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CQME

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)

**VOLUNTARY ANNOUNCEMENT
ESTABLISHMENT OF JV COMPANY WITH QIJIANG GEAR
TRANSMISSION AND REINTEL**

The Board is pleased to announce that on 4 May 2015, the Company, Qijiang Gear Transmission (a wholly-owned subsidiary of the Company) and Reintel entered into the JV Contract, pursuant to which, the Company, Qijiang Gear Transmission and Reintel have agreed to establish a JV Company in the name of Chongqing QG Reintel Transmission Company Limited (重慶綦齒睿安特變速器有限公司) (name subject to the final approval of Chongqing Administration for Industry and Commerce) in Qijiang District, Chongqing, the PRC for the purpose of undertaking the Project of 200,000 Sets of Medium- and Heavy-Duty Vehicle Gearboxes of Qijiang Gear Transmission.

Upon completion of the capital contribution by the parties, the JV Company will be held as to 55% by Reintel, 35% by Qijiang Gear Transmission and 10% by the Company, respectively.

The transaction contemplated under the JV Contract does not constitute any notifiable transaction of the Company under Chapter 14 of the Listing Rules. This announcement is made by the Company on a voluntary basis.

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* *For identification purposes only*

in Qijiang District, Chongqing, the PRC for the purpose of undertaking the Project of 200,000 Sets of Medium- and Heavy-Duty Vehicle Gearboxes of Qijiang Gear Transmission. The principal terms of the JV Contract are as follows:

JV CONTRACT

a. Date

4 May 2015

b. Parties

- (1) The Company;
- (2) Qijiang Gear Transmission; and
- (3) Reintel.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, Reintel and its ultimate beneficial owners are independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

c. JV Company

The JV Company, which will be based in Qijiang District, Chongqing, the PRC, will undertake the Project of 200,000 Sets of Medium- and Heavy-Duty Vehicle Gearboxes of Qijiang Gear Transmission. Upon completion of the capital contribution by the parties, the JV Company will be held as to 55% by Reintel, 35% by Qijiang Gear Transmission and 10% by the Company, respectively.

d. Capital Contribution

The registered capital of the JV Company will be RMB200,000,000, of which Reintel will contribute RMB110,000,000 in cash, representing 55% of the equity interests; Qijiang Gear Transmission will contribute RMB70,000,000 in the forms of land and cash, with the land valuing RMB33,756,700 which is based on the land valuation report ((Chongqing) Zhongding [2015] (Gu) Zi No.07) issued by Chongqing Zhongding Asset Appraisal and Real Estate Valuation Co., Ltd. and the cash amounting to RMB36,243,300, representing 35% of the equity interests; and the Company will contribute RMB20,000,000 in cash, representing 10% of the equity interests.

e. Composition of the board of the JV Company

The board of the JV Company will comprise seven directors. The directors will be appointed by the shareholders, of which, Reintel is entitled to nominate four directors, Qijiang Gear Transmission is entitled to nominate two directors, while the Company is entitled to nominate one director. The board of the JV Company will have one chairman who will be nominated by Reintel, and one vice chairman who will be nominated by the Company. It is agreed by the parties that Reintel may nominate staff from Qijiang Gear Transmission to act as the chairman of the board of the JV Company.

f. Transfer of equity

In the event that any party intends to transfer all or any part of its equity interests in the JV Company, prior written notice shall be served to the other two parties, and the other two parties shall have the first rights of refusal under the same conditions.

COOPERATION AMONG THE PARTIES

On 25 October 2011, the production base project with an annual capacity of 400,000 sets of medium- and heavy-duty automobile gearboxes (200,000 sets for Phase I of the project) of Qijiang Gear Transmission was approved at the 11th extraordinary meeting of the 2nd session of the Board of the Company in 2011, details of which were set out in the announcement of the Company dated 25 October 2011. The total investment of the Project amounted to RMB900 million, of which fixed asset investments amounted to RMB765 million. On 10 October 2013, it was approved that the fixed asset investments of the Project be reduced to RMB750 million at the 1st extraordinary meeting of the 3rd session of the Board of the Company in 2013. Currently, the contractual value of the Project amounts to RMB590 million, among which RMB440 million has been injected with the land turning into fixed asset. The Project will be put into operation in 2015.

The parties will fund to establish the JV Company, where Qijiang Gear Transmission will contribute in the forms of fixed assets (i.e. land) and cash, while Reintel and the Company will contribute in cash. All costs of the Project (except the land and equipment of the technology center) will be borne by the JV Company. The capital invested and the relevant financial costs incurred by Qijiang Gear Transmission for the Project will be reimbursed, while the remaining outstanding contractual amount together with the costs to be incurred for the Project in the future will be borne by the JV Company.

Information on the Company

The Company mainly engages in the manufacturing and sales of automobile parts and components, power equipment, general machinery and CNC machine tools.

Information on Qijiang Gear Transmission

Qijiang Gear Transmission mainly engages in the manufacturing and sales of gear boxes for large and medium passenger vehicles, gear boxes for heavy-duty vehicles and axle gears.

Information on Reintel

Reintel is a comprehensive private technology company mainly engaged in steel structure engineering, TBM engineering and other businesses.

Reasons for and Benefits of Entering into the JV Contract

By forming partnership with private companies, it will present a good opportunity to introduce the flexible operation and management mechanism of private companies, so as to promote penetration into the truck gearbox market by Qijiang Gear Transmission and achieve industrialization production. As a private technology company and with the core system developed by it, Reintel will help to achieve breakthrough in the new products of the JV Company.

The Board (including independent non-executive Directors) believes that the JV Contract entered into with Qijiang Gear Transmission and Reintel is on normal commercial terms and the terms are fair and reasonable and in the interests of the Company and shareholders as a whole. As none of the Directors has any material interests in the JV Contract, they are not required to abstain from voting on the relevant Board resolution in accordance with the Listing Rules and/or the Articles of Association of the Company.

LISTING RULE IMPLICATIONS

The transaction contemplated under the JV Contract does not constitute any notifiable transaction of the Company under Chapter 14 of the Listing Rules.

DEFINITIONS

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

“Board”	the board of directors of the Company
“Reintel”	Chongqing Reintel Technology Group Co., Ltd. (重慶睿安特科技集團有限公司), a limited liability company established under the PRC laws

“Company”	Chongqing Machinery & Electric Co., Ltd.* (重慶機電股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 02722)
“Director(s)”	the Director(s) of the Company
“JV Contract”	the Joint Venture Contract dated 4 May 2015 entered into among the Company, Qijiang Gear Transmission and Reintel
“JV Company”	Chongqing QG Reintel Transmission Company Limited (重慶綦齒睿安特變速器有限公司), a limited liability company proposed to be established in the PRC, which will be held as to 55%, 35% and 10% by Reintel, Qijiang Gear Transmission and the Company, respectively
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Project” or “Project of 200,000 Sets of Medium- and Heavy-Duty Vehicle Gearboxes”	“the production base project with an annual capacity of 400,000 sets of medium- and heavy-duty vehicle gearboxes (200,000 sets for Phase I of the project)” of Qijiang Gear Transmission, which was approved at the 11 th extraordinary meeting of the 2 nd session of the Board of the Company in 2011
“Qijiang Gear Transmission”	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”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	percentage

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

Chongqing, the PRC
4 May 2015

As at the date of the announcement, the executive Directors are Mr. Wang Yuxiang, Mr. Yu Gang, Mr. Ren Yong and Mr. Xiang Hu; 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. Liu Wei.