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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 TRANSACTION

SWAP AND TRANSFER OF PROPERTY

The Board announces that, on 2 December 2011, Qijiang Gear Transmission, Qi-Chi Automotive Part, Qi-Chi Forging, Xinxin Welfare, Qijiang Gear Factory, the Company and the Parent Company entered into the Agreements to swap and transfer the Subject Buildings. Upon completion of the Swap and Transfer, the Subject Buildings will be leased to Qijiang Gear Transmission, Qi-Chi Automotive Part, Qi-Chi Forging and Xinxin Welfare for their continued use.

Qijiang Gear Factory is a wholly-owned subsidiary of the Parent Company, the Parent Company is a Promoter of the Company. Therefore, Qijiang Gear Factory is a connected person of the Company within the meaning of the Listing Rules. The entering into of the Agreements constitutes a connected transaction of the Company under the Listing Rules. Since the applicable percentage ratio for the Swap and Transfer is more than 0.1% but less than 5%, the Swap and Transfer is therefore subject to the reporting and announcement requirements under the Listing Rules, and exempt from Independent Shareholders' approval requirement.

INTRODUCTION

On 2 December 2011, Qijiang Gear Transmission, Qi-Chi Automotive Part, Qi-Chi Forging, Xinxin Welfare, Qijiang Gear Factory, the Company and the Parent Company entered into the Agreements to swap and transfer the Subject Buildings, pursuant to which, Qijiang Gear Factory has agreed to acquire, and Qijiang Gear Transmission, Qi-Chi Automotive Part, Qi-Chi Forging and Xinxin Welfare have agreed to sell the Subject Buildings. Upon completion of the Swap and Transfer, Qijiang Gear Factory will continue to lease the Subject Buildings to Qijiang Gear Transmission, Qi-Chi Automotive Part, Qi-Chi Forging and Xinxin Welfare for their use. Relevant lease arrangements will be negotiated separately by the parties and a lease agreement will be signed (if necessary).

BACKGROUND

On 27 July 2007, the Company was jointly established by the Parent Company, Chongqing Yufu Assets Management Co., Ltd., Chongqing Jiangong Group Co., Ltd. and China Huarong Asset Management Co., Ltd. by way of cash and equity contributions.

On 30 July 2007, Qijiang Gear Factory transferred its 49% equity in Qijiang Gear Transmission to the Company. According to the Reorganization Confirmation and Undertaking Agreement entered into by the Parent Company, China Huarong Asset Management Co., Ltd. and the Company on 18 January 2008, the Parent Company undertook to inject and transfer the Subject Buildings to the Group as capital contribution, while the Parent Company should assume any liabilities, obligations and losses incurred to the Group due to unavailability of ownership certificates of the Subject Buildings. According to its undertakings under the Reorganization Confirmation and Undertaking Agreement, the Parent Company should assist the Company to complete the registration procedures for change of the buildings and land ownership certificates before 30 June 2008. As at the date of this announcement, the registration procedures for change of the property ownership certificates of the Subject Buildings have not been completed according to the provisions of the Reorganization Confirmation and Undertaking Agreement.

After the listing of the Company, Qijiang Gear Transmission, Qi-Chi Automotive Part, and Qi-Chi Forging constructed some new buildings on the land whose use right is vested with Qijiang Gear Factory. However, the ownership inconsistency of such buildings and their relevant land use rights and other objective factors led to the failure to complete the registration procedures for change of ownerships up till now. The Company confirms that the failure to complete the registration procedures for change of ownerships would not result in adverse material effect to the Group.

MAJOR TERMS OF THE AGREEMENTS

(I) Buildings Swap Agreement

Set out below are the major terms of the Buildings Swap Agreement:

Date : 2 December 2011

Parties

(i) Vendor : Qijiang Gear Transmission, Qi-Chi Automotive Part, Qi-Chi Forging and Xinxin Welfare, all being wholly-owned subsidiaries of the Company

(ii) Purchaser : Qijiang Gear Factory, a wholly-owned subsidiary of the Parent Company

(iii) the Company; and

(iv) the Parent Company.

