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**China SUMEC Automotive Industry
Consulting Development Co., Ltd. ***

*(a company incorporated in the People's Republic of
China with limited liability)*



中國機械設備工程股份有限公司
China Machinery Engineering Corporation*

*(a joint stock limited company incorporated in the
People's Republic of China with limited liability)*

(Stock code: 1829)

JOINT ANNOUNCEMENT

**(1) PROPOSED PRE-CONDITIONAL MERGER BY ABSORPTION OF
THE COMPANY BY THE OFFEROR
(2) PROPOSED WITHDRAWAL OF LISTING
AND
(3) RESUMPTION OF TRADING**



Financial Adviser to the Offeror

SUMMARY

1. INTRODUCTION

The Offeror and the Company are pleased to jointly announce that on 13 January 2021, the Offeror and the Company entered into the Merger Agreement pursuant to which the Offeror and the Company will implement the Merger subject to the terms and conditions of the Merger Agreement, including the Pre-Condition and the Conditions. After the Merger, the Company will be merged into and absorbed by the Offeror in accordance with the PRC Company Law and other applicable PRC Laws.

2. PROPOSED MERGER

Pursuant to the Merger Agreement, conditional upon, among others, the fulfilment (or waiver, as applicable) of the Pre-Condition and the Conditions, the Offeror will pay the Cancellation Price (a) in the amount of HK\$3.70 per H Share to the H Shareholders in cash and (b) in the amount of RMB3.082692 per Domestic Share, which is equivalent of the Cancellation Price of each H Share based on the Exchange Rate, to the Domestic Shareholders (being SINOMACH and China United, the parent of the Offeror and one of the parent's wholly-owned subsidiaries, respectively), which will be satisfied through the issuance of registered capital of the Offeror to the Domestic Shareholders as described in the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT".

After the completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of the Company and the Company will be eventually deregistered.

The Offeror shall, as soon as possible and in any event no later than seven (7) business days after fulfilment (or waiver, if applicable) of the Pre-Condition and all the Conditions (being the Conditions to effectiveness and the Conditions to implementation), pay the Cancellation Price to all H Shareholders and issue the registered capital of the Offeror to all Domestic Shareholders in accordance with the Merger Agreement.

SINOMACH HK has undertaken with the Offeror to pay on its behalf the total consideration for cancellation of the H Shares. The payment of the total consideration for cancellation of the H Shares will be financed by external and/or intra-group borrowings from SINOMACH and its subsidiaries.

After payment of consideration is made to the H Shareholders and the relevant registered capital of the Offeror is issued to the Domestic Shareholders by or on behalf of the Offeror, all rights attaching to such Shares shall cease to have effect and the relevant Shares shall be cancelled. The share certificates for H Shares and Domestic Shares will cease to have effect as documents or evidence of title.

The Cancellation Price will not be increased and the Offeror does not reserve the right to do so.

3. PROPOSED WITHDRAWAL OF LISTING OF H SHARES

Upon satisfaction of the Pre-Condition and all the Conditions to effectiveness, the Company will apply to the Stock Exchange for voluntary withdrawal of the listing of the H Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

The Company will issue separate announcement(s) notifying H Shareholders of the proposed withdrawal of listing and the exact dates and relevant arrangements for the last day for dealing in H Shares on the Stock Exchange as well as when the formal delisting of the H Shares will become effective.

The listing of the H Shares on the Stock Exchange will not be withdrawn if the Merger is not approved or lapses or does not become unconditional for any reason.

4. SHAREHOLDING IN THE COMPANY

As at the date of this joint announcement, the relevant securities of the Company in issue are 4,125,700,000 Shares, which comprise 908,270,000 H Shares and 3,217,430,000 Domestic Shares.

As at the date of this joint announcement, the Offeror does not own any Share. SINOMACH, which directly and beneficially owns the entire equity interest of the Offeror, owns 3,185,255,700 Domestic Shares directly in the Company, and 32,174,300 Domestic Shares through China United, together representing approximately 77.99% of the voting interests in the Company.

5. DESPATCH OF THE COMPOSITE DOCUMENT

The Composite Document containing, amongst others, (i) further details of the Merger and the Merger Agreement and other matters in relation to the Merger; (ii) a letter of advice issued by the Independent Financial Adviser to the Independent Board Committee; and (iii) recommendations and advice from the Independent Board Committee, together with a notice of the EGM, a notice of the H Shareholders' Class Meeting and proxy forms are expected to be despatched to H Shareholders within seven days after the satisfaction of the Pre-Condition. The Offeror will apply to the Executive for its consent under Note 2 to Rule 8.2 of the Takeovers Code to permit the Composite Document to be posted within the timeframe described above.

6. RESUMPTION OF TRADING

At the request of the Company, trading in the H Shares on the Stock Exchange was halted from 9:00 a.m. on 8 January 2021. An application has been made by the Company to the Stock Exchange for the resumption of trading in the H Shares from 9:00 a.m. on 14 January 2021.

The Pre-Condition and the Conditions to effectiveness must be satisfied before the Merger Agreement becoming effective. The Merger Agreement becoming effective is therefore a possibility only. Further, Shareholders and potential investors in the securities of the Company should be aware that the Merger is subject to the Conditions to implementation set out in this joint announcement being satisfied or waived, as applicable. Neither the Offeror nor the Company provides any assurance that any or all Conditions or Pre-Condition can be satisfied, and thus the Merger Agreement may or may not become effective or, if effective, may or may not be implemented or completed. Shareholders and potential investors in the securities of the Company should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional adviser.

