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北京京城機電股份有限公司
Beijing Jingcheng Machinery Electric Company Limited

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

(Stock Code: 0187)

CONNECTED TRANSACTION
ENTERING INTO AGREEMENT WITH YONG'AN HELI

Reference is made to the announcement of the Company dated 22 July 2019 in relation to the Potential Disposal with proposed amendments to the terms of public tender by the Company in relation to disposal of equity interests in Shandong Tianhai, which is quoted on CBEX, at the Revised Minimum Consideration of RMB55,268,300.

On 24 July 2019, Beijing Tianhai and Yong'an Heli entered into an Agreement with the Total Consideration being RMB22.08 million, pursuant to which Yong'an Heli intends to acquire 51% equity interests in Shandong Tianhai and agrees to apply to CBEX for bidding in relation to the Potential Disposal quoted on CBEX.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Yong'an Heli holds 49% equity interests in Shandong Tianhai (a subsidiary of the Company) and is a connected person of the Company at subsidiary level, the Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As at least one of the applicable percentage ratios in respect of the Agreement calculated in accordance with Chapter 14 of the Listing Rules is more than 0.1% but less than 5%, the Agreement is subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Nevertheless, according to the relevant requirements by the Shanghai Stock Exchange, the Agreement and the transactions contemplated thereunder are subject to shareholders' approval requirement. The Company will include, inter alia, details of (i) further information in respect of the Potential Disposal, the Equity Transaction Agreement and the Agreement; and (ii) other information as required by the Listing Rules in its circular, which is expected to be despatched to the Shareholders on or before 12 August 2019.

BACKGROUND

Reference is made to the announcement of the Company dated 22 July 2019 (the “**Announcement**”) in relation to the proposed amendments to the terms of public tender by the Company in relation to disposal of equity interests in Shandong Tianhai at the Revised Minimum Consideration of RMB55,268,300. Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

On 24 July 2019, Beijing Tianhai and Yong’an Heli entered into an agreement (the “**Agreement**”), the Total Consideration (as defined below) being RMB22.08 million. Upon revising the conditions of listing in relation to the Potential Disposal by the Company, Yong’an Heli intends to acquire 51% equity interests in Shandong Tianhai and undertakes to apply to CBEX for bidding in relation to the Potential Disposal quoted on CBEX.

AGREEMENT

Date: 24 July 2019

Parties:

1. Yong’an Heli
2. Beijing Tianhai

Target Company: Shandong Tianhai

As at the date of this announcement, Yong’an Heli holds 49% equity interests in Shandong Tianhai, and is therefore a connected person of the Company at the subsidiary level pursuant to Chapter 14A of the Listing Rules

Potential transfer: In respect of the Potential Disposal quoted on CBEX, Yong’an Heli intends to acquire the 51% equity interest in Shandong Tianhai held by the Company through Beijing Tianhai by way of bidding.

If Yong’an Heli becomes the Potential Transferee of the Potential Disposal, Yong’an Heli shall enter into the Equity Transaction Agreement with the Company in relation to the Potential Disposal (For the principal terms of the Equity Transaction Agreement, please refer to the Announcement). The consideration of the Potential Disposal is RMB55,268,300, which is based on the Revised Minimum Consideration arrived after the intended application of amendments to the conditions of listing to CBEX by the Company.

Undertaking: Within 3 working days from the effective date of the Agreement, Yong'an Heli shall provide a bank guarantee letter (the "**Bank Guarantee Letter**") issued by China Construction Bank, which is irrevocable and payable on demand, and shall be valid until remittance by Yong'an Heli of 30% of the deposit into the account designated by CBEX, to ensure Yong'an Heli performs the obligation under the Agreement. Such Bank Guarantee Letter is valued at RMB5.5 million, which is with reference to approximately 10% of the Revised Minimum Consideration under the Potential Disposal after the Company's intended application to CBEX for amending the conditions of listing.

