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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)

## **CONNECTED TRANSACTIONS EQUITY TRANSFERS WITH THE PARENT COMPANY**

The Board is pleased to announce that, on 26 September 2017, the Company entered into the Equity Transfer Agreements with the Parent Company, pursuant to which, the Company shall transfer all of the 100% equity interest held by it in Qijiang Gear and 45% equity interest jointly held by it and its subsidiaries in Microcredit (of which Qijiang Gear holds 10% of the equity interest of Microcredit, and the Company and its subsidiaries jointly hold 35% of the equity interest of Microcredit) to the Parent Company. Meanwhile, the Parent Company shall transfer 100% equity interest held by it in Intelligent Manufacturing and Equipment Research Institute to the Company. Upon completion of all Equity Transfers, the Company will no longer hold any equity interest in Qijiang Gear and Microcredit. Meanwhile, the Company will hold 100% equity interest in Intelligent Manufacturing and Equipment Research Institute.

### **IMPLICATIONS UNDER THE LISTING RULES**

The Parent Company is the Controlling Shareholder of the Company and holds 52.54% equity interest of the Company which is a connected person of the Company under the Listing Rules. Therefore, the Equity Transfers between the Company and the Parent Company under the Equity Transfer Agreements constitute connected transactions of the Company under the Listing Rules.

As the Equity Transfers involve both acquisitions and disposals of the Company, the Company will classify the Equity Transfers by reference to the higher of the relevant percentage ratios of the acquisitions and the disposals under Rule 14.24 of the Listing Rules, and will, based on such classification, comply with the applicable requirements under the Listing Rules. As certain applicable percentage ratios under the Equity Transfer Agreements are above 5% but less than 25% and the transaction considerations exceed HK\$10,000,000, the transactions under the Equity

\* For identification purposes only

Transfer Agreements constitute connected transactions of the Company under Chapter 14A of the Listing Rules, and are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under the Listing Rules.

## **GENERAL INFORMATION**

Pursuant to the Listing Rules, an Independent Board Committee comprising all the independent non-executive Directors has been established by the Company to advise the Independent Shareholders on the terms of the transactions under the Equity Transfer Agreements. The Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and Independent Shareholders as to whether the terms and conditions of the Equity Transfer Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

As it takes time to finalize the contents of the circular which contains, among other things, further information on the Equity Transfer Agreements and the transactions contemplated thereunder, a letter of advice from the Independent Board Committee, a letter of recommendation from the Independent Financial Adviser and a notice of the EGM, the circular is expected to be dispatched to the Shareholders on or before 13 October 2017.

The EGM will be convened by the Company at which resolutions will be proposed to seek approval from the Independent Shareholders for the transactions contemplated under the Equity Transfer Agreements. Each of the Parent Company and its associates will abstain from voting on the relevant resolutions to be proposed at the EGM.

Mr. Wang Yuxiang (chairman of the Parent Company), Mr. Huang Yong (president of the Parent Company) and Ms. Chen Ping (director of the Parent Company) hold management positions in the Parent Company. Therefore, they are deemed to have material interests in the transactions contemplated under the Equity Transfer Agreements and have abstained from voting on the relevant Board resolutions approving the Equity Transfer Agreements.

The Board is pleased to announce that, on 26 September 2017, the Company entered into the Equity Transfer Agreements with the Parent Company, pursuant to which, the Company shall transfer all of the 100% equity interest held by it in Qijiang Gear and 45% equity interest jointly held by it and its subsidiaries in Microcredit (of which Qijiang Gear holds 10% of the equity interest of Microcredit, and the Company and its subsidiaries jointly hold 35% of the equity interest of Microcredit) to the Parent Company. Meanwhile, the Parent Company shall transfer 100% equity interest held by it in Intelligent Manufacturing and Equipment Research Institute to the Company. Upon completion of all Equity Transfers, the Company will no longer hold any equity interest in Qijiang Gear and Microcredit. Meanwhile, the Company will hold 100% equity interest in Intelligent Manufacturing and Equipment Research Institute. The material terms of the Equity Transfer Agreements are as follows:

## **EQUITY TRANSFER AGREEMENTS**

### **1. Equity Transfer Agreement in relation to Qijiang Gear**

**a. Date:**

26 September 2017

**b. Parties:**

- (1) the Company, as transferor; and
- (2) the Parent Company, as transferee.

