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CQME

Chongqing Machinery & Electric Co., Ltd.*

重慶機電股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02722)

VOLUNTARY ANNOUNCEMENT

COOPERATION FRAMEWORK AGREEMENT AMONG CHONGQING MACHINE TOOLS, SHUANGHUAN DRIVELINE AND KAPP

The Board is pleased to announce that on 14 August 2015, Chongqing Machine Tools (a wholly-owned subsidiary of the Company), Shuanghuan Driveline and KAPP entered into a Cooperation Framework Agreement, pursuant to which the parties agreed to establish a JV Company in the name of Chongqing Sino-German Intelligent Manufacturing Co., Ltd. (重慶中德智能製造有限公司) (name subject to the final approval by the Chongqing Administration for Industry and Commerce) in Nan'an District, Chongqing, the PRC for the purpose of consolidating the advantages of the parties and exerting synergistic effects in areas including technology, product, market and management.

Upon completion of the capital contribution to the JV Company by the parties, the JV Company will be held as to 40% by Chongqing Machine Tools, 30% by Shuanghuan Driveline and 30% by KAPP respectively.

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* *For identification purposes only*

COOPERATION FRAMEWORK AGREEMENT

a. Date

14 August 2015

b. Parties

- (1) Chongqing Machine Tools,
- (2) Shuanghuan Driveline, and
- (3) KAPP.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, Shuanghuan Driveline and KAPP and its ultimate beneficial owners are independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

c. JV Company

The JV Company, which will be based in Nan'an District, Chongqing, the PRC, will be entitled to the rights as the sole transferee of the hobbing and grinding gear products and technologies provided by Chongqing Machine Tools and KAPP. On the basis of the intelligent manufacturing and packaged solutions of gear machine tools, the JV Company will provide comprehensive assembly-line manufacturing solutions focusing on intelligent factories and digital workshops (Industry 4.0) to global clients (except American and European markets) in the automobile industry and other industries.

d. Capital Contribution

The registered capital of the JV Company will be RMB100,000,000, which shall be contributed in cash by the three parties. Nevertheless, if under specific circumstances where capital contributions can be made in kind pursuant to the relevant PRC laws, the parties may also have the right to make capital contributions in such a way. The amount of initial contribution will be RMB40,000,000.00. Chongqing Machine Tools, being the major shareholder of the JV Company, will hold 40% of the equity interests; and Shuanghuan Driveline and KAPP will each hold 30% of the equity interests in the JV Company.

e. Governance Structure

The board of directors is the highest authority of the JV Company, for which the parties are entitled to appoint or dismiss their respective board members. The board of directors will comprise of five members, of which Chongqing Machine Tools will appoint three members; and

Shuanghuan Driveline and KAPP will each appoint one member. The board of directors will have one chairman who will be the legal representative of the JV Company and will be appointed by Chongqing Machine Tools.

The JV Company shall have only one supervisor which shall be appointed by KAPP.

The JV Company shall have one general manager which shall be recommended by KAPP, the appointment or dismissal of which shall be decided by the board of directors, and one chief financial officer which shall be recommended by Shuanghuan Driveline, the appointment or dismissal of which shall be decided by the board of directors. The third person shall be recommended by Chongqing Machine Tools, nominated by the general manager and appointed or dismissed by the board of directors. The specific functions of such third person shall be confirmed under the mutual understandings of the parties.

f. Limitation of Competition

The parties agreed not to compete against the JV Company in the global automobile industry and other industries (except American and European markets).

INFORMATION ON THE PARTIES

The Company principally engages in the manufacturing and sales of automobile parts and components, power equipment, general machinery and CNC machine tools.

Chongqing Machine Tools principally engages in the manufacturing and sales of gear-producing machines; and its range of products spans from lathes, machine centers, specialty equipment, complex gear cutting tools, high-precision index turrets and metal castings and forgings.

Shuanghuan Driveline principally engages in the manufacturing and sales of gears for transmission and gear parts; and its major products include gears for passenger vehicles, commercial vehicles, motorcycles, engineering machineries and power tools.

