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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)

POSSIBLE MAJOR AND CONNECTED TRANSACTION
DISPOSAL OF JINGCHENG COMPRESSOR

The Board announces that the Company proposes to dispose its 100% interests in Jingcheng Compressor, a wholly owned subsidiary of the Company. The Company is a State-controlled listed company and the disposal of its State-controlled assets is required to go through the process of public tender through an approved equity exchange in accordance with the relevant PRC laws and regulations concerning the disposal of State-controlled assets. The Disposal will be carried out through CBEX. According to the rules and regulations of CBEX, the successful bidder is required to enter into an Asset Transaction Agreement with the Company.

As Jingcheng Holding intends to participate in the Public Tender, the Company and Jingcheng Holding entered into a conditional Preliminary Asset Transaction Agreement on 16 May 2014. Subject to the fulfilment of conditions precedent, which includes, inter alia, that Jingcheng Holding is successfully qualified as transferee of the Disposal, the Company has conditionally agreed to sell and Jingcheng Holding has conditionally agreed to purchase 100% interests in Jingcheng Compressor. If Jingcheng Holding is successfully qualified as transferee of the Disposal, it will enter into the Asset Transaction Agreement with the Company.

The Minimum Consideration i.e. the initial bidding price for the 100% interest in Jingcheng Compressor is RMB250,202,800. The Minimum Consideration is based on the results of the Valuation Report. Shareholders should note that the Consideration will depend on the final bid price, but will in any event be no less than the Minimum Consideration.

Using the Minimum Consideration as the basis of calculation, one of the relevant percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Disposal is more than 25% and less than 75%. Thus, the Disposal constitutes a major transaction of the Company and is therefore subject to reporting, announcement, and shareholders' approval requirements at general meeting under Chapter 14 of the Listing Rules.

In addition, Jingcheng Holding is a controlling shareholder of the Company holding approximately 47.78% interest in the Company and therefore, is a connected person of the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Disposal are more than 5%, should Jingcheng Holding successfully be qualified as transferee of the Disposal, the Disposal will also constitute a connected transaction of the Company which is subject to the reporting, annual review, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. As at the date of this announcement, Jingcheng Holding is interested in 201,620,000 A Shares, representing approximately 47.78% of the total issued Shares. Accordingly, Jingcheng Holding and its associates will abstain from voting on the relevant resolution(s) at the AGM to be convened for the purpose of, inter alia, approving the Disposal and the Preliminary Asset Transaction Agreement.

In the event that Jingcheng Holding is successfully qualified as transferee of the Disposal, the Company must seek the approval of the Independent Shareholders, which is required under Chapter 14A of the Listing Rules. Therefore, the Company intends to seek the Independent Shareholders' advance approval of the Preliminary Asset Transaction Agreement together with the Disposal.

A further announcement in relation to the results of the Public Tender will be made by the Company as soon as practicable after the Public Tender is completed.

A circular containing, inter alia, details of (i) further information on the Disposal and the Preliminary Asset Transaction Agreement; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders with respect to the Preliminary Asset Transaction Agreement; (iii) the advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the Preliminary Asset Transaction Agreement; (iv) the Valuation Report; and (v) a notice convening the AGM is expected to be despatched to the Shareholders on or before 11 June 2014.

BACKGROUND

The Company proposes to dispose its 100% interests in Jingcheng Compressor, a wholly owned subsidiary of the Company. The Company is a State-controlled listed Company and the disposal of its State-controlled assets is required to go through the process of public tender through an approved equity exchange in accordance with the relevant PRC laws and regulations concerning the disposal of State-controlled assets. The Disposal will be carried out through CBEX, an institution authorised by the State-owned Assets Supervision and Administration Commission to transact assets and equity of State-owned enterprises under the central government of PRC. According to the rules and regulations of CBEX, the successful bidder of the Public Tender is required to enter into an Asset Transaction Agreement with the Company.

