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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)

(Stock Code: 02722)

**CONNECTED TRANSACTION
ESTABLISHMENT OF A JOINT VENTURE COMPANY**

The Board is pleased to announce that on 5 January 2016, Chongqing General (a wholly-owned subsidiary of the Company), Information Industry Center and Equipment Technology Company entered into the JV Contract, pursuant to which, Chongqing General, Information Industry Center and Equipment Technology Company have agreed to establish the JV Company in the name of 重慶重通透平技術股份有限公司 (Chongqing Chongtong Turbine Technology Company Limited*) (name subject to the final approval of Chongqing Administration for Industry and Commerce) in Chongqing, the PRC.

Upon completion of capital injection to the JV Company by the contracting parties, the JV Company will be owned as to 40% by Chongqing General, 33.3333% by Information Industry Center and 26.6667% by Equipment Technology Company.

Equipment Technology Company is a wholly-owned subsidiary of the Parent Company which is the controlling shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, the Parent Company and its subsidiaries are connected persons of the Company. Therefore, the transaction between Chongqing General and Equipment Technology Company will constitute a connected transaction under the Listing Rules. As certain applicable percentage ratios of the transaction contemplated under the JV Contract exceed 0.1% but fall below 5%, such transaction is subject to the reporting and announcement requirements but is exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

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JV CONTRACT

a. Date

5 January 2016

b. Parties

- (1) Chongqing General,
- (2) Information Industry Center, and
- (3) Equipment Technology Company.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, Information Industry Center and its ultimate beneficial owners are independent of the Company and connected persons of the Company.

c. Establishment of the JV Company

The JV Company will be established in Chongqing, PRC. Upon completion of capital injection to the JV Company by the contracting parties, the JV Company will be owned as to 40% by Chongqing General, 33.3333% by Information Industry Center and 26.6667% by Equipment Technology Company. The parties shall share the profits of and bear the risk and loss of the JV Company based on the proportion of shares subscribed by each of them to the total share capital of the JV Company.

As agreed by the parties, the JV Contract will come into effect upon signing and being approved in writing by their respective authorities. Formation of the JV Company will be initiated within twenty business days thereafter.

d. Term and Scope of Operation

The term of operation of the JV Company is perpetual operation, starting from the date of issuance of the business license.

The JV Company will be engaged in business including turbomachinery products testing, equipment and system maintenance and renovation, manufacture and sale of spare parts, as well as providing relevant technical consultancy and entrusted research, development and design of products (subject to business registration).

e. Capital Contribution

The registered capital of the JV Company will be RMB30,000,000, which will be contributed in cash by Chongqing General, Information Industry Center and Equipment Technology Company in the amount of RMB12,000,000, RMB10,000,000 and RMB8,000,000, representing 40%, 33.3333% and 26.6667%, respectively of its equity.

The registered capital of the JV Company will be contributed in two phases: Chongqing General, Information Industry Center and Equipment Technology Company shall contribute RMB6,000,000, RMB5,000,000 and RMB4,000,000, respectively in cash within ten business days upon the effective date of the JV Contract, as the first batch of capital contribution to be delivered for verification. Within one year after the incorporation of the JV Company, Chongqing General, Information Industry Center and Equipment Technology Company shall make another contribution of RMB6,000,000, RMB5,000,000 and RMB4,000,000, respectively in cash, as the second batch of capital contribution to be delivered for verification.

The amount of capital contribution under the JV Contract is determined after arm's length negotiation among the parties with reference to the estimated capital requirements of the JV Company. Capital contribution of Chongqing General will be funded by internal resources.

f. Composition of the Board and Supervisory Committee of the JV Company

The board of the JV Company comprises of five directors, of which Chongqing General will appoint two directors, Information Industry Center and Equipment Technology Company will each appoint one director, and one employee director will be elected. The board of the JV Company shall have one chairman, who is to be recommended by Chongqing General and elected by the board of the JV Company.

The supervisory committee of the JV Company comprises of three supervisors, of which Information Industry Center and Equipment Technology Company will each appoint one supervisor, and one employee supervisor will be elected. The chairman of the supervisory committee shall be recommended by Information Industry Center and elected by the supervisory committee of the JV Company.

g. Transfer of Equity

Shares of the JV Company held by Chongqing General, Information Industry Center and Equipment Technology Company shall not be transferred, mortgaged, pledged or used for provision of guarantee within one year after the incorporation of the JV Company. If any party

to the JV Contract shall transfer, mortgage, pledge or provide guarantee with all or part of its shares to a third party, it shall obtain written consent from other parties to the JV Contract and report to the original approving authorities for approval.

When any party transfers all or part of its capital contribution, other parties to the JV Contract shall have a pre-emptive right with the same conditions, and relevant local regulations on transfer of state-owned property shall be complied with.

