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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)

(Stock Code: 02722)

**DISCLOSEABLE TRANSACTION
LAND RESUMPTION BY GOVERNMENT**

The Board announces that on 28 June 2016, Gas Compressor Company, a wholly-owned subsidiary of the Company, entered into the following agreements respectively as Chongqing plans to implement the “Expansion and Transformation Project of Zhongliangshan Tunnel at Chengdu-Chongqing Expressway (成渝高速中梁山隧道擴容改造項目)”:

- (1) Gas Compressor Company entered into the Expropriation and Compensation Agreement with Shapingba Building Management Bureau, pursuant to which Shapingba Building Management Bureau shall pay Gas Compressor Company the consideration of RMB4,888,453.58 for acquisition of the Disposal Land No. 1 and certain assets thereon; and
- (2) Gas Compressor Company entered into the Land Resumption Agreement with Shapingba Land Reserve Centre, pursuant to which Shapingba Land Reserve Centre shall pay Gas Compressor Company the consideration of RMB325,111,546.42 for acquisition of the Disposal Land No. 2 and certain assets thereon.

The aggregate consideration for the Land Disposal amounts to RMB330,000,000. As the applicable percentage ratios (as defined in the Listing Rules) in relation to the Land Disposal is more than 5% but less than 25%, the Land Disposal constitutes a discloseable transaction and is subject to notification and announcement requirements under Chapter 14 of the Listing Rules, but is exempted from shareholders' approval requirement.

As Chongqing plans to implement the “Expansion and Transformation Project of Zhongliangshan Tunnel at Chengdu-Chongqing Expressway”, parts of the land of Gas Compressor Company will be expropriated this time pursuant to the red line zone as planned and designed in Shapingba District.

* *For identification purposes only*

Taking into consideration that following the expropriation of land within the red line zone, the normal production and operation of Gas Compressor Company will be significantly affected, Gas Compressor Company plans to hand over the parcels beyond the red line zone for overall resumption in Shapingba District. As at 28 June 2016, Gas Compressor Company entered into the Expropriation and Compensation Agreement and the Land Resumption Agreement with Shapingba Building Management Bureau and Shapingba Land Reserve Centre respectively, of which the major terms are set out as follows:

THE EXPROPRIATION AND COMPENSATION AGREEMENT

a. Date

28 June 2016

b. Parties

- (1) Gas Compressor Company (Vendor), and
- (2) Shapingba Building Management Bureau (Purchaser).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Shapingba Building Management Bureau and its ultimate beneficial owner are Independent Third Parties not connected to the Company and its connected persons.

c. Subject land

The Disposal Land No. 1, measuring approximately a total of 1,304 square meters, includes the buildings and fixtures and land use rights situated at Shangqiao Dongfengxinsan Village, Shapingba District (沙坪壩區上橋東風新三村).

d. Consideration and basis of pricing

Shapingba Building Management Bureau shall pay Gas Compressor Company the aggregate compensation of RMB4,888,453.58 for the acquisition. The relevant consideration was valued and measured with reference to the valuation opinion (Chong Wan He Gu Zi (2016) No. 001-129) prepared by Chongqing Wanhe Assets Appraisal & Land and Property Valuation Company Limited* (重慶萬合資產評估房地產土地估價有限責任公司) in respect of the expropriation in the expansion and transformation project of Zhongliangshan Tunnel at Chengdu-Chongqing Expressway together with the structures, fixtures and land use right situated at the land

aforesaid, and was determined after calculating various relocation fees, allowances and compensations. The relevant consideration will be paid by Shapingba Building Management Bureau in the following manners:

- (i) Within twenty working days following the execution of the agreement, Shapingba Building Management Bureau shall pay Gas Compressor Company the first expropriation compensation amount of RMB1,460,000, representing approximately 30% of the aggregate compensation amount.
- (ii) After the delivery of vacant buildings by Gas Compressor Company, Shapingba Building Management Bureau shall pay Gas Compressor Company the second expropriation and compensation amount of RMB2,930,000, representing approximately 60% of the aggregate compensation amount.
- (iii) Within twenty working days after the completion of demolition of buildings, Shapingba Building Management Bureau shall pay Gas Compressor Company the last expropriation compensation amount of RMB498,453.58, representing approximately 10% of the aggregate compensation amount.