NOTICE TO U.S. HOLDERS OF SHARES

The Merger will involve the cancellation of the securities of a joint stock limited company incorporated in the PRC with limited liability by means of a merger by absorption provided for under the laws of the PRC. The Merger is subject to Hong Kong disclosure requirements, which are different from those of the United States. The financial information included in this joint announcement has been prepared in accordance with International Financial Reporting Standards and thus may not be comparable to financial information of U.S. companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

The receipt of cash pursuant to the Merger by a U.S. holder of Shares as consideration for the cancellation of its Shares pursuant to the Merger may be a taxable transaction for U.S. federal income tax purposes and under applicable state and local, as well as foreign and other tax laws. Each holder of Shares is urged to consult his/her/its independent professional advisor immediately regarding the tax consequences of the implementation of the Merger.

U.S. holders of Shares may encounter difficulty enforcing their rights and any claims arising out of the U.S. federal securities laws, as the Offeror and the Company are located in a country outside the United States and some or all of their respective officers and directors may be residents of a country other than the United States. U.S. holders of Shares may not be able to sue a non-U.S. company or its officers or directors in a non-U.S. court for violations of the U.S. securities laws. Further, U.S. holders of Shares may encounter difficulty compelling a non-U.S. company and its affiliates to subject themselves to a U.S. court's judgment.

In accordance with normal Hong Kong practice, the Offeror hereby discloses that it or its affiliates, or its nominees, or their respective brokers (acting as agents) may from time to time make certain purchases of, or arrangements to purchase, Shares outside of the United States, before or during the Offer Period. In accordance with the Takeovers Code and Rule 14e-5(b) of the U.S. Exchange Act, CICC and its affiliates may continue to act as exempt principal traders in the Shares on the Stock Exchange. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices, provided that any such purchase or arrangement complies with applicable law, including but not limited to the Takeovers Code, and is made outside the United States. Any information about such purchases will be reported to the SFC in accordance with the requirements of the Takeovers Code and, to the extent made public by the SFC, will be available on the website of the SFC at <http://www.sfc.hk>.

1. INTRODUCTION

The Offeror and the Company are pleased to jointly announce that on 13 January 2021, the Offeror and the Company entered into the Merger Agreement pursuant to which the Offeror and the Company will implement the Merger subject to the terms and conditions of the Merger Agreement, including the Pre-Condition and the Conditions. After the Merger, the Company will be merged into and absorbed by the Offeror in accordance with the PRC Company Law and other applicable PRC Laws.

2. PROPOSED MERGER

Pursuant to the Merger Agreement, conditional upon, among others, the fulfilment (or waiver, as applicable) of the Pre-Condition and the Conditions set out in the section headed “3. *PRINCIPAL TERMS OF THE MERGER AGREEMENT*” below, the Offeror will pay the Cancellation Price in the amount of:

- (a) HK\$3.70 per H Share to the H Shareholders in cash; and
- (b) RMB3.082692 per Domestic Share, which is equivalent of the Cancellation Price of each H Share based on the Exchange Rate, to the Domestic Shareholders (being SINOMACH and China United, the parent of the Offeror and one of the parent’s wholly-owned subsidiaries, respectively), which will be satisfied through the issuance of registered capital of the Offeror to the Domestic Shareholders as described in the section headed “3. *PRINCIPAL TERMS OF THE MERGER AGREEMENT*” below.

The amount of aggregate Cancellation Price required to be paid by the Offeror to cancel the H Shares held by H Shareholders is HK\$3,360,599,000.

After the completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of the Company and the Company will be eventually deregistered.

3. PRINCIPAL TERMS OF THE MERGER AGREEMENT

The principal terms and conditions of the Merger Agreement include:

- | | |
|----------------|----------------------|
| Parties | (1) The Offeror; and |
| | (2) the Company. |

Overview of the Merger	Subject to the terms and conditions of the Merger Agreement, the Merger will be implemented by the Offeror merging the Company by way of merger by absorption.
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After the completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of the Company and the Company will be eventually deregistered.

Consideration

Pursuant to the Merger Agreement, conditional upon, among others, the fulfilment (or waiver, as applicable) of the Pre-Condition, the Conditions to effectiveness and the Conditions to implementation set out in the paragraphs headed “*Pre-Condition to the Merger Agreement becoming effective*”, “*Conditions to effectiveness*” and “*Conditions to implementation*” below, the Offeror will pay the Cancellation Price (a) in the amount of HK\$3.70 per H Share to the H Shareholders in cash and (b) in the amount of RMB3.082692 per Domestic Share, which is equivalent of the Cancellation Price of each H Share based on the Exchange Rate, to the Domestic Shareholders (being SINOMACH and China United, the parent of the Offeror and one of the parent’s wholly-owned subsidiaries, respectively), which will be satisfied through the issuance to the Domestic Shareholders RMB3.082692 registered capital of the Offeror for each Domestic Share (equivalent to the amount of Cancellation Price per Domestic Share) based on the total amount of the consideration to be paid to the Domestic Shareholders (equalling to the aforementioned cancellation price per Domestic Share multiplied by the number of Domestic Shares held by the Domestic Shareholders, and rounded down to two decimal places) and the Offeror’s audited net asset value as at 31 December 2020, i.e. RMB9,819,162,264.34 and RMB99,183,457.21 registered capital of the Offeror will be issued to SINOMACH and China United, respectively, representing 99.00% and 1.00% of the registered capital of the Offeror after the completion of such issuance.

**Pre-Condition to the
Merger Agreement
becoming effective**

The Merger Agreement is subject to the satisfaction of a pre-condition, being the filing, registration or approval, as applicable, with or by (a) the National Development and Reform Commission of the PRC (as applicable), (b) Ministry of Commerce of the PRC (as applicable) and (c) the State Administration of Foreign Exchange of the PRC or its local authorities (as applicable), and such other applicable governmental approvals in respect of the Merger having been obtained or completed (the “**Pre-Condition**”). Save for the governmental approvals as mentioned in (a), (b) and (c) above, the Offeror is not currently aware of any other applicable governmental approvals which are required in respect of the Merger.

