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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)

MAJOR TRANSACTION
PROPOSED ACQUISITION OF ASSETS INVOLVING THE ISSUANCE OF
CONSIDERATION SHARES
AND
PROPOSED ISSUANCE AND PLACING OF A SHARES
UNDER SPECIFIC MANDATE

Reference is made to the announcement of the Company dated 17 August 2020, in relation to a possible major transaction of the Company regarding (i) the Proposed Acquisition; and (ii) the Proposed Issuance and Placing of A Shares.

As at the date of this announcement, China Alliance Appraisal, an asset valuation institution with securities and futures related business qualifications, had completed the valuation of the Target Assets and the Valuation Report had been approved by and filed with Jingcheng Machinery Electric. The Board is pleased to announce that the updated proposal in relation to the Proposed Transactions and other related resolutions were considered and approved at the Second Board Meeting held on 29 December 2020.

PROPOSED ACQUISITION

On 29 December 2020, the Asset Acquisition Agreement which supersedes the Asset Acquisition Framework Agreement to be the definitive agreement of the Proposed Transactions was entered into among the Company, the Vendors, Huang Xiaofeng and Tao Feng. Pursuant to which, the Company agreed to acquire, and the Vendors agreed to sell 80% equity interests in the Target Company at a consideration of RMB246,400,000. The consideration was determined after arms' length negotiations among the Company and the Vendors with reference to the appraised value of the Target Assets and will be satisfied by cash and issuance of Consideration Shares by the Company.

PROPOSED ISSUANCE AND PLACING OF A SHARES

Pursuant to the Asset Acquisition Agreement, the Company also proposed to issue A Shares non-publicly to not more than 35 target subscribers. The size of placing shall be no more than 30% of the total number of issued Shares prior to the completion of the Proposed Transactions and not exceeding 100% of the consideration of the Proposed Acquisition. The Proposed Issuance and Placing of A Shares will be implemented on the basis of the Proposed Acquisition. Its implementation, however, whether successful or not, or whether the amount of proceeds will be raised in full, shall not affect the implementation of the Proposed Acquisition.

SPECIFIC MANDATE

The Company will issue the Consideration Shares and the Placing Shares under the Specific Mandate which is intended to be granted to the Board at the EGM and Class Meetings.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratios for the Proposed Acquisition exceed 25% but less than 100%, the Proposed Acquisition constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, the identities of the target subscribers under the Proposed Issuance and Placing of A Shares have not been confirmed. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the target subscribers and their ultimate beneficial owners are Independent Third Parties. The Proposed Issuance and Placing of A Shares therefore does not constitute a connected transaction under Chapter 14A of the Listing Rules.

The Board anticipates that the Company will continue to maintain sufficient public float to meet the requirements under the Listing Rules upon completion of the Proposed Transactions.

A circular containing, inter alia, further details of the Proposed Acquisition, the Proposed Issuance and Placing of A Shares, the Specific Mandate and the Performance Compensation Agreement, together with a notice of EGM and notice of H Shares Class Meeting, will be despatched to the Shareholders on or before 20 January 2021.

The completion of the Proposed Acquisition and the Proposed Issuance and Placing of A Shares are subject to the satisfaction and/or waiver of the relevant conditions precedent, and therefore, the Company may or may not proceed with completion of such transactions. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

I. INTRODUCTION

Reference is made to the announcement of the Company dated 17 August 2020, in relation to a possible major transaction of the Company regarding (i) the Proposed Acquisition; and (ii) the Proposed Issuance and Placing of A Shares.

As at the date of this announcement, China Alliance Appraisal, an asset valuation institution with securities and futures related business qualifications, had completed the valuation of the Target Assets and the Valuation Report had been approved by and filed with Jingcheng Machinery Electric. The Board is pleased to announce that the updated proposal in relation to the Proposed Transactions and other related resolutions were considered and approved at the Second Board Meeting held on 29 December 2020.

II. PROPOSED ACQUISITION

On 29 December 2020, the Asset Acquisition Agreement which supersedes the Asset Acquisition Framework Agreement to be the definitive agreement of the Proposed Transactions was entered into among the Company, the Vendors, Huang Xiaofeng and Tao Feng. Pursuant to which, the Company agreed to acquire, and the Vendors agreed to sell 80% equity interests in the Target Company at a consideration of RMB246,400,000. The consideration was determined after arms' length negotiations among the Company and the Vendors with reference to the appraised value of the Target Assets and will be satisfied by cash and issuance of Consideration Shares by the Company.

The principal terms of the Proposed Acquisition under the Asset Acquisition Agreement are as follows:-

Date

29 December 2020

Parties

- (i) the Company (as the purchaser);
- (ii) the Vendors;
- (iii) Huang Xiaofeng; and
- (iv) Tao Feng.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the Vendors, Huang Xiaofeng, Tao Feng and their ultimate beneficial owners are Independent Third Parties.

Target Assets

80% equity interests in the Target Company held by the Vendors. Details of (i) equity interests to be transferred by each of the Vendors under the Proposed Acquisition, (ii) equity interests to be held by each of the Vendors after the completion of the Proposed Acquisition, and (iii) the proportion of consideration to be satisfied in cash and Consideration Shares are set out below:

No.	Name of the Vendors	Percentage of equity interests in the Target Company to be transferred under the Proposed Acquisition	Percentage of equity interests in the Target Company after the completion of the Proposed Acquisition	Proportion of payment in cash	Proportion of payment by Consideration Shares
1	Li Hong (李紅)	32.628%	13.13%	35.00%	65.00%
2	Zhao Qing (趙慶)	11.174%	2.79%	35.00%	65.00%
3	Yang Ping (楊平)	9.235%	0.00%	35.00%	65.00%
4	Qingdao Eternal	8.007%	2.00%	35.00%	65.00%
5	Wang Xiaohui (王曉暉)	6.900%	1.73%	35.00%	65.00%
6	Xia Tao (夏濤)	3.442%	0.00%	35.00%	65.00%
7	Wang Huadong (王華東)	3.442%	0.00%	35.00%	65.00%
8	Qian Yuyan (錢雨嫣)	1.377%	0.34%	35.00%	65.00%
9	Xiao Zhonghai (肖中海)	1.007%	0.00%	35.00%	65.00%
10	Xiu Jun (修軍)	0.899%	0.00%	35.00%	65.00%
11	Fu Dun (傅敦)	0.647%	0.00%	35.00%	65.00%
12	Chen Zhengyan (陳政言)	0.645%	0.00%	35.00%	65.00%
13	Zhang Li (張利)	0.344%	0.00%	100.00%	–
14	Xu Binglei (徐炳雷)	0.224%	0.00%	100.00%	–
15	Yang Lunsheng (陽倫勝)	0.009%	0.00%	100.00%	–
16	Xin Lan (辛蘭)	0.009%	0.00%	100.00%	–
17	Ying Rucui (英入才)	0.009%	0.00%	100.00%	–
18	Li Wei (李威)	0.003%	0.00%	100.00%	–

Upon completion of the Proposed Acquisition, the Target Company will become a direct non-wholly owned subsidiary of the Company.