KAPP principally engages in the provision of solutions and services for grinding-related equipment; and its products and services are widely used in the industries and fields including automobile, aerospace and aviation, manufacturing, compressor, wind power, railway, ocean and mining, etc. KAPP is one of the leaders in the realm of grinding machines in the world and has been predominating the market.

REASONS FOR AND BENEFITS OF ENTERING INTO THE COOPERATION FRAMEWORK AGREEMENT

On the basis of the intelligent manufacturing and packaged solutions of gear machine tools, the JV Company will provide clients with comprehensive solutions covering the design, manufacturing, sales and services of intelligent factories, digital workshops as well as intelligent manufacturing. Under the

Cooperation Framework Agreement, the three companies will complement each other and share resources. Taking advantage of the officially announced Made in China 2025 and Industry 4.0 initiatives, the JV Company will keep exploring domestic and international markets and strive to become a world-leading integrated intelligent manufacturer and a provider of intelligent manufacturing solutions.

The Board (including independent non-executive Directors) considers that the Cooperation Framework Agreement among Chongqing Machine Tools, Shuanghuan Driveline and KAPP has been entered into on normal commercial terms, and the terms are fair and reasonable and in the interests of the Company and shareholders as a whole. As none of the Directors has any material interests in the Cooperation Framework Agreement, they are not required to abstain from voting on the relevant Board resolution in accordance with the Listing Rules and/or the Articles of Association of the Company.

GENERAL INFORMATION

The Board hereby reminds that as the Cooperation Framework Agreement entered into is a cooperative framework and intentional arrangement between the parties, the cooperation contemplated under the Cooperation Framework Agreement may or may not proceed. Details of the cooperation are subject to the formal cooperation agreement to be entered into by the parties. Potential investors and shareholders of the Company are advised to exercise caution when dealing in the shares of the Company. Further announcement in respect of the cooperation contemplated under the Cooperation Framework Agreement will be made by the Company as and when appropriate in accordance with the Listing Rules (if applicable).

DEFINITIONS

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

“Board”	the board of directors of the Company
“Chongqing Machine Tools”	Chongqing Machine Tools (Group) Co., Ltd. (重慶機床(集團)有限責任公司), a wholly-owned subsidiary of the Company established in the PRC in October 1989
“Company”	Chongqing Machinery & Electric Co., Ltd.* (重慶機電股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 02722)
“Directors”	the directors of the Company

“Cooperation Framework Agreement”	the cooperation framework agreement dated 14 August 2015 entered into among Chongqing Machine Tools, Shuanghuan Driveline and KAPP
“JV Company”	Chongqing Sino-German Intelligent Manufacturing Co., Ltd. (重慶中德智能製造有限公司) (name subject to the final approval by the Chongqing Administration for Industry and Commerce), a limited liability company proposed to be established in the PRC, which will be held as to 40%, 30% and 30% by Chongqing Machine Tools, Shuanghuan Driveline and KAPP respectively
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China
“Shuanghuan Driveline”	Zhejiang Shuanghuan Driveline Co., Ltd. (浙江雙環傳動機械股份有限公司), a joint stock limited company incorporated in the PRC with limited liability in August 2005, the shares of which are listed on the Shenzhen Stock Exchange (Stock Code: 002472)
“KAPP”	KAPP GmbH & Co. KG, a limited liability company established in Coburg, Germany in 1953
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	percentage

By Order of the Board
Chongqing Machinery & Electric Co., Ltd.*
Wang Yuxiang
Executive Director and Chairman

Chongqing, the PRC
14 August 2015

As at the date of the announcement, the executive Directors are Mr. Wang Yuxiang, Mr. Yu Gang, Mr. Ren Yong and Mr. Xiang Hu; the non-executive Directors are Mr. Huang Yong, Mr. Wang Jiyu, Mr. Yang Jingpu and Mr. Deng Yong; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei.