarding ex-right and ex-dividend for Jingcheng Mac such as dividend distribution, bonus issue, placing of shares and capitalization of capital reserve between the price determination date and the date of completion of the issue, the issue price shall be adjusted in accordance with the following formula, with results rounded upwardly to two digits after the decimal point. The adjustment formula for the issue price is as follows:

In case of distribution of dividends or capitalization of capital reserve:

$$P1=P0/(1+n);$$

In case of placing of shares:  $P1=(P0+A \times k)/(1+k);$

In case of both of the two items above are conducted at the same time:

$$P1=(P0+A \times k)/(1+n+k);$$

Distribution of dividends in cash:  $P1=P0-D;$

In case of all of the three items above are conducted at the same time:

$$P1=(P0-D+A \times k)/(1+n+k).$$

where: P0 is the effective issue price before adjustment, n is the ratio of bonus shares or ratio of capitalization of capital reserve, k is the ratio of share placing, A is the share placing price, D is the cash dividend per share, and P1 is the effective issue price after adjustment.

### (3) Size of issue

The calculation formula for the number of shares to be issued under the non-public issue of shares for asset acquisition is: Number of shares to be issued = Transaction price of the Subject Assets/90% of the average trading price of the shares of the company for the last 120 trading days preceding the price determination date for the issue.

In accordance with the calculation formula above, the total number of shares to be issued by Jingcheng Mac to Jingcheng Holding is 34,418,800.

(4) Arrangements for lock-up period for the issue

Jingcheng Holding has undertaken that: “we will not transfer in any way any of the non-publicly issued shares acquired by us by way of subscription through assets under the Reorganization within 36 months of completion of the issue, including but not limited to public transfer on the securities market or transfer through agreement. If within 6 months of completion of the Reorganization the closing price of the shares of Jingcheng Mac is lower than the issue price for 20 consecutive trading days, or if the closing price of the shares of Jingcheng at the end of the six-month period of completion of the Reorganization, the lock-up period for the shares of the Listed Company acquired by us by way of subscription through assets under the Reorganization will be automatically extended by 6 months.”

(5) Proposed place of listing for the shares to be issued

the Shanghai Stock Exchange.

(6) Validity period

The Board of Jingcheng Mac will present the proposal for the acquisition of assets through share issue and cash payment and raising of supporting funds at the general meeting of the Company, and the resolution on the issue proposal will be effective for 12 months of approval at the general meeting. If Jingcheng Mac obtains the approval by the CSRC during the validity period, the validity period will be automatically extended to the date of completion of the Reorganization.

**6. Details of acquisition of assets through cash payment**

Jingcheng Mac will utilize the supporting funds to be raised under the Reorganization for payment of the cash consideration for the 25% equity interest in Jingcheng International. The raising of supporting funds is conditional upon the acquisition of assets through issue of shares and cash payment, but whether the supporting funds will be successfully raised will not affect the successful completion of the acquisition of assets through share issue.

Jingcheng HK, a wholly-owned subsidiary of Jingcheng Mac, will utilize part of the supporting funds to be raised for one-off full payment for the consideration for equity transfer to Jingcheng Europe within seven days of the closing date of the equity transfer. If the supporting funds to be raised are insufficient, Jingcheng Mac will cover the shortfall with its internal resources.

## **7. Ownership during the transition period**

Jingcheng Holding, Jingcheng Europe and Jingcheng Mac have agreed that during the transition period the profit generated by the Subject Assets shall belong to Jingcheng Mac and that the operating loss or the decrease in net assets due to any reason shall be borne by Jingcheng Holding and Jingcheng Europe. The shortfall shall be covered by Jingcheng Holding and Jingcheng Europe in proportion to their shareholdings in Jingcheng International within 10 business days of the date of the said report.

Jingcheng Holding, Jingcheng Europe and Jingcheng Mac have agreed that within 30 business days of the closing date, an accounting firm with qualifications for securities business to be appointed by the parties will audit the income and expenses during the transition period and a report will be issued for confirmation.

