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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

ACQUISITION OF 19% EQUITY INTEREST IN FINANCE COMPANY

The Board is pleased to announce that, on 27 April 2017, the Company entered into the Equity Transfer Agreement with Industrial Trust, pursuant to which, Industrial Trust agreed to transfer 19% equity interest in Finance Company held by it to the Company at the consideration of RMB141,321,000. Upon completion of the Equity Transfer, the Company shall hold 70% equity interest in Finance Company and Industrial Trust shall no longer hold any equity interest in Finance Company.

At the date of this announcement, the Company, the Parent Company and Industrial Trust holds 51%, 30% and 19% equity interest in Finance Company, respectively, and the Parent Company holds approximately 52.54% equity interest in the issued share capital of the Company. Accordingly, pursuant to Rule 14A.28 of the Listing Rules, the Equity Transfer constitutes a connected transaction under the Listing Rules because the Parent Company is not only the controller of the Company but also a substantial shareholder of Finance Company. Since one or more of the applicable percentage ratios for the transaction under the Equity Transfer is more than 0.1% but less than 5%, the Equity Transfer is only subject to reporting and announcement requirements under Chapter 14A of the Listing Rules, but exempt from independent shareholders' approval.

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* *For identification purposes only*

RMB141,321,000. Upon completion of the Equity Transfer, the Company shall hold 70% equity interest in Finance Company and Industrial Trust shall no longer hold any equity interest in Finance Company. The major terms of the Equity Transfer Agreement are as follows:

EQUITY TRANSFER AGREEMENT

a. Date

27 April 2017

b. Parties:

- (1) the Company (transferee), and
- (2) Industrial Trust (transferor).

c. Subject

Industrial Trust agreed to transfer and the Company agreed to acquire 19% equity interest in Finance Company held by Industrial Trust and such equity interest is not subject to any third party's claims or pledge and not involved in any disputes or litigation. The Equity Transfer Agreement shall become effective after duly signed or sealed by the legal representatives or authorized representatives of both parties together with their common seals affixed thereto.

d. Consideration and Pricing Basis

After friendly negotiation, the parties achieved an agreement that the consideration of the Equity Transfer shall refer to the appraised value (with 31 December 2016 as the reference date, the appraised value of the entire equity interest of Finance Company valued by Chongqing Zhongding Assets, Land and Real Estate Appraisal Co., Ltd. (重慶中鼎資產評估土地房地產估價有限責任公司) was RMB818,002,200, and the corresponding appraised value of the 19% equity interest was RMB155,420,400). With reference to the comparable cases in the market, the consideration of the Equity Transfer shall be an amount that equals to RMB170,958,000 (1.1 times of the audited net asset value of Finance Company as of 31 December 2016 corresponding to the 19% equity interest) less RMB29,637,000, the dividend received by Industrial Trust from Finance Company before signing this agreement, which is RMB141,321,000.

Both parties shall cooperate with each other for obtaining approval from the relevant approving authority on or before 30 April 2017 (inclusive). If the date of the approval from the approving authority is later than 30 April 2017, the Company shall pay interest of the capital to Industrial Trust, and interest on the capital is calculated at the consideration of the Equity Transfer

RMB141,321,000 × 4.95% × the number of days/365. Among which, the number of days is from 1 April 2017 (inclusive) to the date of the approval from the approving authority (exclusive).

e. Payment Method

The Company will pay the consideration of the Equity Transfer of RMB141,321,000 and the interest of the capital (if any) to Industrial Trust within 5 working days from the date of approval of the Equity Transfer from the approving authority by one-off payment. The consideration will be paid in cash and will be self-funded by the Company.

The Directors consider that the consideration of the Equity Transfer is fair and reasonable and in the interests of the Company and the shareholders as a whole.

INFORMATION ON FINANCE COMPANY

Finance Company was established on 16 January 2013, and is principally engaged in provision of finance services and financing consultancy services to its member companies, provision of credit verification and related consultancy and agency services to its member companies; provision of assistance to its member companies in payment and receipt of transaction proceeds; provision of approved insurance agency services; provision of guarantees to its member companies as well as dealing with entrusted loans and entrusted investments among its member companies; provision of draft acceptance and discounting services to its member companies; provision of intra-group transfer and settlement services to its member companies and planning of clearing and settlement scheme; provision of its deposit services to its member companies; provision of loans and finance leasing services to member companies; provision of counterpart loans; and making investments in fixed-income and marketable securities.

