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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)

MAJOR TRANSACTION
LAND RESUMPTION BY GOVERNMENT

LAND RESUMPTION BY GOVERNMENT

On 20 February 2014 (after close of trading hours), Chongqing Water Turbine Works Co., Ltd., a wholly owned subsidiary of the Company, Chongqing Machine Tool (Group) Co., Ltd., a wholly owned subsidiary of the Company and Chongqing Land Group entered into the following Agreements:

- (1) The First Land Disposal Agreement entered into between Chongqing Water Turbine Works Co., Ltd. and Chongqing Land Group in relation to the acquisition of the Disposal Land No. 1 and certain assets thereon and thereunder, pursuant to which Chongqing Land Group shall pay Chongqing Water Turbine Works Co., Ltd. an aggregate consideration of RMB544,460,000 (equivalent to approximately HK\$690,588,534 which is calculated based on the middle rate of HK\$1: RMB0.7884 as published by PBOC on 20 February 2014), upon and subject to the terms and conditions of the First Land Disposal Agreement; and

(2) The Second Land Disposal Agreement entered into between Chongqing Machine Tool (Group) Co., Ltd. and Chongqing Land Group in relation to the acquisition of the Disposal Land No. 2 and certain assets thereon and thereunder, pursuant to which Chongqing Land Group shall pay Chongqing Machine Tool (Group) Co., Ltd. an aggregate consideration of RMB752,148,000 (equivalent to approximately HK\$954,018,265), upon and subject to the terms and conditions of the Second Land Disposal Agreement.

LISTING RULES IMPLICATIONS

The Aggregate Consideration for the Land Disposal amounts to RMB1,296,608,000. On the basis that the applicable percentage ratios in respect of the Land Disposal are greater than 25% while all such ratios are less than 100% for the purposes of Rule 14.07 of the Listing Rules, the Land Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the requirements of announcement, reporting and approval of the Shareholders. Under Rule 14.44 of the Listing Rules, Chongqing Machinery & Electronic Holding (Group) Co., Ltd., holding 1,924,225,189 Shares of the Company representing approximately 52.22% shareholding interest in the Company, has given its consent to enter into the Land Disposal. As no Shareholder is required to abstain from voting if the Company were to convene a general meeting for approval of the Land Disposal, under Rule 14.44 of the Listing Rules, the written approval from Chongqing Machinery & Electronic Holding (Group) Co., Ltd. in lieu of holding a physical Shareholders' meeting is acceptable for approval of the Land Disposal.

The circular containing the information required under the Listing Rules in relation to the Land Disposal will be despatched to the Shareholders as soon as possible, which is to be on or before 13 March 2014.

INTRODUCTION

On 11 August 2011, the Chongqing Municipal People's Government has issued the "Notice on Accelerating the Implementation of Environmental Relocation of the Sixth Batch of Key Enterprises with Environmental Pollution Problems in Central Downtown" (Yu Ban Fa [2011] No. 255) for the relocation of designated enterprises. Chongqing Water Turbine Works Co., Ltd. and Chongqing Machine Tool (Group) Co., Ltd. are two of the enterprises to which the policy applies. Chongqing Land Group, on behalf of the Chongqing Government, shall take over the Disposal Land No. 1 and Disposal Land No. 2 by way of land acquisition. Chongqing Water Turbine Works Co., Ltd. and Chongqing Machine Tool (Group) Co., Ltd. subsequently commenced negotiation in respect of the terms of the aforesaid disposal plan, and entered into the First Land Disposal Agreement and the Second Land Disposal Agreement. The Directors believe that the terms of the Land Disposal are fair and reasonable and are in the interests of the Company and Shareholders as a whole.

THE ESSENTIAL TERMS OF THE AGREEMENTS

(1) The First Land Disposal Agreement

Date

20 February 2014

Parties

- (i) Vendor: Chongqing Water Turbine Works Co., Ltd.
- (ii) Purchaser: Chongqing Land Group

Subject land

The Disposal Land No. 1, measuring approximately a total of 272.23 Mu (approximately 181,485 square meters), is situated at (i) No.10 Li Jia Tuo Ma Wang Ping Zheng Street, Ba Nan District, Chongqing (重慶巴南區李家沱馬王坪正街10號), (ii) No.133 Li Jia Tuo Xin Ping Village, Ba Nan District, Chongqing (重慶巴南區李家沱新平村133號), and (iii) Qun Le Si She, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮群樂四社), together with the buildings, structures and attachments erected thereon and thereunder.

