

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



**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)**

**POSSIBLE DISCLOSEABLE TRANSACTION**

**LETTER OF INTENT  
IN RELATION TO  
FORMATION OF JOINT VENTURE**

The Board announces that on 29 December 2016 (after trading hours of the Stock Exchange), Beijing Tianhai (a wholly-owned subsidiary of the Company) entered into a Letter of Intent with Yuecheng, pursuant to which Beijing Tianhai and Yuecheng proposed to form a joint venture company (the “JVC”) to engage in the development and management of pension facilities.

The Letter of Intent (save for provisions relating to the Parties' shareholding ratios in the JVC, the Compensation, the Approvals and termination provisions) is non-legally binding in nature. Parties may or may not enter into the Formal Agreement. Principal terms including the consideration and payment terms shall be subject to further negotiation between the Parties and the execution of the Formal Agreement.

Using the Compensation as the basis of calculation, one or more of the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules in respect of the payment of Compensation contemplated under the Letter of Intent exceed 5% but is less than 25%, the payment of Compensation, if materialize, may constitute discloseable transaction for the Company and is subject to the announcement and reporting requirements but is exempt from the shareholders' approval requirement under Chapter 14 of the Listing Rules. **Further announcement(s) will be made in compliance with the Listing Rules to provide updates on the transactions contemplated under the Letter of Intent as and when appropriate.**

**Shareholders and potential investors of the Company should note that the transactions contemplated under the Letter of Intent may or may not materialize. Shareholders and investors should exercise caution when dealing in the securities of the Company.**

## **INTRODUCTION**

The Board announces that on 29 December 2016 (after trading hours of the Stock Exchange), Beijing Tianhai (a wholly-owned subsidiary of the Company) entered into a Letter of Intent with Yuecheng, pursuant to which Beijing Tianhai and Yuecheng proposed to form the JVC to engage in the development and management of pension facilities.

The Letter of Intent (save for provisions relating to the Parties' shareholding ratios in the JVC, the Compensation, the Approvals and termination provisions) is non-legally binding in nature. Parties may or may not enter into the Formal Agreement. Principal terms including the consideration and payment terms shall be subject to further negotiation between the Parties and the execution of the Formal Agreement.

The Letter of Intent aims to serve as a basic framework with respect to the Parties' cooperation relationship and the JVC's operation principles. It has not set out not all the matters in relation to the formation of the JVC.

## **THE LETTER OF INTENT**

### **Date**

29 December 2016 (after trading hours)

### **Parties**

- (i) Beijing Tianhai (a wholly-owned subsidiary of the Company); and
- (ii) Yuecheng.

Beijing Tianhai is principally engaged in the production of gas storage and transportation equipment.

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

Yuecheng is principally engaged in elderly care services.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, Yuecheng and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

## **Major Terms of the Letter of Intent**

### ***Shareholding ratios and capital contribution***

Pursuant to the Letter of Intent, Beijing Tianhai and Yuecheng will establish the JVC. The initial registered capital of the JVC will be contributed by Beijing Tianhai by way of injection of the Land, and by Yuecheng in cash. After the formation of the JVC, it shall be held as to 45% by Beijing Tianhai and 55% by Yuecheng. The funds (other than the registered capital of the JVC) raised by Yuecheng for the JVC, the interests and related provisions shall be determined by Yuecheng or other joint venture party under a separate agreement to be entered into. The exact amount of capital contribution to be made by Yuecheng and the payment terms shall be subject to further negotiation between the Parties having considered, among others, the valuation of the Land by a qualified independent valuer employed by Beijing Tianhai.

### ***Compensation***

In order to compensate for the losses incurred by Beijing Tianhai in the process of relocation and conversion of production on the Land, including relocation of equipment, discontinuation of production and staff deployment, for the purpose of injecting the Land into the JVC, Yuecheng shall pay in one lump sum compensation of RMB 163 million in cash to Beijing Tianhai (the “**Compensation**”). After all necessary Approvals for the change of use of the Land is obtained and before the formation of the JVC, Yuecheng shall pay the Compensation to Beijing Tianhai in one lump sum.

In the event that the Parties’ cooperation is terminated for reasons not solely on the part of Yuecheng (including circumstances such as failure to form the JVC or the JVC, after formation, fails to operate in accordance with the initial cooperation purpose due to changes in governmental policies or deviation in the Parties’ operation principles), the Parties shall enter into a termination agreement and Beijing Tianhai shall repay (on an interest-free basis) the Compensation in the amount as agreed by the Parties within three months after the signing of such termination agreement or after the termination of the Parties’ cooperation (whichever is earlier).

