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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)

**VOLUNTARY ANNOUNCEMENT ON THE ESTABLISHMENT OF BEIJING JINGCHENG
HAITONG TECHNOLOGY CULTURE DEVELOPMENT CO., LTD. (TENTATIVE NAME)
BY BEIJING TIANHAI INDUSTRY CO., LTD., A SUBSIDIARY OF THE COMPANY,
AND THE JINGCHENG HAITONG TECHNOLOGY INNOVATION INDUSTRIAL PARK
DEVELOPMENT PROJECT**

The board of directors (the “Board”) and all directors of Beijing Jingcheng Machinery Electric Company Limited (the “Company”) warrant that there are no false representations, misleading statements or material omissions in this announcement and are jointly and severally responsible for the truthfulness, accuracy and completeness of the contents of this announcement.

IMPORTANT NOTICE:

- Name of investee: 北京京城海通科技文化發展有限公司 (Beijing Jingcheng Haitong Technology Culture Development Co., Ltd.) (tentative name, subject to the approval of the competent industrial and commerce authority) (“Jingcheng Haitong” or the “Joint Venture”)
- Amount and percentage of investment: Beijing Tianhai Industry Co., Ltd. (北京天海工業有限公司) (“Beijing Tianhai”, a subsidiary of the Company) proposes to cooperate with Beijing Nengtong Lease Company (“Beijing Nengtong”) in establishing the Joint Venture at 9 Tianying North Road, Chaoyang District, Beijing for the purpose of jointly developing the existing Wufangqiao Plant of Beijing Tianhai into an integrated industrial park with garden-style high-end technical innovations, cultural innovations and business office as major functions. Jingcheng Haitong will have a registered capital of RMB80 million, which will be contributed by the parties via cash. Beijing Tianhai will contribute RMB39.2 million and hold 49% equity interest in the Joint Venture, and Beijing Nengtong will contribute RMB40.80 million and hold 51% equity interest in the Joint Venture.

Within 6 months after the parties have agreed to establish the Joint Venture, Beijing Tianhai will lend RMB3 million to the Joint Venture in due course, which will become the creditor's right of Beijing Tianhai against the Joint Venture. If the total profit of the Joint Venture for a year reaches RMB20 million and the major upgrade projects have been substantially completed, or if the occupancy rate of the industrial park as at the end of a year (being 31 December) reaches 80% or above, or upon the expiry of 5 years following the establishment of the project company, Beijing Tianhai shall have the right to increase the capital of the Joint Venture through conversion of debts into equity in view of the actual status of operation of the Joint Venture in order to obtain the control over the Joint Venture. Upon capital increase, Beijing Tianhai will own 51% equity interest in the Joint Venture and Beijing Nengtong will own 49% equity interest in the Joint Venture. Following change in the shareholding percentage, both shareholders shall amend the procedures of general meetings and the procedures of board meetings, and the board of directors and management shall be changed accordingly.

- After the Joint Venture has completed the procedures for establishment including industrial and commercial registration and obtained the relevant approval in accordance with the Listing Rules, the Joint Venture shall lease a parcel of land and the plant erected thereon at 9 Tianying North Road, Chaoyang District, Beijing from Beijing Tianhai. For any lease matters which are not agreed on in the agreement or for which the agreements are unclear, the provisions in the lease agreement to be approved and entered into between the Joint Venture and Beijing Tianhai shall prevail.
- If for any reason the establishment of the Joint Venture is not completed or the application for the establishment of the Joint Venture no longer reflects the parties' intention of cooperation, the application for the establishment of the Joint Venture may be revoked after approvals from both parties.
- Special risk warnings: The establishment of the Joint Venture by Beijing Tianhai meets the needs of the development of the Company and its strategic planning. However, it is subject to the risks arising from various uncertainties including changes in industry policies and market environment, operation and management and failure to obtain approval. Investors are advised to keep investment risk in mind.

