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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 JOINT VENTURE COMPANIES**

The Board is pleased to announce that on 18 November 2016, the Company, Equipment Research Institute, Shanghai Edrive and Ningbo Partnership entered into the JV Contracts, pursuant to which, the contracting parties have agreed to establish the JV Companies, namely R&D and Manufacturing JV Company and Sales JV Company (name of which subject to the final approval of Chongqing Administration for Industry and Commerce) in Chongqing, the PRC.

Upon completion of capital injection to the JV Companies by the contracting parties, R&D and Manufacturing JV Company will be owned as to 51% by the Company, 20% by Equipment Research Institute, 9% by Shanghai Edrive and 20% by Ningbo Partnership. Sales JV Company will be owned as to 9% by the Company, 71% by Shanghai Edrive and 20% by Ningbo Partnership.

Equipment Research Institute is a wholly-owned subsidiary of the Parent Company, and the Parent Company 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 the Company and Equipment Research Institute will constitute a connected transaction under the Listing Rules. As certain applicable percentage ratios of the transaction contemplated under the JV Contracts 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.

\* For identification purposes only

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## **JV CONTRACTS**

### **a. Date**

18 November 2016

### **b. Parties**

- (1) the Company,
- (2) Equipment Research Institute,
- (3) Shanghai Edrive, and
- (4) Ningbo Partnership.

The Equipment Research Institute is a wholly-owned subsidiary of the Parent Company, which constitutes a connected person of the Company.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, Shanghai Edrive, Ningbo Partnership and its ultimate beneficial owners are independent of the Company and connected persons of the Company.

### **c. JV Companies**

The JV Companies are proposed to be established in Chongqing, the PRC. The aim of their operation is to develop and master relevant engineering and industrialization technologies of power assembly for new energy commercial vehicles with independent intellectual property rights by centralizing superior resources and adopting advanced technology and scientific management measures, thus forming the serialization products and bulk production capacity. The JV Companies adhere to the concept of asset-light and efficient operation providing technical and product supports to quickly seize the domestic and international markets and striving to become the leading enterprise in the industry of power assembly for commercial vehicles.

The business scope of the R&D and Manufacturing JV Company includes research and development, production, processing and sales businesses of power assembly for new energy commercial vehicles, as well as the technical consultation and services for products related to power assembly for new energy commercial vehicles.

The business scope of the Sales JV Company includes research and development, production, processing and sales businesses of power assembly for new energy commercial vehicles, as well as the technical consultation and services for products related to power assembly for new energy commercial vehicles.

**d. Capital Contribution**

The registered capital of the R&D and Manufacturing JV Company will be RMB20,000,000, which will be contributed in cash by the Company, Equipment Research Institute, Shanghai Edrive and Ningbo Partnership in the amount of RMB10,200,000, RMB4,000,000, RMB1,800,000 and RMB4,000,000, representing 51%, 20%, 9% and 20%, respectively of its equity.

The registered capital of the Sales JV Company will be RMB20,000,000, which will be contributed in cash by the Company, Shanghai Edrive and Ningbo Partnership in the amount of RMB1,800,000, RMB14,200,000 and RMB4,000,000, representing 9%, 71% and 20%, respectively of its equity.

The contacting parties are entitled to the investment returns in proportion to their contribution.

The registered capital of the JV Companies will be contributed in two phases: the Company, Equipment Research Institute, Shanghai Edrive and Ningbo Partnership shall contribute RMB5,100,000, RMB2,000,000, RMB900,000 and RMB2,000,000, respectively in cash to R&D and Manufacturing JV Company before 30 December 2016, as the first batch of capital contribution to be delivered for verification and make another contribution of RMB5,100,000, RMB2,000,000, RMB900,000 and RMB2,000,000, respectively in cash to R&D and Manufacturing JV Company before 31 December 2017, as the second batch of capital contribution to be delivered for verification. The Company, Shanghai Edrive and Ningbo Partnership shall contribute RMB900,000, RMB7,100,000 and RMB2,000,000, respectively in cash to Sales JV Company before 30 December 2016, as the first batch of capital contribution to be delivered for verification and make another contribution of RMB900,000, RMB7,100,000 and RMB2,000,000, respectively in cash to Sales JV Company before 31 December 2017, as the second batch of capital contribution to be delivered for verification.

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

**e. Composition of the Board and Supervisory Committee of the JV Companies**

The board of the R&D and Manufacturing JV Company comprises of five directors, of which three shall be appointed by the Company and the Equipment Research Institute, one shall be appointed by Shanghai Edrive, and one shall be an employee director. The chairman of the board shall be taken by a director nominated by the Company, and the one vice chairman shall be taken by a director nominated by Shanghai Edrive. The supervisory committee comprises of three supervisors, of which one shall be appointed by the Company and the Equipment Research Institute, one shall be appointed by Shanghai Edrive, and one shall be an employee supervisor. The chairman of the supervisory committee shall be taken by a supervisor nominated by the Company.

The board of the Sales JV Company comprises of five directors, of which one shall be appointed by the Company, three shall be appointed by Shanghai Edrive, and one shall be an employee director. The chairman of the board shall be taken by a director nominated by Shanghai Edrive, and the one vice chairman shall be taken by a director nominated by the Company. The supervisory committee comprises of three supervisors, of which the Company and Shanghai Edrive shall each appoint one supervisor, and one shall be an employee supervisor. The chairman of the supervisory committee shall be taken by a supervisor nominated by Shanghai Edrive.

**f. Transfer of Equity**

Principally, the equity held by each party involved in the agreements shall not be transferred without authorization. If there is a need to transfer the equity, the unanimous consent from other shareholders shall be obtained.