**c. Subject**

The Company shall transfer all of the 100% equity interest held by it in Qijiang Gear to the Parent Company. The said equity interest is not subject to any third party's claims or pledge, and not involved in any disputes or litigation.

Qijiang Gear will cease to be a subsidiary of the Company after the completion of the equity transfer.

**d. Consideration and Basis of Pricing**

The Parties, after amicable negotiation, reached an agreement that the consideration for the transaction in relation to the transfer of 100% equity interest in Qijiang Gear is RMB255,465,400. The consideration for the transaction was determined by the parties hereof through fair consultation with reference to the following independent valuation:

- (1) According to the Audit Reports of Qijiang Gear Transmission Co., Ltd. for January to June 2017 and for the year of 2016, 2015 and 2014 (《綦江齒輪傳動有限公司2017年1-6月、2016年度、2015年度、2014年度審計報告》(XYZH/2017CQA10333)) issued by ShineWing, as at 30 June 2017, Qijiang Gear had a total assets, total liabilities and owners' equity of RMB1,209,938,900, RMB988,697,500 and RMB221,241,400, respectively.
- (2) The Report on Assets Valuation of 100% Equity Interest of Qijiang Gear Transmission Co., Ltd. involved in the Equity Transfer Between Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Machinery & Electric Co., Ltd. [CKPBZ (2017) No. 210-1] (《重慶機電控股(集團)公司與重慶機電股份有限公司股權轉讓所涉及的綦江齒輪傳動有限公司股東全部權益的資產評估專案資產評估報告》(重康評報字(2017)第210-1號)) issued by Huakang Valuation has adopted 30 June 2017 as the reference date of valuation and the

assets-based approach for conducting the valuation. According to the valuation report, Qijiang Gear had a total assets, total liabilities and net assets of RMB1,234,720,400, RMB979,255,000 and RMB255,465,400, respectively, representing a revaluation surplus of RMB34,224,000 or an appreciation rate of 15.47%.

Upon reviewing the relevant basis of pricing, the Directors (including independent non-executive Directors) consider that the consideration for the transaction is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

*e. Payment Terms:*

The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms after taking into consideration the difference between acquisition of equity interest from and disposal of equity interest to the Parent Company by the Company.

*f. Condition Precedent*

The Equity Transfer Agreement in relation to Qijiang Gear shall be effective after being approved at the EGM of the Company and by the authorised management organization for state-owned assets.

**2. Equity Transfer Agreement in relation to Microcredit**

*a. Date:*

26 September 2017

*b. Parties:*

- (1) the Company, as transferor;
- (2) Chongqing General, as transferor;
- (3) CHMTI, as transferor;
- (4) Pump Industry, as transferor;
- (5) Water Turbine, as transferor; and
- (6) the Parent Company, as transferee.

**c. Subject**

The Company shall transfer all of the 35% equity interest jointly held by it and its subsidiaries in Microcredit (excluding 10% equity interest in Microcredit held by Qijiang Gear) to the Parent Company. The said equity interest is not subject to any third party's claims or pledge, and not involved in any disputes or litigation.

The Company and its subsidiaries will cease to hold any equity interest in Microcredit after the completion of the equity transfer.

**d. Consideration and Basis of Pricing**

The Parties, after amicable negotiation, reached an agreement that the consideration for the transaction in relation to the transfer of 35% equity interest in Microcredit is RMB61,015,700 (the consideration for 10% equity interest in Microcredit has been included in the consideration for 100% equity interest in Qijiang Gear). The consideration for the transaction was determined by the parties hereof through fair consultation with reference to the following independent valuation:

- (1) According to the Audit Reports of Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd. for January to June 2017 and for the year of 2016, 2015 and 2014 (《重慶兩江新區機電小額貸款有限公司2017年1-6月、2016年度、2015年度、2014年度審計報告》(XYZH/2017CQA10330)) issued by ShineWing, as at the reference date of valuation of 30 June 2017, Microcredit had an audited total assets, total liabilities and net assets of RMB222,024,600, RMB47,789,800 and RMB174,234,800, respectively.
- (2) The Report on Assets Valuation of 100% Equity Interest of Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd. involved in the Equity Transfer Between Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Machinery & Electric Co., Ltd. [CKPBZ (2017) No. 210-2] (《重慶機電控股(集團)公司與重慶機電股份有限公司股權轉讓所涉及的重慶兩江新區機電小額貸款有限公司股東全部權益的資產評估專案資產評估報告》(重康評報字(2017)第210-2號)) issued by Huakang Valuation has adopted 30 June 2017 as the reference date of valuation and the assets-based approach for conducting the valuation. According to the valuation report, Microcredit had a total assets, total liabilities and net assets of RMB222,120,400, RMB47,789,800 and RMB174,330,600, respectively, representing a revaluation surplus of RMB95,800 or an appreciation rate of 0.05%.