Transaction Price

As at the date of this announcement, the valuation of the Target Assets has been completed. With reference to the Valuation Report, the appraised value of the entire equity interests of the Target Company as of the Pricing Benchmark Date for Consideration Shares is RMB308,000,000, thus the appraised value of the Target Assets is RMB246,400,000.

As the valuation on the Target Assets referred to above was prepared using the income approach, it is regarded as a profit forecast under Rule 14.61 of the Listing Rules. Details of the principal assumptions upon which the valuation was based on are as follows:

(I) General Assumptions

1. Transaction assumption: it is assumed that all assets to be appraised are in the process of transaction and the valuation by the valuer is based on simulated market including the terms of the transaction of the assets to be appraised.
2. Open market assumption: it is assumed that parties to the assets transaction or the proposed assets transaction in the market are in equal position and have opportunities and time to obtain enough market information in order to make rational judgments on the assets including the functions, purposes and transaction prices.
3. Assumption of operation on a going concern: it is assumed that the appraised entity fully complies with all the relevant laws and regulations and will continue to operate in the foreseeable future.

(II) Specific Assumptions

1. The specific valuation purposes set out in the Valuation Report represent the basic assumptions of the valuation;
2. There are no material changes to the prevailing relevant laws and regulations and macroeconomic conditions in the country. There are no unforeseeable material changes to the external economic conditions including the interest rates, exchange rates, taxation base and tax rates and other policy-based levies;
3. It is assumed that the appraised entity will continue to operate as a going concern with the diligent work of its future management team and the existing operating management mode, operation scope and patterns are consistent with the current direction;
4. It is assumed that the appraised assets will be put into continuous use in a manner consistent with their current use and manner, scale, frequency and environment of use without taking into account the best use of each assets;

5. It is assumed that based on the current method and level of management of the Company, no other factors of force majeure or unforeseeable factors may have material adverse impact on the appraised entity;
6. The relevant underlying information and financial information provided by the appraised entity and the entrusting party are true, accurate and complete;
7. The comparative financial reports, transaction information of the Company relied upon by the appraisers are true and reliable;
8. The scope of the valuation is based on the application for valuation provided by the entrusting party and the appraised entity, without considering the contingent assets or contingent liabilities beyond the list provided by the entrusting party and the appraised entity;
9. It is assumed that there will be net cash flows received by the appraised entity evenly throughout the year; and
10. It is assumed that the appraised entity will continue to be qualified as a high-tech enterprise and enjoy a preferential income tax rate of 15% in the future.

A letter from the Board and a letter from ShineWing Certified Public Accountants LLP on the profit forecasts are included in the appendices to this announcement for the purpose of Rule 14.62 of the Listing Rules.

Pricing basis and issue price

The Pricing Benchmark Date for Consideration Shares is the date of the announcement on the resolutions relating to the Proposed Acquisition passed at the fifth extraordinary meeting of the tenth session of the Board convened by the Company.

Pursuant to the requirements of the “Administrative Measures for the Material Asset Reorganisations of Listed Companies” (《上市公司重大資產重組管理辦法》) issued by the CSRC, the Company and the Vendors determined that the issue price of the Consideration Shares shall be no less than 90% of the average trading price of A Shares of the Company for the 20 trading days immediately preceding the Pricing Benchmark Date for Consideration Shares, being RMB3.42 per A Share.

During the period from the Pricing Benchmark Date for Consideration Shares to the Issuance Completion Date, in the event of any ex-rights or ex-dividends events including distribution of dividends, bonus shares issue, rights issue and the conversion of capital reserve into share capital, etc., corresponding adjustments will be made to the issue price of the Consideration Shares according to the relevant requirements of the CSRC and the SSE.

Type and nominal value of the Consideration Shares

Ordinary shares denominated in RMB (A Shares) with a nominal value of RMB1.00 per share.

Payment of consideration

The consideration of the Proposed Acquisition in the amount of RMB246,400,000 shall be satisfied by cash and issuance of Consideration Shares by the Company at the completion of the Proposed Acquisition. In which, the cash consideration amounts to RMB87,433,884.41, representing 35.48% of the total consideration and the shares consideration amounts to RMB158,966,115.59, representing 64.52% of the total consideration.

Number of Consideration Shares to be issued

Based on the proportion of payment by Consideration Shares, the total consideration of the Proposed Acquisition and the issue price of the Consideration Shares, 46,481,314 Consideration Shares will be issued in total. The number of Consideration Shares to be issued under the Proposed Acquisition will be rounded to the nearest unit, with the fractional portion being renounced voluntarily by the Vendors.

Specific details on the consideration are set out in the table below. The final number of Consideration Shares to be issued shall be subject to the approval of the Shareholders at the EGM and Class Meetings and the approval of the CSRC.

No.	Name of the Vendors	Number of shares in the Target Assets to be transferred (0,000 shares)	Total consideration (RMB'0,000)	Cash consideration (RMB'0,000)	Share consideration (RMB'0,000)	Number of Consideration Shares to be issued (0,000 shares)
1	Li Hong (李紅)	648.08	10,049.31	3,517.26	6,532.05	1,909.96
2	Zhao Qing (趙慶)	221.94	3,441.46	1,204.51	2,236.95	654.08
3	Yang Ping (楊平)	183.43	2,844.32	995.51	1,848.81	540.59
4	Qingdao Eternal	159.04	2,466.06	863.12	1,602.94	468.70
5	Wang Xiaohui (王曉暉)	137.06	2,125.35	743.87	1,381.48	403.94
6	Xia Tao (夏濤)	68.38	1,060.27	371.09	689.17	201.51
7	Wang Huadong (王華東)	68.38	1,060.27	371.09	689.17	201.51
8	Qian Yuyan (錢雨嫣)	27.35	424.11	148.44	275.67	80.60
9	Xiao Zhonghai (肖中海)	20.00	310.13	108.54	201.58	58.94
10	Xiu Jun (修軍)	17.86	276.90	96.91	179.98	52.63
11	Fu Dun (傅敦)	12.86	199.37	69.78	129.59	37.89
12	Chen Zhengyan (陳政言)	12.82	198.80	69.58	129.22	37.78
13	Zhang Li (張利)	6.84	106.03	106.03	-	-
14	Xu Binglei (徐炳雷)	4.44	68.92	68.92	-	-
15	Yang Lunsheng (陽倫勝)	0.17	2.65	2.65	-	-
16	Xin Lan (辛蘭)	0.17	2.65	2.65	-	-
17	Ying Rucai (英入才)	0.17	2.65	2.65	-	-
18	Li Wei (李威)	0.05	0.78	0.78	-	-
Total			<u>24,640.00</u>	<u>8,743.39</u>	<u>15,896.61</u>	<u>4,648.13</u>

During the period from the Pricing Benchmark Date for Consideration Shares to the Issuance Completion Date, in the event if any ex-rights or ex-dividends events including distribution of dividends, bonus shares issue, rights issue and conversion of capital reserve into share capital, etc., corresponding adjustments will be made to the number of Consideration Shares to be issued according to the relevant requirements of the CSRC and the SSE.

