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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)

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
GAS CYLINDER PIPE SALE AND PURCHASE FRAMEWORK AGREEMENTS**

The Board announces that on 28 April 2017, Tianjin Tianhai and Kuancheng Tianhai, both non wholly-owned subsidiaries of the Company, entered into the Gas Cylinder Pipe Sale and Purchase Framework Agreements with Tianjin Pipe, pursuant to which Tianjin Tianhai and Kuancheng Tianhai will procure gas cylinder pipes from Tianjin Pipe for a term of 3 years commencing from 1 January 2017 to 31 December 2019. The proposed annual caps for the Continuing Connected Transactions between Tianjin Tianhai and Tianjin Pipe, and between Kuancheng Tianhai and Tianjin Pipe are RMB300,000,000 and RMB200,000,000 respectively.

As at the date of this announcement, Tianhai Seamless is a controlling shareholder of Tianjin Tianhai holding 45% interest in Tianjin Tianhai. Both Tianhai Seamless and Tianjin Pipe are wholly-owned subsidiaries of Tianjin Pipe Group. Therefore, Tianjin Pipe is an associate of Tianjin Seamless and also a connected person at the subsidiary level of the Company under Chapter 14A of the Listing Rules.

As (i) the Board has approved the Gas Cylinder Pipe Sale and Purchase Framework Agreements; and (ii) the independent non-executive Directors have confirmed that the terms of each of the transactions contemplated under the Gas Cylinder Pipe Sale and Purchase Framework Agreements are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, the transactions contemplated under the Gas Cylinder Pipe Sale and Purchase Framework Agreements are only subject to the reporting, announcement and annual review requirements, but are exempted from the circular, independent financial advisor's advices and shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

According to the listing rules of the Shanghai Stock Exchange, the Continuing Connected Transactions shall be subject to the approval of the Shareholders. Therefore, the Directors propose to put forward the Continuing Connected Transactions and the proposed annual caps contemplated under the Gas Cylinder Pipe Sale and Purchase Framework Agreements for approval by the Shareholders at the AGM to be convened for such purposes.

BACKGROUND

On 28 April 2017, Tianjin Tianhai and Kuancheng Tianhai, both non wholly-owned subsidiaries of the Company, entered into the Gas Cylinder Pipe Sale and Purchase Framework Agreements with Tianjin Pipe.

The principal terms of the Gas Cylinder Pipe Sale and Purchase Framework Agreements are set out below:

1. Tianjin Tianhai Agreement

Date:	28 April 2017
Parties:	Tianjin Tianhai as purchaser Tianjin Pipe as vendor
Term:	The Tianjin Tianhai Agreement is valid for a term of 3 years, commencing from 1 January 2017 to 31 December 2019
Subject matter:	Tianjin Tianhai shall procure gas cylinder pipes from Tianjin Pipe in accordance with the provisions of the Tianjin Tianhai Agreement
Material terms:	<p>Tianjin Pipe shall supply gas cylinder pipes that meets the national standards, industry standards and the technological standards as agreed by Tianjin Tianhai and Tianjin Pipe.</p> <p>Tianjin Pipe shall provide a certificate of quality guarantee of the gas cylinder pipes to Tianjin Tianhai upon each transaction.</p> <p>In relation to the rolling pipe types, Tianjin Pipe undertakes to prioritize the production of Tianjin Tianhai's orders and make the necessary arrangements to ensure that they will be delivered according to the schedule.</p>

Price and payment terms: The price and quantity of gas cylinder pipes supplied by Tianjin Pipe shall be determined by individual agreements to be entered into between Tianjin Tianhai and Tianjin Pipe every month. Such price shall be determined on an arm's length basis between Tianjin Tianhai and Tianjin Pipe.

