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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)

**CONTINUING CONNECTED TRANSACTIONS
PURSUANT TO RULE 14A.60 OF THE LISTING RULES**

Upon the approval of the first 2017 extraordinary general meeting of the Company on 27 November 2017, the Company transferred the entire equity interest in Qijiang Gear to the Parent Company. Qijiang Gear has completed the procedures of the equity transfer on 30 November 2017. Upon the completion of the equity transfer, the Company no longer holds any equity interest of Qijiang Gear.

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. Upon completion of the above equity transfer, the Parent Company holds 100% of the equity interests in Qijiang Gear and Qijiang Gear becomes a connected person of the Company.

Before the completion of the above equity transfer, the Company has offered a loan amounting to RMB394,416,000 and a guarantee amounting to RMB180,000,000 to Qijiang Gear, respectively. After the completion of the equity transfer, the aforesaid financial assistance will constitute a continuing connected transaction under the Listing Rules.

Pursuant to Rule 14A.60 of the Listing Rules, the Company is required to comply with the applicable reporting and disclosure requirements under Chapter 14A of the Listing Rules regarding the Loan Agreements and the Guarantee Agreements. The Company will comply in full with all applicable reporting, disclosure and, if applicable, independent Shareholders' approval requirements under Chapter 14A of the Listing Rules upon any variation or renewal of the Loan Agreements and the Guarantee Agreements.

* For identification purposes only

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THE LOAN AGREEMENTS

a. Parties:

- (1) the Company, as lender; and
- (2) Qijiang Gear, as borrower.

b. Main content

In accordance with the Loan Agreements entered into between the Company and Qijiang Gear before 30 November 2017, the Company shall lend certain capital to Qijiang Gear.

c. Particulars of the loan

Details of the Loan Agreements entered into between the Company and Qijiang Gear are as follows:

No.	Execution and commencement date of the agreements	Expiry date of the agreements	Actual loan amount (RMB'0000)	Interest rate
1	2016.11.21	2019.06.30	4,900	4.75%
2	2017.04.24	2018.04.23	2,000	0.00%
3	2017.07.20	2018.07.13	27,000	4.35%
4	2017.08.29	2018.08.28	750.6	0.00%
5	2017.09.21	2018.09.20	3,000	4.35%
6	2017.11.24	2018.02.24	1,791	0.00%
Total			<u>39,441.6</u>	

d. Payment terms and basis of interest rates:

1. *Payment terms*

Qijiang Gear shall pay the interest as stipulated in the Loan Agreements and repay the principal due.

2. *Basis of interest rates*

The loans amounting to RMB49,000,000, RMB270,000,000 and RMB30,000,000 respectively were obtained by the Company through debt and lent to Qijiang Gear. The interest rates of them are 4.75%, 4.35% and 4.35% respectively, which are the actual debt interest rates. The Company lent three nil interest-bearing loans of RMB20,000,000, RMB7,506,000 and RMB17,910,000 through its own funds in installments according to the procedures to Qijiang Gear, and because Qijiang Gear was a wholly-owned subsidiary of the Company before the approval of the equity transfer in the first 2017 extraordinary general meeting, the above mentioned loans were all loans supporting the carrying out of ordinary operation activities of a subsidiary.

THE GUARANTEE AGREEMENTS

a. Parties:

- (1) the Company, as guarantor;
- (2) Qijiang Gear, as borrower; and
- (3) Finance Company, as lender.

b. Subject

According to the Guarantee Agreements, the Company will offer guarantees for the loans amounting to RMB180,000,000 provided by the Finance Company to the Qijiang Gear.

c. Details of the guarantees

The details of the guarantees made by the Company for the Qijiang Gear as follows:

No.	Execution and commencement date of the agreements	Expiry date of the agreements	Guarantee amount (RMB'0000)
1	18 May 2017	17 May 2018	2,800
2	25 July 2017	24 July 2018	3,500
3	16 August 2017	15 February 2018	1,000
4	21 August 2017	20 August 2018	1,500
5	30 September 2017	1 March 2018	1,200
6	7 November 2017	6 November 2018	3,000
7	26 October 2017	25 October 2018	2,000
8	3 November 2017	2 November 2018	<u>3,000</u>
Total			<u><u>18,000</u></u>

d. Basis of the guarantee amount:

The guarantee amount was determined based on Qijiang Gear's capital need for normal operation and after considering the financing amount of Qijiang Gear applied from commercial bank in 2015 and 2016 (amounting to RMB180,000,000 and RMB177,500,000 respectively).