Place of listing

The A Shares to be issued pursuant to the Proposed Acquisition will be listed and traded on the SSE.

Lock-up period

The Consideration Shares to be issued by the Company to Li Hong, Zhao Qing, Qingdao Eternal, Wang Xiaohui and Qian Yuyan shall neither be transferred in any way within 12 months from the Issuance Completion Date nor pledged nor encumbered. Upon completion of the abovementioned 12-month lock-up period, Li Hong, Zhao Qing, Qingdao Eternal, Wang Xiaohui and Qian Yuyan may unlock their respective Consideration Shares in the following manner:

- (i) 1st phase: upon completion of the 12-month lock-up period from the Issuance Completion Date and satisfaction of the compensation obligations for the year ending 31 December 2021 (if any) under the Performance Compensation Agreement, the outstanding portion in 50% of their Consideration Shares after deducting the number of Compensation Shares used to compensate the Company for the year (if any) shall be unlocked;
- (ii) 2nd phase: upon satisfaction of the compensation obligations for the year ending 31 December 2022 (if any) under the Performance Compensation Agreement, the outstanding portion in 20% of their Consideration Shares after deducting the number of Compensation Shares used to compensate the Company for the year (if any) shall be unlocked;
- (iii) 3rd phase: upon satisfaction of all the corresponding compensation obligations (if any) in all the Profit Guarantee Periods under the Performance Compensation Agreement, the remaining Consideration Shares that are yet to be unlocked shall be unlocked.

Yang Ping, Xiao Zhonghai, Xia Tao, Wang Huadong, Xiu Jun, Fu Dun and Chen Zhengyan shall neither transfer in any way nor pledge nor encumber the Consideration Shares within 12 months from the Issuance Completion Date.

If the Proposed Acquisition is investigated by the judicial authorities or the CSRC due to false representations, misleading statements or material omissions in the information provided or disclosed under the Proposed Acquisition, Li Hong, Zhao Qing, Qingdao Eternal, Wang Xiaohui, Qian Yuyan, Yang Ping, Xiao Zhonghai, Xia Tao, Wang Huadong, Xiu Jun, Fu Dun and Chen Zhengyan shall not transfer the Consideration Shares acquired under the Proposed Acquisition until the investigation results are determined.

Additional A Shares received by the Vendors in the event of bonus shares issue, conversion of capital reserve into share capital and rights issue of the Company during the lock-up period shall also be subject to the abovementioned lock-up period arrangement.

Attribution of profit or loss during the transitional period

The corresponding increase in net assets of the Target Assets attributable to the increase in net assets of the Target Company arising from its profit or other reasons during the transitional period from the Valuation Benchmark Date to the Share Transfer Completion Date shall be enjoyed by the Company, whilst the corresponding decrease in net assets of the Target Assets attributable to the decrease in net assets of the Target Company arising from its loss or other reasons during the said transitional period shall be borne by the Vendors on a pro-rata basis of their shareholdings in the Target Company prior to the Proposed Acquisition, in which the Vendors shall indemnify the Company for the amount of such decrease in cash within 10 days from the issuance date of a special audit report by a qualified accounting firm engaged by the Company in determining the profit or loss of the Target Assets during the transitional period.

Accumulated undistributed profit arrangement

The accumulated undistributed profit of the Company prior to the Issuance Completion Date shall be shared by new and pre-existing Shareholders when the Proposed Acquisition is completed in accordance with their shareholding proportions in the Company after the completion of the Proposed Acquisition.

Completion arrangement

The Proposed Acquisition shall be completed within 20 working days (or otherwise agreed among the Company and the Vendors) from the date of satisfaction of the conditions precedent of the Asset Acquisition Agreement, the procedures of which shall be implemented as follows:

- (i) Li Hong shall first transfer 2,200,000 shares in the Target Company to the Company within 5 days upon receipt of the approval from the CSRC;
- (ii) the Target Company shall convene a shareholders' meeting according to the relevant laws and pass the resolution to change the form of the Target Company from a company limited by shares to a company with limited liability; and
- (iii) upon the Target Company becoming a company with limited liability, the Vendors shall transfer their respective equity interests of the Target Company contemplated under the Asset Acquisition Agreement to the Company.

The Company shall settle all the cash consideration, being RMB87,433,884.41, to the Vendors within one month upon (i) the proceeds from the Proposed Issuance and Placing of A Shares have been raised in full; (ii) completion of the registration procedures for the transfer of the Target Assets to the Company; and (iii) completion of the procedures for the change of the registration of the directors, supervisors and senior managements of the Target Company at the State Administration for Industry and Commerce, whichever is the latest.

If any of the Undertaking Parties has not satisfied the Profit Compensation (if any) before the payment of cash consideration by the Company, the Company shall be entitled to deduct such amount from the cash consideration payable to that Undertaking Party(ies). Such deduction shall be deemed as fulfilment of Profit Compensation by the particular Undertaking Party(ies). In the event where the amount of Profit Compensation is insufficient to net off the amount of cash consideration payable by the Company, the Undertaking Parties, Huang Xiaofeng and Tao Feng shall make compensation collectively to the Company pursuant to the terms of the Asset Acquisition Agreement or the Performance Compensation Agreement. The Undertaking Parties, Huang Xiaofeng and Tao Feng undertook to assume joint and several liability to indemnify the Company with respect to Profit Compensation.

Excess profit reward

In the event where the realised net profits of the Target Company exceed the Guaranteed Profits during all the Profit Guarantee Periods, 30%, 40% and 50% of the realised net profits of the Target Company in excess the Guaranteed Profits for the years ending 31 December 2021, 2022 and 2023 respectively shall be given to the then core management members of the Target Company by the Company as cash reward incentives. The amount of the cash reward incentives shall not in any event exceed 20% of the consideration of the Proposed Acquisition.