Transfer of the land

(i) Timing of the transfer

Chongqing Water Turbine Works Co., Ltd. shall transfer the Disposal Land No. 1 to the Chongqing Land Group within 24 months after the First Land Disposal Agreement is entered into.

(ii) Conditions of the transfer

In respect of the transfer, Chongqing Water Turbine Works Co., Ltd. shall:

- (a) prove good title in respect of the Disposal Land No. 1 upon transfer, to the extent that the said land be free from any lease, charge, contractual arrangement or judicial procedure or any other third party's claim which might affect good title to the said land;
- (b) be responsible for relocating any enterprise unit, residents, occupants and users of the Disposal Land No. 1; and be responsible for ensuring the Disposal Land No.1 be free from construction waste.

Consideration

Chongqing Land Group shall pay to Chongqing Water Turbine Works Co., Ltd. a consideration of RMB544,460,000, representing an average land cost of approximately RMB2,000,000 per Mu (approximately RMB2,999.98 per square meter), which was agreed by the parties on an arm's length basis by reference to the market value of properties of similar nature and shall be satisfied by Chongqing Land Group in the following manner:

Date of payment	Amount paid / payable
One month from the date of signing of the Agreement	RMB163,338,000 (representing 30% of the aforesaid consideration), being the initial payment.
On or before 19 August 2014	RMB108,892,000 (representing 20% of the aforesaid consideration), being the second payment.
On or before 19 February 2015	RMB54,446,000 (representing 10% of the aforesaid consideration), being the third payment.
On or before 19 August 2015	RMB108,892,000 (representing 20% of the aforesaid consideration), being the forth payment.
15 working days from the date of signing of the Memorandum of Handover	RMB108,892,000 (representing 20% of the aforesaid consideration), being the balance of the aforesaid consideration.

Conditions precedent

The First Land Disposal Agreement is conditional upon:

- (i) Chongqing Water Turbine Works Co., Ltd. selling the Disposal Land No. 1 free from all encumbrances upon transfer of the said land; and
- (ii) the approval of the Shareholders on the Land Disposal in accordance with the Listing Rules being obtained.

(2) The Second Land Disposal Agreement

Date

20 February 2014

Parties

- (i) Vendor: Chongqing Machine Tool (Group) Co., Ltd.
- (ii) Purchaser: Chongqing Land Group

Subject land

The Disposal Land No. 2, measuring approximately a total of 417.86 Mu (approximately 278,572.7 square meters), is situated at (i) Dao Jiao Lian Hua Village, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮道角蓮花村), (ii) Block 3, No. 7, Dao Jiao Second Village, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮道角二村7號3幢), (iii) Nos. 1-69, Dao Jiao Lian Hua Village, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮道角蓮花村自編1-69號), and (iv) No. 2-1, Dao Jiao Lian Hua Village, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮道角蓮花村自編2-1號), together with the buildings, structures and attachments erected thereon and thereunder.

Transfer of the land

(i) Timing of the transfer

Chongqing Machine Tool (Group) Co., Ltd. shall transfer the Disposal Land No. 2 to the Chongqing Land Group within 24 months after the Second Land Disposal Agreement is entered into.

(ii) Conditions of the transfer

In respect of the transfer, Chongqing Machine Tool (Group) Co., Ltd. shall:

- (a) prove good title in respect of the Disposal Land No. 2 upon transfer, to the extent that the said land be free from any lease, charge, contractual arrangement or judicial procedure or any other third party's claim which might affect good title to the said land;
- (b) be responsible for relocating any enterprise unit, residents, occupants and users of the Disposal Land No. 2; and be responsible for ensuring the Disposal Land No. 2 be free from construction waste.

