

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

**REVISION OF THE ANNUAL CAPS FOR
A CONTINUING CONNECTED TRANSACTION**

Due to substantial increase in rents arising from relocation of the office premises of the Company and lease of the production premises of Qi-Chi Enterprises, it is estimated that the original annual caps for the connected transaction of the Company in relation to land and buildings lease will become insufficient. Therefore, on 25 June 2012, the Board approved the Company to enter into the amended land and buildings lease agreement with the Parent Group, and revise the annual caps for land and buildings lease for 2012 and 2013, so as to comply with the requirements of the Chapter 14A of the Listing Rules.

Save the revision of annual caps for the connected transactions in relation to land and buildings lease, all the terms and conditions of the original land and buildings lease agreement shall remain unchanged.

As none of the applicable percentage ratios in respect of the Revised Annual Caps for land and buildings lease exceeds 5% as stated in Chapter 14A of the Listing Rules, therefore, the revision of such annual caps is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules, but exempt from the Independent Shareholders' approval requirement.

INTRODUCTION

Reference is made to the land and buildings lease agreement entered into between the Company and the Parent Group on 16 June 2010, pursuant to which the annual caps for the connected transactions between the Company and the Parent Group in relation to land and buildings lease for 2011, 2012, and 2013 shall be RMB22 million, RMB22 million and RMB22 million respectively. As none of the applicable percentage ratios exceeds 5% as stated in Chapter 14A of the Listing Rules, therefore, the original land and buildings lease agreement was subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules, and exempt from the Independent Shareholders' approval requirement.

On 2 December 2011, the Company published an announcement on the swap and transfer of some subject buildings to the Parent Company. Upon completion of the swap and transfer, Qijiang Gear Factory will lease the subject buildings to Qi-Chi Enterprises for continued use. Please refer to the announcement of the Company dated 2 December 2011 for details.

On 16 March 2012, the Company published a relocation announcement, stating that the office address of the Company would be relocated to No. 60 Middle Section of Huangshan Avenue, New North Zone, Chongqing City.

Due to substantial increase in rents arising from lease of production premises of Qi-Chi Enterprises and relocation of office premises of the Company, it is estimated that the original annual caps for the connected transaction of the Company pursuant to the original land and buildings lease agreement will become insufficient. Therefore, on 25 June 2012, the Board approved the Company to enter into the amended land and buildings lease agreement with the Parent Group, and revise the annual caps for land and buildings lease for 2012 and 2013, so as to comply with the requirements under Chapter 14A of the Listing Rules.

Historical Amounts

	For the year ended 31 December 2009 (audited) <i>RMB(0'000)</i>	For the year ended 31 December 2010 (audited) <i>RMB(0'000)</i>	For the year ended 31 December 2011 (audited) <i>RMB(0'000)</i>
Amount arising from the land and buildings lease connected transaction	1,272.1	1,597.7	1,610.3

Revised Annual Caps

The Company proposes to revise the annual caps for the lease connected transactions for the two years ending 31 December 2013 (“**Revised Annual Caps**”):

	For the two years ending 31 December 2013			
	2012 <i>RMB(0'000)</i>		2013 <i>RMB(0'000)</i>	
	Original cap	Revised cap	Original cap	Revised cap
Caps for the land and buildings lease connected transaction	<u>2,200</u>	<u>3,500</u>	<u>2,200</u>	<u>3,800</u>

The Revised Annual Caps are determined with reference to the prevailing rent level in the lease market.

The Directors (including the independent non-executive Directors) are of the view that the lease connected transaction (together with the Revised Annual Caps) are entered into in the ordinary and usual course of business of the Group and on normal commercial terms; therefore, they further consider that the Revised Annual Caps are fair and reasonable and in the interests of the shareholders as a whole.

REASONS FOR AND BENEFITS OF THE REVISION OF ANNUAL CAPS

On 2 December 2011, the Company announced that Qijiang Gear Factory would lease the subject buildings to Qi-Chi Enterprises for their continued use. The monthly rents payable by Qi-Chi Enterprises for 2012 and 2013 are expected to be RMB1,068,600 and RMB1,306,100 respectively. On 16 March 2012, the Company published a relocation announcement, stating that the office address of the Company would be relocated to No. 60 Middle Section of Huangshan Avenue, New North Zone, Chongqing City. The relocation is conducive to improvement of the Company's working conditions and enhancement of the Company's corporate image. The monthly rent payable by the Company for 2012 and 2013 is expected to be approximately RMB678,000. As the two adjustments to property lease resulted in substantial increase in the amounts of the connected transaction between the Group and the Parent Group in relation to land and buildings lease, the original annual caps for land and buildings lease will become insufficient. Therefore, the Board approved the revision of the annual caps for land and buildings lease for 2012 and 2013 to RMB35 million and RMB38 million respectively.

IMPLICATIONS UNDER THE LISTING RULES

The Parent Company and its associates, being one of the Promoters of the Company, hold 52.22% interest in the Company, and are therefore connected persons of the Group under the Listing Rules. As none of the applicable percentage ratios in respect of the Revised Annual Caps for land and buildings lease exceeds 5% as stated in Chapter 14A of the Listing Rules, therefore, the revision of such annual caps is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules, and exempt from the Independent Shareholders' approval requirement.

The Directors (including the independent non-executive Directors) are of the opinion that the Revised Annual Caps are determined after arm's length negotiations and on normal commercial terms, and are fair and reasonable and in the interest of the Company and its shareholders as a whole.

No Director has 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 amended land and buildings lease agreement.

GENERAL INFORMATION

THE COMPANY

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

THE PARENT COMPANY

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

GENERAL INFORMATION ON THE QI-CHI ENTERPRISES

- (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.

DEFINITIONS

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

“Board”	means the board of Directors of the Company
“Company”	means Chongqing Machinery & Electric Co., Ltd *(重慶機電股份有限公司), a limited company incorporated in Hong Kong 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)”	means the director(s) of the Company
“Group”	means the Company and its associates
“Hong Kong”	means 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 in relation to the Company means the shareholders other than the Parent Company and its associates
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“Parent Company”	means 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

“Parent Group”	means Parent Company and its associates
“percentage ratio”	has the meaning ascribed to it under the Listing Rules
“PRC”	means the People’s Republic of China
“Promoter”	has the meaning ascribed to it under the Listing Rules
“Qi-Chi Automotive Part”	means 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 Enterprises”	means Chongqing Qi-Chi Automotive Part, Qi-Chi Forging, Qijiang Gear Transmission and Xinxin Welfare
“Qi-Chi Forging”	means 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 Factory”	means Qijiang Gear Factory, a state-owned enterprise established under the PRC laws and a wholly-owned subsidiary of the Parent Company
“Qijiang Gear Transmission”	means Qijiang Gear Transmission Co., Ltd., a limited liability company established under the PRC laws and a wholly-owned subsidiary of the Company
“RMB”	means Renminbi, the lawful currency of the PRC

“Stock Exchange”

means The Stock Exchange of Hong Kong Limited

“Xinxin Welfare”

means 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, Chairman

Chongqing, the PRC

25 June 2012

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. Yang Jingpu and Mr. Liu Liangcai; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Kong Weiliang, and Mr. Jin Jingyu.

* *For identification purposes only*