Validity period of the resolution

The resolution regarding the Proposed Acquisition shall be valid for 12 months from the date of the passing at the EGM and the Class Meetings. If the Company obtains the approval of the Proposed Transactions from the CSRC during such validity period, such validity will be automatically extended to the completion date of the Proposed Transactions.

Governing law

PRC law

III. PROPOSED ISSUANCE AND PLACING OF A SHARES

Pursuant to the Asset Acquisition Agreement, the Company also proposed to issue A Shares non-publicly to not more than 35 target subscribers. The size of placing shall be no more than 30% of the total number of issued Shares prior to the completion of the Proposed Transactions and not exceeding 100% of the consideration of the Proposed Acquisition. The Proposed Issuance and Placing of A Shares will be implemented on the basis of the Proposed Acquisition. Its implementation, however, whether successful or not, or whether the amount of proceeds will be raised in full, shall not affect the implementation of the Proposed Acquisition.

Principal terms of the Proposed Issuance and Placing of A Shares

Issuer

The Company

Type and nominal value of shares to be issued

Ordinary shares denominated in RMB (A Shares) with a nominal value of RMB1.00 per share

Method of Issue

Non-public issuance to specific targets

Target subscribers

Not more than 35 target subscribers. The identities of whom are to be confirmed.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the target subscribers and their ultimate beneficial owners are Independent Third Parties.

Subscription method

All target subscribers will subscribe in cash for the Placing Shares under the Proposed Issuance and Placing of A Shares.

Pricing basis of Placing Shares

The Proposed Issuance and Placing of A Shares will be conducted based on the prices offered by the target subscribers. The issue price shall not be less than 80% of the average trading price of the A Shares for the 20 trading days immediately preceding the first day of the issuance period of the Proposed Issuance and Placing of A Shares.

The final issue price will be determined, after the approval of the Proposed Issuance and Placing of A Shares has been obtained from the CSRC, by negotiation between the Board and the lead underwriter, pursuant to the authorization of the Shareholders' meetings, and with reference to the provisions of the relevant laws, administrative regulations and regulatory documents, as well as the prices offered by the target subscribers.

Amount of proceeds to be raised and number of Placing Shares to be issued

The amount of proceeds to be raised from the Proposed Issuance and Placing of A Shares shall not exceed 100% of the consideration of the Proposed Acquisition while the number of Placing Shares to be issued shall be no more than 30% of the total number of issued Shares prior to the completion of the Proposed Transactions.

The final number of Placing Shares is subject to the approval by the CSRC.

The terms in respect of the Proposed Issuance and Placing of A Shares (including but not limited to the number of Placing Shares and the issue price) will be determined and finalised in accordance with the subscription agreement to be signed.

Place of listing

The Placing Shares will be listed and traded on the SSE.

Use of proceeds

The proceeds raised from the Proposed Issuance and Placing of A Shares are intended to settle the amount of consideration paid by cash, the taxes and fees of the intermediaries of the Proposed Transactions and to replenish the working capital of the Company and Target Assets, etc., in which the amount used for the replenishment of working capital will not exceed 25% of the consideration of the Proposed Acquisition or 50% of the amount of proceeds raised from the Proposed Issuance and Placing of A Shares.

The total amount of the proceeds raised from the Proposed Issuance and Placing of A Shares will be no more than RMB158,966,100, not exceeding 100% of the consideration of the Proposed Acquisition. Specific details of the use of proceeds are as follows:

Unit: RMB 0'000

No.	Items	Amount
1	Part of the consideration of the Proposed Acquisition	8,743.39
2	Replenishment of working capital of the Company and taxes and fees of the intermediaries of the Proposed Acquisition	4,153.22
3	Replenishment of working capital of the Target Assets	<u>3,000.00</u>
	Total	<u><u>15,896.61</u></u>

Lock-up period

The Placing Shares subscribed by all target subscribers shall not be transferred within 6 months upon the completion of the Proposed Issuance and Placing of A Shares but such Placing Shares may be transferrable thereafter subject to the relevant requirements of the CSRC and the SSE.

Upon completion of the Proposed Issuance and Placing of A Shares, the increased shareholding received by the target subscribers for reasons such as bonus shares issue and conversion of capital reserve into share capital of the Company, etc. shall also be subject to the above lock-up period arrangement.

Accumulated undistributed profit arrangement

The accumulated undistributed profit of the Company prior to the completion of issuance of the Proposed Issuance and Placing of A Shares shall be shared by the new and pre-existing Shareholders when the Proposed Issuance and Placing of A Shares is completed in accordance with their shareholding proportions in the Company after the completion of the Proposed Issuance and Placing of A Shares.

Validity period of the resolution

The resolution regarding the Proposed Issuance and Placing of A Shares shall be valid for 12 months from the date of the passing at the EGM and the Class Meetings. If the Company obtains the approval of the Proposed Transactions from the CSRC during such validity period, such validity will be automatically extended to the completion date of the Proposed Transactions.

Governing law

PRC law

IV. CONDITIONS PRECEDENT OF THE ASSET ACQUISITION AGREEMENT

The implementation of the Proposed Transactions is subject to the satisfaction of all the following conditions precedent:

- (i) the approval of the Proposed Transactions by the Shareholders at the EGM and the Class Meetings; and
- (ii) all the necessary approvals by the Chinese governmental authorities, including but not limited to the approval of the Proposed Transactions by the CSRC, and other necessary prior approvals, authorizations or consents as or may be required by laws and regulations and regulatory authorities in respect of the Proposed Transactions (if applicable).

V. LIABILITY FOR BREACH OF THE ASSET ACQUISITION AGREEMENT

In the event of a breach of contract prior to the completion of the Proposed Acquisition, the defaulting party shall pay the non-defaulting party a penalty of 5% of the transaction price of the Proposed Acquisition, amounting to RMB12.32 million. Should the Vendors or Huang Xiaofeng and Tao Feng be the defaulting party, the Vendors, Huang Xiaofeng and Tao Feng shall be jointly and severally liable to the Company for the liquidated damages.

VI. PROFIT GUARANTEE AND COMPENSATION UNDERTAKING

On 29 December 2020, the Company also entered into the Performance Compensation Agreement with the Undertaking Parties, Huang Xiaofeng and Tao Feng. Pursuant to which, the Undertaking Parties undertook to compensate the Company on a yearly basis for each of the years during the Profit Guarantee Periods should the Realised Profit in a relevant year fall short of the following Guaranteed Profits for the corresponding year:

- (a) RMB27,500,000 for the year ending 31 December 2020;
- (b) RMB38,000,000 for the year ending 31 December 2021;
- (c) RMB41,000,000 for the year ending 31 December 2022; and
- (d) RMB43,000,000 for the year ending 31 December 2023.