GENERAL INFORMATION

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 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 Qijiang Gear

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

Information on the Finance Company

The Finance Company was established in January 2013 with registered capital of RMB600,000,000. It is a subsidiary of the Company with its 30% equity held by the Parent Company and the remaining 70% equity held by the Company. The scope of business of the Finance Company includes 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 bill acceptance and discounting services to its member companies; provision of intra-group transfer and settlement services to its member companies and related 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 engagement of investments in fixed-income and marketable securities.

Reasons for Continuous Provision of Loans and Guarantees for Qijiang Gear

Before 30 November 2017, Qijiang Gear was a wholly-owned subsidiary of the Company. In order to support the normal operation of Qijiang Gear, the Company has entered into certain Loan Agreements and Guarantee Agreements with Qijiang Gear. Upon the approval of the first 2017 extraordinary general meeting of the Company, the Company transferred the entire equity interest in Qijiang Gear to the Parent Company and Qijiang Gear completed the registration of equity interest transfer on 30 November 2017. Since 30 November 2017, Qijiang Gear is a wholly-owned subsidiary of the Parent Company. As the aforesaid Loan Agreements and Guarantee Agreements were entered into before the transfer of the equity interest of Qijiang Gear, in order to fulfill the obligations under the agreements, the above mentioned Loan Agreements and Guarantee Agreements will still be effective after 30 November 2017.

Despite the validity of the Loan Agreements and the Guarantee Agreements, for the protection of the Company's interests and upon further negotiation, Qijiang Gear commits that they will repay the loans totalling RMB75,416,000 which are numbered 2, 4, 5 and 6 above to the Company before 31 December 2017, and repay the loans totalling RMB319,000,000 which are numbered 1 and 3 above before 31 January 2018, and the Parent Company agreed to supervise and assist Qijiang Gear to make early repayment to the Company. In addition, the Parent Company agreed to replace the Company as the guarantor of the Guarantee Agreements before 31 December 2017.

The Directors (including independent non-executive Directors) are of the opinion that although the Loan Agreements and Guarantee Agreements and the transactions thereunder are not entered into in the ordinary and usual course of business of the Company and on normal commercial terms, taking into consideration of the historical background in which the Loan Agreements and the Guarantee Agreements were entered into initially, the negative impact on the Company's goodwill caused by violating the Loan Agreements and the Guarantee Agreements as well as the aforesaid arrangements after further negotiation with Qijiang Gear and the Parent Company, they are fair and reasonable and in the interests of the Company and Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

Upon the approval of the first 2017 extraordinary general meeting of the Company on 27 November 2017, the Company transferred the entire equity interest in Qijiang Gear to the Parent Company. Qijiang Gear has completed the procedures of the equity transfer on 30 November 2017. Upon the completion of the equity transfer, the Company no longer holds any equity interest of Qijiang Gear.

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. Upon completion of the above equity transfer, the Parent Company holds 100% of the equity interest in Qijiang Gear and Qijiang Gear becomes a connected person of the Company.

Before the completion of the above equity transfer, the Company has offered a loan amounting to RMB394,416,000 and has offered a guarantee amounting to RMB180,000,000 to Qijiang Gear. After the completion of the equity transfer, the aforesaid financial assistance will constitute a continuing connected transaction under the Listing Rules and will continue to be conducted according to the original Loan Agreements and Guarantee Agreements.

Pursuant to Rule 14A.60 of the Listing Rules, the Company is required to comply with the applicable reporting and disclosure requirements under Chapter 14A of the Listing Rules regarding the Loan Agreements and the Guarantee Agreements. The Company will comply in full with all applicable reporting, disclosure and, if applicable, independent Shareholders' approval requirements under Chapter 14A of the Listing Rules upon any variation or renewal of the Loan Agreements and the Guarantee Agreements.

DEFINITIONS

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

“Loan Agreements”	the loan agreements entered into between the Company and Qijiang Gear prior to 30 November 2017 regarding to an aggregate amount of RMB394,416,000. The Company is the lender, and Qijiang Gear is the borrower
“Guarantee Agreements”	the loan guarantee agreements entered into among the Company, Qijiang Gear and Finance Company prior to 30 November 2017 regarding to an aggregate amount of RMB180,000,000. The Company is the guarantor, Qijiang Gear is the borrower and Finance Company is the lender
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Company” or “the Company”	Chongqing Machinery & Electric Co., Ltd.
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“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 Parent 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 in the PRC on 16 January 2013 with limited liability and now being a subsidiary of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong 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 announcement, 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
“Shares”	the Domestic Shares and/or the H Shares
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	the Stock Exchange of Hong Kong Limited

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

Chongqing, the PRC
15 December 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. Deng Yong, Mr. Dou Bo 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.