Payment terms:

1. Yong'an Heli shall remit the deposit of RMB16.58 million (the "**Bidding Deposit**") into the joint escrow account controlled by Yong'an Heli and Beijing Tianhai not later than 2 working days after the Company convened a general meeting regarding the matters in relation to the amendment of the conditions of listing of the Potential Disposal. Therefore, the total consideration of the Agreement is the aggregate amount of the Bidding Deposit of RMB16.58 million and the Bank Guarantee Letter of RMB5.5 million, being RMB 22.08 million ("**Total Consideration**").
2. Upon completion of the amendments to the conditions of listing of the Potential Disposal and within 10 days after the Potential Disposal is listed on CBEX, the Bidding Deposit in the joint escrow account shall be remitted into the account designated by CBEX as the deposit of Yong'an Heli for bidding. Such joint escrow account shall be terminated after the Bidding Deposit is remitted into the account designated by CBEX.
3. If Yong'an Heli becomes the Potential Transferee of the Potential Disposal, the Bidding Deposit shall become the first installment under the Equity Transaction Agreement. If the Bidding Deposit is insufficient to cover the first installment, Yong'an Heli shall pay the shortfall of the first installment in accordance with the Equity Transaction Agreement.

Guarantee: If Yong'an Heli becomes the Potential Transferee of the Potential Disposal, Yong'an Heli and Shandong Tianhai shall provide the following guarantee in respect of all creditor's rights of Beijing Tianhai under the Equity Transaction Agreement:

1. Yong'an Heli shall pledge 49% of equity interests in Shandong Tianhai to Beijing Tianhai;
2. Shandong Tianhai shall pledge the land use right of the land of 25,823 sq.m. located at the Southeastern corner of the intersection of Chang Hong Street and Shun Da Road (planning), Hedong Economic Development Region, as set out in the State-owned Land Use Rights Certificate Lu (2019) Linyi City Real Property No. 0029038 (魯(2019)臨沂市不動產權第0029038號);

3. Shandong Tianhai shall pledge its equipment of RMB24.9939 million to Beijing Tianhai.

Other matters:

1. Beijing Tianhai shall procure the Board to issue a notice of general meeting after the Agreement being considered and approved by the Board, and the Company shall convene a general meeting regarding the matters in relation to the amendments to the conditions of listing of the Potential Disposal. Beijing Tianhai shall complete the amendments to the conditions of listing of the Potential Disposal within 10 working days after the resolution in relation to the amendments to the conditions of listing of the Potential Disposal is considered and approved at the general meeting of the Company.
2. Yong'an Heli and Beijing Tianhai shall open a joint escrow account at China Construction Bank within 3 working days from the date of issuance of the Bank Guarantee Letter by Yong'an Heli. Such account shall be controlled and used by Yong'an Heli and Beijing Tianhai for the specified purpose.

**Matters in relation
to products of
Shandong
Tianhai:**

1. If Yong'an Heli becomes the Potential Transferee of the listing of the Potential Disposal, Beijing Tianhai has the right of production and sales of ϕ 219 steel cylinder and its accessories starting from the effective date of the Equity Transaction Agreement.
2. Starting from the effective date of the Equity Transaction Agreement, Shandong Tianhai shall not produce products with wordings of "Tianhai" or trademark of "JP", except for inventory products produced before the effective date of the Equity Transaction Agreement, Shandong Tianhai shall not use the wordings of "Tianhai" or trademark of "JP" on its products, packaging of products or containers, nor use the wordings of "Tianhai" or trademark of "JP" for advertisement, and shall undertake to complete the industrial and commercial registration for equity transfer and the registration procedures for change of the name of Shandong Tianhai in accordance with the Equity Transaction Agreement.
3. For the period of 4 months starting from the effective date of the Agreement, Yong'an Heli and Shandong Tianhai shall make reasonable arrangements in relation to purchase orders, to gradually reduce the purchase orders under the "JP" brand, and sell all inventory products with wordings of "Tianhai" or trademark of "JP" after stocktake and recognised by both parties during such period, to ensure that Shandong Tianhai will no longer sell products with wordings of "Tianhai" or trademark of "JP" after 4 months from the effective date of the Equity Transaction Agreement.