Profit guarantee

In the event where the the Realised Profit in a relevant year during the Profit Guarantee Periods falls short the corresponding Guaranteed Profit, the Company shall determine the amount of Profit Compensation for the year based on the formula below and put forward the resolutions relating to Profit Compensation for the consideration and approval of the Shareholders at the general meeting and class meetings in which the Compensation Shares shall thereafter be repurchased and cancelled by the Company at the price of RMB1/share.

$$\begin{array}{l} \text{Amount of Profit} \\ \text{Compensation for the} \\ \text{relevant year during} \\ \text{the Profit Guarantee} \\ \text{Periods} \end{array} = \frac{\begin{array}{l} \text{(The amount of the corresponding} \\ \text{Guaranteed Profit in the relevant year – the} \\ \text{Realised Profit in the corresponding year)} \\ \text{The sum of the Guaranteed Profits over} \\ \text{the Profit Guarantee Periods} \end{array}}{\text{The sum of the Guaranteed Profits over}} \times \begin{array}{l} \text{The transaction price} \\ \text{of the Proposed} \\ \text{Acquisition} \end{array}$$

In the event that the calculation result of the above formula is positive, the Undertaking Parties are required to make Profit Compensation to the Company. The amount of Profit Compensation shall be satisfied in the following manner:

- (a) the Undertaking Parties shall compensate the Company by their respective Consideration Shares received under the Asset Acquisition Agreement, at the issue price, as Compensation Shares; and
- (b) in the event where the value of the Compensation Shares is insufficient to settle the amount Profit Compensation for the year, the shortfall shall be satisfied by Cash Compensation by the Undertaking Parties.

The amount of Profit Compensation to be borne by each of the Undertaking Parties shall be determined based on the proportion of their respective equity interests in the Target Company to be transferred under the Proposed Acquisition. The amount of Profit Compensation made in a relevant year during the Profit Guarantee Periods cannot be reversed in subsequent years during the Profit Guarantee Periods.

Additionally, the calculation in respect of the number of Compensation Shares to be made by the Undertaking Parties in the relevant year during the Profit Guarantee Periods is as follows:

$$\begin{array}{l} \text{The number of Compensation Shares} \\ \text{to be made by the Undertaking Parties} \\ \text{in the relevant year during the Profit} \\ \text{Guarantee Periods} \end{array} = \frac{\begin{array}{l} \text{The amount of Profit Compensation payable by the} \\ \text{Undertaking Parties in the relevant year during the} \\ \text{Profit Guarantee Periods} \end{array}}{\text{The issue price of the Consideration Shares}}$$

The number of Compensation Shares to be made by the Undertaking Parties shall not exceed their respective number of Consideration Shares acquired under the Proposed Acquisition. The Undertaking Parties together with Huang Xiaofeng and Tao Feng undertook to assume joint and several liability of the Cash Compensation of the Undertaking Parties to indemnify the Company.

Impairment compensation arrangement

Upon the expiry of each of the Profit Compensation Periods, the Company will engage an accountant to conduct an Impairment Test on the Target Assets as at the Impairment Test Benchmark Date. If the impairment loss of the Target Assets exceeds the amount of Profit Compensation paid by the Undertaking Parties to the Company for the corresponding Profit Guarantee Period, the Undertaking Parties shall indemnify the Company for such difference.

In any event, the total amount of compensation to be borne by the Undertaking Parties under the Profit Compensation and the impairment compensation arrangement shall not exceed the total value of the cash consideration and share consideration received by them under the Proposed Acquisition.

It was further undertaken by Huang Xiaofeng and Tao Feng to assume joint and several liability for the compensation to be made by the Undertaking Parties under the impairment compensation arrangement.

Conditions Precedent

The implementation of the Performance Compensation Agreement is subject to the satisfaction of all the following conditions precedent:

- (i) the approval of the Proposed Transactions by the Shareholders at the EGM and the Class Meetings; and
- (ii) all the necessary approvals by the Chinese governmental authorities, including but not limited to the approval of the Proposed Transactions by the CSRC, and other necessary prior approvals, authorizations or consents as or may be required by laws and regulations and regulatory authorities in respect of the Proposed Transactions (if applicable).

The Performance Compensation Agreement is dependent on the implementation of the Asset Acquisition Agreement. Should the Asset Acquisition Agreement be terminated, the Performance Compensation Agreement will be terminated immediately.

VII. INFORMATION OF THE PARTIES

Information of 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.

Through the Proposed Acquisition, the Company will acquire the control over the Target Company and expand its business scope to smart production line overall solution business.

Information of the Vendors and Tao Feng

Qingdao Eternal is a company incorporated in the PRC with limited liability which is ultimately controlled by Tao Feng, a natural person in the PRC. It is principally engaged in economic information consulting (excluding finance, securities and futures), business management consulting, real estate information consulting, conference services and exhibition and display services.

Save for Qingdao Eternal, the other 17 Vendors (namely Li Hong, Zhao Qing, Yang Ping, Wang Xiaohui, Xiao Zhonghai, Xia Tao, Wang Huadong, Qian Yuyan, Xiu Jun, Fu Dun, Chen Zhengyan, Zhang Li, Xu Binglei, Yang Lunsheng, Xin Lan, Ying Rucai and Li Wei) are all natural persons in the PRC.

Information of the Target Group and Huang Xiaofeng

The Target Company is a company incorporated in the PRC limited by shares which is ultimately controlled by Li Hong and her spouse, Huang Xiaofeng, both being natural persons in the PRC. It is principally engaged in constructing the smart and informatized production lines, updating and reforming the industrial integrated solutions.

The Target Group is principally engaged in (i) constructing the smart and informatized production lines, updating and reforming the industrial integrated solutions; and (ii) the research and development, manufacturing and sales, processing, marketing and maintenance of robot and automated equipment, and the business of import and export of related goods and technologies licensed by the PRC.

Set out below is the audited consolidated financial information of the Target Group for the two years ended 31 December 2019 and the nine months ended 30 September 2020 prepared in accordance with generally accepted accounting principles in the PRC:

Unit: RMB 0'000

	For the nine months ended 30 September 2020	For the year ended 31 December 2019	For the year ended 31 December 2018
Net profit before taxation	113.00	1,551.92	1,064.58
Net profit after taxation	121.76	1,347.67	934.15

According to the audited consolidated financial information of the Target Group, the Target Group recorded an audited consolidated net assets of approximately RMB59,078,499.67 as at 30 September 2020.

