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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
ENTERING INTO A JV COMPANY CONTRACT AMONG
CHONGQING MACHINE TOOLS, SHUANGHUAN DRIVELINE AND KAPP**

The Board is pleased to announce that on 20 December 2015, Chongqing Machine Tools (a wholly-owned subsidiary of the Company), Shuanghuan Driveline and KAPP entered into a JV Company Contract, pursuant to which the parties agreed to establish a JV Company in the name of Chongqing Sino-Germany Smart Factory Solutions Co., LTD. (重慶世瑪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.

Entering into the JV Company Contract does not constitute any notifiable transaction of the Company under Chapter 14 of the Listing Rules. This announcement is made voluntarily by the Company.

Reference is made to the announcement dated 14 August 2015 of the Company in relation to the Cooperation Framework Agreement among Chongqing Machine Tools, Shuanghuan Driveline and KAPP. This announcement is its further announcement.

The Board is pleased to announce that on 20 December 2015, Chongqing Machine Tools (a wholly-owned subsidiary of the Company), Shuanghuan Driveline and KAPP entered into a JV Company Contract, pursuant to which the parties agreed to establish a JV Company in the name of Chongqing

Sino-Germany Smart Factory Solutions Co., LTD. (重慶世瑪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. The major terms of the JV Company Contract are as follows:

JV COMPANY CONTRACT

Major terms are as follows:

a. Date

20 December 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 will be based in Nan'an District, Chongqing, the PRC. The JV Company's aim is to combine all parties' advantages in technology, management, operations and marketing and conduct business in the approved business scope of the JV Company. 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 in a bid to obtain better economic effectiveness and investment return satisfactory to every party.

The business scope of the JV Company is design, manufacturing, alteration, sales and services of automated, intelligent equipment and accessories and consulting, design, manufacture, transform, sales, installation and service of automated production lines, digital workshop and intelligent chemical factory. The specific business scope is subject to the final approval of the relevant Chongqing competent government authorities.

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. 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. The amount of initial contribution will be RMB40,000,000.00. The three Parties shall pay up the contribution according to their proportion of the total registered capital within 60 days after the business license is issued. The amount of second contribution will be RMB60,000,000.00. The three Parties shall pay up the contribution according to their proportion of the total registered capital within 20 months after the JV Company is established (subject to completion of the set goals).

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 is established on the date of issuing of business license of the JV Company. 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 while the director appointed by KAPP will act as the vice chairman.

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

The senior management is comprised of general manager, vice general manager and chief financial officer, among which, the general manager shall be nominated by KAPP, the appointment or dismissal of which shall be decided by the board of directors. The vice general manager of the JV Company shall be recommended by Chongqing Machinery Tools and nominated by the general manager and the appointment or dismissal of which shall be decided by the board of directors. The chief financial officer of the JV Company shall be nominated by Shuanghuan Driveline, the appointment or dismissal of which shall be decided by the board of directors.

f. Limitation of competition

The parties agreed not (also ensure its affiliates not) to compete against the JV Company in their business scope. The parties shall not engage in any and all activities which shall have a negative impact on the JV Company and/or its business.

g. Term of the joint venture

The term of JV Company is 50 years and calculated from the date of issuing the business license of the JV Company.

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 JV COMPANY CONTRACT

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. The three companies will complement each other and share resources in the aspects of technology, management, operations and marketing. 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 in a bid to obtain better economic effectiveness.

The Board (including independent non-executive Directors) considers that the JV Company Contract 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 JV Company Contract, 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.

IMPLICATIONS OF THE LISTING RULES

Entering into the JV Company Contract does not constitute any notifiable transaction of the Company under Chapter 14 of the Listing Rules. This announcement is made voluntarily by the Company.

DEFINITIONS

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

“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.*, a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Stock Exchange (stock code: 02722)
“Director(s)”	directors of the Company
“JV Company Contract”	the JV company contract dated 20 December 2015 entered into among Chongqing Machine Tools, Shuanghuan Driveline and KAPP
“JV Company”	Chongqing Sino-Germany Smart Factory Solutions Co., LTD. (重慶世瑪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, German in 1953
“RMB”	Renminbi, the lawful currency of the PRC

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“%”

Per cent

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

Chongqing, the PRC
20 December 2015

As at the date of the announcement, the executive Directors are Mr. Wang Yuxiang, Mr. Yu Gang, Mr. Xiang Hu and Mr. Yang Quan; 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.

* *For identification purposes only*