I. OVERVIEW OF THE EXTERNAL INVESTMENT (CONNECTED TRANSACTION)

(i) Basic information on external investment

Beijing Tianhai and Beijing Nengtong entered into a joint venture agreement on 21 August 2018 to establish the Joint Venture at 9 Tianying North Road, Chaoyang District, Beijing for the purpose of jointly developing the existing Wufangqiao Plant of Beijing Tianhai into an integrated industrial park with garden-style high-end technical innovations, cultural innovations and business office as major functions. Jingcheng Haitong will have a registered capital of RMB80 million, which will be contributed by the parties via cash. Beijing Tianhai will contribute RMB39.2 million and hold 49% equity interest in the Joint Venture, and Beijing Nengtong will contribute RMB40.80 million and hold 51% equity interest in the Joint Venture.

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(ii) Consideration by the Board of Directors

At the fifth extraordinary meeting of the ninth session of the Board of Directors, "the Resolution on the Establishment of Beijing Jingcheng Haitong Technology Culture Development Co., Ltd. (Tentative Name) By Beijing Tianhai Industry Co., Ltd., and the Jingcheng Haitong Technology Innovation Industrial Park Development Project" was considered and passed. The above matters fall within the scope of approval authority of the Board and do not require the approval at the general meeting.

(iii) The external investment does not constitute a connected transaction or major asset reorganization.

II. BASIC INFORMATION ON THE PARTIES TO THE INVESTMENT AGREEMENT

(i) The Company has conducted necessary due diligence on the basic information on the counterparties to cooperation and their ability to conduct cooperation and perform obligations.

(ii) Basic information on the parties to the investment agreement

1. Company name: Beijing Nengtong Lease Company

Legal representative: Wei Mingkang

Nature: Collectively owned

Registered address: Room 210, 2/F, Building 19, 11 West 3rd Ring North Road, Haidian District, Beijing

Registered capital: RMB10 million

Date of establishment: 1 August 1995

Principal business: lease of audio-visual equipment, telecommunications equipment, medical equipment, amusement facilities, transport equipment, machinery and equipment, commercial service facilities; office lease; sale of hardware, conversion materials, computers and peripherals, machinery and equipment, electrical equipment, instrumentation, building materials, auto parts. (The enterprise has the discretion, in accordance with the laws to choose from the above activities and operate; approvals from competent authorities shall be obtained for the operation of the activities requiring approval from the relevant authorities in accordance with the laws; it shall not conduct operating activities prohibited or restricted by municipal industrial policies.)

2. Beijing Nengtong Lease Company (“Beijing Nengtong”) is a private enterprise principally engaged in investing and constructing technology, culture, innovative and creative industrial parks as well as researching and designing the recycling of industrial resources. It focuses on the development and utilisation of existing urban industrial resources in accordance with the overall strategy of China and Beijing for developing cultural industries and combine with its own needs of development. To date it has completed industrial parks with a total gross floor area of 400,000 m² and also owns industrial parks under construction or to be constructed with a total gross floor area of 200,000 m². By adhering to the principle of high-standard planning, construction and business solicitation, its low-density, creative garden-style ecological parks have attracted many influential enterprises as tenants.
3. Beijing Nengtong is not connected to the Company.
4. As at 31 December 2017, Beijing Nengtong had total assets of RMB443,829,271.20, net assets of RMB443,829,271.20, revenue of RMB75,093,792.75 and net profit of RMB61,431,429.39.

III. BASIC INFORMATION ON THE INVESTEE

- (i) **Company name:** 北京京城海通科技文化發展有限公司 (Beijing Jingcheng Haitong Technology Culture Development Co., Ltd.) (tentative name, subject to the approval of the competent industrial and commerce authority)

Registered capital: RMB80 million

Registered address: 9 Tianying North Road, Chaoyang District, Beijing

Scope of business: property management; economic and trade consultation; office space lease; motor vehicle public parking services (subject to the approval of the competent industrial and commercial authority).

Method and percentage of capital contribution: Beijing Tianhai and Beijing Nengtong intend to establish the Joint Venture at 9 Tianying North Road, Chaoyang District, Beijing for the purpose of jointly developing the existing Wufangqiao Plant of Beijing Tianhai into an integrated industrial park with garden-style high-end technical innovations, cultural innovations and business office as major functions. Jingcheng Haitong will have a registered capital of RMB80 million, which will be contributed by the parties via cash. Beijing Tianhai will contribute RMB39.2 million and hold 49% equity interest in the Joint Venture, and Beijing Nengtong will contribute RMB40.80 million and hold 51% equity interest in the Joint Venture.