Qijiang Gear Factory is a wholly-owned subsidiary of the Parent Company while the Parent Company is a Promoter of the Company. Therefore, Qijiang Gear Factory is a connected person of the Company within the meaning of the Listing Rules.

INFORMATION ON SUBJECT PROPERTY I

According to the terms and conditions of the Buildings Swap Agreement, Qijiang Gear Transmission, Qi-Chi Automotive Part, Qi-Chi Forging and Xinxin Welfare have agreed to sell, and Qijiang Gear Factory has agreed to acquire all the interest in Subject Property I. Details of Subject Property I are as follow:

Held by	Location of the buildings	Area	Consideration (RMB) (prior to the listing)
Qi-Chi Automotive Part	No.156 Jiefang Road, Qiaohe, Gunan Town, Qijiang County, Chongqing	13 buildings with total area of 8,878.41m ²	3,075,683.21
Xinxin Welfare	Qiaohe, Gunan Town, Qijiang County, Chongqing	2 buildings with total area of 4,150.79m ²	2,587,128.00
Qi-Chi Forging	No.667 Jiefang Road, Qiaohe, Gunan Town, Qijiang County, Chongqing	5 buildings with total area of 3,318m ²	3,784,151.00
Qijiang Gear Transmission	No.666 Jiefang Road, Qiaohe, Gunan Subdistrict, Qijiang County, Chongqing	8 buildings with total area of 13,145.17m ²	15,851,324.00

Consideration

The total consideration payable by Qijiang Gear Factory is RMB25,298,286.21 in cash (“**Consideration**”). Qijiang Gear Factory shall effect the payment to Qijiang Gear Transmission, Qi-Chi Automotive Part, Qi-Chi Forging and Xinxin Welfare by instalments. Within five working days after the Buildings Swap Agreement takes effect, Qijiang Gear Factory shall pay 30% of the Consideration to each of the parties, and settle all the remaining Consideration with each party within twelve months from the date the Buildings Swap Agreement takes effect.

If Qijiang Gear Factory fails to pay the Consideration pursuant to the Buildings Swap Agreement, Qijiang Gear Transmission, Qi-Chi Automotive Part, Qi-Chi Forging and Xinxin Welfare are entitled to default penalty payable by Qijiang Gear Factory from the date of default. The calculation standard for the default penalty is 0.05% per day of the overdue payment until the Consideration is fully settled.

The Consideration was determined through arm's length negotiations based on the valuation of the asset value as at 31 December 2010 of the Subject Property I prepared by China Enterprise Appraisals Co., Ltd.* (北京中企華資產評估有限責任公司), and taking into account of the price of similar properties in the neighbourhood. The Consideration has been confirmed and filed with the State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government.

(II) Buildings Transfer Agreement

Set out below are the major terms of the Buildings Transfer Agreement:

Date : 2 December 2011

Parties

(i) Vendor : Qijiang Gear Transmission, Qi-Chi Automotive Part and Qi-Chi Forging, all being wholly-owned subsidiaries of the Company

(ii) Purchaser : Qijiang Gear Factory, a wholly-owned subsidiary of the Parent Company

Qijiang Gear Factory is a wholly-owned subsidiary of the Parent Company while the Parent Company is a Promoter of the Company. Therefore, Qijiang Gear Factory is a connected person of the Company within the meaning of the Listing Rules.