Information of the Undertaking Parties

The Undertaking Parties are Li Hong, Zhao Qing, Qingdao Eternal, Wang Xiaohui and Qian Yuyan, all being the existing shareholders of the Target Company.

VIII. REASONS AND BENEFITS OF THE PROPOSED TRANSACTIONS AND THE PROFIT COMPENSATION

1. Improve the profitability of the Company and safeguard the interests of minority investors

The Proposed Transactions will inject assets with promising prospects and high profitability into the Company, which will be beneficial for enhancing the Company's profitability and safeguarding the interests of the Shareholders. The ability to continue as a going concern of the Company can also be strengthened through the coordinated development between the business of smart factory overall solutions and the pressure container business of the Company.

The amount of Guaranteed Profits in which the Target Company should achieve for each of the 4 years ending 31 December 2020, 2021, 2022 and 2023 are set out clearly in the Performance Compensation Agreement. Should the performance of the Target Company fail to achieve the Guaranteed Profits, Profit Compensation is required to be made by the Undertaking Parties. Such arrangement guarantees the profitability of the Proposed Acquisition and effectively protects the interests of the Company and the Shareholders.

2. Achieve complementary advantages and establish the smart manufacture business platform

The Proposed Transactions will bring together high quality enterprise in the smart manufacture industry to the Company, achieving complementary advantages between the Target Company and the Company. The industrial chain will be refined and the overall competitiveness of the Company will be enhanced. The scope of business and market of the Company will also be further expanded.

The Proposed Transactions will also allow the Company to benefit from the accumulated technologies and resources in smart manufacture industry of the Target Company and establish a "high-tech and high quality" industrial platform.

3. Utilize the capital operation of the Company and establish an active capital operation platform

Through financing, merger and restructuring of the Proposed Transactions, the Company will establish an active capital operation platform. The Proposed Transactions can effectively promote the structure optimization of the Company and allow the Company to better comply with the relevant requirements in the PRC in respect of enterprise merger and restructuring through leveraging on the advantages of the capital operation platform.

As such, the Directors are of the view that the terms of the Proposed Transactions and the Profit Compensation are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IX. IMPACT OF THE PROPOSED TRANSACTIONS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As the issue price under the Proposed Issuance and Placing of A Shares is yet to be determined, impact of the Proposed Issuance and Placing of A Shares on the shareholding structure of the Company is yet to be assessed.

The control over the Company before and after the Proposed Acquisition will remain unchanged in which Jingcheng Machinery Electric will remain to be the controlling Shareholder of the Company upon completion of the Proposed Acquisition. The shareholding structure of the Company before and after the Proposed Acquisition is as follows:

Unit: 0,000 Shares

Name of Shareholders	Before the Proposed Acquisition		After the Proposed Acquisition	
	Number of Shares held	Percentage of shareholding	Number of Shares held	Percentage of shareholding
Jingcheng Machinery Electric	24,573.51	50.67%	24,573.51	46.24%
HKSCC NOMINEES LIMITED	9,931.51	20.48%	9,931.51	18.69%
Li Qidong (李奇冬)	250.66	0.52%	250.66	0.47%
Huang Zhiping (黃芝萍)	179.43	0.37%	179.43	0.34%
Xu Zihua (徐子華)	170.84	0.35%	170.84	0.32%
Xu Jiali (徐加力)	168.98	0.35%	168.98	0.32%
Xu Rui (徐瑞)	168.12	0.35%	168.12	0.32%
He Yong (何勇)	154.63	0.32%	154.63	0.29%
Jin Xuanfeng (金炫鋒)	136.00	0.28%	136.00	0.26%
Hong Kong Securities Clearing Company Limited	130.90	0.27%	130.90	0.25%
Other holders of A Shares	12,635.42	26.05%	12,635.42	23.77%
Total of the pre-existing Shareholders of the Company	48,500.00	100.00%	48,500.00	91.25%

Name of Shareholders	Before the Proposed Acquisition		After the Proposed Acquisition	
	Number of Shares held	Percentage of shareholding	Number of Shares held	Percentage of shareholding
Li Hong (李紅)	–	–	1,909.96	3.59%
Zhao Qing (趙慶)	–	–	654.08	1.23%
Yang Ping (楊平)	–	–	540.59	1.02%
Qingdao Eternal	–	–	468.70	0.88%
Wang Xiaohui (王曉暉)	–	–	403.94	0.76%
Xia Tao (夏濤)	–	–	201.51	0.38%
Wang Huadong (王華東)	–	–	201.51	0.38%
Qian Yuyan (錢雨嫣)	–	–	80.60	0.15%
Xiao Zhonghai (肖中海)	–	–	58.94	0.11%
Xiu Jun (修軍)	–	–	52.63	0.10%
Fu Dun (傅敦)	–	–	37.89	0.07%
Chen Zhengyan (陳政言)	–	–	37.78	0.07%
Total of the Vendors	–	–	4,648.13	8.75%
Total			53,148.13	100.00%

X. SPECIFIC MANDATE

The Company will issue the Consideration Shares and the Placing Shares under the Specific Mandate which is intended to be granted to the Board at the EGM and Class Meetings.

XI. LISTING RULES IMPLICATIONS

As the highest applicable percentage ratios for the Proposed Acquisition exceed 25% but less than 100%, the Proposed Acquisition constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, the identities of the target subscribers under the Proposed Issuance and Placing of A Shares have not been confirmed. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the target subscribers and their ultimate beneficial owners are Independent Third Parties. The Proposed Issuance and Placing of A Shares therefore does not constitute a connected transaction under Chapter 14A of the Listing Rules.

The Board anticipates that the Company will continue to maintain sufficient public float to meet the requirements under the Listing Rules upon completion of the Proposed Transactions.

A circular containing, inter alia, further details of the Proposed Acquisition, the Proposed Issuance and Placing of A Shares, the Specific Mandate and the Performance Compensation Agreement, together with a notice of EGM and notice of H Shares Class Meeting, will be despatched to the Shareholders on or before 20 January 2021.

XII. FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save and except for the fund raising activity as set out below, the Company did not conduct any fund raising activities during the past 12 months immediately preceding the date of this announcement.