In order to facilitate the introduction of professional technical personnel, enhance the technical strength and competitiveness of the JV Company, the parties agree that, shares representing not more than 20% of the total share capital of the JV Company may be issued by way of private placing to personnel to be introduced in accordance with appraised value of the JV Company when conditions permit.

INFORMATION ON THE COMPANY

The Company is principally engaged in manufacturing and sales of vehicle parts and components, power equipment, general machinery and CNC machine tools.

INFORMATION ON CHONGQING GENERAL

Chongqing General is principally engaged in designing, manufacturing and sales of centrifugal chiller and systems, centrifugal compressors, industrial high-temperature fan, centrifugal ventilator (fan), complete set of environmental protection equipment and engineering, wind turbine blades and other components, as well as category I/II pressure vessel.

INFORMATION ON INFORMATION INDUSTRY CENTER

Information Industry Center is an entity under the Chongqing Economic and Information Technology Commission. It is principally responsible for collecting and collating information on business promotion and capital attraction, building project database for the information industry, promoting the development advantages of Chongqing's information industry, and conducting business training and consultancy services.

INFORMATION ON EQUIPMENT TECHNOLOGY COMPANY

Equipment Technology Company is principally engaged in research and development of electrical and mechanical equipment technology, technical consultancy, promotion and transfer of technology, as well as designing, research and development, manufacturing and sales of electrical and mechanical equipment products.

REASONS FOR AND BENEFITS OF ENTERING INTO THE JV CONTRACT

Through the cooperation among all parties to the JV Contract and by adopting state-of-the-art management mechanisms and business development models, it will present a good opportunity to jointly establish a technological innovation centre and equipment testing and maintenance centre for turbine engineering based in southwest China with a nationwide network, push forward technological advancement in the region, and enhance the capability of technological innovation and products quality assurance of Chongqing General, so as to create favourable economic and social benefits for the sustainable development of the local economy and bring sustainable returns to the society, shareholders, employees and other relevant stakeholders.

In view of the above, the Board (including independent non-executive Directors) believes that the JV Contract is on normal commercial terms and the terms are fair and reasonable, and the entering into the JV Contract and the transaction contemplated thereunder are in the interests of the Company and shareholders as a whole.

APPROVAL BY THE BOARD

On 17 September 2015, the resolution in relation to the transaction contemplated under the JV Contract was approved unanimously by all the non-connected directors (including independent non-executive Directors) at the 2015 fourth extraordinary meeting of the third session of the Board of the Company. When voting on the resolution in relation to the transaction contemplated under the JV Contract by the Board, all connected directors, namely Mr. Wang Yuxiang, Mr. Huang Yong, Mr. Yu Gang, Mr. Wang Jiyu and Mr. Ren Yong, abstained from voting. Except for such connected directors, no other directors have material interests in the transaction contemplated under the JV Contract.

LISTING RULE IMPLICATIONS

Equipment Technology Company is a wholly-owned subsidiary of the Parent Company which is the controlling shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, the Parent Company and its subsidiaries are connected persons of the Company. Therefore, the transaction between Chongqing General and Equipment Technology Company will constitute a connected transaction under the Listing Rules. As certain applicable percentage ratios of the transaction contemplated under the JV Contract exceed 0.1% but fall below 5%, such transaction is subject to the reporting and announcement requirements but is exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

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 General”	Chongqing General Industry (Group) Co., Ltd.* (重慶通用工業(集團)有限責任公司), a limited liability company established under the PRC laws and a wholly-owned subsidiary of the Company
“Information Industry Center”	Chongqing Information Industry Investment Promotion Center* (重慶市信息產業投資促進中心), an entity under Chongqing Economic and Information Technology Commission
“Equipment Technology Company”	Chongqing Mechanical & Electrical Equipment Technology Research Institute Co., Ltd.* (重慶機電裝備技術研究院有限公司), a limited liability company established under the PRC laws and a wholly-owned subsidiary of the Parent Company
“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)
“connected person(s) ”	has the meaning ascribed to it under the Listing Rules
“Director(s) ”	the Director(s) of the Company
“JV Contract”	the Joint Venture Contract dated 5 January 2016 entered into among Chongqing General, Information Industry Center and Equipment Technology Company
“JV Company”	重慶重通透平技術股份有限公司 (Chongqing Chongtong Turbine Technology Company Limited*), a joint stock limited company proposed to be established in the PRC, which will be held as to 40%, 33.3333% and 26.6667% by Chongqing General, Information Industry Center and Equipment Technology Company, respectively
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Parent Company”	Chongqing Machinery and Electronic Holding (Group) Co., Ltd.* (重慶機電控股(集團)公司), a limited liability company established in the PRC on 25 August 2000 and owned by the Chongqing State-owned Assets Supervision and Administration Commission, being one of the Promoters of the Company
“PRC”	the People’s Republic of China
“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
5 January 2016

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.

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