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Personnel arrangement for the board of directors and management:

The Joint Venture shall have a general meeting, a board of directors and two supervisors (without establishing a supervisory committee). The members of its board of directors and the supervisors shall be elected at a general meeting.

The chairman or general manager of the Joint Venture shall act as its legal representative, subject to the provisions in the then effective articles of association.

The board of directors of the Joint Venture shall comprise five directors, of which two shall be nominated by Beijing Tianhai and three shall be nominated by Beijing Nengtong. The chairman of the board of directors shall be nominated by Beijing Tianhai and elected by the board of directors. So far as Beijing Tianhai owns controlling interest in the Joint Venture, the general manager of the Joint Venture shall act as its legal representative.

The Joint Venture shall have two supervisors, without a supervisory committee. Each of Beijing Tianhai and Beijing Nengtong shall have the right to nominate one supervisor respectively, which shall be elected at a general meeting. The Joint Venture shall have one general manager and one executive deputy general manager, which shall be nominated by Beijing Nengtong. The general manager shall be appointed by the board of directors, and the chief financial officer shall be nominated by Beijing Tianhai.

In the operation of the Joint Venture, if the conditions to capital increase have been met and the shareholding percentage has changed to the effect that Beijing Tianhai owns 51% and Beijing Nengtong owns 49% of the Joint Venture, they shall adjust the board of directors and management of the Joint Venture as follows: Beijing Tianhai shall nominate three directors, and Beijing Nengtong shall nominate two directors. The chairman of the board of directors shall be nominated by Beijing Tianhai and elected by the board of directors, who shall act as the legal representative of the Joint Venture. Beijing Tianhai shall nominate the chief financial officer, Beijing Nengtong shall nominate the general manager and the executive deputy general manager. The general manager shall be appointed by the board of directors.

- (ii) **Principals terms of project investment:** Beijing Tianhai and Beijing Nengtong intend to establish the Joint Venture at 9 Tianying North Road, Chaoyang District, Beijing for the purpose of jointly developing the existing Wufangqiao Plant of Beijing Tianhai into an integrated industrial park with garden-style high-end technical innovations, cultural innovations and business office as major functions.

Project sharing: If there is loss at the initial stage of operation of the Joint Venture following its establishment, the parties shall bear any loss of the Joint Venture in proportion to their respective shareholding in the Joint Venture.

Conditions to and principles for allocation of the profit of the Joint Venture: If the Joint Venture has profit for any year, there are net cash inflows in the year and there is still net profit after making up loss for previous years, the shareholders of the Joint Venture may allocate profit in proportion to their respective shareholding in the Joint Venture. The proposal for profit allocation shall be prepared by the board of directors, which shall be considered and passed at the general meeting.

In case the Joint Venture has profit and Beijing Tianhai chooses to increase the capital of the Joint Venture through conversion of debts into equity, upon completion of the conversion of debts into equity (subject to industrial and commercial registration), profit of the Joint Venture shall be allocated to the parties in proportion to their respective adjusted shareholding in the Joint Venture.

IV. PRINCIPAL TERMS OF THE EXTERNAL INVESTMENT AGREEMENT

(i) **Funding arrangement:** The parties shall make capital contribution upon the establishment of the Joint Venture. The parties shall pay their capital contribution in full within the period prescribed by the articles of association, which shall be deposited in full in cash into the bank account of the Joint Venture. Within three years of the establishment of the Joint Venture (subject to the date of establishment set out in the business license), Beijing Tianhai shall finance its capital contribution with the rental received by it, payable on a semi-annual basis, until its capital contribution has been paid in full. Beijing Nengtong shall pay 50% of its capital contribution in full within 30 business days of the date of the establishment of the Joint Venture, and, without prejudice to the operating cash flows of the Joint Venture in the ordinary course (excluding borrowings), and the remaining 50% within six months of the establishment of the Joint Venture.