Fund raising activity	On 9 July 2020, the Company issued a total of 63,000,000 A Shares at an issue price of RMB3.41/A Share to Jingcheng Machinery Electric under the Non-public Issuance of A Shares
Date of the relevant publications	Announcements of the Company dated 6 May 2019, 15 July 2019, 25 July 2019, 9 September 2019, 26 September 2019, 8 November 2019, 16 December 2019, 18 December 2019, 2 March 2020, 30 June 2020 and 10 July 2020, and the circulars of the Company dated 27 June 2019 and 18 November 2019
Net proceeds (approximate)	RMB207,725,197.96
Intended use of proceeds	<ol style="list-style-type: none">(1) The construction project of the Type IV cylinder automation digital control production line;(2) the research and development project of hydrogen energy product; and(3) the repayment of debts owed to Jingcheng Machinery Electric and financial institutions.
Actual use of proceeds	As at the date of this announcement, the proceeds have been applied in the above projects in consistent with their intended uses.

XIII. DEFINITIONS

In this announcement, the following expressions have the following meanings unless the context requires otherwise:

“A Share(s)”	ordinary shares of the Company with a nominal value of RMB1.00 each, which are issued in the PRC, subscribed for in RMB and listed on the SSE (stock code: 600860)
“A Shares Class Meeting”	the class meeting of A Shareholders
“A Shareholders”	holders of A Shares
“Asset Acquisition Agreement”	the agreement dated 29 December 2020 entered into among the Company, the Vendors, Huang Xiaofeng and Tao Feng in relation to the Proposed Transactions which supersedes the Asset Acquisition Framework Agreement to be the definitive agreement of the Proposed Transactions
“Asset Acquisition Framework Agreement”	the agreement dated 17 August 2020 entered into among the Company and the Vendors in relation to the Proposed Transactions
“Board”	the board of directors of the Company
“Cash Compensation”	the amount in cash to be paid by the Undertaking Parties to the Company should the value of the Compensation Shares be insufficient to satisfy the Profit Compensation
“China Alliance Appraisal”	China Alliance Assets Appraisal Co., Ltd. (北京中同華資產評估有限公司)
“Class Meetings”	the A Shares Class Meeting and the H Shares Class Meeting to be convened by the Company to consider, amongst others, the Proposed Acquisition, the Proposed Issuance and Placing of A Shares, the Specific Mandate and the Performance Compensation Agreement

“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 SSE
“Compensation Shares”	the Consideration Shares received by the Undertaking Parties under the Proposed Acquisition which are paid back to the Company as compensation under the Performance Compensation Agreement
“connected person”	has the same meaning ascribed thereto under the Listing Rules
“Consideration Share(s)”	the new A Shares to be issued by the Company to the Vendors as part of the consideration of the Proposed Acquisition pursuant to the Asset Acquisition Agreement
“controlling shareholder”	has the same meaning ascribed thereto under the Listing Rules
“CSRC”	China Securities Regulatory Commission
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting to be convened by the Company to consider, amongst others, the Proposed Acquisition, the Proposed Issuance and Placing of A Shares, the Specific Mandate and the Performance Compensation Agreement
“Group”	the Company and its subsidiaries
“Guaranteed Profit(s)”	the amount of guaranteed profit(s) over the Profit Guarantee Periods pursuant to the Performance Compensation Agreement, being RMB27,500,000 for the year ending 31 December 2020; RMB38,000,000 for the year ending 31 December 2021; RMB41,000,000 for the year ending 31 December 2022 and RMB43,000,000 for the year ending 31 December 2023
“H Share(s)”	overseas listed shares of the Company with a nominal value of RMB1.00 each, which are issued in Hong Kong, subscribed for in Hong Kong dollars and listed on the Main Board of the Stock Exchange (stock code: 00187)
“H Shares Class Meeting”	the class meeting of H Shareholders

“H Shareholders”	holders of H Shares
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huang Xiaofeng”	黃曉峰, a natural person in the PRC and an Independent Third Party, and together with his spouse, Li Hong, are the ultimate beneficial owners of the Target Company
“Impairment Test”	the audit or review conducted by the accounting firm engaged by the Company to determine the net asset value of the Target Company and impairment loss of the Target Assets as at the Impairment Test Benchmark Date
“Impairment Test Benchmark Date”	the date on which the information of the Impairment Test would be based on
“Independent Third Party(ies)”	(an) independent third party(ies) not connected with the Group and any Director, chief executive or substantial shareholder of the Group or any of its subsidiaries or their respective associate of any of them as defined in the Listing Rules
“Issuance Completion Date”	the date on which the Consideration Shares to be issued are registered under the name of the Vendors
“Jingcheng Machinery Electric”	北京京城機電控股有限責任公司 (Beijing Jingcheng Machinery Electric Holding Co., Ltd.*), a company incorporated in the PRC and holding 50.67% interest in the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-public Issuance of A Shares”	the non-public issuance of not more than 84,400,000 A Shares to Jingcheng Machinery Electric
“Performance Compensation Agreement”	the agreement dated 29 December 2020 entered into among the Company, the Undertaking Parties, Huang Xiaofeng and Tao Feng in relation to the Profit Compensation and during the Profit Guarantee Periods
“Placing Shares”	the A Shares to be issued pursuant to the Proposed Issuance and Placing of A Shares
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan

“Pricing Benchmark Date for Consideration Shares”	the date of the announcement on the resolutions relating to the Proposed Acquisition passed at the fifth extraordinary meeting of the tenth session of the Board
“Profit Compensation”	the profit compensation to be made by the Undertaking Parties to the Company under the Performance Compensation Agreement
“Profit Guarantee Periods”	the 4 years ending 31 December 2020, 2021, 2022 and 2023
“Proposed Acquisition”	the acquisition of the Target Assets by the Company by way of issuance of Consideration Shares and cash payment under the Specific Mandate
“Proposed Issuance and Placing of A Shares”	the proposed issuance and placing of A Shares by the Company to not more than 35 target subscribers under the Specific Mandate
“Proposed Transactions”	the Proposed Acquisition and the Proposed Issuance and Placing of A Shares
“Qingdao Eternal”	Qingdao Eternal Economic Information Consulting Co., Ltd (青島艾特諾經濟信息諮詢有限公司), a company incorporated in the PRC with limited liability and an Independent Third Party
“Realised Profit”	the audited realised net profits attributable to owners of the parent company of the Target Company before or after deducting the non-recurring profit or loss of the Target Company (whichever is lower)
“RMB”	Renminbi, the lawful currency of the PRC
“Second Board Meeting”	the Board meeting convened by the Company on 29 December 2020 in considering the updated proposal in relation to the Proposed Transactions and other related resolutions
“Share(s)”	A Shares and H Shares of the Company
“Shareholders”	holders of the Shares

