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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)

ANNOUNCEMENT

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

The Board would like to announce that Water Turbine Company, Tool Company, Shenjian Company and Yinhe Forging & Founding have entered into an investment agreement with the Management Committee of Luohuang Industrial Park in Jiangjin District, Chongqing, the PRC (中國重慶市江津區珞璜工業園管理委員會) on 6 July 2012 (the "Agreement"). The Board approves the Agreement on 11 July 2012. Subject to the terms and conditions of the Agreement, Water Turbine Company, Tool Company, Shenjian Company and Yinhe Forging & Founding will acquire the Land.

AGREEMENT

Date : 6 July 2012

Parties : (1) the Management Committee of Luohuang Industrial Park in Jiangjin District, Chongqing, the PRC (中國重慶市江津區珞璜工業園管理委員會) as the Vendor ("Party A")

(2) Water Turbine Company, Tool Company, Shenjian Company and Yinhe Forging & Founding as the purchasers ("Party B")

Property : The area of the Land is approximately 1,169 mu (approximately 779,333.33 sq.m.), of which Water Turbine Company, Tool Company, Shenjian Company and Yinhe Forging & Founding occupy approximately 591 mu (approximately 394,000.00 sq.m.), 200 mu (approximately 133,333.33 sq.m.), 171 mu (approximately 114,000.00 sq.m.) and 207 mu (approximately 138,000.00 sq.m.) respectively.

The term of the Land Use Right is for a period of fifty (50) years commencing from the date of delivery of the Land.

The Land shall be used for industrial purpose only.

Consideration : The Consideration will be calculated based on approximately RMB280,000 (equivalent to approximately HK\$343,507.70) per mu, which shall be paid based on the actual price as determined through the bidding, auction and listing process.

The Directors believe that the Consideration is fair and reasonable and in the interests of the Shareholders as a whole.

Other conditions : (1) Party B will submit a bid for the Land (the “Bid”) when the Land is open for bidding. The terms of the Bid will be consistent with those of the Agreement.

(2) The Agreement is considered to be effective upon the acquisition of the Land through public “tender, auction and listing-for-sale”. Party B will enter into the sale contract of state-owned land use rights (the “Sale Contract”) with the State-owned Land Resources and Real Estate Administrative Bureau of Chongqing Municipality as a confirmation.

(3) Party B shall be responsible for the construction of a new production base on the Land.

Completion : The delivery and construction of the Land shall take place subject to the terms of the Sale Contract.

Upon completion of the bidding process, the Company will make further announcement to disclose the results of the bid, including but not limited to the bidding result, the final bid price and the date of entering into the Sale Contract.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Management Committee of Luohuang Industrial Park in Jiangjin District, Chongqing, the PRC (中國重慶市江津區珞璜工業園管理委員會) and its ultimate beneficial owner are third parties independent of the Company and are not connected persons of the Company.

REASONS FOR ACQUISITION OF THE LAND

In accordance with the strategic deployment of the Chongqing Municipal Government for industrial enterprises, namely, "relocation from urban areas and into industrial parks", Water Turbine Company, Tool Company, Shenjian Company and Yinhe Forging & Founding will implement environmental relocation.

The above four enterprises are currently located in Banan District, Chongqing, with Water Turbine Company situated on Mawangping Main Street, Lijiatio, Banan District, and Tool Company, Shenjian Company and Yinhe Forging & Founding all situated at Daojiao, Banan District. The relocation, upon its completion, is conducive to the enhancement of production capacity and skill levels of Water Turbine Company. With the environmental relocation of Chongqing Machine Tools, the lands on which Tool Company, Shenjian Company and Yinhe Forging & Founding are located may also be transferred. Therefore, the four enterprises need to acquire lands for the implementation of environmental relocation.

The Board (including independent non-executive Directors) is of the view that the terms of the Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE VENDOR

Luohuang Industrial Park in Jiangjin District, Chongqing is a municipal level development zone of Chongqing. The Vendor is a governmental organisation with independent legal capacity, which attracts business and investment and provides infrastructure construction and business services on behalf of the government of Jiangjin District.

DEFINITIONS

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

- “Board” means the board of Directors of Chongqing Machinery & Electric Co., Ltd.*(重慶機電股份有限公司);
- “Yinhe Forging & Founding” Chongqing Yinhe Forging & Founding Co., Ltd. (重慶銀河鑄鍛有限責任公司), a limited liability company established under the PRC laws and a wholly-owned subsidiary of Chongqing Machine Tools;
- “Shenjian Company” Chongqing Shenjian Automotive Drive Part Co., Ltd. (重慶神箭汽車傳動件有限責任公司), a limited liability company established under the PRC laws and a wholly-owned subsidiary of Chongqing Machine Tools;
- “Tool Company” Chongqing Tool Factory Co., Ltd. (重慶工具廠有限責任公司), a limited liability company established under the PRC laws and a wholly-owned subsidiary of Chongqing Machine Tools;
- “Water Turbine Company” Chongqing Water Turbine Works Co., Ltd.(重慶水輪機廠有限責任公司), a limited liability company established under the PRC laws and a wholly-owned subsidiary of the Company;
- “Company” means Chongqing Machinery & Electric Co., Ltd.*(重慶機電股份有限公司), a joint stock limited company incorporated in the PRC, 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;
- “Consideration” means the total consideration for the Land;

“Director(s)”	means the director(s) of the Company;
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC;
“Land”	means a land situated at Luohuang Industrial Park in Jiangjin District, Chongqing, the PRC, with a total area of approximately 1,169 mu (approximately 779,333.33 sq.m.);
“Land Use Right”	means the land use right in respect of the Land;
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange;
“Chongqing Machine Tools”	means Chongqing Machine Tools (Group) Co., Ltd. (重慶機床(集團)有限責任公司), a limited liability company established under the PRC laws and a wholly owned subsidiary of the Company;
“PRC”	means the People’s Republic of China, which for purpose of this announcement, does not include, Hong Kong, the Macau Special Administrative Region and Taiwan;
“RMB”	means Renminbi, the lawful currency of the PRC;
“Shareholders”	means shareholder(s) of the Company;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“sq.m.”	means square meter; and
“Vendor”	means the Management Committee of Luohuang Industrial Park in Jiangjin District, Chongqing, the PRC (中國重慶市江津區珞璜工業園管理委員會)

For the purpose of this announcement, all amounts denominated in RMB have been translated into HK\$ at the exchange rate of RMB1.00=HK\$1.23 for information purpose only. Such translation should not be construed as a representation that any amount in RMB has been or could have been converted at the above rate.

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

Chongqing, the PRC
11 July 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. Liu Liangcai and Mr. Yang Jingpu; 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*