As Jingcheng Holding intends to participate in the Public Tender, the Company and Jingcheng Holding entered into the Preliminary Asset Transaction Agreement on 16 May 2014. Subject to the fulfilment of conditions precedent which includes, inter alia, that Jingcheng Holding is successfully qualified as transferee of the Disposal, the Company has conditionally agreed to sell and Jingcheng Holding has conditionally agreed to purchase 100% interests in Jingcheng Compressor. If Jingcheng Holding is successfully qualified as transferee of the Disposal, it will enter into the Asset Transaction Agreement with the Company.

Jingcheng Compressor is a limited liability company established in the PRC and is a wholly owned subsidiary of the Company. Jingcheng Compressor holds 30% interests in Fusheng Machine, which is a limited liability company established in the PRC and is an associated company of the Company.

Jingcheng Compressor will cease to be a subsidiary of the Company and Fusheng Machine will cease to be an associated company of the Company after the completion of the Disposal.

THE PUBLIC TENDER

Description and qualifications of the potential bidders

The potential bidders shall satisfy, among others, the following descriptions and qualifications:

1. a potential bidder must be a validly existing enterprise or a natural person; and
2. a potential bidder must have sound financial capability for payment.

Date of the Public Tender

The Company intends to submit the Tender Notice to CBEX at approximately the beginning of July after the Shareholders has passed the relevant resolutions at the AGM.

The Publication Period will be open for 20 working days from the date of the Tender Notice. During the Publication Period, qualified bidders may indicate their interest in purchasing the 100% interest in Jingcheng Compressor and register themselves as interested bidders. Upon the expiry of the Publication Period, CBEX will notify the Company the identity of the successful bidder.

Within 5 working days of the notification of the successful bidder by CBEX, the Company is required to enter into the Asset Transaction Agreement with the successful bidder. As at the date of this announcement, apart from the Preliminary Asset Transaction Agreement, no asset transfer agreement has been entered into between the Company and any other party in relation to the Disposal.

Consideration

The Minimum Consideration i.e. the initial bidding price for the 100% interest in Jingcheng Compressor is RMB250,202,800. The Minimum Consideration is based on the results of the Valuation Report (大正海地人評報字(2014)第75A號《資產評估報告書》(Da Zheng Hai Di Ren Ping Bao Zi (2014) No. 75A)) issued by an independent valuer, Golden Standard & Headman Appraisal and Advisory Co., Ltd. (北京大正海地人資產評估有限公司), in respect of the 100% interests in Jingcheng Compressor with 31 December 2013 being the base date for valuation and using the asset-based approach, the valuation results of which has to be reviewed and filed by Beijing SASAC. Shareholders should note that the Consideration will depend on the final bid price, but will in any event be no less than the Minimum Consideration.

According to the transaction rules of CBEX, in principle, the Consideration should be paid in one instalment. However, if the parties agree to pay by instalments, 50% of the Consideration will be payable by the successful bidder within 10 days after the signing of the Asset Transaction Agreement and the balance of the Consideration must be guaranteed.

THE PRELIMINARY ASSET TRANSACTION AGREEMENT

Date:

16 May 2014

Parties:

Vendor: the Company

Purchaser: Jingcheng Holding

Subject matter:

Subject to the conditions precedent, the Company has conditionally agreed to sell and Jingcheng Holding has conditionally agreed to purchase 100% interests in Jingcheng Compressor for the Consideration.

Conditions Precedent:

The Preliminary Asset Transaction Agreement will take effect upon, on fulfillment of the following conditions precedent:

1. Jingcheng Holding successfully qualifying as transferee in the Public Tender;
2. the Beijing SASAC having approved and filed the valuation results of the Valuation Report;
3. the Disposal having approved by the Board and passed at the AGM;
4. the Disposal having approved by the board of directors of Jingcheng Holding; and
5. the Company having satisfied all of its required disclosure requirements, Independent Shareholders' approval and approval procedures under all applicable laws and the Listing Rules in respect of the Disposal.