Upon completion of the issue, the undistributed profit of Jingcheng Mac will be shared among its new and existing shareholders in proportion to their then shareholdings.

## **8. Implementation of acquisition of assets through issue of shares and cash payment**

The implementation of acquisition of assets through issue of shares and cash payment is conditional upon the following conditions precedent:

(1) the Agreement for Acquisition of Assets through Issue of Shares and the Equity transfer Framework Agreement having been entered into by the parties;

(2) fulfilment of all conditions to the Agreement for Acquisition of Assets through Issue of Shares and the Equity transfer Framework Agreement.

The parties to the Agreement for Acquisition of Assets through Issue of Shares and the Equity transfer Framework Agreement have agreed that completion shall take place within 30 business days after all of the conditions precedent above have been met or such other date as may be agreed by the parties.

Jingcheng Holding and Jingcheng Europe shall deliver on the closing date to Jingcheng Mac the assets that have substantial effect on the operation of the Subject Assets and the relevant information.

Jingcheng Holding and Jingcheng Europe shall execute on the closing date all documents required for the transfer of the Subject Assets to Jingcheng Mac in accordance with the constitutional documents of Jingcheng International and the relevant laws and regulations.

Jingcheng Holding and Jingcheng Europe shall on or after the closing date assist Jingcheng International in completing the procedures for business change registration of the shares in Jingcheng Mac as soon as practicable and Jingcheng Mac shall provide necessary assistance.

The parties shall procure on a best effort basis to complete the relevant procedures for the issue as soon as practicable after the closing date, including but not limited to the appointment of an accounting firm to conduct capital verification and issue a capital verification report, the procedures with the SSE and the share registration institution for the issue, registration and listing of the subject shares, and the procedures with the CSRC and its branches for reporting and filing.

## **9. Treatment of creditor's rights and debts and personnel allocation**

### **(1) Treatment of creditor's rights and debts**

The acquisition of assets through issue of shares and cash payment involves the transfer of the Subject Assets and does not involve the treatment of creditor's rights

and debts. The existing creditor's rights and debts of Jingcheng International will continue to be enjoyed and borne by it after the closing date.

## **(2) Personnel allocation**

The acquisition of assets through issue of shares and cash payment involves the transfer of the Subject Assets and does not involve personnel allocation. The existing employees of Jingcheng International will continue to be employed by it after the closing date.

## **(II) Raising of supporting funds**

On 26 November 2015, the Company entered into the Share Subscription Agreement with Jingcheng Holding. Details of the proposal for raising of supporting funds and the principal terms of the agreement are as follows:

### **1. Type and nominal value of shares to be issued**

The shares to be issued to raise supporting funds will be domestically listed Renminbi ordinary shares (A shares) with a nominal value of RMB1.00 each.

### **2. Method of issue**

The method of the issue is that Jingcheng Mac will non-publicly issue shares to no more than 10 investors including Jingcheng Holding to raise supporting funds. The issue price for the shares of Jingcheng Mac to be issued to raise supporting funds will be determined by way of book-building.

### **3. Issue price**

The issue price for the shares of Jingcheng Mac to be issued to raise supporting funds will be determined by way of book-building. The price determination date will be the date of announcement of the resolution of the general meeting at which the matters regarding the Reorganization are considered, and the issue price shall be no less than 90% of the average trading price of the shares of Jingcheng Mac for the last 20 days preceding the price determination date.

The formula for calculation of the average trading price of the shares of the Company for the last 20 trading days preceding the price determination date is:

$$\text{Average trading price of the shares of the Company for the last 20 trading days preceding the price determination date} = \frac{\text{Total trading value of the shares of the Company for the last 20 trading days preceding the price determination date}}{\text{Total trading volume of the shares of the Company for the last 20 trading days preceding the price determination date}}$$

The final issue price for the acquisition of assets through share issue is subject to the approval at the general meeting of the Company. In the event that there is any event regarding ex-right and ex-dividend for Jingcheng Mac such as dividend distribution, bonus issue and capitalization of capital reserve between the price determination date and the date of issue, the issue price shall be adjusted accordingly.