**g. Business Competition**

Upon the formal operation of the JV Companies, none of Qijiang Gear Transmission Co., Ltd. (a subsidiary of the Company) and its subsidiaries, and Shanghai Edrive and its subsidiaries shall engage in the production and sales of any technical services or products in competition with the business of the JV Companies separately or in other manners such as establishing joint-ventured plants.

**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 EQUIPMENT RESEARCH INSTITUTE**

Equipment Research Institute 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.

## **INFORMATION ON SHANGHAI EDRIIVE**

Shanghai Edrive is one of the leaders in the field of motor drive system for new energy vehicles in China, which starts relatively early and has relatively strong capacities in research and development, design, product manufacturing and integration. The major product of Shanghai Edrive is motor drive system for new energy vehicles, which is generally composed of motor and motor controller.

## **INFORMATION ON NINGBO PARTNERSHIP**

Ningbo Partnership is established by Ningbo Meishan Duty-Free District Dezhe Zhiheng Investment Management Partnership (Limited Partnership)\* (寧波梅山保稅港區德澤致恒投資管理合夥企業(有限合夥)) and Xu Yandong (徐延東) through joint contribution. Ningbo Partnership serves as the shareholding platform for the management team of the JV Companies, and its business scope includes investment management.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE CONTRACTS**

### **1. Compliance with the Strategic Development Goals of the Enterprise**

The project takes the opportunity of development of new energy vehicles, fosters new market growths, and actively expands the market of new energy coach. Therefore, the project not only satisfies the demands of development of emerging industries in China, but also complies with the development strategy of the Company, thus being conducive to promoting the smooth realization of the development goals of the Company.

### **2. New Energy Being the Inevitable Choice in the Development of Automobile Industry**

With the continuous development of China's economy, the market of large and medium coach grew constantly in recent years, and the proportion of new energy coach increases year by year. Therefore, new energy vehicles (NEV) become an inevitable choice for the continuous improvement of global auto industry. As the upstream products in the NEV industry chain, the project could provide power assembly products for new energy commercial vehicles by leverage of the brand advantages and market expanding ability, which not only facilitate the development of enterprises, but also provide technology and product support for the development of large and medium coach market.

### **3. Requirement for Realization of Industry Transformation and Upgrading**

As the country supports the NEV industry, some traditional products were replaced by new energy products in the coach market. Therefore, positive involvement in the NEV power system market is an inevitable choice for the survival and development of an enterprise. The Company will aim at the advanced technology, seize the direction of industrial revolution, and grab the vantage ground in the future competition.

### **4. Provision of Opportunity by National Encouragement and Promotion Policies**

A series of policies to encourage and promote the development of new energy vehicles have been introduced successively by the National Development and Reform Commission, Ministry of Finance, Ministry of Industry and Information Technology and Ministry of Science and Technology since 2013, including high subsidy in price for acquisition of new energy vehicles, unrestricted use of vehicles and license plate bans exemption. In the consideration of environmental protection and energy security, vigorous development of NEV industry will be encouraged by national policies for a certain period in the future.

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

### **APPROVAL BY THE BOARD**

On 29 September 2016, the resolution in relation to the transaction contemplated under the JV Contracts was approved unanimously by all the non-connected Directors (including independent non-executive Directors) at the 2016 second extraordinary meeting of the fourth session of the Board of the Company. When voting on the resolution in relation to the transaction contemplated under the JV Contracts by the Board, all connected Directors, namely Mr. Wang Yuxiang and Mr. Huang Yong, abstained from voting. Except for such connected Directors, no other Directors have material interests in the transaction contemplated under the JV Contracts.

### **LISTING RULE IMPLICATIONS**

Equipment Research Institute is a wholly-owned subsidiary of the Parent Company, and the Parent Company 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 the Company and Equipment Research Institute will constitute a connected transaction under the Listing Rules. As certain applicable percentage ratios of the transaction contemplated under the JV Contracts 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
“Company”	Chongqing Machinery & Electric Co., Ltd.* (重慶機電股份有限公司), a joint stock 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 same meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Equipment Research Institute”	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
“JV Contracts”	the cooperation agreement, the contract on establishment of R&D and Manufacturing JV Company, and the contract on establishment of Sales JV Company of New Energy Commercial Vehicle Power Assembly Project dated 18 November 2016 entered into among the Company, Equipment Research Institute, Shanghai Edrive and Ningbo Partnership
“JV Companies”	R&D and Manufacturing JV Company and Sales JV Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ningbo Partnership”	Ningbo Meishan Duty-Free District Miaoqing Investment Management Partnership (Limited Partnership)* (寧波梅山保稅港區妙淨投資管理合夥企業(有限合夥)), a limited partnership established under the PRC laws
“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
“R&D and Manufacturing JV Company”	Chongqing RSDA Power Science & Technology Co., Ltd. (重慶瑞時達動力科技有限公司), a limited company proposed to be established in the PRC, which will be held as to 51%, 20%, 9% and 20% by the Company, Equipment Research Institute, Shanghai Edrive and Ningbo Partnership, respectively
“Sales JV Company”	Chongqing RSDA Power Technology Co., Ltd.(重慶瑞時達動力技術有限公司), a limited company proposed to be established in the PRC, which will be held as to 9%, 71% and 20% by the Company, Shanghai Edrive and Ningbo Partnership, respectively
“Shanghai Edrive”	Shanghai Edrive Co., Ltd. (上海電驅動股份有限公司), a company limited by shares established under the PRC laws
“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  
18 November 2016

*As at the date of the announcement, the executive Directors are Mr. Wang Yuxiang, Ms. Chen Ping and Mr. Yang Quan; the non-executive Directors are Mr. Huang Yong, Mr. Wei Fusheng, Mr. Deng Yong and Ms. He Xiaoyan; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei.*