(ii) **Rights and obligations**

Rights:

1. Right to apply for the establishment of the Joint Venture and be kept informed of the progress of the establishment of the Joint Venture.
2. Right to review the expenses incurred in preparation for the establishment of the Joint Venture.
3. Upon establishment of the Joint Venture, all shareholders shall exercise their rights in accordance with the relevant laws, regulations, the provision of the articles of association and the agreement.
4. Upon establishment of the Joint Venture, all shareholders shall consider and make decisions about the significant matters in the operation and development of the Joint Venture in accordance with the relevant laws, regulations, the provision of the articles of association and the agreement.

Obligations:

1. The parties shall provide the documents and materials necessary for the application for the establishment of the Joint Venture and sign legal documents in the process of the establishment of the Joint Venture.
2. The parties shall indemnify the Joint Venture against any loss incurred by the Joint Venture in the process of the establishment of the project company due to the negligence of the parties.
3. Upon establishment of the Joint Venture, the parties shall not withdraw their capital contribution.

4. Upon establishment of the Joint Venture, the parties shall perform their obligations as shareholders in accordance with the relevant laws, regulations, the provision of the articles of association and the agreement.
5. Upon establishment of the Joint Venture, the parties shall strive to maintain the reputation of the Joint Venture in its operation and shall actively allocate their respective resources to the Joint Venture in order to protect the commercial interests of the Joint Venture to the largest extent possible.

(iii) Lease matters

After the Joint Venture has completed the procedures for establishment including industrial and commercial registration and obtained the relevant approval in accordance with the Listing Rules, the Joint Venture shall lease a parcel of land and the plant erected thereon at 9 Tianying North Road, Chaoyang District, Beijing from Beijing Tianhai (the “Subject Assets”).

1. Term of lease and rent-free period:

- (1) The term of lease shall be 18 years.
- (2) The rent-free period is included in the term of lease. The rent-free period shall be half year from the date following the effective date of the lease agreement, for which the project company is not required to pay rent. The rent shall be payable for the period from the day following the end of the rent-free period.
- (3) The rent-free period shall include the rent-free period for renovation and upgrade and the rent-free period arising from the following: during the rent-free period for renovation and upgrade, if the renovation and upgrade work is expressly prohibited by the government and the total period of work suspension reaches one month, the rent-free period for renovation and upgrade shall be extended by one month; if the total period of work is longer than one month, Beijing Tianhai and the Joint Venture shall negotiate about follow-up matters.
- (4) After Beijing Tianhai has transferred the leased properties to the Joint Venture, subject to the negotiation and agreement among the parties, Beijing Tianhai shall waive the rent payable by the Joint Venture for any building occupied by Beijing Tianhai within the scope of the Subject Assets which is not renovated and has ownership certificate for the actual area and period occupied by it.

2. Area and price of lease

- (1) The land area of the Subject Assets stated in the relevant State-owned Land Use Right Certificate is 87,541.76 square metres, and the total gross floor area of the Subject Assets stated in the relevant Building Ownership Certificate is 45,143.62 square metres.

- (2) The principle for the rent is that the initial rent is RMB1.43/sq.m./day, which shall be increased by 5% after every three years. Rent is not required for the ancillary space and the buildings which do not generate revenue and have no Building Ownership Certificates, which shall be used by the lessee for free.
 - (3) The lease area for the current period is equivalent to the sum of 45,143.62 square metres as stated in the relevant Building Ownership Certificate and the gross floor area of the properties which are being occupied by the project company and do not generate income. The number of days of lease for the current period is the total sum of calendar days for which the rent is paid. The current period is a period for which the rent is payable.
 - (4) The rent for the current period is equivalent to the lease area for the current period multiplied by the number of days of lease for the current period. The calculation formula is: the rent for the current period = the lease area for the current period x the daily rent for the current period x the number of days of lease for the current period. If the rent for the current period is adjusted during a period for which the rent is payable, the rent shall be calculated by summing up the rent for the period before adjustment and the rent for the period after adjustment.
 - (5) The utilities are not included in the rent and shall be paid by the Joint Venture in accordance with the terms of the lease agreement.
 - (6) The rent is payable in advance for every three months. It shall be paid within one week before each period for which the rent is payable and no later than the last business day of the previous period. After Beijing Tianhai has delivered the leased properties to the project company and within the week before the end of the rent-free period for the decoration work, the Joint Venture shall pay the rent for the first three months during the period of lease to Beijing Tianhai.
 - (7) The Joint Venture may construct additional floors in the Subject Assets for which there is room for additional construction, so that the total gross floor area for operation of the Joint Venture will reach approximately 85,000 square metres. The parties have agreed that no rent is payable for the additional area arising from the increased floor and renovation.
3. During the term of the lease, in case of any force majeure event or any change in laws or administrative regulations or any confiscation or expropriation by government as a result of which the lease cannot continue, Beijing Tianhai and the Joint Venture shall rescind the lease agreement after they have performed their respective obligations, and no party shall not be liable to each other for breach of contract thereafter.
 4. For any lease matters which are not agreed on in the agreement or for which the agreements are unclear, the provisions in the lease agreement to be entered into between the Joint Venture and Beijing Tianhai shall prevail.