The above Pre-Condition is not waivable. If the Pre-Condition is not satisfied by the Long-stop Date, the Merger Agreement will not become effective and will be automatically terminated.

Upon fulfilment of the Pre-Condition, the Offeror and the Company will post the Composite Document within seven days thereof in accordance with the Takeovers Code and the EGM and H Shareholders’ Class Meeting will be convened pursuant to the respective notice to such meetings for the Shareholders and the H Shareholders respectively, to consider and, if thought fit, approve matters including the Merger.

**Conditions to
effectiveness**

After the Pre-Condition is satisfied, the Merger Agreement shall become effective upon satisfaction of all of the following conditions (none of which is capable of being waived) (the “**Conditions to effectiveness**”):

- (1) the passing of special resolution(s) by a majority of not less than two-thirds of the votes cast by way of poll by the Shareholders present and voting in person or by proxy at the EGM to approve the Merger under the Merger Agreement in accordance with the Articles and the PRC Laws;
- (2) the passing of special resolution(s) by way of poll approving the Merger under the Merger Agreement at the H Shareholders’ Class Meeting to be convened for this purpose, provided that: (a) approval is given by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders that are cast either in person or by proxy; and (b) the number of votes cast against the resolution(s) is not more than 10% of the votes attaching to all H Shares held by the Independent H Shareholders.

If the above Conditions to effectiveness are not satisfied by the Long-stop Date, the Merger Agreement may be terminated by either party. Please also refer to the paragraph headed “*Termination*” in this section.

**Conditions to
implementation**

After the Merger Agreement becomes effective upon satisfaction of the Pre-Condition and all the Conditions to effectiveness, the implementation of the Merger shall be subject to the following conditions being satisfied or waived, as applicable (the “**Conditions to implementation**”, together with the Conditions to effectiveness, collectively, the “**Conditions**”):

- (1) there being no material breach of the representations, warranties or undertakings given by the Offeror in the Merger Agreement on the Delisting Date which has a material adverse impact on the Merger;
- (2) there being no material breach of the representations, warranties or undertakings given by the Company in the Merger Agreement on the Delisting Date which has a material adverse impact on the Merger; and
- (3) there being no law, restriction or prohibition of any governmental authority or any judgment, decision or adjudication of any court on the Delisting Date which restricts, prohibits or terminates the Merger.

The Company shall be entitled to waive Condition (1) above and the Offeror shall be entitled to waive Condition (2) above. Condition (3) above is not capable of being waived. If the above Conditions to implementation are not satisfied or if applicable, waived, by the Long-stop Date, the Merger Agreement will be automatically terminated.

**Payment of
consideration**

The Offeror shall, as soon as possible and in any event no later than seven (7) business days after fulfilment (or waiver, if applicable) of the Pre-Condition and all the Conditions (being the Conditions to effectiveness and the Conditions to implementation), pay the Cancellation Price to all H Shareholders and all Domestic Shareholders.

After payment of consideration is made to the H Shareholders and the Domestic Shareholders by or on behalf of the Offeror, all rights attaching to such Shares shall cease to have effect and the relevant Shares shall be cancelled. The share certificates for H Shares and Domestic Shares will cease to have effect as documents or evidence of title.

Payment of consideration to the H Shareholders is deemed to be completed once the Offeror or any entity designated by it has despatched to the H Shareholders the cheques for such consideration, while payment of consideration to the Domestic Shareholders is deemed to be completed once the Offeror has delivered to SINOMACH and China United the Offeror's register of members and certification of capital contribution affixed with the Offeror's official seal reflecting the Offeror's shareholding structure after the issuance of the registered capital of the Offeror to SINOMACH and China United in accordance with the Merger Agreement.

The Company's Undertakings

Unless with the prior written consent of the Offeror, the Company shall not issue any Shares, conduct any major acquisitions or disposals which may constitute a discloseable transaction under Chapter 14 of the Listing Rules or declare, make or pay any dividend or other distribution (whether in cash or in kind) to the Shareholders since the date of the Merger Agreement till the termination of the Merger Agreement or the end of the Offer Period (whichever is earlier).

As at the date of this joint announcement, the Company has no outstanding dividend that has been declared, made but not yet paid.

Right of a Dissenting Shareholder

According to the Articles, any Dissenting Shareholder may by written notice request the Company and/or other Shareholders who have approved the Merger (collectively the "**Consenting Shareholders**") to acquire its Shares at a "fair price".

If any Dissenting Shareholder exercises its right, the Offeror will assume the obligation which the Company and/or the Consenting Shareholders may have towards such Dissenting Shareholder to acquire the Shares held by that Dissenting Shareholder at a "fair price".

The exercise of its right by a Dissenting Shareholder is subject to the following criteria:

- (1) such Dissenting Shareholder having validly voted against the resolutions in respect of the Merger at the EGM and (if applicable) the H Shareholders' Class Meeting;

- (2) such Dissenting Shareholder having been validly registered as a shareholder on the share register of the Company since the record date for the EGM and (if applicable) the H Shareholders' Class Meeting, and having held such Share(s) in respect of which it intends to exercise its right until the Exercise Date; and
- (3) such Dissenting Shareholder having exercised its right during the Declaration Period.

A Shareholder is not entitled to exercise its right in respect of such Share(s) held by it if:

- (1) such Shareholder has undertaken to the Company to waive its right;
- (2) such Shareholder is prohibited from exercising its right in accordance with applicable laws; or
- (3) any Share held by such Shareholder is subject to pledge, other third-party rights or judicial moratorium, without having legally obtained written consent or approval obtained from the relevant pledgee, third party or competent authority.