INFORMATION ON SUBJECT PROPERTY II

According to the terms and conditions of the Buildings Transfer Agreement, Qijiang Gear Transmission, Qi-Chi Automotive Part and Qi-Chi Forging have agreed to sell, and Qijiang Gear Factory has agreed to acquire all the interest in Subject Property II. Details of Subject Property II are as follow:

Owned by	Location of the buildings	Area	Transfer consideration (RMB) (after the listing)
Qi-Chi Automotive Part	No.156 Jiefang Road, Qiaohe, Gunan Town, Qijiang County, Chongqing	1 building with total area of 294m ²	116,470
Qi-Chi Forging	No.667 Jiefang Road, Qiaohe, Gunan Town, Qijiang County, Chongqing	2 buildings with total area of 426m ²	496,536
Qijiang Gear Transmission	No.666 Jiefang Road, Qiaohe, Gunan Subdistrict, Qijiang County, Chongqing	8 buildings with total area of 16,225.3m ²	20,429,801

Qijiang Gear Factory shall pay the transfer consideration by instalments to Qijiang Gear Transmission, Qi-Chi Automotive Part and Qi-Chi Forging. Within five working days after the Buildings Transfer Agreement takes effect, Qijiang Gear Factory shall pay 30% of the transfer consideration to Qijiang Gear Transmission, Qi-Chi Automotive Part and Qi-Chi Forging, and settle all the remaining balance of the transfer consideration with Qijiang Gear Transmission, Qi-Chi Automotive Part and Qi-Chi Forging within twelve months from the date the Buildings Transfer Agreement takes effect.

If Qijiang Gear Factory fails to pay the transfer consideration pursuant to the Buildings Transfer Agreement, Qijiang Gear Transmission, Qi-Chi Automotive Part and Qi-Chi Forging are entitled to default penalty payable by the Qijiang Gear Factory from the date of default. The calculation standard for the default penalty is 0.05% per day of the overdue payment until Qijiang Gear Factory fully settles the transfer consideration.

The transfer consideration was determined through arm's length negotiations based on the valuation of the asset value as at 31 December 2010 of the Subject Property II prepared by China Enterprise Appraisals Co., Ltd.*, and after taking account of the price of similar properties in the neighbourhood. The ultimate transfer consideration has been confirmed and filed with the State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government.

REASONS FOR AND BENEFITS OF THE SWAP AND TRANSFER

In accordance with relevant regulations, the land use rights and properties shall be attributable to the same subject of right, while the land use rights possessed by Qijiang Gear Factory is for allocated land, the Company cannot include the relevant land use rights into the assets scope of the Company.

To properly, promptly and completely resolve the title problem, Qijiang Gear Transmission, Qi-Chi Automotive Part, Qi-Chi Forging, Xinxin Welfare, the Company and the Parent Company have agreed to swap and transfer the Subject Buildings to Qijiang Gear Factory in accordance with the "Interim Administrative Methods for State-owned Property Rights Transfer by Enterprises (《企業國有產權轉讓管理暫行辦法》)". The proceeds will be used to supplement the working capital of Qijiang Gear Transmission, Qi-Chi Automotive Part, Qi-Chi Forging and Xinxin Welfare.

Directors (including independent non-executive Directors) consider that the agreement is entered into through arm's length negotiations. It is on normal commercial terms, and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

No Directors have material interests in the disposal. Therefore, they are not required to abstain from voting in respect of the Board resolution in relation to consideration and approval of the disposal.

GENERAL INFORMATION ON THE COMPANY

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

GENERAL INFORMATION ON QIJIANG GEAR TRANSMISSION, QI-CHI AUTOMOTIVE PART, QI-CHI FORGING AND XINXIN WELFARE

- (i) Qijiang Gear Transmission is mainly engaged in manufacturing and sales of automotive parts and components; export of mechanical products such as self-manufactured automotives and motorcycles, transmission systems, transmission assemblies and their relevant parts and components, various gears such as bevel gears, cylindrical gears, and shafts and so on.
- (ii) Qi-Chi Automotive Part is principally engaged in manufacturing and sales of motorcycles, automotive parts and components, transmission assemblies and general machinery processing, etc.
- (iii) Qi-Chi Forging is principally engaged in forging stocks which are required in manufacturing of mechanical products, and processing and sales of mechanical products.
- (iv) Xinxin Welfare is principally engaged in manufacturing and sales of automotive accessories, motorcycle accessories, mechanical and electrical products, packaging products; mechanical processing; mechanical and electrical equipment maintenance.