Upon reviewing the relevant basis of pricing, the Directors (including independent non-executive Directors) consider that the consideration for the transaction is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

***e. Payment Terms:***

The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms after taking into consideration the difference between acquisition of equity interest from and disposal of equity interest to the Parent Company by the Company.

***f. Condition Precedent***

The Equity Transfer Agreement in relation to Microcredit shall be effective after being approved at the EGM of the Company and by the authorised management organization for state-owned assets.

**3. Equity Transfer Agreement in relation to Intelligent Manufacturing**

***a. Date:***

26 September 2017

***b. Parties:***

- (1) the Company, as transferee; and
- (2) the Parent Company, as transferor.

***c. Subject***

The Parent Company shall transfer 100% equity interest held by it in Intelligent Manufacturing to the Company. The said equity interest is not subject to any third party's claims or pledge, and not involved in any disputes or litigation.

Intelligent Manufacturing will become a subsidiary of the Company after the completion of the equity transfer.

**d. Consideration and Basis of Pricing**

The Parties, after amicable negotiation, reached an agreement that the consideration for the transaction in relation to the transfer of 100% equity interest in Intelligent Manufacturing is RMB132,719,700. The consideration for the transaction was determined by the parties hereof through fair consultation with reference to the following independent valuation:

- (1) According to the Audit Reports of Chongqing Mechanical & Electrical Intelligent Manufacturing Co. Ltd. for January to June 2017 and for the year of 2016 and 2015 (《重慶機電智能製造有限公司2017年1-6月、2016年度、2015年度審計報告》(XYZH/2017CQA10331)) issued by ShineWing, as at 30 June 2017, Intelligent Manufacturing had an audited total assets, total liabilities and net assets of RMB122,100,200, RMB23,502,600 and RMB98,597,600, respectively.
- (2) The Report on Assets Valuation of 100% Equity Interest of Chongqing Mechanical & Electrical Intelligent Manufacturing Co. Ltd. involved in the Equity Transfer Between Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Machinery & Electric Co., Ltd. [CKPBZ (2017) No. 210-3] (《重慶機電控股(集團)公司與重慶機電股份有限公司股權轉讓所涉及的重慶機電智能製造有限公司股東全部權益的資產評估專案資產評估報告》(重康評報字(2017)第201-3號)) issued by Huakang Valuation has adopted 30 June 2017 as the reference date of valuation and the assets-based approach for conducting the valuation. According to the evaluation report, Intelligent Manufacturing had a total assets, total liabilities and net assets of RMB156,222,300, RMB23,502,600 and RMB132,719,700, respectively, representing a revaluation surplus of RMB34,122,100 or an appreciation rate of 34.61%.

Upon reviewing the relevant basis of pricing, the Directors (including independent non-executive Directors) consider that the consideration for the transaction is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

**e. Payment Terms:**

The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms after taking into consideration the difference between acquisition of equity interest from and disposal of equity interest to the Parent Company by the Company.

**f. Condition Precedent**

The Equity Transfer Agreement in relation to Intelligent Manufacturing shall be effective after being approved at the EGM of the Company and by the authorised management organization for state-owned assets.

#### **4. Equity Transfer Agreement in relation to Equipment Research Institute**

**a. Date:**

26 September 2017

**b. Parties:**

- (1) the Company, as transferee; and
- (2) the Parent Company, as transferor.

**c. Subject**

The Parent Company shall transfer 100% equity interest held by it in Equipment Research Institute to the Company. The said equity interest is not subject to any third party's claims or pledge, and not involved in any disputes or litigation.

Equipment Research Institute will become a subsidiary of the Company after the completion of the equity transfer.

