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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

ESTABLISHMENT OF A JOINT VENTURE COMPANY

The Board announces that, on 25 July 2012, the Company entered into the JV Agreement with nine companies, i.e. the Parent Company, Chongqing Puhui Electromechanical Industrial, Chongqing Crane Works, Chongqing Jian'an Instruments, Qijiang Gear Transmission, Chongqing Machine Tools, Chongqing Pump, Chongqing General and Chongqing Water Turbine Works, pursuant to which the JV Partners agreed to establish the JV Company with a registered capital of RMB200 million (equivalent to approximately HK\$244,620,000). Upon completion of the JV Agreement, the JV Partners will own 5% to 30% equity interests in the JV Company in proportion to their respective capital contribution.

The Parent Company is one of the Promoters of the Company and holds 52.22% interest in the Company. Therefore, the Parent Company is a connected person of the Company within the meaning of the Listing Rules. Chongqing Puhui Electromechanical Industrial, Chongqing Crane Works and Chongqing Jian'an Instruments are wholly-owned subsidiaries of the Parent Company, and therefore the connected persons of the Company within the meaning of the Listing Rules. The establishment of the JV Company constitutes a connected transaction of the Company under the Listing Rules. Since the applicable percentage ratio in respect of the establishment of the JV Company is more than 0.1% but less than 5%, the establishment of the JV Company is only subject to the reporting and announcement requirements under the Listing Rules, but exempt from the Independent Shareholders' approval requirement.

INTRODUCTION

On 25 July 2012, the Company entered into the JV Agreement with nine companies, i.e. the Parent Company, Chongqing Puhui Electromechanical Industrial, Chongqing Crane Works, Chongqing Jian'an Instruments, Qijiang Gear Transmission, Chongqing Machine Tools, Chongqing Pump, Chongqing General and Chongqing Water Turbine Works, pursuant to which the JV Partners agreed to establish the JV Company with a registered capital of RMB200 million (equivalent to approximately HK\$244,620,000). Upon completion of the JV Agreement, the JV Partners will own 5% to 30% equity interests in the JV Company in proportion to their respective capital contribution.

JV AGREEMENT

Major terms of the JV Agreement are set out as follows:

Date: 25 July 2012

JV PARTNERS

The Company

Parent Company

Chongqing Puhui Electromechanical Industrial, a wholly-owned subsidiary of the Parent Company

Chongqing Crane Works, a wholly-owned subsidiary of the Parent Company

Chongqing Jian'an Instruments, a wholly-owned subsidiary of the Parent Company

Qijiang Gear Transmission, a wholly-owned subsidiary of the Company

Chongqing Machine Tools, a wholly-owned subsidiary of the Company

Chongqing Pump, a wholly-owned subsidiary of the Company

Chongqing General, a wholly-owned subsidiary of the Company

Chongqing Water Turbine Works, a wholly-owned subsidiary of the Company

The Parent Company, being one of the Promoters of the Company, holds 52.22% interest in the Company, and is therefore a connected person of the Company under the Listing Rules. Chongqing Puhui Electromechanical Industrial, Chongqing Crane Works and Chongqing Jian'an Instruments, all being wholly-owned subsidiaries of the Parent Company, are connected persons of the Company under the Listing Rules.

JV COMPANY

The JV Company, which is proposed to be named as Chongqing Machinery and Electronic Microcredit Co., Ltd.* (重慶市機電小額貸款有限公司), will be established as a limited liability company under the laws of the PRC. The final name of the JV Company is subject to registration with the State Administration of Industry and Commerce.

SCOPE OF BUSINESS

The JV Company will be engaged in microlending, such as the provision of loans, discounting of bills and transfer of assets, etc., but excluding taking public deposits.

REGISTERED CAPITAL

The registered capital of the JV Company will be RMB200 million (equivalent to approximately HK\$244,620,000). The JV Company will be owned by the JV Partners in proportion to their respective capital contribution. The registered capital will be paid in full by the contributors within five days after obtaining approval from the Financial Cooperation Office of Chongqing Municipality (重慶市金融合作辦公室) in respect of the establishment of the JV Company. Shareholding structure of the JV Company will be as follows:

JV Partners	Contribution amount		Percentage of
	RMB	HK\$ equivalent	the registered capital (%)
Parent Company	60,000,000	73,386,000	30%
Chongqing Puhui			
Electromechanical Industrial	20,000,000	24,462,000	10%
Chongqing Crane Works	20,000,000	24,462,000	10%
Chongqing Jian'an Instruments	10,000,000	12,231,000	5%
The Company	20,000,000	24,462,000	10%
Qijiang Gear Transmission	20,000,000	24,462,000	10%
Chongqing Machine Tools	20,000,000	24,462,000	10%
Chongqing Pump	10,000,000	12,231,000	5%
Chongqing General	10,000,000	12,231,000	5%
Chongqing Water Turbine Works	10,000,000	12,231,000	5%
	<u>200,000,000</u>	<u>244,620,000</u>	<u>100%</u>

ORGANIZATIONAL STRUCTURE

The board of directors of the JV Company will be composed of five directors, of which one will be an employee director, two will be nominated by the Parent Company and its subsidiaries and two will be nominated by the Company and its subsidiaries. The JV Company will set up its supervisory committee comprising three supervisors, including one employee representative supervisor. In addition, the JV Company will have one general manager and several other executives.