4. Beijing Tianhai and Shandong Tianhai agreed to terminate the “Trademark License Agreement” entered into between Beijing Tianhai and Shandong Tianhai on 28 May 2014, starting from the effective date of the Equity Transaction Agreement.
5. Beijing Tianhai and Yong’an Heli agreed the “Capital Contribution Agreement in Relation to the Establishment of Shandong Tianhai High Pressure Containers Co., Ltd. by Beijing Tianhai Industry Co., Ltd. and Shandong Yong’an Heli Steel Cylinder Co., Ltd. entered into between Beijing Tianhai and Yong’an Heli on 28 May 2014” shall be terminated automatically from the completion date of the Potential Disposal.

Distribution of profit:

1. The profit of Shandong Tianhai incurred in the period starting from the base date for valuation of the Valuation Report (i.e. 30 April 2018) to the date of completion of the Potential Disposal (if any) shall be distributed by Beijing Tianhai and Yong’an Heli according to the original shareholdings of the two parties in Shandong Tianhai (i.e. Beijing Tianhai holding 51% and Yong’an Heli holding 49%) based on the audit result (approved by Beijing Tianhai and Yong’an Heli) issued by the third-party auditor engaged by Beijing Tianhai (Beijing Tianhai and Yong’an Heli shall procure the auditor to complete the audit report within 30 days from the date of completion of the industrial and commercial registration for equity transfer). For the avoidance of doubt, the particular distribution arrangement is based on the distribution arrangement as set out in the written notice issued by Beijing Tianhai to Yong’an Heli and Shandong Tianhai. If Yong’an Heli becomes the successful bidder of the Potential Disposal, and Shandong Tianhai fails to distribute the profit to Beijing Tianhai in accordance with the distribution arrangement as set out in the written notice from Beijing Tianhai, Yong’an Heli shall pay corresponding profit to Beijing Tianhai in accordance with the aforesaid audit result within 10 days after receiving the written notice from Beijing Tianhai. If Shandong Tianhai records loss in the transition period, the shareholder of Shandong Tianhai after the completion of the Potential Disposal shall bear such loss.

Liability for breach of contract:

1. If Yong’an Heli fails to provide the Bank Guarantee Letter to Beijing Tianhai within the agreed period, Yong’an Heli shall pay 1% of the guaranteed amount under the Bank Guarantee Letter to Beijing Tianhai as liquidated damages for every overdue day; in case the overdue of provision of the Bank Guarantee Letter exceeds 30 days, Beijing Tianhai shall be entitled to terminate the Agreement and require Yong’an Heli to compensate for any losses suffered by Beijing Tianhai thereof.

2. If Yong'an Heli fails to remit the Bidding Deposit into the joint escrow account controlled by Beijing Tianhai and Yong'an Heli within the agreed period, Yong'an Heli shall pay 1% of the outstanding amount to Beijing Tianhai as liquidated damages for every overdue day; in case the overdue payment exceeds 30 days, Beijing Tianhai shall be entitled to terminate the Agreement and require Yong'an Heli to compensate for any losses suffered by Beijing Tianhai thereof.
3. If Shandong Tianhai fails to distribute profit during the transition period in accordance with the Agreement, Shandong Tianhai shall pay 1% of the outstanding amount to Beijing Tianhai as liquidated damages for every overdue day.
4. If Beijing Tianhai fails to refund the Bidding Deposit in full to Yong'an Heli in accordance with the Agreement, Beijing Tianhai shall pay 1% of the outstanding amount to Yong'an Heli as liquidated damages for every overdue day and is liable for all losses suffered by Yong'an Heli thereof.

Termination:

The Agreement shall be terminated on the occurrence of the following events:

1. During the reporting and approval procedures for the amendments to the conditions of listing carried out by Beijing Tianhai in accordance with the "Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises", if the minimum consideration of the Transfer Price of the listing approved by the relevant approval authorities is higher than RMB55.2683 million or the Transfer Price does not meet the condition that "the first installment of 50% of the Transfer Price shall be paid within 3 days upon the Equity Transaction Agreement becoming effective, the balance of the Transfer Price together with the interests incurred for the period from the effective date of the Equity Transaction Agreement until the date of actual payment calculated at the prevailing bank loan interest rate for the same period, with full settlement of such balance of the Transfer Price and corresponding interests to Beijing Tianhai within 1 year upon effectiveness of the Agreement.", the Agreement shall be terminated when final approval is granted to Beijing Tianhai by the relevant approval authorities.
2. If the resolution in relation to the amendments to the conditions of listing is voted down at the general meeting of the Company, the Agreement shall be terminated upon the date of disapproval of such resolution.