Before the 20th day of every month, Tianjin Tianhai shall send its demand plan of gas cylinder pipes for the following month to Tianjin Pipe. Tianjin Pipe shall then provide the pricing policy of the gas cylinder pipes before the 25th day of every month. Before the 30th day of every month, a sale & purchase agreement shall be entered into between Tianjin Tianhai and Tianjin Pipe in accordance with the demand plan and pricing level.

Notwithstanding the fact that the actual purchase price of gas cylinder pipes payable by the Group is subject to the terms of individual agreement to be entered into monthly, such purchase price shall be determined based on the monthly pricing policy issued by Tianjin Pipe. The selling prices of the gas cylinder pipes are adjusted monthly according to iron ore prices, steel prices and other production costs of Tianjin Pipe. So far as the Board is aware, it is a market practice to adopt similar monthly pricing arrangement for gas cylinder pipes, and same pricing basis is applied to all customers of gas cylinder pipe of Tianjin Pipe, including independent third parties or connected persons. Therefore, the Board considers that the prices offered to the Group are no less favorable than those available for independent third parties. On this basis, the Board considers that the pricing terms of the transactions contemplated under the Tianjin Tianhai Agreement are on normal commercial terms and are not prejudicial to the interests of the Company and its minority Shareholders.

50% of the consideration of the gas cylinder pipes purchased in the current month shall be paid after Tianjin Tianhai receives the value-added tax invoices issued by Tianjin Pipe in relation to the corresponding amount before the 20th day of every month and the balance shall be paid before the last day of every month by Tianjin Tianhai after receiving the value-added tax invoices issued by Tianjin Pipe in relation to the amount to be paid.

Payments between Tianjin Tianhai and Tianjin Pipe can be settled by cash or bank acceptance bill within 6 months.

Proposed annual cap: RMB300,000,000 for each of the 3 years ending 31 December 2017, 31 December 2018 and 31 December 2019

Basis of the proposed annual caps: The proposed annual caps are determined after taking into account the following:

1. the agreements which have already been entered into for the gas cylinder pipes to be purchased by Tianjin Tianhai from Tianjin Pipe;
2. the anticipated quantity of gas cylinder pipes to be purchased by Tianjin Tianhai and the estimated market price of pipes;
3. the historical transaction amounts of the gas cylinder piped procured by Tianjin Tianhai from Tianjin Pipe.

Historical transaction amounts for the 3 years ended 31 December 2016 The fees paid by Tianjin Tianhai to Tianjin Pipe in relation to the procurement of gas cylinder pipes for the 3 years ended 31 December 2016 are as follows:

Audited historical amount for the year ended 31 December			
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	156,705	113,887	77,038
	<u><u>156,705</u></u>	<u><u>113,887</u></u>	<u><u>77,038</u></u>

2. Kuancheng Tianhai Agreement

Date: 28 April 2017

Parties: Kuancheng Tianhai as purchaser
Tianjin Pipe as vendor

Term: The Kuancheng Tianhai Agreement is valid for a term 3 years, commencing from 1 January 2017 to 31 December 2019

Subject matter: Kuancheng Tianhai shall procure gas cylinder pipes from Tianjin Pipe in accordance with the provisions of the Tianjin Tianhai Agreement

Material terms: Tianjin Pipe shall supply gas cylinder pipes that meets the national standards, industry standards and the technological standards as agreed by Kuancheng Tianhai and Tianjin Pipe.

Tianjin Pipe shall provide a certificate of quality guarantee of the gas cylinder pipes to Kuancheng Tianhai upon each transaction.

In relation to the rolling pipe types, Tianjin Pipe undertakes to prioritize the production of Kuancheng Tianhai's orders and make the necessary arrangements to ensure that they will be delivered according to the schedule.

Price and payment terms: The price and quantity of gas cylinder pipes supplied by Tianjin Pipe shall be determined by individual agreements to be entered into between Kuancheng Tianhai and Tianjin Pipe every month. Such price shall be determined on an arm's length basis between Kuancheng Tianhai and Tianjin Pipe.