Subject to the approval by the CSRC of the Reorganization, the issue price and subscribers for the raising of supporting funds will be agreed by the Board of Jingcheng Mac, under the authorization at the general meeting, with the independent financial advisor (main underwriter) for the Reorganization upon negotiations in the principle of price first and based on the quotes by the subscribers.

Jingcheng Holding will not participate in the market book-building process to determine the issue price, but will accept the book-building results and subscribe for the shares at the same price as the other investors. In case of no quotes or no valid quotes for the issue, the subscription price for Jingcheng Holding will not be less than the lower end of the range of the issue price which will be agreed by the Board, under the authorization at the general meeting, with the independent financial advisor (main underwriter) for the Reorganization upon negotiations.

#### **4. Size of issue**

The supporting funds intended to be raised under the Transaction will be no more than RMB200 million or 100% of the transaction price of the assets proposed to be

acquired in the Transaction. The final size of issue will be determined based on the book-building results.

In the event that there is any event regarding ex-right and ex-dividend for the Company such as dividend distribution, bonus issue and capitalization of capital reserve between the price determination date and the date of issue, the size of issue shall be adjusted accordingly.

#### **5. Lock-up period for the shares to be issued**

The shares to be issued to Jingcheng Holding shall not be transferred within 36 months of the listing of these shares, whereupon the transfer of these shares shall be conducted in accordance with the requirements of the CSRC and the Shanghai Stock Exchange. If the Transaction is investigated by any judiciary authority or the CSRC for suspected false statement, misleading information or material omission in the information provided or disclosed by us, none of the shares in the Listed Company shall be transferred until the issue of a clear investigation conclusion on the case.

The above provisions shall also apply to additional shares of the Company to be held due to reasons such as bonus issue and capitalization of capital reserve upon completion of the issue.

#### **6. Use of supporting funds to be raised**

The Company intends to raise supporting funds of no more than RMB200 million or 100% of the transaction price of the assets proposed to be acquired in the transaction by non-public issue of shares to no more than 10 specified investors including Jingcheng Holding by way of book-building. After deducting the expenses relating to the issue, the supporting funds to be raised will be utilized in the acquisition of 25% equity interest in Jingcheng International held by Jingcheng Europe and capital increase of Jingcheng International.



### **III. The Transaction constitutes a connected transaction**

As at the date of the Proposal, among the counterparties to the Reorganization, Jingcheng Holding is the controlling shareholder of the Company, and Jingcheng Europe is a company under the control of the controlling shareholder of the Company. As each of them is a connected person of the Company, the Transaction constitutes a connected transaction of the Company.

### **IV. The Transaction constitutes a material asset reorganization**

The proposal for the Material Asset Reorganization includes acquisition of assets by issue of shares, acquisition of assets by cash payment and raising of supporting funds. It is expected the assets proposed to be injected into the Listed Company will represent more than 50% of the total assets of the Listed Company as at the end of the reporting period as shown in its audited consolidated financial statements for the last financial year. Under the Administrative Measures for Reorganizations, the Transaction constitute a material asset reorganization of the Listed Company and disclosures shall be made in accordance with the relevant regulations. In addition, the Transaction is subject to the review and approval by the Review Committee for the Merger, Acquisition and Restructuring of Listed Companies under the CSRC.

### **V. The Transaction does not constitute a backdoor listing**

Before the Transaction, Jingcheng Holding is the controlling shareholder of the Company and Beijing SASAC is the actual controller of the Company. Upon completion of the Transaction, the controlling shareholder and the actual controller of the Company will remain unchanged. As such, the Transaction does not constitute a backdoor listing under article 13 of the Administrative Measures for Reorganizations.