**d. Consideration and Basis of Pricing**

The Parties, after amicable negotiation, reached an agreement that the consideration for the transaction in relation to the transfer of 100% equity interest in Equipment Research Institute is RMB14,388,800. The consideration for the transaction was determined by the parties hereof through fair consultation with reference to the following independent valuation:

- (1) According to the Audit Reports of Chongqing Mechanical & Electrical Equipment Technology Research Institute Co., Ltd. for January to June 2017 and for the year of 2016, 2015 and 2014 (《重慶機電裝備技術研究院有限公司2017年1-6月、2016年度、2015年度、2014年度審計報告》(XYZH/2017CQA10332)) issued by ShineWing, as at 30 June 2017, Equipment Research Institute had an audited total assets, total liabilities and owners' equity of RMB25,825,700, RMB11,686,200 and RMB14,139,500, respectively.
- (2) The Report on Assets Valuation of 100% Equity Interest of Chongqing Mechanical & Electrical Equipment Technology Research Institute Co., Ltd. involved in the Equity Transfer Between Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Machinery & Electric Co., Ltd. [CKPBZ (2017) No. 210-4] (《重慶機電控股(集團)公司與重慶機電股份有限公司股權轉讓所涉及的重慶機電裝備技術研究院有限公司股東全部權益的資產評估專案資產評估報告》(重康評報字(2017)第210-4號)) issued by Huakang Valuation has adopted 30 June 2017 as



the reference date of valuation and the assets-based approach for conducting the valuation. According to the valuation report, Equipment Research Institute had a total assets, total liabilities and net assets of RMB26,075,000, RMB11,686,200 and RMB14,388,800, respectively, representing a revaluation surplus of RMB249,300 or an appreciation rate of 1.76%.

Upon reviewing the relevant basis of pricing, the Directors (including independent non-executive Directors) consider that the consideration for the transaction is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

*e. Payment Terms:*

The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms after taking into consideration the difference between acquisition of equity interest from and disposal of equity interest to the Parent Company by the Company.

*f. Condition Precedent*

The Equity Transfer Agreement in relation to Equipment Research Institute shall be effective after being approved at the EGM of the Company and by the authorised management organisation for state-owned assets.

## **GENERAL INFORMATION**

### **Information on the Company**

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

### **Information on the Parent Company**

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

### **Information on the Target Companies**

*a. Qijiang Gear*

Qijiang Gear, established in December 2002 with a registered capital of RMB200 million, is currently a wholly-owned subsidiary of the Company. Qijiang Gear is principally engaged in the manufacturing and sales of auto parts, transmission system, box assembly and their relevant components, bevel gears, cylindrical gears and other gears and shafts. The operation revenue,

net profit before taxation and net profit after taxation of Qijiang Gear were RMB527,638,000, RMB-277,143,400 and RMB-248,552,200 respectively in 2015, and RMB389,170,500, RMB-73,460,600 and, RMB-64,952,000 respectively in 2016.

**b. *Microcredit***

Microcredit, established in April 2013 with a registered capital of RMB200 million, is jointly held as to 55% by the Parent Company and its subsidiary which is Chongqing Jian'an Instruments Co., Ltd. and jointly held as to 45% by the Company and its subsidiaries (including Chongqing Machine Tools (Group) Co., Ltd., Qijiang Gear, Chongqing General Industry (Group) Co., Ltd., Chongqing Pump Industry Co., Ltd. and Chongqing Water Turbine Works Co., Ltd.). Microcredit is principally engaged in the provision of loans, notes discounting, assets transfer in Chongqing and conducting equity investment with self-owned funds in China. The operation revenue, net profit before taxation and net profit after taxation of Microcredit were RMB21,799,200, RMB-7,635,600 and RMB-6,496,000 respectively in 2015, and RMB4,517,600, RMB-21,368,900 and RMB-18,171,900 respectively in 2016.

**c. *Intelligent Manufacturing***

Intelligent Manufacturing, established in August 2015 with a registered capital of RMB101,610,400, is currently a wholly-owned subsidiary of the Parent Company. The Parent Company will hold 66.2606% equity interest in Chongqing Mengxun Electronic & Technology Co., Ltd. (重慶盟訊電子科技有限公司) through increasing capital to the Intelligent Manufacturing in July 2016. Intelligent Manufacturing is principally engaged in the design, manufacturing and sales of industrial robots, public service robots, automation equipment, intelligent equipment, ASRS and warehouse logistics equipment, as well as development, manufacturing, installation and maintenance of industrial automation, intellectualized system and production line. The operation revenue, net profit before taxation and net profit after taxation of Intelligent Manufacturing were RMB68,482,000, RMB7,082,200 and RMB6,539,700 respectively in 2015, and RMB59,794,900, RMB-666,400 and RMB-419,500 respectively in 2016.