Consideration

Chongqing Land Group shall pay to Chongqing Machine Tool (Group) Co., Ltd. a consideration of RMB752,148,000, representing an average land cost of approximately RMB1,800,000 per Mu (approximately RMB2,700 per square meter), which was agreed by the parties on an arm's length basis by reference to the market value of properties of similar nature and shall be satisfied by Chongqing Land Group in the following manner:

Date of payment	Amount paid / payable
One month from the date of signing of the Agreement	RMB225,644,400 (representing 30% of the aforesaid consideration), being the initial payment.
On or before 19 August 2014	RMB150,429,600 (representing 20% of the aforesaid consideration), being the second payment.
On or before 19 February 2015	RMB75,214,800 (representing 10% of the aforesaid consideration), being the third payment.
On or before 19 August 2015	RMB150,429,600 (representing 20% of the aforesaid consideration), being the forth payment.
15 working days from the date of signing of the Memorandum of Handover	RMB150,429,600 (representing 20% of the aforesaid consideration), being the balance of the aforesaid consideration.

Conditions precedent

The Second Land Disposal Agreement is conditional upon:

- (i) Chongqing Machine Tool (Group) Co., Ltd. sells the said land without any encumbrances when transfer the lands mentioned above; and
- (ii) the approval of the Shareholders on the Land Disposal in accordance with the Listing Rules being obtained.

INFORMATION ON CHONGQING LAND GROUP

The Chongqing Land Group is a unit directly established under Chongqing government for the purpose of land resumption arrangement.

The Directors confirm that, to the best of their knowledge, information and belief having made all reasonable enquiries, Chongqing Land Group and its ultimate beneficial owners are Independent Third Parties.

REASONS FOR THE LAND DISPOSAL AND USE OF PROCEEDS

On 11 August 2011, the Chongqing Municipal People's Government has issued the "Notice on Accelerating the Implementation of Environmental Relocation of the Sixth Batch of Key Enterprises with Environmental Pollution Problems in Central Downtown" (Yu Ban Fa [2011] No. 255) for the relocation of designated enterprises. Chongqing Water Turbine Works Co., Ltd. and Chongqing Machine Tool (Group) Co., Ltd. are two of the enterprises to which the policy applies. Chongqing Land Group, on behalf of the Chongqing Government, shall take over the Disposal Land No. 1 and Disposal Land No. 2 by way of land acquisition. Chongqing Water Turbine Works Co., Ltd. and Chongqing Machine Tool (Group) Co., Ltd. subsequently commenced negotiation in respect of the terms of the aforesaid disposal plan, and entered into the First Land Disposal Agreement and the Second Land Disposal Agreement. The Directors believe that the terms of the Land Disposal are fair and reasonable and are in the interests of the Company and Shareholders as a whole.

It is intended that the net proceeds from the Land Disposal will be used by the Group for environmental relocation and for the general working capital of the Group.

FINANCIAL INFORMATION OF THE LAND AND THE SUBJECT ASSETS

The audited net asset value of Chongqing Water Turbine Works Co., Ltd. as at 31 December 2012, and the unaudited net asset value of the Disposal Land No. 1 together with the assets thereon under the First Land Disposal Agreement as at 31 January 2014 were RMB974,369,000.00 and RMB55,726,129.19 respectively.

The audited net asset value of Chongqing Machine Tool (Group) Co., Ltd. as at 31 December 2012, and the unaudited net asset value of the Disposal Land No. 2 together with the assets thereon under the Second Land Disposal Agreement as at 31 January 2014 were RMB2,438,206,000.00 and RMB106,140,871.13 respectively.

The net profits (both before and after taxation) of Chongqing Water Turbine Works Co., Ltd. and Chongqing Machine Tool (Group) Co., Ltd are as follows:

	For the financial year ended 31 December 2011			For the financial year ended 31 December 2012		
	Chongqing Water Turbine Works Company	Chongqing Machine Tool (Group) Co., Ltd.	Chongqing Machine Tool (Group) Co., Ltd.	Chongqing Water Turbine Works Co., Ltd.	Chongqing Machine Tool (Group) Co., Ltd.	Chongqing Machine Tool (Group) Co., Ltd.
Audited net profit/(loss)						
before taxation	913,658,000	33,580,261	73,344,801	552,203,000	30,385,865	35,161,393
Audited net profit/(loss)						
after taxation	737,277,000	28,103,863	53,767,954	440,770,000	25,074,099	27,809,332