In the event that any of the above conditions precedent has not been fulfilled, the Preliminary Asset Transaction Agreement will be of no further effect and the parties to the Preliminary Asset Transaction Agreement will not have to fulfill the obligations and responsibilities thereunder.

Consideration:

The Consideration payable by Jingcheng Holding to the Company will be determined from the Public Tender but will not be lower than the Minimum Consideration. The Consideration will be paid by Jingcheng Holding to the Company in the following manner:

1. the Deposit, which will form part of the Consideration, will be payable by Jingcheng Holding to the Company within 3 working days after CBEX has confirmed that Jingcheng Holding is a qualified bidder;

2. 50% of the Consideration (which includes the Deposit) will be payable by Jingcheng Holding to the Company by bank transfer to the account designated by CBEX within 10 days after the Preliminary Asset Transaction Agreement becomes effective;
3. the balance of the Consideration will be payable by Jingcheng Holding to the Company by bank transfer on or before 25 December 2014.

Jingcheng Holding will provide a legal guarantee to the Company for the balance of the Consideration by instructing a bank to issue a guarantee letter to the Company. The guaranteed compensation will not be lower than 50% of the final bid price and the guarantee letter will be valid until 31 December 2014.

FINANCIAL INFORMATION OF JINGCHENG COMPRESSOR

In accordance with the generally accepted accounting principles in the PRC, the profits before and after taxation of Jingcheng Compressor for the financial years ended 31 December 2012 and 2013 were as follows:

	For the year ended 31 December 2013 RMB	For the year ended 31 December 2012 RMB
Profits before taxation	-18,041,466.24	-2,581,997.86
Profits after taxation	-17,621,279.53	-2,902,586.52

The original acquisition cost of Jingcheng Compressor was RMB224,932,500.

Jingcheng Compressor is valued at RMB250,202,800, according to the results of the Valuation Report.

REASONS FOR AND BENEFITS FOR THE DISPOSAL

The reasons for the Disposal is to reduce the operating costs of the Company, optimize the capital structure and resource allocation of the Company and further focus on the core business, improve the asset quality and enhance the profitability of the Company.

The Directors are of the view that the transaction contemplated under the Disposal will be carried out upon normal commercial terms which are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Further, the Directors (excluding the independent non-executive Directors whose views will be based on the advice of the independent financial adviser) are of the view that the transaction contemplated under the Preliminary Asset Transaction Agreement will be carried out upon normal commercial terms which are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

None of the Directors had material interest in respect of the Disposal and the Preliminary Asset Transaction Agreement. However, in view of good corporate governance practices, Mr. Jiang Zili and Ms. Wu Dongbo, being directors nominated by Jingcheng Holding, had all abstained from voting in the relevant Board resolutions approving the Preliminary Asset Transaction Agreement.

FINANCIAL EFFECT OF THE DISPOSAL AND INTENDED USE OF PROCEEDS

It is estimated that, upon Completion, the Group will record a gain from the Disposal of approximately RMB70,000,000 to RMB90,000,000 (subject to finalization which will be disclosed in a further announcement after the completion of the Public Tender). Such gain is estimated based on the Minimum Consideration receivable from the Disposal, i.e. RMB250,202,800 less the net assets value of the Jingcheng Compressor as at 31 December 2013 of approximately RMB160,472,711.92 and the profits and losses from the date of signing until the date of completion of approximately RMB17,000,000 to RMB20,000,000.

The Board intends to use the net proceeds arising from the Disposal as general working capital of the Group.

IMPLICATIONS UNDER THE LISTING RULES

The Minimum Consideration i.e. the initial bidding price for the 100% interest in Jingcheng Compressor is RMB250,202,800. The Minimum Consideration is based on the results of the Valuation Report. Shareholders should note that the Consideration will depend on the final bid price, but will in any event be no less than the Minimum Consideration.

Using the Minimum Consideration as the basis of calculation, one of the relevant percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Disposal is more than 25% and less than 75%. Thus, the Disposal constitutes a major transaction of the Company and is therefore subject to reporting, announcement, and shareholders' approval requirements at general meeting under Chapter 14 of the Listing Rules.