Termination

The Merger Agreement may be terminated in any of the following circumstances:

- (1) by either the Offeror or the Company, if
 - (i) any competent governmental authority issues any order, decree, ruling or take any other actions which permanently restricts, impedes or otherwise prohibits the Merger and which is final, binding and not capable of being appealed (both the Offeror and the Company shall use reasonable endeavours to procure the withdrawal of such order, decree, ruling or action prior to exercising any right of termination); or
 - (ii) the Conditions to effectiveness not having been satisfied on or before the Long-stop Date;
- (2) by the Offeror, if the Company commits a material breach of the representations, warranties and undertakings under the Merger Agreement or any other agreement related to the Merger Agreement which has a material impact on the Merger and such breach is not remedied by the Company within 30 days following written notice from the Offeror; or

- (3) by the Company, if the Offeror commits a material breach of the representations, warranties and undertakings under the Merger Agreement or any other agreement related to the Merger Agreement which has a material impact on the Merger and such breach is not remedied by the Offeror within 30 days following written notice from the Company.

As at the date of this joint announcement, none of the Pre-Condition and the Conditions has been fulfilled or waived.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror and the Company may only invoke any or all of the conditions (1) to (3) set out in the paragraph headed “*Conditions to implementation*” in this section or terminate the Merger Agreement in accordance with the paragraph headed “*Termination*” in this section as a basis for not proceeding with the Merger only if the circumstances which give rise to the right to invoke any such condition or termination right are of material significance to the Offeror or the Company in the context of the Merger.

4. CANCELLATION PRICE

Comparisons of value

The Cancellation Price is HK\$3.70 per H Share and RMB3.082692 per Domestic Share (equivalent to the Cancellation Price of HK\$3.70 per H Share based on the Exchange Rate).

The Cancellation Price per H Share represents:

- (a) a premium of approximately 45.10% over the closing price per H Share of HK\$2.55 on the Stock Exchange on the Last Trading Date;
- (b) a premium of approximately 73.71% over the average closing price of HK\$2.13 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Date;
- (c) a premium of approximately 93.72% over the average closing price of HK\$1.91 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Date;
- (d) a premium of approximately 118.93% over the average closing price of HK\$1.69 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Last Trading Date;

- (e) a premium of approximately 126.99% over the average closing price of HK\$1.63 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Last Trading Date;
- (f) a premium of approximately 126.99% over the average closing price of HK\$1.63 per H Share based on the average closing price of H Shares on the Stock Exchange for the 90 trading days immediately prior to and including the Last Trading Date;
- (g) a discount of approximately 23.40% to the Group's audited net asset value attributable to the Shareholders per Share of approximately HK\$4.83 as at 31 December 2019, based on the exchange rate of HK\$1 : RMB0.89578, being the median exchange rate on 31 December 2019 as announced by the People's Bank of China; and
- (h) a discount of approximately 21.61% to the Group's unaudited net asset value attributable to the Shareholders per Share of approximately HK\$4.72 as at 30 June 2020, based on the exchange rate of HK\$1 : RMB0.91344, being the median exchange rate on 30 June 2020 as announced by the People's Bank of China.

For the purpose of this joint announcement, unless the context requires otherwise, amounts denominated in RMB have been translated into HK\$ at an exchange rate of HK\$1 : RMB0.83316 which is the parity rate of RMB to Hong Kong Dollar as at the date of this joint announcement.

The Cancellation Price will not be increased and the Offeror does not reserve the right to do so.

Highest and lowest prices

During the six-month period immediately up to and including the Last Trading Day, the highest closing price of the H Shares as quoted on the Stock Exchange was HK\$2.55 on 7 January 2021 and the lowest closing price of the H Shares as quoted on the Stock Exchange was HK\$1.47 on 2 November 2020.

Funding for the Merger

On the basis of (i) the Cancellation Price of HK\$3.70 per H Share, (ii) 908,270,000 H Shares in issue as at the date of this joint announcement, and (iii) the Cancellation Price for all the Domestic Shares (which comprise 3,185,255,700 Domestic Shares held directly by SINOMACH and 32,174,300 Domestic Shares held directly by China United) is to be satisfied through the issuance of the registered capital of the Offeror to the Domestic Shareholders as described in the section headed "*3. PRINCIPAL TERMS OF THE MERGER AGREEMENT*" above, the amount of aggregate Cancellation Price required to be paid by the Offeror in cash to cancel the H Shares held by H Shareholders is HK\$3,360,599,000.

SINOMACH HK has undertaken with the Offeror to pay on its behalf the total consideration for cancellation of the H Shares.

The payment of the total consideration for cancellation of the H Shares will be financed by external and/or intra-group borrowings from SINOMACH and its subsidiaries.

The Offeror has appointed CICC as its financial adviser in connection with the Merger. CICC, being the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for the satisfaction of the Offeror's obligations in respect of the full implementation of the Merger (excluding all the Cancellation Price payable to the Domestic Shareholders which is to be satisfied through the issuance of the registered capital of the Offeror to the Domestic Shareholders).

5. REASONS AND BENEFITS OF THE MERGER

The reasons and benefits of the Merger include:

- (1) **The Company has lost the advantage as a listing platform with limited equity fund-raising ability.** Since the listing of the H Shares on the Stock Exchange, the Company has not raised any funds through equity issuance. As the Company's H Shares have been trading at a relatively low price range with sluggish trading volume for most of the time, its ability to raise funds from the equity market is significantly limited. After the Merger is implemented, the H Shares will be delisted from the Stock Exchange, which may benefit the Company from saving in the costs related to compliance and maintenance of the listing status of the Company.
- (2) **Affected by the international situation, the Company's operating results are under pressure, and it can formulate long-term strategic directions with more flexibility after the delisting of H Shares.** Under the influence of the international COVID-19 pandemic and the global economic environment, the Company's overseas business principally in Asia, Africa, South America and North America, representing approximately 75.33% of the revenue generated from external customers of the Company for the year ended 31 December 2019, are facing major challenges with greater uncertainties in future operations. In order to maintain core competitiveness, the Company needs to unify and sort out its strategy and business direction, exploring new development opportunities and long-term growth strategies, which may cause uncertainty in the Company's financial performance in the short term, thereby causing losses to H Shareholders. After the completion of the Merger, the Company can formulate long-term strategies with more flexibility and avoid the pressure from market expectations and stock price fluctuation risks as a listed company.