### ***Approvals***

The Parties shall use their best endeavours to procure that all necessary Approvals for the change of use of the Land will be obtained and that such Approvals will be applicable to the JVC’s construction projects. The Parties aim at obtaining the Approvals for the change of use of the Land by 31 March 2017 and forming the JVC by 30 June 2017.

### ***Termination***

The Letter of Intent will terminate in the event of any of the following circumstances and each Party shall not be held liable (apart from the breach of the Compensation provision):

- (1) the Approvals in respect of the change of use of the Land is not obtained within the time limit stipulated in the Letter of Intent;

- (2) The JVC is not established before 30 June 2017;
- (3) Beijing Tianhai has not obtained the approval from the relevant authorities (if necessary); or
- (4) The total amount of Compensation is not paid by Yuecheng within the time limit stipulated in the Letter of Intent.

### ***Binding effect***

Save for the provisions relating to the Parties' shareholding ratios in the JVC, the Compensation, the Approvals and termination provisions, the Letter of Intent does not have any legally binding effect on either Party. The Letter of Intent merely sets out the strategic cooperation framework to serve as a foundation for further negotiations between the Parties.

### **REASONS FOR ENTERING INTO THE LETTER OF INTENT**

The Board is of the opinion that the proposed formation of the JVC under the Letter of Intent will allow the Parties to share their resources and complement each other. At the same time, in order to conform with the PRC Government's policy with respect to diverting the non-core functions of the capital city and accelerating the industrial restructuring of the Beijing district, the Company also needs to import high-end industrial elements in its strategic positioning so as to follow the regional development. The signing of the Letter of Intent can better utilize the Land and allow the Company to transform, upgrade and restructure its old industrial plants, which is also in line with the Company's above-mentioned strategic positioning.

### **LISTING RULES IMPLICATIONS**

Using the Compensation as the basis of calculation, one or more of the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules in respect of the payment of Compensation contemplated under the Letter of Intent exceed 5% but is less than 25%, the payment of Compensation, if materialize, may constitute discloseable transaction for the Company and is subject to the announcement and reporting requirements but is exempt from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

**Further announcement(s) will be made in compliance with the Listing Rules to provide updates on the transactions contemplated under the Letter of Intent as and when appropriate.**

**Shareholders and potential investors of the Company should note that the transactions contemplated under the Letter of Intent may or may not materialize. Shareholders and investors should exercise caution when dealing in the securities of the Company.**

## DEFINITIONS

In this announcement, the following definitions shall have the meanings set out below unless the context requires otherwise:

“Approvals”	filing, approval, obtaining relevant certificates and other procedures for the change of use, establishment, construction and operation in relation to the Land for the purpose of JVC required from any relevant government authority in the PRC under applicable laws, rules or regulations or otherwise
“Beijing Tianhai”	北京天海工業有限公司(Beijing Tianhai Industry Co., Ltd.), a limited liability company incorporated in the PRC, a wholly-owned subsidiary of the Company
“Board”	the board of Directors
“Company”	北京京城機電股份有限公司(Beijing Jingcheng Machinery Electric Company Limited) (stock code: 0187), a joint stock company incorporated in the PRC with limited liability and the shares of which are listed on the Main Board of the Stock Exchange and the Shanghai Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Formal Agreement”	the formal agreement proposed to be entered into between the Parties regarding the formation of the JVC
“Land”	the land located at No. 9 Tianying North Road, Chaoyang District, Beijing, the PRC, and the properties thereon
“Letter of Intent”	the letter of intent entered into by Beijing Tianhai and Yuecheng on 29 December 2016 (after trading hours) in relation to the formation of the JVC
“Listing Rules”	the Rules Governing the Listing of Securities on Stock Exchange
“Party(ies)”	the parties to the Letter of Intent
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding the Hong Kong Special Administrative Region of the PRC, Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC

“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yuecheng”	樂成老年事業投資有限公司 (Yuecheng Senior Living Investment Company Limited), a limited liability company incorporated in the PRC
“%”	per cent

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

Beijing, the PRC, 29 December 2016

*As at the date of this announcement, the Board of the Company comprises Mr. Wang Jun, Mr. Chen Changge, Mr. Li Junjie and Mr. Du Yuexi as executive directors, 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.*