In addition, Jingcheng Holding is a controlling shareholder of the Company holding approximately 47.78% interest in the Company and therefore, is a connected person of the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Disposal are more than 5%, should Jingcheng Holding successfully be qualified as transferee of the Disposal, the Disposal will also constitute a connected transaction of the Company which is subject to the reporting, annual review, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. As at the date of this announcement, Jingcheng Holding is interested in 201,620,000 A Shares, representing approximately 47.78% of the total issued Shares. Accordingly, Jingcheng Holding and its associates will abstain from voting on the relevant resolution(s) at the AGM to be convened for the purpose of, inter alia, approving the Disposal and the Preliminary Asset Transaction Agreement.

In the event that Jingcheng Holding is successfully qualified as transferee of the Disposal, the Company must seek the approval of the Independent Shareholders, which is required under Chapter 14A of the Listing Rules. Therefore, the Company intends to seek the Independent Shareholders' approval in advance for the Preliminary Asset Transaction Agreement together with the Disposal.

Pursuant to the Listing Rules, the Independent Board Committee comprising all the independent non-executive Directors has been established by the Company to advise the Independent Shareholders on the terms of the Preliminary Asset Transaction Agreement and the transactions contemplated thereunder. An independent financial adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders regarding the Preliminary Asset Transaction Agreement and the transactions contemplated thereunder.

An announcement containing the results of the Public Tender will be made by the Company as soon as practicable after the Public Tender is completed.

A circular containing, inter alia, details of (i) further information on the Disposal and the Preliminary Asset Transaction Agreement; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders with respect to the Preliminary Asset Transaction Agreement; (iii) the advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the Preliminary Asset Transaction Agreement; (iv) the Valuation Report; and (v) a notice convening the AGM is expected to be despatched to the Shareholders on or before 11 June 2014.

GENERAL

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

Jingcheng Holding is principally engaged in the operation and management of State-owned assets within the scope of authorisation; investment and investment management; real estate development and sales of commercial premises; leasing of premises; property management; technology transfer, technical training, technical consultancy and technical services; sales of mechanical and electrical equipment (except for automobiles); technology development..

Jingcheng Compressor is principally engaged in: production of compressors (piston compressor, membrane compressor and membrane compressor of nuclear grading); general logistics (road transport license valid until 7 May 2016) design and sales of compressors (piston compressor, membrane compressor and membrane compressor of nuclear grading) and accessories; sales of machinery equipment and electrical equipment; maintenance of equipment; technical consultancy and technical services; import and export of commodities and technology and acting as import and export agency; professional contracting.

General scope of operation of Jingcheng Compressor: Design and sales of compressors (piston compressor, membrane compressor and membrane compressor of nuclear grading) and accessories; sales of machinery equipment and electrical equipment; maintenance of equipment; technical consultancy and technical services; import and export of commodities and technology and acting as import and export agency; professional contracting.

Fusheng Machine is principally engaged in: production of compressors, refrigerating machines and the related kits and accessories; drilling machines; diesel-driven power systems; sandblasting machines; and spraying machines.

General operation of Fusheng Machine: the repair and after-sales service of its products; the sale and lease of its products; the production of the abovementioned products and the related kits; the wholesale of specialist oil products; commission agency (excluding auction); import and export (excluding State-managed goods); and the application procedures of products involved in quota license management in accordance with relevant regulations of PRC.

DEFINITIONS

In this announcement, unless otherwise indicated in the context, the following terms shall have the meaning set out below:-

“AGM”	the annual general meeting of the Company to be convened on 26 June 2014 and held for the purpose of considering, inter alia, approving the Disposal and the Preliminary Asset Transaction Agreement
“Asset Transaction Agreement”	an asset transaction agreement (產權交易合同) to be entered into between the Company and the successful bidder of the Public Tender pursuant to the Tender Notice and the rules and regulations of CBEX
“Beijing SASAC”	北京市人民政府國有資產監督管理委員會(Beijing Municipal People’s Government State-owned Assets Supervision and Administration Commission)
“Board”	the board of Directors