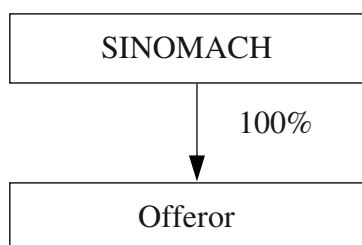
- (3) **The delisting of the H Shares offers the H Shareholders an excellent exit opportunity to dispose of the H Shares in relatively low liquidity with a premium.** The Cancellation Price represents a premium over the market price of H Shares of the Company as disclosed in paragraph headed “*Comparisons of value*” in section “4. CANCELLATION PRICE” above. Therefore, the Merger, if implemented, will offers the H Shareholders a valuable opportunity to realise their investments in the Company with an attractive premium and reallocate the proceeds from the disposal of the H Shares to alternative investment opportunities with more liquidity.

The Board (other than members of the Independent Board Committee, whose views will be given after receiving the opinion of the Independent Financial Adviser) is of the view that the terms of the Merger are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

6. INFORMATION ON THE OFFEROR AND THE COMPANY

(1) Information on the Offeror

The Offeror is a company incorporated in the PRC with limited liability on 5 December 1987. The Offeror is wholly-owned by SINOMACH, which is in turn wholly-owned by the State Council of the PRC. The Offeror had been primarily engaged in management consulting business but does not have any substantive operations as at the date of this joint announcement.



(2) Information on the Company

The Company is a joint stock company with limited liability incorporated in the PRC. The Group is an international engineering contractor and service provider with a primary focus on the engineering, procurement construction (EPC) projects and particular expertise in the power sector, capable of providing one-stop customized and integrated engineering contracting solutions and services. The Group is also engaged in trading, services, design consultation and other emerging sector business.

The Company is owned directly and indirectly as to approximately 77.99% by SINOMACH, among which, approximately 77.21% is held by SINOMACH directly and approximately 0.78% by China United, a wholly-owned subsidiary of SINOMACH.

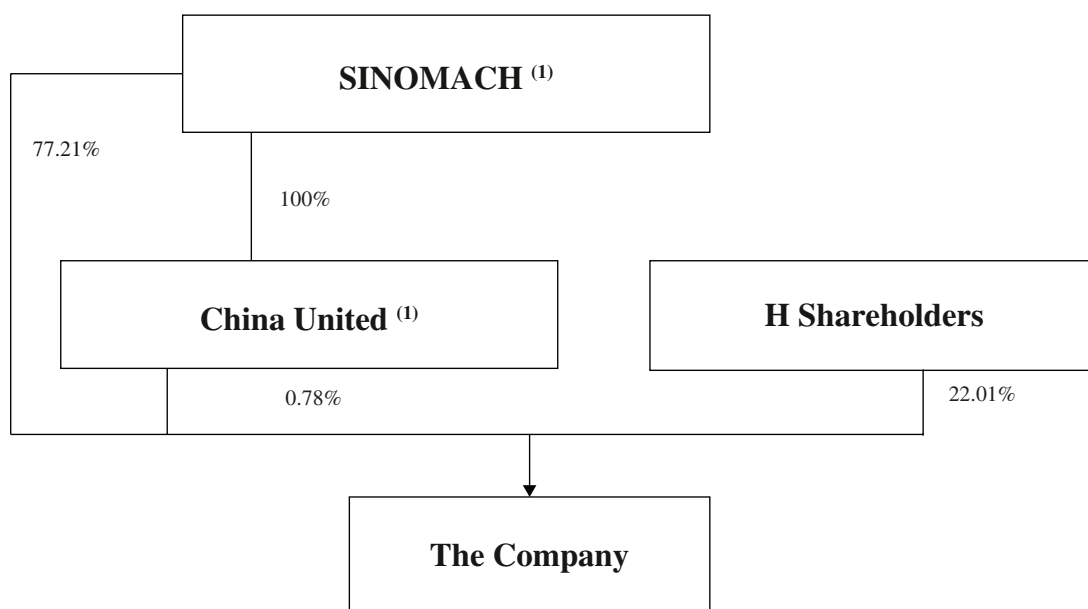
Set out below is the financial information of the Group as extracted from the audited annual report of the Company for the years ended 31 December 2018 and 2019 and the unaudited interim report of the Company for the six months ended 30 June 2020 prepared in accordance with International Financial Reporting Standards.

	For the year ended 31 December 2019 (RMB'000) (audited)	For the year ended 31 December 2018 (RMB'000) (audited)	For the six months ended 30 June 2020 (RMB'000) (unaudited)
Total assets	53,761,443	56,114,617	54,031,095
Revenue	28,295,927	28,862,688	9,071,699
Profit for the year/period	2,181,256	2,135,841	630,128

(3) Shareholding in the Company

As at the date of this joint announcement, relevant securities of the Company in issue comprise 4,125,700,000 Shares, which comprise 908,270,000 H Shares and 3,217,430,000 Domestic Shares.