Before the 20th day of every month, Kuancheng Tianhai shall send its demand plan of gas cylinder pipes for the following month to Tianjin Pipe. Tianjin Pipe shall then provide the pricing policy of the gas cylinder pipes before the 25th day of every month. Before the 30th day of every month, a sale & purchase agreement shall be entered into between Kuancheng Tianhai and Tianjin Pipe in accordance with the demand plan and pricing level.

Notwithstanding the fact that the actual purchase price of gas cylinder pipes payable by the Group is subject to the terms of individual agreement to be entered into monthly, such purchase price shall be determined based on the monthly pricing policy issued by Tianjin Pipe. The selling prices of the gas cylinder pipes are adjusted monthly according to iron ore prices, steel prices and other production costs of Tianjin Pipe. So far as the Board is aware, it is a market practice to adopt similar monthly pricing arrangement for gas cylinder pipes, and same pricing basis is applied to all customers of gas cylinder pipe of Tianjin Pipe, including independent third parties or connected persons. Therefore, the Board considers that the prices offered to the Group are no less favorable than those available for independent third parties. On this basis, the Board considers that the pricing terms of the transactions contemplated under the Kuancheng Tianhai Agreement are on normal commercial terms and are not prejudicial to the interests of the Company and its minority Shareholders.

30% of the consideration of the gas cylinder pipes purchased in the current month shall be paid on the day when Kuancheng Tianhai and Tianjin Pipe enters into their monthly sale & purchase agreement and the balance shall be paid by Kuancheng Tianhai within 3 days prior to the delivery of goods.

Payments between Kuancheng Tianhai and Tianjin Pipe can be settled by cash or bank acceptance bill within 6 months.

Proposed annual cap: RMB200,000,000 for each of the 3 years ending 31 December 2017, 31 December 2018 and 31 December 2019

Basis of the proposed annual cap: Kuancheng Tianhai was incorporated in April 2017. There are no previous transactions between Kuancheng Tianhai and Tianjin Pipe. The proposed annual cap is determined with reference to the anticipated quantity of gas cylinder pipes to be purchased by Kuancheng Tianhai and the estimated market price of gas cylinder pipes. The anticipated quantity of gas cylinder pipes to be purchased by Kuancheng Tianhai mainly take into account the projected annual production capacity of gas cylinder products of Kuancheng Tianhai and the costs of raw materials. The market price of gas cylinder pipes is affected by a number of factors, including iron ore and billet prices, energy and technical costs, national macroeconomic policies and structural adjustment of the steel industry. The Company expects that the market price of gas cylinder pipes will remain at a steady level or increase for the coming three years ending 31 December 2019.

REASONS AND BENEFITS OF ENTERING INTO THE GAS CYLINDER PIPE SALE AND PURCHASE FRAMEWORK AGREEMENTS

As a long-term cooperation partner of the Group, the Company is confident about the supply and quality of products provided by Tianjin Pipe, and the price of gas cylinder pipes supplied by Tianjin Pipe is at the lower end of the market price within the country. Also, the proximity between Tianjin Pipe and the Group saves the transportation costs, which in turn reduces the costs of the Group's products and enhances their market competitiveness. Meanwhile, Tianjin Tianhai, being Tianjin Pipe's largest direct purchaser of its gas cylinder pipes, is able to receive a more favorable pricing policy from Tianjin Pipe. Being a fellow subsidiary of Tianhai Industrial, Kuancheng Tianhai shall be able to benefit from Tianjin Pipe's favorable pricing policy as well.

The Directors (including the independent non-executive Directors) are of the view that the terms of the transactions contemplated under the Gas Cylinder Pipe Sale and Purchase Framework Agreements are fair and reasonable; in the ordinary and usual course of business of the Group, on normal commercial terms or better; and in the interests of the Company and its shareholders as a whole.

None of the Directors have a material interest in the transactions contemplated under the Gas Cylinder Pipe Sale and Purchase Framework Agreements.