As at 31 December 2016, the total assets of Finance Company amounted to RMB3,494,465,900 and the net assets amounted to RMB817,980,900. The profit before tax, the net profit after tax and the return on net assets was RMB45,332,700, RMB39,912,600 and 4.88% respectively in 2016. The profit before tax was RMB71,168,400 and net profit after tax was RMB61,472,400 in 2015.

Prior to the Equity Transfer, the Company held 51% equity interest in Finance Company as a controlling shareholder of it, and Industrial Trust held 19% equity interest in Finance Company. Upon completion of the Equity Transfer, the Company will hold 70% equity interest in Finance Company and Industrial Trust will cease to hold any equity interest in Finance Company.

REASONS FOR AND BENEFITS OF ENTERING INTO EQUITY TRANSFER AGREEMENT

- (1) If Industrial Trust transfers the equity interest to other institutional investor(s), it will adversely affect the future development of Finance Company when significant difference occurs between such institutional investor(s) and the Company with respect to the business philosophy of Finance Company.

- (2) The financial license of Finance Company is scarce resource, and its business can effectively solve the problem of difficult financing and high capital cost of the Company and its subsidiaries, invigorate the internal stock funds, optimize the internal resource allocation and improve the overall operating efficiency.
- (3) With the expansion of its business, Finance Company could play a better role in integrating industry with finance and providing a market-oriented financial service platform, thereby enhancing its profitability and benefiting the Company.

In light of the above reasons, the Directors (including independent non-executive Directors) consider that the terms of the Equity Transfer Agreement are fair and reasonable and are entered into on normal commercial items and entering into Equity Transfer Agreement is in the interests of the Company and its Shareholders as a whole.

INFORMATION ON THE COMPANY, THE PARENT COMPANY AND INDUSTRIAL TRUST

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

The Parent Company is principally engaged in general aviation aircraft, rail transportation, heavy automobiles and ancillary automobile business (including special purpose vehicles, compartments and transmission axles), electronic information business and other business.

Industrial Trust is principally engaged in various types of trust businesses (such as trust of movable properties, trust of immovable properties, trust of marketable securities etc.) and financial products investment business, financing services and financial equity investment business etc.

THE DELIBERATIONS OF THE BOARD

On 6 April 2017, the seventh session of the Board of the Company convened the second interim meeting in 2017. Upon unanimous agreement by all non-connected Directors (including independent non-executive Directors), the resolutions on the transaction under the Equity Transfer Agreement were approved. On voting the resolutions in relation to the Equity Transfer Agreement by the Board, the connected Directors, Mr. Wang Yuxiang and Mr. Huang Yong abstained. Other than those connected Directors, none of other Directors has material interests in the transaction under the Equity Transfer Agreement.

IMPLICATIONS OF THE LISTING RULES

At the date of this announcement, the Company, the Parent Company and Industrial Trust holds 51%, 30% and 19% equity interest in Finance Company, respectively, and the Parent Company holds approximately 52.54% equity interest in the issued share capital of the Company. Accordingly, pursuant to Rule 14A.28 of the Listing Rules, the Equity Transfer constitutes a connected transaction

under the Listing Rules because the Parent Company is not only the controller of the Company but also a substantial shareholder of Finance Company. Since one or more of the applicable percentage ratios for the transaction under the Equity Transfer is more than 0.1% but less than 5%, the Equity Transfer is only subject to reporting and announcement requirements under Chapter 14A of the Listing Rules, but exempt from independent shareholders' approval.

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
“Finance Company”	Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd.* (重慶機電控股集團財務有限公司), a company established pursuant to the PRC laws with limited liability
“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)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	directors of the Company
“Equity Transfer Agreement”	an equity transfer agreement dated 27 April 2017 entered into between the Company and Industrial Trust
“Equity Transfer”	Industrial Trust transfers 19% equity interest in Finance Company to the Company held by it pursuant to the terms and conditions of the Equity Transfer Agreement
“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 company established in the PRC on 25 August 2000 with limited liability and owned by the Chongqing State-owned Assets Supervision and Administration Commission, being one of the Promoters of the Company
“Industrial Trust”	China Industrial International Trust Limited* (興業國際信託有限公司), a company established pursuant to the PRC laws with limited liability

“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“%”	Percent

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

Chongqing, the PRC
27 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.