### **VI. The Transaction is in compliance with the Administrative Measures for Reorganizations**

**(i) The Transaction is in compliance with article 11 of the Administrative**

## **Measures for Reorganizations**

### **1. The Transaction is in compliance with national industry policies and the laws and regulations in relation to environment protection, land administration and anti-monopoly**

After the examination, the Material Asset Reorganization is in compliance with national industry policies and the laws and regulations in relation to environment protection, land administration and anti-monopoly.

### **2. The Company will remain qualified for listing of shares upon completion of the Transaction**

The Transaction will not cause the Listed Company to be unable to qualify for listing of shares. Based on the existing shareholding of the Listed Company, upon completion of the Reorganization, the total shareholding of public shareholders in Jingcheng Mac will be no less than 10% of the total share capital of the Company and will not cause the Listed Company to be unable to qualify for listing of shares on the SSE.

### **3. The price for the Transaction is fair and has no adverse impact on the lawful interests of the Listed Company and its shareholders**

The final transaction price of the Subject Assets will be determined based on the results of valuation issued by an asset appraisal institution with qualifications for securities and futures business and filed with the Beijing SASAC, adding the registered capital of RMB16,666,700 of Jingcheng International after the base date for valuation, which is agreed by both parties. The Material Asset Reorganization will be conducted in accordance with the relevant laws and regulations. The price for the Subject Assets is determined on an arm's-length basis and will not affect the lawful interests of the Listed Company and its shareholders.

### **4. The ownership of the assets involved in the Transaction is clear and there are no legal impediments for their transfer. The treatment of the relevant**

### **creditor's rights and debts are lawful**

The ownership of the equity interest and assets other than equity interest intended to be acquired under the Transaction is clear and there are no disputes or potential assets in respect of these assets. There are no major legal impediments for the transfer of the Subject Assets. The owner of the Subject Assets has the legal rights to own and dispose of these assets. The Subject Assets are not subject to any restrictions on transfer, nor are they subject to any pledge, seizure, freezing or any other restrictions on or prohibitions against transfer.

As such, the ownership of the assets under the Transaction is clear. There are no legal impediments for their transfer and the treatment of the relevant creditor's rights and debts are lawful.

### **5. The Transaction will enhance the Listed Company's ability to operate on a going concern basis and will not cause the Listed Company to have cash as major assets or have no business operation upon the Reorganization**

Through the Transaction, Jingcheng International, serving the equipment manufacturing industry, will be injected into the Company, which will improve the core competitiveness of the Listed Company, its profitability and development potential.

Upon completion of the Transaction, the Company's production and operation will be in compliance with the requirements of the relevant laws and regulations. It will not become unable to operate on a going concern basis due to in violation of laws, regulations and regulatory documents, nor will the Transaction cause the Listed Company to have cash as major assets or have no business operation upon the Reorganization.

### **6. The Transaction is conducive for the Listed Company to maintain its independence of its actual controller and affiliates thereof in terms of business, assets, financial resources, personnel, and organization, and meet the requirements of the CSRC in relation to the independence of the Listed**

## **Company**

Upon completion of the Transaction, the quality of assets of the Listed Company and its ability to operate independently will be enhanced. It is conducive for the Listed Company to maintain its independence of its controlling shareholder and connected persons thereof in terms of business, assets, financial resources, personnel, and organization, and meet the requirements of the CSRC in relation to the independence of the Listed Company. In addition, Jingcheng Holding has issued a letter of undertaking that it will ensure the independence of the Listed Company in terms of business, assets, financial resources, personnel, and organization upon completion of the Material Asset Reorganization.

### **7. The Transaction will help the Listed Company in forming or maintaining a healthy and effective corporate governance structure**

Upon completion of the Transaction, the Listed Company will amend its articles of association in accordance with the requirements of laws and regulations such as the Company Law, the Securities Law and the Code of Corporate Governance for Listed Companies and in light of its own situation, in order to meet the requirements for business operation and corporate governance upon the Reorganization and continue to improve the corporate governance structure of the Listed Company.