REASONS FOR ESTABLISHING THE JV COMPANY

The Company decides to establish the JV Company for the particular reasons as below:

- (I) It can provide capital support to the Company's supporting enterprises so as to facilitate the technological innovation and industrial upgrading of such enterprises;
- (II) It will helpfully ensure the normal production and sales of the Parent Company and the Company by appropriately solving the capital problem of the supporting enterprises, as the Parent Company and the Company need to purchase materials up to dozens of billion in RMB from such enterprises each year; and
- (III) It is conducive to enhancement of product quality of the Company's supporting enterprises as well as the market competitiveness of the entire industrial chain.

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

No Director has any material interest in the establishment of the JV Company. Therefore, they are not required to abstain from voting on the Board resolution in relation to the establishment of the JV Company.

INFORMATION ON JV PARTNERS

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.

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.

Chongqing Puhui Electromechanical Industrial

Chongqing Puhui Electromechanical Industrial is principally engaged in construction work facilitating the subordinated enterprises of the Parent Company to enter the industrial park.

Chongqing Crane Works

Chongqing Crane Works is principally engaged in manufacturing and sales of bridge cranes, portal cranes and parts and components for other lifting equipment.

Chongqing Jian'an Instruments

Chongqing Jian'an Instruments is principally engaged in development, production and sales of nuclear electronic instruments, military nuclear testing instruments and mobile communication equipment.

Qijiang Gear Transmission

Qijiang Gear Transmission is principally 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.

Chongqing Machine Tools

Chongqing Machine Tool is principally engaged in research, development, production and sales of gear-producing machines.

Chongqing Pump

Chongqing Pump is principally engaged in research, development, production and sales of displacement pumps, high-end centrifugal pumps, pressure vessels and pump system devices.

Chongqing General

Chongqing General is principally engaged in businesses such as industrial blowers, refrigeration machines and wind power rotor blades.

Chongqing Water Turbine Works

Chongqing Water Turbine Works is principally engaged in design, production and sales of complete equipment for hydroelectric power generation.

IMPLICATIONS OF THE LISTING RULES

The Parent Company is one of the Promoters of the Company and holds 52.22% interest in the Company. Therefore, the Parent Company is a connected person of the Company within the meaning of the Listing Rules. Chongqing Puhui Electromechanical Industrial, Chongqing Crane Works and Chongqing Jian'an Instruments are wholly-owned subsidiaries of the Parent Company, and therefore the connected persons of the Company within the meaning of the Listing Rules. The establishment of the JV Company constitutes a connected transaction of the Company under the Listing Rules. Since the applicable percentage ratio in respect of the establishment of the JV Company is more than 0.1% but less than 5%, the establishment of the JV Company is only subject to the reporting and announcement requirements under the Listing Rules, but exempt from the Independent Shareholders' approval requirement.

DEFINITIONS

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

- “Board” means the board of Directors of the Company
- “Chongqing Puhui Electromechanical Industrial” means Chongqing Puhui Electromechanical Industrial Development Company Limited (重慶普惠機電實業發展有限公司), a limited liability company established under the PRC laws and a wholly-owned subsidiary of the Parent Company
- “Chongqing Crane Works” means Chongqing Crane Works, Co., Ltd. (重慶起重機廠有限公司), a limited liability company established under the PRC laws and a wholly-owned subsidiary of the Parent Company
- “Chongqing Jian’an Instruments” means Chongqing Jian’an Instruments Co., Ltd. (重慶建安儀器有限公司), a limited liability company established under the PRC laws and a wholly-owned subsidiary of the Parent Company
- “Chongqing Machine Tools” means Chongqing Machine Tools (Group) Co., Ltd. (重慶機床(集團)有限公司), a limited liability company established under the PRC laws and a wholly-owned subsidiary of the Company
- “Chongqing Pump” means Chongqing Pump Industry Co., Ltd. (重慶水泵廠有限公司), a limited liability company established under the PRC laws and a wholly-owned subsidiary of the Company

“Chongqing General”	means Chongqing General Industry (Group) Co., Ltd. (重慶通用工業(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
“Chongqing Water Turbine Works”	means 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
“Director(s)”	means the director(s) of the Company
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“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
“JV Agreement”	means the joint venture agreement entered into among the JV Partners on 25 July 2012

“JV Company”	means Chongqing Machinery and Electronic Microcredit Co., Ltd. (重慶市機電小額貸款有限公司), a microcredit company to be established by the JV Partners pursuant to the JV Agreement
“JV Partners”	means the Company, the Parent Company, Chongqing Puhui Electromechanical Industrial, Chongqing Crane Works, Chongqing Jian’an Instruments, Qijiang Gear Transmission, Chongqing Machine Tools, Chongqing Pump, Chongqing General and Chongqing Water Turbine Works
“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
“percentage ratio”	has the meaning ascribed to it under the Listing Rules
“PRC”	means the People’s Republic of China, which for purpose of this announcement only, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
“Promoters”	has the meaning ascribed to it under the Listing Rules
“Qijiang Gear Transmission”	means Qijiang Gear Transmission Co., Ltd. (綦江齒輪傳動有限公司), 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

For the purpose of this announcement, all amounts denominated in RMB have been translated into HK\$ at the exchange rate of RMB1.00=HK\$1.2231 for information purpose only.

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

Chongqing, the PRC
25 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. 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*