3. If Yong'an Heli fails to become the Potential Transferee of the listing because of less competitive bidding price after the Bidding Deposit was paid by Yong'an Heli to the CBEX, the Agreement shall be terminated upon the date of the successful bidder of the Potential Disposal is determined by CBEX.
4. When the general meeting of the Company considered and approved the resolution in relation to the amendments to conditions of listing and Yong'an Heli is the Potential Transferee of the listing of the Potential Disposal, the Agreement shall be terminated upon the completion of payment of all Transfer Price from Yong'an Heli to Beijing Tianhai in accordance with the Equity Transaction Agreement.

Where the Agreement is terminated due to occurrence of aforementioned event 1, event 2 or event 3, Beijing Tianhai shall not be liable for breach of contract, and where the Agreement is terminated due to occurrence of aforementioned event 1 or event 2, Beijing Tianhai shall refund the Bidding Deposit in full paid by Yong'an Heli in accordance with the Agreement to Yong'an Heli within 5 days upon the termination of the Agreement.

REASONS FOR AND BENEFITS OF ENTERING INTO AGREEMENT

Yong'an Heli intends to acquire the equity interest in Shandong Tianhai, and it expresses genuine intention to undertake to perform the relevant obligations as a potential bidder through this connected transaction.

Since the connected transaction only binds the potential bidder to perform relevant obligations, it does not have any material impact on the financial position and operating results of the Company.

The Directors consider the transaction contemplated under the Agreement will be on normal commercial terms or better, is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

GENERAL

Information on the Company

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

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

Information on Shandong Tianhai

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

In accordance with the generally accepted accounting principles in the PRC, the profits before and after taxation of Shandong Tianhai for the financial years ended 31 December 2017 and 2018 were as follows:

	For the year ended 31 December 2018 RMB	For the year ended 31 December 2017 RMB
Profit before taxation	4,911,285.14	-8,509,054.79
Profit after taxation	4,911,285.14	-8,509,054.79

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

Information on Yong'an Heli

Yong'an Heli is a joint stock company established under the laws of the PRC with limited liability on 25 October 2013. The business scope of Yong'an Heli includes sales of steel cylinders and their accessories (for projects requiring approval according to law, the operating activities can be commenced upon approval of the relevant departments).

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Yong'an Heli holds 49% equity interests in Shandong Tianhai (a subsidiary of the Company) and is a connected person of the Company at subsidiary level, the Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As at least one of the applicable percentage ratios in respect of the Agreement calculated in accordance with Chapter 14 of the Listing Rules is more than 0.1% but less than 5%, the Agreement is subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Nevertheless, according to the relevant requirements by the Shanghai Stock Exchange, the Agreement and the transactions contemplated thereunder are subject to shareholders' approval requirement. The Company will include, inter alia, details of (i) further information in respect of the Potential Disposal and the Equity Transaction Agreement, the Agreement; and (ii) other information as required by the Listing Rules in its circular, which is expected to be despatched to the Shareholders on or before 12 August 2019.

For and on behalf of the Board of
Beijing Jingcheng Machinery Electric Company Limited
Luan Jie
Company Secretary

Beijing, the PRC
24 July 2019

As at the date of this announcement, the Board comprises Mr. Wang Jun, Mr. Li Junjie and Mr. Zhang Jiheng as executive directors, Ms. Jin Chunyu, Mr. Xia Zhonghua and Ms. Li Chunzhi as non-executive directors and Ms. Wu Yan, Mr. Liu Ning, Mr. Yang Xiaohui and Mr. Fan Yong as independent non-executive directors.