In view of above, the Transaction is in compliance with article 11 of the Administrative Measures for Reorganizations

### **(ii) The Transaction is in compliance with article 43 of the Administrative Measures for Reorganizations**

#### **1. The Transaction will improve the quality of assets of the Listed Company, its financial position and its sustained profitability, and will help the Listed Company to avoid connected transactions and enhance its independence**

##### **(i) Quality of assets, financial position and sustained profitability**

Jingcheng International, being the Subject Assets under the Reorganization, is a high-quality asset of Jingcheng Holding that mainly serves the equipment manufacturing industry, and its business will form synergies with the core business of the Listed Company.

Upon completion of the Transaction, the industry chain of the Listed Company will be further expanded, and the quality of its assets will be significantly enhanced. Its financial position will be considerably improved and its ability to operate on a going concern basis.

## (2) Connected transactions

Before the Transaction, the Listed Company has formulated its rules for connected transactions in accordance with Company Law, the Securities Law and the requirements of the CSRC, which set out the principles for connected transactions, connected persons and relationship, decision-making procedures for connected transactions and their disclosure. The Listed Company has been in strict compliance with these rules and its connected transactions in daily operation are all conducted in accordance with market principles. In the meanwhile, the supervisory committee and independent directors of the Listed Company are able to effectively preform their monitoring functions with diligence in accordance with laws, regulations and the requirements of the Articles of Association by independently expressing their opinions on the connected transactions in a timely manner.

The Material Asset Reorganization involves the Company's issue of shares to Jingcheng Holding and Jingcheng Europe controlled by Jingcheng Holding, which constitutes a connected transaction of the Company. The Transaction also involves the Listed Company's non-public issue of shares to its actual controller Jingcheng Holding to raise supporting funds, and Jingcheng Holding's participation in the non-public issue with cash constitutes a connected transaction.

Upon completion of the Transaction, the connected transactions of Jingcheng Mac will increase advances from Jingcheng International to Jingcheng Holding and

the number of connected transactions such as purchase of finance leasing equipment from the connected persons specified by the lessees.

Upon completion of the Transaction, the Listed Company will further perfect and refine its decision-making system for connected transactions and improve its corporate governance in strict accordance with the Articles of Association and relevant laws and regulations in order to safeguard the lawful interests of the Listed Company and its minority shareholders.

In addition, Jingcheng Holding has issued a letter of undertaking in relation to regulating connected transactions in order to reduce and regulate the connected transactions upon completion of the Transaction and safeguard the lawful interests of the Listed Company and its minority shareholders.

Details of the connected transactions of the Listed Company upon completion of the Reorganization, including the historic annual transaction amounts and percentages of connected transactions and measures to be adopted to regulate the connected transactions, will be analyzed in the Reorganization Report (Draft) following the completion of the auditing and valuation work in respect of the transaction and the holding of another Board meeting.

### (3) Competition

In order to fully protect the interests of the Listed Company, Jingcheng Holding, the controlling shareholder of the Listed Company, has made the following undertaking in relation to non-competition:

“In relation to the businesses or business opportunities similar to those of the Listed Company including that we and other companies under our control anticipate or substantially in place to conduct, and assets and businesses of such businesses or business opportunities that may constitute potential competition:

We will not, and will procure companies under our control not to, conduct any business same as or similar to those conducted by the Listed Company in order to

avoid competition, direct or indirect, with the business of the Listed Company. In addition, in the event that there may be any adverse impact on the Listed Company in respect of market share, business opportunities or resource allocation caused by us or companies under our control, we will avoid and procure companies under our control to avoid business competition with the Listed Company.

We undertake to indemnify and hold harmless the Listed Company against any losses or expenses suffered or incurred arising from our failure to comply with our undertaking with effect from the date of the letter of undertaking. The letter of undertaking will remain in full force for so long as the Listed Company is legally and validly existing and we remain the controlling shareholder (or actual controller) of the Listed Company.”