GENERAL INFORMATION ON QIJIANG GEAR FACTORY

Qijiang Gear Factory is principally engaged in manufacturing and sales of automotive accessories and other businesses.

IMPLICATIONS OF THE LISTING RULES

Qijiang Gear Transmission and Qi-Chi Automotive Part are wholly-owned subsidiaries of the Company. Qi-Chi Forging and Xinxin Welfare are wholly-owned subsidiaries of Qi-Chi Automotive Part, and Qijiang Gear Factory is a wholly-owned subsidiary of the Parent Company. Therefore, the transaction constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Since the applicable percentage ratio for the Swap and Transfer of Subject Buildings is more than 0.1% but less than 5%, the Swap and Transfer is therefore subject to the reporting and announcement requirements under the Listing Rules, and exempt from Independent Shareholders' approval requirement.

DEFINITIONS

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

“Agreements”	the Buildings Swap Agreement and the Buildings Transfer Agreement
“Board”	the board of Directors of the Company
“Buildings Swap Agreement”	the agreement on swap of buildings by cash entered into between Qi-Chi Automotive Part, Xinxin Welfare, Qi-Chi Forging, Qijiang Gear Transmission, Qijiang Gear Factory, the Company and the Parent Company on 2 December 2011
“Buildings Transfer Agreement”	the agreement on transfer of buildings entered into between Qi-Chi Automotive Part, Qi-Chi Forging, Qijiang Gear Transmission and Qijiang Gear Factory on 2 December 2011
“Company”	Chongqing Machinery & Electric Co., Ltd.*, a company incorporated in the PRC with limited liability, the shares of which are listed on the Stock Exchange (stock code: 02722)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	directors of the Company
“Group”	the Company and its associates
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholder(s)”	has the meaning ascribed to it under Rule 14A.10(5) of the Listing Rules, and for the purpose of 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 limited liability company established in the PRC on 25 August 2000 and owned by the Chongqing State-owned Assets Supervision and Administration Commission, being one of the Promoters of the Company
“percentage ratio”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China
“Promoter”	has the meaning ascribed to it under the Listing Rules
“Qi-Chi Automotive Part”	Chongqing Qi-Chi Automotive Part Co., Ltd., a limited liability company established under the PRC laws and a wholly-owned subsidiary of the Company
“Qi-Chi Forging”	Qijiang Qi-Chi Forging Co., Ltd., a limited liability company established under the PRC laws and a wholly-owned subsidiary of Qi-Chi Automotive Part
“Qijiang Gear Transmission”	Qijiang Gear Transmission Co., Ltd., a limited liability company established under the PRC laws and a wholly-owned subsidiary of the Company
“Qijiang Gear Factory”	Qijiang Gear Factory, a state-owned enterprise established under the PRC laws and a wholly-owned subsidiary of the Parent Company
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subject Buildings”	means “Subject Property I” and “Subject Property II”

“Subject Property I”	has the meaning ascribed to it under the section headed “Subject Property I”
“Subject Property II”	has the meaning ascribed to it under the section headed “Subject Property II”
“Swap and Transfer”	the swap and transfer of the Subject Buildings pursuant to the Agreements
“Xinxin Welfare”	Qijiang Qi-Chi Xinxin Welfare Co., Ltd., a limited liability company established under the PRC laws and a wholly-owned subsidiary of Qi-Chi Automotive Part

By order of the Board
Chongqing Machinery & Electric Co., Ltd.*
Xie Hua Jun
Executive Director and Chairman

Chongqing, the PRC
2 December 2011

As at the date of this announcement, the executive Directors are Mr. Xie Hua Jun, Mr. Yu Gang, Mr. Liao Shaohua and Mr. Chen Xianzheng; the non-executive Directors are Mr. Huang Yong, Mr. Wang Jiyu, Mr. Liu Liangcai and Mr. Yang Jingpu; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang.

* *For identification purposes only*