“CBEX”	北京產權交易所有限公司 (China Beijing Equity Exchange), an institution authorised by the State-owned Assets Supervision and Administration Commission to transact assets and equity of State-owned enterprises under the central government of PRC
“Company”	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 PRC with limited liability and the shares of which are listed on the Main Board of the Stock Exchange and the Shanghai Stock Exchanges
“connected person(s)”	has the meaning as ascribed to it under the Listing Rules
“Consideration”	the purchase price for 100% interest in Jingcheng Compressor
“controlling shareholder”	has the meaning as ascribed to it under the Listing Rules
“Deposit”	the sum of RMB75,000,000 to be paid into an account designated by CBEX within 3 working days after CBEX has confirmed that Jingcheng Holding is a qualified bidder in accordance with the request of Jingcheng Holding and CBEX
“Directors”	the directors of the Company
“Disposal”	the disposal of 100% interest in Jingcheng Compressor
“Fusheng Machine”	北京復盛機械有限公司 (Beijing Fusheng Machine Co., Ltd.), a company established in the PRC and is 30% owned by Jingcheng Compressor
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee comprising all the independent non-executive Directors, namely Mr. Zhang Shuangru, Ms. Wang Hui, Mr. Xie Bingguang and Mr. Wang Deyu, which has been established by the Company to advise the Independent Shareholders on the Preliminary Asset Transaction Agreement and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholders who are not required to abstain from voting at the AGM to be convened for the purposes of approving the Preliminary Asset Transaction Agreement under the Listing Rules

“Jingcheng Compressor”	北京京城壓縮機有限公司 (Beijing Jingcheng Compressor Co., Ltd.), a company established in the PRC and a wholly-owned subsidiary of the Company
“Jingcheng Holding”	北京京城機電控股有限責任公司 (Beijing Jingcheng Machinery Electric Holding Co., Ltd), a company established in the PRC and a controlling shareholder of the Company holding approximately 47.78% interest in the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Minimum Consideration”	the initial bidding price of approximately RMB250,202,800, which is the appraised value of Jingcheng Compressor based on the Valuation Report
“PRC” or “State”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, Macau and Taiwan
“Public Tender”	the public tender for the Disposal through CBEX
“Publication Period”	the publication period for the Public Tender during which qualified bidders may indicate their interest in purchasing the 100% interest in Jingcheng Compressor and register as interested bidders
“RMB”	Renminbi, the lawful currency of the PRC
“Preliminary Asset Transaction Agreement”	the conditional preliminary asset transaction agreement dated 16 May 2014 relating to the Disposal entered into by the Company and Jingcheng Holding
“Shareholders”	the shareholders of the Company
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Tender Notice”	the tender notice (產權轉讓公告) for the Disposal

“Valuation Report”	大正海地人評報字(2014)第75A號《資產評估報告書》(Da Zheng Hai Di Ren Ping Bao Zi (2014) No. 75A) the valuation report prepared by Golden Standard & Headman Appraisal and Advisory Co., Ltd. (北京大正海地人資產評估有限公司) in respect of the 100% interests in Jingcheng Compressor with 31 December 2013 being the base date for valuation
“working day”	a day other Saturday, Sunday and statutory holiday in the PRC, on which commercial banks in the PRC are open for normal business
“%”	percent

For and on behalf of the Board
Beijing Jingcheng Machinery Electric Company Limited
Jiao RuiFang
Company Secretary

Beijing, the PRC, 16 May 2014

As at the date of this announcement, the Board comprises Mr. Wang Pingsheng, Mr. Hu Chuanzhong, Mr. Wu Yanzhang, Mr. Li Junjie and Ms. Jiang Chi as executive Directors, Mr. Jiang Zili and Ms. Wu Dongbo as non-executive Directors and Mr. Zhang Shuangru, Ms. Wang Hui, Mr. Xie Bingguang and Mr. Wang Deyu as independent non-executive Directors.

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