(iv) Liability for breach of contract

1. The parties undertake to strictly comply with the relevant provisions, undertakings and warranties set out in the joint venture agreement and shall fully perform their contractual obligations in good faith. If any party fails to perform its agreed obligations within the period stipulated in the agreement, it shall provide reasonable explanations and the relevant supporting documents to the other party. If any party considers that it will be unable to comply with any provision of the agreement, it shall issue 15 business day's written notice to the other party, which shall be resolved by the parties through negotiations. If no consensus can be made through negotiations, it shall be resolved through legal procedures, and any reasonable loss incurred by any party shall be repaid or indemnified.
2. If any party fails to perform any of its obligations under the agreement for any reason other than force majeure event or if any undertaking or warranty made by any party in the agreement proves inaccurate or false in any material respect, that party shall be deemed to have be in breach of the agreement.
3. The defaulting party shall indemnify the non-defaulting party against any economical loss arising from its default in accordance with the agreement and the law.

(v) Resolution of disputes

1. The joint venture agreement shall be governed by and interpreted in accordance with the laws of the People's Republic of China (excluding Hong Kong, Macau and Taiwan).
2. Any disputes in the course of performance of the agreement shall be resolved by the parties through negotiations, failing which a litigation may be filed before the competent people's court where the Joint Venture is located.

(vi) Effectiveness of the agreement

The agreement shall take effect from the date on which the parties or their respective legal representatives signed the agreement and the agreement is affixed with company chop or contract chop and the necessary approval for Beijing Tianhai has been obtained.

(vii) Termination of the agreement

The Joint Venture shall be terminated and liquidated in case of any of the following:

1. the lease agreement is rescinded;
2. the term of operation of the Joint Venture expires and is not extended;
3. the business license of the Joint Venture is revoked or cancelled in accordance with the law due to unsuccessful operation or the Joint Venture is ordered to shut down;

4. the parties have agreed to do so.

V. IMPACTS OF EXTERNAL INVESTMENT ON THE COMPANY

The establishment of the Joint Venture will activate the unutilised properties of Beijing Tianhai, provide cash flow support to the operation of the gas storage and transportation segment through rent received and profit allocated from the operation of the Jingcheng Haitong industrial park, and contribute profit to the Company.

The development and operation of the Jingcheng Haitong industrial park meets the 13th five-year strategic plan of the Company, expands the business areas beyond its principal activities, and lays a solid foundation for the steady profitability of its principal activities.

VI. ANALYSIS OF RISKS OF EXTERNAL INVESTMENT

The establishment of the Joint Venture through external investment meets the needs of the development of the Company and its strategic planning. However, it is subject to the risks arising from various uncertainties including changes in industry policies and market environment, operation and management and failure to obtain approval. It will enable the Company to improve the governance structure of the Joint Venture, strengthen the establishment and operation of internal coordination mechanism, determine the operational strategies of the Joint Venture, establish a sound internal control system and effective supervision mechanism, so as to adapt to business requirements and market changes and actively prevent and respond to such risks. Investors are advised to keep investment risk in mind.

VII. DOCUMENTS FILED

1. Resolutions of the fifth extraordinary meeting of the ninth session of the Board
2. Capital contribution agreement

Beijing Jingcheng Machinery Electric Company Limited

Wang Jun

Chairman

Beijing, the PRC

21 August 2018

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. Du Yuexi, 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.