**d. *Equipment Research Institute***

Equipment Research Institute, established in October 2011 with a registered capital of RMB20 million, is currently a wholly-owned subsidiary of the Parent Company now. Equipment Research Institute is principally engaged in research and development of electrical and mechanical equipment technology, technical consultancy, promotion of technology, as well as designing, research and development, manufacturing and sales of electrical and mechanical equipment products. The operation revenue, net profit before taxation and net profit after taxation of Equipment Research Institute were RMB460,400, RMB-2,329,800 and RMB-2,329,800 respectively in 2015, and RMB5,459,000, RMB1,762,300 and RMB1,762,300 respectively in 2016.

| The Target Companies with equity interest to be transferred                  | Shareholding | Financial information as at 30 June 2017 |                    |                               |                     | Owners' equity based on shareholding |
|--|--------------|--|--------------------|-------------------------------|---------------------|--------------------------------------|
|  |              | Audited total assets                     | Audited net assets | Appraised value of net assets | Revaluation surplus |                                      |
| <b>Assets to be disposed by the Company</b>                                  |              |  |                    |                               |                     |                                      |
| Qijiang Gear   | 100%         | 120,993.89                               | 22,124.14          | 25,546.54                     | 3,422.40            | 25,546.54                            |
| Microcredit  | 35%*         | 22,202.46                                | 17,423.48          | 17,433.06                     | 9.58                | 6,101.57                             |
| Total assets to be transferred out   |              | 143,196.35                               | 39,547.62          | 42,979.60                     | 3,431.98            | 31,648.11                            |
| <b>Assets to be acquired by the Company</b>                                  |              |  |                    |                               |                     |                                      |
| Equipment Research Institute   | 100%         | 2,582.57                                 | 1,413.95           | 1,438.88                      | 24.93               | 1,438.88                             |
| Intelligent Manufacturing  | 100%         | 12,210.02                                | 9,859.76           | 13,271.97                     | 3,412.21            | 13,271.97                            |
| Total assets to be transferred in  |              | 14,792.59                                | 11,273.71          | 14,710.85                     | 3,437.14            | 14,710.85                            |
| Difference between total and assets to be transferred in and transferred out |              | 128,403.76                               | 28,273.91          | 28,268.75                     | -5.16               | 16,937.26                            |

\* Aggregate shareholding held by the Company and its subsidiaries (excluding those held by Qijiang Gear)

Based on the appraised value of the Target Companies as at 30 June 2017, the total appraised asset value of the equity to be transferred by the Parent Company to the Company amounted to RMB147,108,500; the total appraised asset value of the equity to be transferred by the Company to the Parent Company amounted to RMB316,481,100. Given that difference between total value of assets to be transferred under Equity Transfers amounted to RMB169,372,600, the Parent Company will pay RMB169,372,600 in cash to the Company to make up the difference in consideration arising from the Equity Transfers.

## REASONS FOR AND BENEFITS OF THE EQUITY TRANSFER AGREEMENTS

### (I) To improve the profitability and financing ability of the Company

A number of subsidiaries of the Company including Qijiang Qi-Chi Forging Co.,Ltd. owned by Qiyiany Gear and Chongqing Qi-Chi Automotive Part Co., Ltd. are undergoing liquidation process. The ownership of these subsidiaries by the Company will drag down the performance of the Company, while the disposition of subsidiaries with weaker profitability will further improve the profitability of the Company and contributes to the enhancing of its financing ability in the capital market.

## **(II) To avoid horizontal competition between the Company and the Parent Company**

As the intelligent manufacturing business of the Company and the Parent Company are similar, the consolidation of the operation of intelligent manufacturing business by the Company will avoid horizontal competition between it and the Parent Company.

## **(III) To strengthen synergistic effect and innovation-driven ability in the industry**

As most of the products developed by Equipment Research Institute are entrusted by the subsidiaries of the Company and Intelligent Manufacturing, the consolidation of Equipment Research Institute into the Company will strengthen synergistic effect, and Equipment Research Institute as the innovation and development platform of the Company is more conducive to drive the innovative and development ability of the Company and its subsidiaries.

