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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)

**VOLUNTARY ANNOUNCEMENT
DISPOSAL OF 65% EQUITY INTERESTS IN CHONGQING SHENJIAN**

This is a voluntary announcement made by Chongqing Machinery & Electric Co., Ltd. (the “**Company**”) to inform its shareholders and potential investors about the disposal of 65% equity interests in Chongqing Shenjian Automotive Drive Part Co., Ltd. (“**Chongqing Shenjian**”).

On 6 April 2017, Chongqing Machine Tools (Group) Co., Ltd. (“**Chongqing Machine Tools**”), a wholly-owned subsidiary of the Company, and Zhejiang Shuanghuan Driveline Co., Ltd. (“**Shuanghuan Driveline**”) entered into an equity transfer agreement (the “**Equity Transfer Agreement**”), pursuant to which Chongqing Machine Tools has agreed to sell and Shuanghuan Driveline has agreed to acquire 65% equity interest in Chongqing Shenjian at the consideration of RMB103,182,589.96. Upon completion of the transaction, the Company will still indirectly hold 35% equity interest in Chongqing Shenjian, and Chongqing Shenjian will no longer be a subsidiary of the Company.

EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are set forth as follows:

a. Date

6 April 2017

* *For identification purposes only*

b. Parties

- (1) Chongqing Machine Tools, as vendor; and
- (2) Shuanghuan Driveline, as purchaser.

To the best of the knowledge, information and belief of the directors, having made all reasonable enquiries, pursuant to Rule 14A.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), although Shuanghuan Driveline holds 30% equity interest in Chongqing Sino-Germany Smart Factory Solutions Co., LTD. (“**Smart**”), an indirect subsidiary of the Company, Smart is an insignificant subsidiary of the Company through the calculation of asset ratio, profit ratio and revenue ratio. Therefore, Shuanghuan Driveline and its ultimate beneficial owners are independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

c. Target Equity Interest

Shuanghuan Driveline has agreed to acquire and Chongqing Machine Tools has agreed to transfer 65% equity interest in Chongqing Shenjian.

d. Consideration

The consideration of RMB103,182,589.96 will be paid in full by Shuanghuan Driveline in cash within five working days after the Equity Transfer Agreement comes into force.

e. Matters regarding the Equity Transfer

The reference date of the transaction is 30 September 2016. All profits and losses incurred during the period from the reference date to the date when the equity changes are registered are undertaken by Chongqing Machine Tools. Chongqing Machine Tools shall complete the equity delivery procedures with Shuanghuan Driveline upon its receipt of the consideration of the equity transfer in full.

f. Conditions Precedent

The Agreement will become effective on the date when it is signed and sealed by the legal or authorised representatives of the parties hereof.

IMPLICATION OF THE DISPOSAL

Upon completion of the transaction, the Company will indirectly hold 35% equity interest in Chongqing Shenjian, and Chongqing Shenjian will no longer be a subsidiary of the Company, while Shuanghuan Driveline will hold 65% equity interest in Chongqing Shenjian.

INFORMATION RELATED TO THE PARTIES

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

Chongqing Machine Tools, a wholly-owned subsidiary of the Company, 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.

Chongqing Shenjian, a wholly-owned subsidiary of Chongqing Machine Tools, principally engages in the manufacturing and sales of gears for gearbox of heavy trucks and micro cars, gears for engineering machinery and other transmission components and parts.

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.

REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT

Chongqing Shenjian has certain share in the specialized market in automobile gear industry after years of efforts since its establishment in 1998. However, its scale is relatively small in general and its development progress is slow subject to its system, mechanism, competition environment and insufficient input in technical improvement. It is not optimistic due to the continuous falling tendency in its business performance. Therefore, it is in an urgent need of transformation. The disposal of equity interest in Chongqing Shenjian is beneficial to improving the asset structure of Chongqing Machine Tools, and driving Chongqing Machine Tools to focus on the development of emerging competitive industries by revitalizing the stock of assets and integrating the resources.

Accordingly, the directors are of the view that the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and in the interests of the Company and the shareholders as a whole.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the disposal are all below 5%, the disposal does not constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules. This announcement is made by the Company on a voluntary basis.

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

Chongqing, the PRC
6 April 2017

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.