LISTING RULES IMPLICATIONS

On the basis that the applicable percentage ratios in respect of the Land Disposal are greater than 25% while all such ratios are less than 100% for the purposes of Rule 14.07 of the Listing Rules, the Land Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the requirements of announcement, reporting and approval of the Shareholders. Under Rule 14.44 of the Listing Rules, Chongqing Machinery & Electronic Holding (Group) Co., Ltd., holding 1,924,225,189 Shares of the Company representing approximately 52.22% shareholding interest in the Company, has given its consent to enter into the Land Disposal. As no Shareholder is required to abstain from voting if the Company were to convene a general meeting for approval of the Land Disposal, under Rule 14.44 of the Listing Rules, the written approval from Chongqing Machinery & Electronic Holding (Group) Co., Ltd. in lieu of holding a physical Shareholders' meeting is acceptable for approval of the Land Disposal.

The circular containing the information required under the Listing Rules in relation to the Land Disposal will be despatched to the Shareholders as soon as possible, which is to be on or before 13 March 2014.

This announcement is made by the order of the Board of the Company. The Board collectively and individually accepts responsibility for the accuracy of this announcement.

DEFINITIONS

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

“Aggregate Consideration”	The total consideration payable by Chongqing Land Group under the First Land Disposal Agreement and the Second Land Disposal Agreement
“Board”	the board of directors of the Company
“Company”	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, the securities of which are listed on the main board of the Stock Exchange (Stock Code: 02272)
“Chongqing Machine Tool (Group) Co. Ltd.”	Chongqing Machine Tool (Group) Co. Ltd. (重慶機床(集團)有限責任公司), a wholly owned subsidiary of the Company
“Chongqing Water Turbine Works Co., Ltd.”	Chongqing Water Turbine Works Co., Ltd. (重慶水輪機廠有限責任公司), a wholly owned subsidiary of the Company
“Directors”	the directors of the Company
“First Land Disposal Agreement”	The land disposal agreement dated 20 February 2014 entered into between Chongqing Water Turbine Works Co., Ltd. and Chongqing Land Group in relation to the acquisition of the Disposal Land No.1 and certain assets thereon

“Group”	the Company and its subsidiaries
“HK\$”	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 Third Party”	Person or company and their respective ultimate beneficial owner which, to the best of the Director’s knowledge, information and belief, having made all reasonable enquiries, are third parties independent of and not connected with the Company and its connected persons
“Land”	Disposal Land No. 1 and Disposal Land No. 2
“Land Disposal”	The acquisition of the Land pursuant to the First Land Disposal Agreement and the Second Land Disposal Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Memorandum of Handover”	a memorandum to be signed by the respective parties upon transfer of the Land
“Mu”	One Mu equals to approximately 666.67 square meters
“Disposal Land No. 1”	lands situated at (i) No.10 Li Jia Tuo Ma Wang Ping Zheng Street, Ba Nan District, Chongqing (重慶巴南區李家沱馬王坪正街10號), (ii) No.133 Li Jia Tuo Xin Ping Village, Ba Nan District, Chongqing (重慶巴南區李家沱新平村133號), and (iii) Qun Le Si She, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮群樂四社)

“Disposal Land No. 2”	lands situated at (i) Dao Jiao Lian Hua Village, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮道角蓮花村), (ii) Block 3, No. 7, Dao Jiao Second Village, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮道角二村7號3幢), (iii) No. 1-69, Dao Jiao Lian Hua Village, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮道角蓮花村自編1-69號), and (iv) No. 2 -1, Dao Jiao Lian Hua Village, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮道角蓮花村自編2-1號)
“Properties”	the Land together with the buildings, structures and attachments erected thereon and thereunder
“Second Land Disposal Agreement”	The land disposal agreement dated 20 February 2014 entered into between Chongqing Machine Tool (Group) Co. Ltd., and Chongqing Land Group in relation to the acquisition of the Disposal Land No.2 and certain assets thereon
“Shareholder(s)”	Shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By Order of the Board
Chongqing Machinery & Electric Co., Ltd.*
Wang Yuxiang
Executive Director and Chairman

Chongqing, the PRC
20 February 2014

As at the date of the announcement, the executive Directors are Mr. Wang Yuxiang, Mr. Yu Gang, Mr. Ren Yong and Mr. Chen Xianzheng; the non-executive Directors are Mr. Huang Yong, Mr. Wang Jiyu, Mr. Yang Jingpu and Mr. Deng Yong; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Yang Zhimin.

* For identification purposes only