The Directors (including independent non-executive Directors) are of the opinion that the Equity Transfer Agreements and the transactions contemplated thereunder are entered into after arm's length negotiations in the ordinary and usual course of business of the Company and the terms of the Equity Transfer Agreements are fair and reasonable, on normal commercial terms and in the interests of the Company and shareholders as a whole.

## **IMPACT OF THE DISPOSALS**

In view of the fact that the Company shall dispose 100% and 35% equity interest in Qijiang Gear and Microcredit respectively, and the book value of 100% equity interest of Qijiang Gear in its management account as at 30 June 2017 amounted to RMB221,241,400, it is expected that the disposal of 100% equity interest in Qijiang Gear will generate a gain of RMB34,224,000 (being the difference between the consideration and the corresponding book value); the book value of 35% equity interest of Microcredit in its management account as at 30 June 2017 amounted to RMB60,982,200, it is expected that the disposal of 35% equity interest in Microcredit will generate a gain of RMB33,500 (being the difference between the consideration and the corresponding book value). It is expected that an aggregate gain of RMB34,257,500 will accrue from the above-mentioned disposals. The Company will allocate the proceeds from the disposals to supplement its working capital.

## **IMPLICATIONS UNDER THE LISTING RULES**

The Parent Company is the Controlling Shareholder of the Company and holds 52.54% equity interest of the Company, which is a connected person of the Company under the Listing Rules. Therefore, the Equity Transfers between the Company and the Parent Company under the Equity Transfer Agreements constitute connected transactions of the Company under the Listing Rules.

As the Equity Transfers involve both acquisitions and disposals of the Company, the Company will classify the Equity Transfers by reference to the higher of the relevant percentage ratios of the acquisitions and the disposals under Rule 14.24 of the Listing Rules, and will, based on such

classification, comply with the applicable requirements under the Listing Rules. As certain applicable percentage ratios under the Equity Transfer Agreements are above 5% but less than 25% and the transaction considerations exceed HK\$10,000,000, the transactions under the Equity Transfer Agreements constitute connected transactions of the Company under Chapter 14A of the Listing Rules, and are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under the Listing Rules.

## **OTHER MATTERS**

Pursuant to the Listing Rules, an Independent Board Committee comprising all the independent non-executive Directors has been established by the Company to advise the Independent Shareholders on the terms of the transactions under the Equity Transfer Agreements. The Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and Independent Shareholders as to whether the terms and conditions of the Equity Transfer Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

As it takes time to finalize the contents of the circular which contains, among other things, further information on the Equity Transfer Agreements and the transactions contemplated thereunder, a letter of advice from the Independent Board Committee, a letter of recommendation from the Independent Financial Adviser and a notice of the EGM, the circular is expected to be dispatched to the Shareholders on or before 13 October 2017.

The EGM will be convened by the Company at which resolutions will be proposed to seek approval from the Independent Shareholders for the transactions contemplated under the Equity Transfer Agreements. Each of the Parent Company and its associates will abstain from voting on the relevant resolutions to be proposed at the EGM.

Mr. Wang Yuxiang (chairman of the Parent Company), Mr. Huang Yong (president of the Parent Company) and Ms. Chen Ping (director of the Parent Company) hold management positions in the Parent Company. Therefore, they are deemed to have material interests in the transactions contemplated under the Equity Transfer Agreements and have abstained from voting on the relevant Board resolutions to approving the Equity Transfer Agreements.

## DEFINITIONS

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

|                              |  |
|------------------------------|--|
| “Equity Transfer Agreements” | four equity transfer agreements entered into by the Company and its Parent Company on 26 September 2017, pursuant to which the Company shall transfer all of the 100% equity interest held by it in Qijiang Gear and 45% equity interest jointly held by it and its subsidiaries in Microcredit (of which Qijiang Gear holds 10% of the equity interest of Microcredit, and the Company and its subsidiaries jointly hold 35% of the equity interest of Microcredit) to the Parent Company, and the Parent Company shall transfer 100% equity interest held by it in Intelligent Manufacturing and Equipment Research Institute to the Company |
| “Equity Transfers”           | pursuant to the Equity Transfer Agreements, the Company shall transfer all of the 100% equity interest held by it in Qijiang Gear and 45% equity interest jointly held by it and its subsidiaries in Microcredit (of which Qijiang Gear holds 10% of the equity interest of Microcredit, and the Company and its subsidiaries jointly hold 35% of the equity interest of Microcredit) to the Parent Company, and the Parent Company shall transfer 100% equity interest held by it in Intelligent Manufacturing and Equipment Research Institute to the Company  |
| “associates”                 | has the meaning ascribed to it under the Listing Rules   |
| “EGM”                        | the upcoming extraordinary general meeting of the Company to be convened in 2017   |
| “Board”                      | the Board of Directors of the Company  |
| “Company”                    | Chongqing Machinery & Electric Co., Ltd.*  |
| “Controlling Shareholder”    | has the meaning ascribed to it under the Listing Rules   |
| “Director (s)”               | directors of the Company   |
| “Domestic Share(s)”          | ordinary share(s) of nominal value of RMB1.00 each in the share capital of the Company which are subscribed for or credited as paid up in RMB  |