Set out below is the shareholding structure of the Company as at the date of this joint announcement:



Notes:

- (1) The Shares held by SINOMACH and China United are Domestic Shares.
- (2) The percentages in the diagram above are expressed as percentages of the total issued Shares of the Company.
- (3) CICC is the financial adviser to the Offeror in respect of the Merger. Accordingly, CICC and relevant members of the CICC group are presumed to be acting in concert with the Offeror in accordance with class (5) of the definition of “acting in concert” under the Takeovers Code (except in respect of the Shares held by exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code and also excluding the Shares held on behalf of non-discretionary investment clients of the CICC group). Details of holdings, borrowings or lendings of, and dealings in, the Shares or any other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company held by or entered into by other parts of the CICC group, if any, will be obtained as soon as possible after the date of this joint announcement in accordance with Note 1 to Rule 3.5 of the Takeovers Code. A further announcement will be made if the holdings of, borrowings, lendings, or dealings by the other parts of the CICC group are significant and in any event, such information will be disclosed in the Composite Document. Hence, the statements in this joint announcement as to the holdings, borrowings or lendings of, or dealings in the Shares or any other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company by the Offeror or any person acting in concert with it are subject to the holdings of, borrowings, lendings, or dealings (if any) by such members of the CICC group. Any dealings in the relevant securities of the Company during the six months prior to the date of this joint announcement by the CICC group will be disclosed in the Composite Document.

As at the date of this joint announcement, the Offeror does not own any Share. SINOMACH, which directly and beneficially owns the entire equity interest of the Offeror, owns 3,185,255,700 Domestic Shares directly in the Company, and 32,174,300 Domestic Shares through China United, representing approximately 77.21% and 0.78% of the voting interests in the Company respectively, and together representing approximately 77.99% of the voting interests in the Company.

As at the date of this joint announcement, there are no outstanding options, warrants or convertible securities issued by the Company.

(4) Rights and interests in the securities of the Offeror and Shares and respective derivatives

As at the date of this joint announcement, after having made reasonable enquiries:

- (i) save as disclosed in paragraph headed “*Shareholding in the Company*” in this section above, there is no existing holding of voting rights and rights over Shares which the Offeror or SINOMACH owns or over which either of them has control or direction;

- (ii) save as disclosed in paragraph headed “*Shareholding in the Company*” in this section above, there is no existing holding of voting rights and rights over Shares which is owned or controlled or directed by any person acting in concert with the Offeror or SINOMACH (except those which are exempt principal traders or exempt fund managers, in each case, recognised by the Executive as such for the purposes of the Takeovers Code and also excluding Shares held on behalf of non-discretionary investment clients of the CICC group);
- (iii) there is no existing holding of voting rights and rights over Shares in respect of which the Offeror, SINOMACH or any person acting in concert with either of them has received an irrevocable commitment in relation to the voting of the resolutions in respect of the Merger;
- (iv) there is no existing holding of voting rights and rights over Shares in respect of which the Offeror, SINOMACH or any person acting in concert with either of them holds convertible securities, warrants or options;
- (v) save as disclosed in paragraph headed “*Shareholding in the Company*” in this section above, there is no outstanding derivative in respect of securities in the Company entered into by the Offeror, SINOMACH or any person acting in concert with either of them (except those which are exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code);
- (vi) save for the Merger Agreement and the transactions contemplated thereunder, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the securities of the Offeror, of SINOMACH, or the Shares and which might be material to the Merger;
- (vii) there is no agreement or arrangement (other than the Merger Agreement and the transactions contemplated thereunder) to which the Offeror or SINOMACH is a party which relates to the circumstances in which either of them may or may not invoke or seek to invoke a condition of the Merger; and
- (viii) there are no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror, SINOMACH or any person acting in concert with either of them has borrowed or lent.

As at the date of this joint announcement, there is no understanding, arrangement or agreement or special deal (as defined under Rule 25 of the Takeovers Code) between (i) any Shareholder; and (ii)(a) the Offeror, SINOMACH and any person acting in concert with either of them or (b) the Company, its subsidiaries or associated companies.

7. BOARD APPROVAL, INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Board approved the Merger and its related matters at its board meeting on 11 January 2021.

The Board has established the Independent Board Committee, consisting of all of the independent non-executive Directors of the Company, being Mr. LIU Li, Ms. LIU Hongyu, Mr. FANG Yongzhong and Mr. WU Tak Lung. As Mr. BAI Shaotong, a non-executive Director, holds positions in SINOMACH and Mr. MA Jian and Mr. ZHANG Zhiyu, non-executive Directors, were nominated by SINOMACH, each of them is or may be regarded as being interested in the Merger and is not included as a member of the Independent Board Committee. Such committee will advise the Independent H Shareholders as to: (a) whether the terms of the Merger is fair and reasonable for the purpose of the Takeovers Code; and (b) whether to vote in favour of the Merger at the EGM and the H Shareholders' Class Meeting.

The Independent Financial Adviser will be appointed by the Independent Board Committee to provide advice to it in respect of the Merger. An announcement will be made by the Company as soon as possible after the appointment of such independent financial adviser. The Independent Board Committee is evaluating the Merger and its views and recommendations will be set out in the Composite Document to be despatched to the H Shareholders.

8. PROPOSED WITHDRAWAL OF LISTING OF H SHARES

Upon satisfaction of the Pre-Condition and all the Conditions to effectiveness, the Company will apply to the Stock Exchange for voluntary withdrawal of the listing of the H Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

The Company will issue separate announcement(s) notifying H Shareholders of the proposed withdrawal of listing and the exact dates and relevant arrangements for the last day for dealing in H Shares on the Stock Exchange as well as when the formal delisting of the H Shares will become effective.

The listing of the H Shares on the Stock Exchange will not be withdrawn if the Merger is not approved or lapses or does not become unconditional for any reason.