“Share Transfer Completion Date”	the date when the industrial and commercial registration procedures in relation to the transfer of Target Assets from the Vendors to the Company are completed
“Specific Mandate”	the specific mandate to be granted by the Shareholders to the Board in relation to the Proposed Acquisition and Proposed Issuance and Placing of A Shares
“SSE”	the Shanghai Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tao Feng”	陶峰, a natural person in the PRC and the ultimate beneficial owner of Qingdao Eternal, and an Independent Third Party
“Target Assets”	80% equity interests in the Target Company
“Target Company”	Qingdao BYTQ United Digital Intelligence Co., Ltd (青島北洋天青數聯智能股份有限公司), a company incorporated in the PRC limited by shares
“Target Group”	the Target Company and its subsidiaries
“Undertaking Party(ies)”	collectively, Li Hong, Zhao Qing, Qingdao Eternal, Wang Xiaohui and Qian Yuyan, all being Independent Third Parties
“Valuation Benchmark Date”	30 June 2020
“Valuation Report”	the report issued by China Alliance Appraisal dated 8 December 2020 in respect of the valuation of the Target Company
“Vendors”	Qingdao Eternal and 17 natural persons in the PRC, namely Li Hong, Zhao Qing, Yang Ping, Wang Xiaohui, Xiao Zhonghai, Xia Tao, Wang Huadong, Qian Yuyan, Xiu Jun, Fu Dun, Chen Zhengyan, Zhang Li, Xu Binglei, Yang Lunsheng, Xin Lan, Ying Rucai and Li Wei, all being the existing shareholders of the Target Company and Independent Third Parties

“working day(s)”

the statutory working day(s) in the PRC

“%”

percent

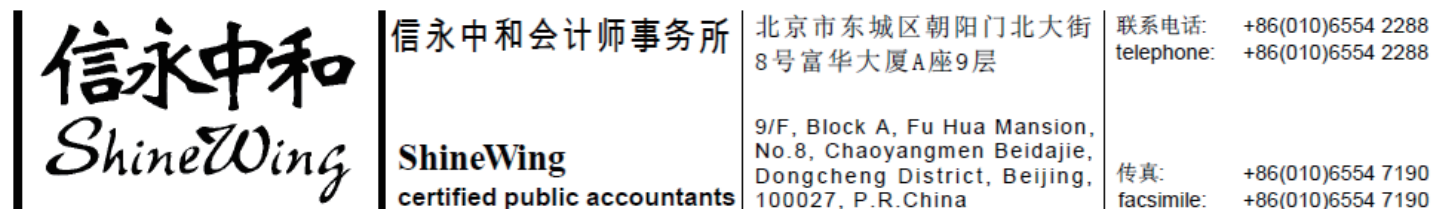
For and on behalf of the Board
Beijing Jingcheng Machinery Electric Company Limited
Luan Jie
Company Secretary

Beijing, the PRC
29 December 2020

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. Wu Yanzhang, Mr. Xia Zhonghua and Ms. Li Chunzhi as non-executive directors and Mr. Xiong Jianhui, Mr. Zhao Xuguang, Mr. Liu Jingtai and Mr. Luan Dalong as independent non-executive directors.

APPENDIX I – LETTER FROM THE COMPANY’S REPORTING ACCOUNTANT

The following is the text of a report received from ShineWing Certified Public Accountants LLP, Certified Public Accountants, the PRC, the Company’s Reporting Accountant prepared for the purpose of incorporation in this announcement.



INDEPENDENT REPORTING ACCOUNTANT’S ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF BEIYANG TIANQING UNITED DIGITAL INTELLIGENCE CO., LTD.

TO THE BOARD OF DIRECTORS OF BEIJING JINGCHENG MACHINERY ELECTRIC COMPANY LIMITED (the “Company”)

We have completed our assurance engagement to report on the calculations of the discounted future estimated cash flows on which the business valuation (the “**Valuation**”) dated 8 December 2020 prepared by China Alliance Assets Appraisal Co., Ltd. in respect of the valuation of the entire equity interests in 青島北洋天青數聯智能股份有限公司 (Qingdao Beiyang Tianqing United Digital Intelligence Co., Ltd., the “**Target Company**”) is based. The summary of the Valuation is set out in the announcement of the Company dated 29 December 2020 (the “**Announcement**”) in connection with the acquisition of 80% of the equity interests in the Target Company by the Company. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors’ Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and as set out in the Announcement. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants” (“CICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies “China Standards on Quality Control 5101-Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the CICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant’s Responsibilities

It is our responsibility to report, as required by Rule 14.62(2) of the Listing Rules, on the calculations of the discounted future estimated cash flows on which the Valuation is based. We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Target Company.

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised), “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, has been properly compiled in accordance with the bases and assumptions as set out in the Announcement. We reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions.

The discounted cash flows do not involve the adoption of accounting policies. The discounted cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under Rule 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

In our opinion, based on the foregoing, so far as the calculations are concerned, the discounted future estimated cash flows, has been properly compiled in all material respects in accordance with the bases and assumptions made by the directors of the Company as set out in the Announcement.

ShineWing Certified Public Accountants LLP
Beijing, China
29 December 2020

APPENDIX II – LETTER FROM THE BOARD

29 December 2020

The Stock Exchange of Hong Kong Limited,
8th Floor, Two Exchange Square,
8 Connaught Place,
Central,
Hong Kong

Dear Sirs,

MAJOR TRANSACTION
PROPOSED ACQUISITION OF ASSETS INVOLVING
THE ISSUANCE OF CONSIDERATION SHARES
AND
PROPOSED ISSUANCE AND PLACING OF A SHARES
UNDER SPECIFIC MANDATE

We refer to the announcement of the Company dated 29 December 2020 (the “**Announcement**”) and the valuation of the market value of the entire equity interests in Qingdao BYTQ United Digital Intelligence Co., Ltd. (青島北洋天青數聯智能股份有限公司), a company incorporated in the PRC limited by shares, by China Alliance Appraisal Co., Ltd. (the “**Valuer**”) as at 30 June 2020 (the “**Valuation**”). Unless the context otherwise requires, capitalised terms used herein shall have the same meaning as those defined in the Announcement.

We understand that in accordance with Rule 14.61 of the Listing Rules, the income approach adopted by the Valuer has rendered the Valuation a profit forecast (the “**Profit Forecast**”) under the Listing Rules.

We have reviewed and discussed with the Valuer the bases and assumptions of the Valuation. We have also considered the letter dated 29 December 2020 issued by ShineWing Certified Public Accountants LLP addressed to us in relation to the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based.

We hereby confirm that the Profit Forecast has been made after due and careful enquiry.

By Order of the Board
Beijing Jingcheng Machinery Electric Company Limited
Wang Jun
Chairman