#### (4) Independence

Upon completion of the Transaction, the Listed Company will maintain its independence of its controlling shareholder and connected persons thereof in terms of business, assets, financial resources, personnel, and organization, and meet the requirements of the CSRC in relation to the independence of the Listed Company.

In addition, Jingcheng Holding has issued a letter of undertaking in relation to the independence of the Listed Company in order to maintain the independence of the Listed Company terms of business, assets, financial resources, personnel, and organization.

### **2. A Certified Public Account has issued an unqualified audit report on the financial statements of the Listed Company for the last financial year**

The financial statements of the Listed Company for the last financial year has been audited by Shinewing Certified Public Accountants (special general partnership), and a standard unqualified audit report has been issued.

### **3. Investigations**

In the past five years, all operations of the Listed Company have been in

compliance with the relevant laws and regulations and it has not been subject to any penalties by any regulatory authority.

None of the Listed Company, its existing directors or senior management has been under investigation by the judiciary authority for suspected criminal offense or by the CSRC for suspected violations of laws.

The Transaction will further enhance the sustained profitability of the Listed Company and further improve its corporate governance.

**4. The assets to be acquired by the Listed Company through issue of shares are operating assets with clear ownership and the procedures for the transfer of their ownership will be able to be completed within the specified period**

The equity interest and relevant assets, being the Subject Assets proposed to be acquired in the Transaction, are not subject to any prohibitions against or restrictions on transfer and the procedures for the transfer of their ownership will be able to be completed within the period agreed in the reorganization agreement.

In view of above, the Transaction is in compliance with article 43 of the Administrative Measures for Reorganizations

## **VII. The Transaction does not constitute a transaction under article 13 of the Administrative Measures for Reorganizations**

There has been no change in the control over the Listed Company since its listing and the Transaction will not result in the change in the control over the Listed Company. As such, the Transaction does not constitute a transaction under article 13 of the Administrative Measures for Reorganizations.

## **VIII. Approval Procedures Required for the Implementation of the Proposal for the Transaction**

**(i) Decision-making procedures and approval procedures completed for the**



## **Reorganization**

The consent in principle has been obtained from the Beijing SASAC for the Transaction;

On 23 November 2015, the board of directors of Jingcheng Holding considered and approved the proposal of the Reorganization;

On 26 November 2015, the Company entered into the Agreement for Acquisition of Assets through Issue of Shares and the Share Subscription Agreement with Jingcheng Holding;

On 26 November 2015, Jingcheng HK and Jingcheng Europe entered into the Equity Transfer Framework Agreement;

On 26 November 2015, the proposal of the Reorganization was considered and approved at the sixth meeting of the eighth session of the Board of the Company.

### **(ii) Further approvals required for the implementation of the Reorganization**

Further approvals required for the implementation of the Reorganization include but without limitation:

1. following the issue of the auditor's report and the valuation report on the Reorganization, the filing of the valuation report on the Subject Assets with the Beijing SASAC and the passing of a resolution on the matters regarding the Reorganization at a Board meeting of the Company;

2. approval of the Beijing SASAC for the matters regarding the Reorganization;

3. passing of a resolution on the matters regarding the Reorganization at a general meeting of the Company;

4. approval of the SFC for Whitewash Waiver;

5. approval of Beijing Municipal Commission of Commerce for the Reorganization;

6. approval of the CSRC for the matters regarding the Reorganization.

**(iii) Risk relating to the approval of the Transaction**

There are uncertainties as to whether the Transaction will be passed at the general meeting and whether or not and when the filing with or approval or consent of the relevant competent state-owned assets authorities will be obtained by the Company. Investors should be reminded of investment risks.

(This page does not contain the contents of full text and is for signatures for the Proposal in relation to Acquisition of Assets through Issue of Shares and Cash Payment as well as Raising of Supporting Funds and Connected Transaction for Beijing Jingcheng Machinery Electric Company Limited (Summary)

Beijing Jingcheng Machinery Electric Company Limited

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*Note: In case of inconsistency between the Chinese and English version of this Proposal Summary, the Chinese version prevails.*