9. EGM AND H SHAREHOLDERS' CLASS MEETING AND THE COMPOSITE DOCUMENT

The Company will convene the EGM and the H Shareholders' Class Meeting for the Shareholders and the H Shareholders respectively, to consider and, if thought fit, approve matters including the Merger. The Composite Document containing, amongst others, (i) further details of the Merger and the Merger Agreement and other matters in relation to the Merger; (ii) a letter of advice issued by the Independent Financial Adviser to the Independent Board Committee; and (iii) recommendations and advice from the Independent Board Committee, together with a notice of the EGM, a notice of the H Shareholders' Class Meeting and proxy form are expected to be despatched to H Shareholders within seven days after the satisfaction of the Pre-Condition. The Offeror will apply to the Executive for its consent under Note 2 to Rule 8.2 of the Takeovers Code to permit the Composite Document to be posted within the timeframe described above.

10. RESPONSIBILITIES OF STOCKBROKERS, BANKS AND OTHER INTERMEDIARIES

In accordance with Rule 3.8 of the Takeovers Code, associates (including persons holding 5% or more of a class of relevant securities of the Offeror and the Company) of the Offeror and the Company are hereby reminded to disclose their dealings in any shares in the Offeror and the Company pursuant to the requirements of the Takeovers Code.

In accordance with Rule 3.8 of the Takeovers Code, reproduced below is the full text of Note 11 to Rule 22 of the Takeovers Code:

“Responsibilities of stockbrokers, banks and other intermediaries

Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates of an offeror or the offeree company and other persons under Rule 22 and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant Rules. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7 day period is less than HK\$1 million.

This dispensation does not alter the obligations of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.

Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.”

11. NUMBER OF RELEVANT SECURITIES IN ISSUE

As at the date of this joint announcement, the relevant securities of the Company in issue are 4,125,700,000 Shares, which comprise 908,270,000 H Shares and 3,217,430,000 Domestic Shares.

As at the date of this joint announcement, the relevant securities of the Offeror in issue are RMB200,000 in the registered capital of the Offeror, all of which are held by SINOMACH.

12. RESUMPTION OF TRADING

At the request of the Company, trading in the H Shares on the Stock Exchange was halted from 9:00 a.m. on 8 January 2021. An application has been made by the Company to the Stock Exchange for the resumption of trading in the H Shares from 9:00 a.m. on 14 January 2021.

13. WARNING

The Pre-Condition and the Conditions to effectiveness must be satisfied before the Merger Agreement becoming effective. The Merger Agreement becoming effective is therefore a possibility only. Further, Shareholders and potential investors in the securities of the Company should be aware that the Merger is subject to the Conditions to implementation set out in this joint announcement being satisfied or waived, as applicable. Neither the Offeror nor the Company provides any assurance that any or all Conditions or Pre-Condition can be satisfied, and thus the Merger Agreement may or may not become effective or, if effective, may or may not be implemented or completed. Shareholders and potential investors in the securities of the Company should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional adviser.

14. DEFINITIONS

In this joint announcement, unless the context otherwise requires, the following expressions shall have the meanings set out below:

“Articles”	the articles of association of the Company (including the rules of procedures for shareholders’ general meetings and the rules of procedures for board meetings);
“Board”	the board of directors of the Company;
“business day”	a day on which the Stock Exchange is open for the transaction of business;

“Cancellation Price”	the cancellation price of HK\$3.70 per H Share payable in cash by the Offeror to the H Shareholders and RMB3.082692 per Domestic Share which is to be satisfied through the issuance of registered capital of the Offeror to the Domestic Shareholders as described in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT</i> ” above;
“China United”	China United Engineering Corporation Limited* (中國聯合工程有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of SINOMACH, which directly holds approximately 0.78% of the Company’s issued share capital as at the date of this joint announcement;
“CICC”	China International Capital Corporation Hong Kong Securities Limited, the financial adviser to the Offeror. CICC is a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities;
“Company”	China Machinery Engineering Corporation* (中國機械設備工程股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, whose H Shares are listed and traded on the Stock Exchange (stock code: 1829);
“Composite Document”	the document to be issued by or on behalf of the Offeror and the Company to all Shareholders in accordance with the Takeovers Code containing, among others, details of the Merger, as may be revised or supplemented as appropriate;
“Conditions”	has the meaning given to it in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT</i> ”;
“Conditions to effectiveness”	has the meaning given to it in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT</i> ”;
“Conditions to implementation”	has the meaning given to it in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT</i> ”;

“Consenting Shareholders”	has the meaning given to it in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT</i> ”;
“Declaration Period”	a period commencing on the Delisting Date and expiring on the fifth (5th) business day from (and including) the Delisting Date, during which any Dissenting Shareholder may declare to exercise its right;
“Delisting Date”	the date on which the listing of the Company on the Stock Exchange has been withdrawn;
“Director(s)”	the director(s) of the Company;
“Dissenting Shareholder”	a Shareholder who has validly voted against the resolutions in respect of the Merger at the EGM and (if applicable) the H Shareholders’ Class Meeting and has requested the Company or the Consenting Shareholders (or the Offeror, if so elected by the Company and/or the Consenting Shareholders) to acquire its Shares at a “fair price”;
“Domestic Share(s)”	the domestic shares of the Company, with a RMB denominated par value of RMB1.00 each, representing approximately 77.99% of the issued share capital of the Company as at the date of this joint announcement;
“Domestic Shareholder(s)”	the holder(s) of Domestic Share(s);
“EGM”	the extraordinary general meeting of the Company to be convened, or any adjournment thereof, to consider and, if thought fit, approve the Merger Agreement, the Merger and relevant arrangements;
“Exchange Rate”	the exchange rate of HK\$1: RMB0.83316, which is the central parity rate of RMB to Hong Kong Dollar as at the date of this joint announcement as announced by the People’s Bank of China;
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
“Exercise Date”	the date on which the Company and/or the Consenting Shareholders (or the Offeror, if so elected by the Company and/or the Consenting Shareholders) pays cash consideration to Dissenting Shareholders who exercise their right to acquire the Shares held and effectively declared by them at “fair price”, which will be decided and announced by the Company;