|                                |   |
|--------------------------------|---|
| “Qijiang Gear”                 | Qijiang Gear Transmission Co., Ltd* (綦江齒輪傳動有限公司), a limited liability company established in the PRC on 28 December 2002, which is currently a wholly-owned subsidiary of the Company   |
| “Microcredit”                  | Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd.* (重慶市北部新區機電小額貸款有限公司), a limited liability company established in the PRC on 17 April 2013, in which 45% equity interest is jointly held by the Company and its subsidiaries, and 55% equity interest is jointly held by the Parent Company and its subsidiaries |
| “Chongqing General”            | Chongqing General Industry (Group) Co., Ltd., a limited liability company established in the PRC on 15 April 1997, which is currently a wholly-owned subsidiary of the Company  |
| “CHMTI”                        | China Chongqing Machine Tool International Group Co., Ltd., a limited liability company established in the PRC on 23 October 1989, which is currently a wholly-owned subsidiary of the Company  |
| “Pump Industry”                | Chongqing Pump Industry Co., Ltd., a limited liability company established in the PRC on 1 September 2002, which is currently a wholly-owned subsidiary of the Company  |
| “Water Turbine”                | Chongqing Water Turbine Works Co., Ltd., a limited liability company established in the PRC on 1 December 1981, which is currently a wholly-owned subsidiary of the Company   |
| “Intelligent Manufacturing”    | Chongqing Mechanical & Electrical Intelligent Manufacturing Co. Ltd. * (重慶機電智能製造有限公司), a limited liability company established in the PRC on 5 August 2015, in which 100% equity interest is held by the Parent 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 in the PRC on 13 October 2011, in which 100% equity interest is held by the Parent Company  |
| “Group”                        | the Company and its associates  |
| “HK\$”                         | Hong Kong dollars, the lawful currency of Hong Kong   |

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| “Hong Kong”   | the Hong Kong Special Administrative Region of the PRC   |
| “H Share(s)”  | the overseas-listed foreign share(s) of the Company with a nominal value of RMB1.00 each, which are listed on the Stock Exchange   |
| “Huakang Valuation”                                 | Chongqing Huakang Asset & Land & Real Estate Valuation Co., Ltd.* (重慶華康資產評估土地房地產估價有限責任公司), a limited liability company established under the laws of the PRC   |
| “Independent Board Committee”                       | an independent committee of the Board composed of independent non-executive Directors of the Company, namely Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei   |
| “Independent Financial Advisor” or “Shinco Capital” | Shinco Capital Limited* (昇豪資本有限公司), a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and has been appointed as the independent financial advisor to advise the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreements |
| “Independent Shareholder(s)”                        | has the meaning ascribed to it under Rule 14A.10(5) of the Listing Rules, and in relation to the Company means the Shareholders other than Parent Company and its associates   |
| “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   |
| “PRC”   | the People’s Republic of China, which, for the purpose of this circular, excludes Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and the Taiwan region   |
| “RMB”   | Renminbi, the lawful currency of the PRC   |



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| “SFO”              | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or revised otherwise from time to time                     |
| “Shares”           | the Domestic Shares and/or the H Shares   |
| “Shareholder(s)”   | holder(s) of the Shares   |
| “ShineWing”        | ShineWing Certified Public Accountants (Special General Partnership)* (信永中和會計師事務所(特殊普通合夥)), a special general partnership established under the laws of the PRC |
| “Stock Exchange”   | the Stock Exchange of Hong Kong Limited*  |
| “Target Companies” | Qijiang Gear, Microcredit, Intelligent Manufacturing and Equipment Research Institute   |

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

Chongqing, the PRC  
26 September 2017

*As at the date of this 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.*