INTERNAL CONTROL MEASURES

According to the procurement policy of the Group's procurement department, the Group has maintained a directory of qualified suppliers, comprising independent suppliers and suppliers which are connected persons to the Group. To ensure the Company is offered the most favorable pricing, the procurement department of the Company, would review two to three qualified suppliers selected for the raw materials procured by the Group every month. Although the Group has been purchasing gas cylinder pipes manufactured by Tianjin Pipe, the Company will also consider gas cylinder pipes produced by other manufacturers. The most important criteria for the Company to select the supplier would be (i) the pricing terms; (ii) transportation costs; (iii) quality; and (iv) previous business relationship. The Company usually procures gas cylinder pipes from the supplier with quotation that enables the Company to achieve highest cost-effectiveness.

Tianjin Tianhai and Kuancheng Tianhai will strictly implement the Company's procurement management measures. In accordance with the demand plan of gas cylinder pipes for the following month which will be sent to Tianjin Pipe by Tianjin Tianhai and Kuancheng Tianhai respectively, the respective business personnel of Tianjin Tianhai and Kuancheng Tianhai will prepare the respective individual agreements to be entered into with Tianjin Pipe every month. The head of procurement department and head of the marketing department of Tianjin Tianhai and Kuancheng Tianhai will respectively review the quantity and pricing of gas cylinder pipes under such individual agreements based on the monthly demand plan and pricing policy. The Company's legal department will review and ensure the individual agreements and transactions contemplated thereunder comply with the relevant laws and regulations, including but not limited to, the annual caps requirement under the Listing Rules.

With such internal control procedures in place, the Board considers that the pricing offered to the Company is in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Tianhai Seamless is a controlling shareholder of Tianjin Tianhai holding 45% interest in Tianjin Tianhai, a subsidiary of the Company. Both Tianhai Seamless and Tianjin Pipe are the wholly-owned subsidiaries of Tianjin Pipe Group. Therefore, Tianjin Pipe is an associate of Tianjin Seamless and also a connected person at the subsidiary level of the Company under Chapter 14A of the Listing Rules.

As (i) the Board has approved the Gas Cylinder Pipe Sale and Purchase Framework Agreements; and (ii) the independent non-executive Directors have confirmed that the terms of each of the transactions contemplated under the Gas Cylinder Pipe Sale and Purchase Framework Agreements are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, the transactions contemplated under the Gas Cylinder Pipe Sale and Purchase Framework Agreements are only subject to the reporting, announcement and annual review requirements, but is exempted from the circular, independent financial advisor's advices and shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

SHAREHOLDERS' APPROVAL

According to the listing rules of the Shanghai Stock Exchange, the Continuing Connected Transactions shall be subject to the approval of the Shareholders. Therefore, the Directors propose to put forward the Continuing Connected Transactions and the proposed annual caps contemplated under the Gas Cylinder Pipe Sale and Purchase Framework Agreements for approval by the Shareholders at the AGM to be convened for such purposes. The Company will convene the AGM on 26 June 2017.

GENERAL

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

Tianjin Tianhai is principally engaged in the design, production and sales of high pressure containers and after-sales services; export of self-produced products and technologies of the Company and the import of machinery and equipment, components, raw and auxiliary materials and technologies as required by the Company, except for the products and technologies restricted by the State or those forbidden for exports and imports.

Kuancheng Tianhai is principally engaged in the manufacturing of B1 seamless cylinders (only steel seamless cylinders), sales and import and export business of its self-produced products (except those commodities restricted by the state for operation of companies or prohibited for import and export).

Tianjin Pipe is principally engaged in the sales of steel pipes, metal products, metal materials, billets, steel boiler materials and minerals (except coal). For special projects of the State, operations are implemented according to the requirements, and business operations involving industry licensing are carried out according to the permits and approval documents.