“Group”	the Company and its subsidiaries;
“H Share(s)”	the ordinary shares issued by the Company, with a RMB denominated par value of RMB1.00 each, which are subscribed for and paid up in Hong Kong dollars and are listed and traded on the Stock Exchange, representing approximately 22.01% of the issued share capital of the Company as at the date of this joint announcement;
“H Shareholder(s)”	the holder(s) of H Shares;
“H Shareholders’ Class Meeting”	the class meeting of the Company to be convened for H Shareholders, or any adjournment thereof, to consider and, if thought fit, approve the Merger Agreement, the Merger and relevant arrangements;
“HK\$” or “Hong Kong Dollar”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	the independent board committee of the Company established by the Company for the purposes of considering the Merger, which comprises all of the independent non-executive Directors of the Company, being Mr. LIU Li, Ms. LIU Hongyu, Mr. FANG Yongzhong and Mr. WU Tak Lung. As Mr. BAI Shaotong, a non-executive Director, holds positions in SINOMACH and Mr. MA Jian and Mr. ZHANG Zhiyu, non-executive Directors, were nominated by SINOMACH, each of them is or may be regarded as being interested in the Merger and is not included as a member of the Independent Board Committee;
“Independent Financial Adviser”	the independent financial adviser to be appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent H Shareholders in respect of (among others) the Merger;

“Independent H Shareholders”	H Shareholders other than the Offeror, SINOMACH and their respective concert parties (including SINOMACH and China United);
“Last Trading Date”	7 January 2021, the last trading day prior to the suspension of trading in the H Shares on the Stock Exchange respectively pending the issue of this joint announcement;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Long-stop Date”	13 January 2022, being the last date the Pre-Condition, the Conditions to effectiveness and the Conditions to implementation can be satisfied, unless the Offeror and the Company otherwise agree, subject to the consent of the SFC;
“Merger”	the proposed merger by absorption of the Company by the Offeror in accordance with the PRC Company Law and other applicable PRC Laws as contemplated under the Merger Agreement;
“Merger Agreement”	the merger agreement entered into between the Offeror and the Company on 13 January 2021 in relation to the Merger;
“Offer Period”	has the meaning ascribed to it under the Takeovers Code, being the period commencing on 13 January 2021 (the date of this joint announcement) and ending on the Delisting Date;
“Offeror”	中國蘇美達汽車工業諮詢發展有限公司(China SUMEC Automotive Industry Consulting Development Co., Ltd.*), a company incorporated in the PRC with limited liability which is wholly-owned by SINOMACH;
“PRC” or “China”	the People’s Republic of China, which for the purposes of this joint announcement does not include Hong Kong, the Macau Special Administrative Region and Taiwan unless the context otherwise specifies;
“PRC Company Law”	the Company Law of the PRC, as amended, supplemented or otherwise modified from time to time;
“PRC Laws”	any and all laws, regulations, statutes, rules, decrees, notices, and supreme court’s judicial interpretations as may be in force and publicly available in the PRC from time to time;

“Pre-Condition”	has the meaning given to it in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT</i> ”;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFC”	the Securities and Futures Commission of Hong Kong;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as revised, supplemented or otherwise modified from time to time);
“Shareholders”	H Shareholders and Domestic Shareholders;
“Shares”	collectively, H Shares and Domestic Shares;
“SINOMACH”	China National Machinery Industry Corporation* (中國機械工業集團有限公司), a state-owned enterprise wholly-owned by the State Council of the PRC, which directly and indirectly holds (i) 100% of the shares of the Offeror and (ii) approximately 77.99% of the Company’s issued share capital as at the date of this joint announcement;
“SINOMACH HK”	SINOMACH (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability which is wholly-owned by SINOMACH;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Takeovers Code”	the Codes on Takeovers and Mergers published by the SFC (as revised, supplemented or otherwise modified from time to time);
“trading day”	a day on which the Stock Exchange is open for dealing or trading in securities;
“United States” or “U.S.”	the United States of America, its territories and possessions, any State of the United States and the District of Columbia;

“U.S. Exchange Act” the U.S. Securities Exchange Act of 1934, as amended;

“%” per cent.

By order of the sole director of
**China SUMEC Automotive Industry
Consulting Development Co., Ltd.***
WANG Huifang
Sole Director

By order of the board of
**China Machinery Engineering
Corporation***
BAI Shaotong
Chairman

Beijing, China
13 January 2021

As at the date of this joint announcement, the Offeror’s sole director is Ms. Wang Huifang. The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this joint announcement (other than in relation to the Company) and confirm, having made all reasonable enquiries, that to the best of her knowledge, opinions expressed in this joint announcement (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement the omission of which would make any of the statements in this joint announcement misleading.

As at the date of this joint announcement, the board of directors of SINOMACH comprises Mr. Zhang Xiaolun, Mr. Wu Yongjie, Mr. Song Xin, Mr. Shang Bing, M. Jiang Xin, Mr. Dong Xuebo, Mr. Sha Xianhua, Mr. Zhang Xi and Mr. Liu Zuqing. The directors of SINOMACH jointly and severally accept full responsibility for the accuracy of the information contained in this joint announcement (other than in relation to the Company) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this joint announcement (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement the omission of which would make any of the statements in this joint announcement misleading.

As at the date of this joint announcement, the Board comprises Mr. FANG Yanshui and Ms. AI Wei as executive Directors, Mr. BAI Shaotong, Mr. MA Jian and Mr. ZHANG Zhiyu as non-executive Directors, and Mr. LIU Li, Ms. LIU Hongyu, Mr. FANG Yongzhong and Mr. WU Tak Lung as independent non-executive Directors. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this joint announcement (other than in relation to the Offeror and SINOMACH) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this joint announcement (other than those expressed by the sole director of the Offeror and the directors of SINOMACH) have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement the omission of which would make any of the statements in this joint announcement misleading.

* For identification purposes only