Tianjin Pipe has a registered capital of RMB20 million. As at 31 December 2016, Tianjin Pipe has total assets and net assets of RMB444,773,300 and RMB43,772,000 respectively. For the year ended 31 December 2016, Tianjin Pipe's operating income from its principal business and net profit are RMB2,932,189,700 and RMB6,873,600 respectively.

DEFINITIONS

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

“A Shares”	the domestic ordinary share(s) with a par value of RMB1.00 each in the share capital of the Company which are listed on the Shanghai Stock Exchange and traded in RMB
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“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 Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the continuing connected transactions contemplated between Tianjin Tianhai, Kuancheng Tianhai and Tianjin Pipe under the Gas Cylinder Pipe Sale and Purchase Framework Agreements
“Director(s)”	the director(s) of the Company
“AGM”	the annual general meeting of the Company to be convened on 26 June 2017 to consider and to approve, amongst others, the Continuing Connected Transactions and the proposed annual caps contemplated under the Gas Cylinder Pipe Sale and Purchase Framework Agreements
“Gas Cylinder Pipe Sale and Purchase Framework Agreements”	the Tianjin Tianhai Agreement and the Kuancheng Tianhai Agreement
“Group”	the Company together with its subsidiaries
“H shares”	the overseas-listed foreign shares of the Company with a nominal value of RMB1.00 each in the share capital of the Company, which are listed on the Main Board of the Stock Exchange and are subscribed for and traded in Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jingcheng HK”	Jingcheng Holding (Hong Kong) Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Jingcheng Holding

“Kuancheng Tianhai”	Kuancheng Tianhai Pressure Vessel Co., Ltd. (寬城天海壓力容器有限公司), a company incorporated in the PRC and is 61.1% and 38.9% owned by Tianhai Industrial and Kuancheng Shenghua respectively
“Kuancheng Tianhai Agreement”	the framework agreement (氣瓶管購銷框架合同) entered into by Kuancheng Tianhai and Tianjin Pipe on 28 April 2017 in relation to the sale and purchase of gas cylinder pipes
“Kuancheng Shenghua”	Kuancheng Shenghua Pressure Vessel Manufacturing Co., Ltd. (寬城升華壓力容器製造有限責任公司), a company incorporated in the PRC
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for purpose of this announcement, does not include, Hong Kong, the Macau Special Administrative Region and Taiwan
“Proposed Annual Caps”	the proposed annual monetary caps for the Continuing Connected Transactions for the period from 1 January 2017 to 31 December 2019
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the Shares
“Shares”	the A shares and the H shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianhai Industrial”	北京天海工業有限公司 (Beijing Tianhai Industry Co., Ltd.), a limited liability company established in the PRC and is 100% owned by the Company
“Tianjin Pipe”	天津鋼管鋼鐵貿易有限公司 (Tianjin Pipe Steel Trade Co., Ltd.), a company incorporated in the PRC and is 100% wholly owned by Tianjin Pipe Group
“Tianjin Pipe Group”	天津鋼管集團股份有限公司 (Tianjin Pipe Group Co., Ltd.), a company incorporated in the PRC
“Tianjin Seamless”	天津大無縫投資有限公司 (Tianjin Seamless Investment Co. Ltd.), a company incorporated in the PRC and is 100% owned by Tianjin Pipe Group
“Tianjin Tianhai”	天津天海高壓容器有限責任公司 (Tianjin Tianhai High Pressure Containers Co., Ltd.), a company incorporated in the PRC and is 45.52%, 45% and 9.48% owned by Tianhai Industrial, Tianjin Seamless and Jingcheng HK, respectively

“Tianjin Tianhai Agreement”	the framework agreement (氣瓶管購銷框架合同) entered into by Tianjin Tianhai and Tianjin Pipe on 28 April 2017 in relation to the sale and purchase of gas cylinder pipes
“%”	per cent

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

Beijing, the PRC
28 April 2017

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

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.