The Directors considered the consideration for the Land Disposal to be fair and reasonable and in the interests of the Company and the shareholders as a whole.

e. Transfer of the land

Gas Compressor Company undertakes to complete the relocation and delivery works before 30 June 2016.

THE LAND RESUMPTION AGREEMENT

a. Date

28 June 2016

b. Parties

- (1) Gas Compressor Company (Vendor), and
- (2) Shapingba Land Reserve Centre (Purchaser).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Shapingba Land Reserve Centre and its ultimate beneficial owner are Independent Third Parties not connected to the Company and its connected persons.

c. Subject land

Disposal Land No. 2, measuring approximately a total of 84,488 square meters, includes the land, buildings and their structures and fixtures situated at Shangqiao Dongfengxinsi Village, Shapingba District (沙坪壩區上橋東風新四村).

d. Consideration and basis of pricing

Shapingba Land Reserve Centre shall pay Gas Compressor Company an aggregate compensation amount of RMB325,111,546.42. The relevant consideration was determined with reference to the preliminary assessment value (approximately RMB304 million) prepared by Chongqing Huifeng Property Assets Evaluation Co., Ltd and further arm's length negotiation between both parties. The relevant consideration will be paid by Shapingba Land Reserve Centre in the following manners:

- (i) Gas Compressor Company shall, within five working days following the execution of the agreement, deliver to Shapingba Land Reserve Centre the original certificate of title of Disposal Land No. 2 and the copies of business license, tax registration certificate, identity card of legal person and organization code certificate of Gas Compressor Company. Within ten working days upon its receipt of the certificates mentioned above, Shapingba Land Reserve Centre shall pay Gas Compressor Company 30% of the compensation amount as agreed, namely RMB97,533,463.93.
- (ii) Upon the purchase of a new land by Gas Compressor Company, Shapingba Land Reserve Centre shall pay Gas Compressor Company 20% of the compensation amount as agreed, namely RMB65,022,309.28.
- (iii) Upon the relocation by Gas Compressor Company, Shapingba Land Reserve Centre shall pay Gas Compressor Company 20% of the compensation amount as agreed, namely RMB65,022,309.28.
- (iv) Gas Compressor Company shall deliver the involved land and vacant buildings to Shapingba Land Reserve Centre, and the parties shall execute the Memorandum of Handover on that day to transfer the land. Within ten days following the execution of the Memorandum of Handover, Shapingba Land Reserve Centre shall pay Gas Compressor Company the remaining 30% of the compensation amount as agreed, namely RMB97,533,463.93.

The Directors considered the consideration for the Land Disposal to be fair and reasonable and in the interests of the Company and the shareholders as a whole.

INFORMATION ABOUT SHAPINGBA BUILDING MANAGEMENT BUREAU

Shapingba Building Management Bureau is principally responsible for performing the functions including administrative management regarding expropriation of buildings in the city, property management, housing guarantee and housing security management.

INFORMATION ABOUT SHAPINGBA LAND RESERVE CENTRE

Shapingba Land Reserve Centre is principally responsible for providing land reserve services, and the acquisition, reclamation, reserve, management and operation of the land at the district level.

INFORMATION ABOUT THE COMPANY

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

FINANCIAL INFORMATION ABOUT THE DISPOSAL

As set out in the audited financial statements of Gas Compressor Company for the year ended 31 December 2015, the net book value of the Disposal Land No. 1 and the Disposal Land No. 2 was RMB46,121,250 as at 31 December 2015. During the two financial years prior to the execution of the Expropriation and Compensation Agreement and Land Resumption Agreement, there was not any profit of Gas Compressor Company attributable to Disposal Land No. 1 and Disposal Land No. 2.

REASONS FOR THE LAND DISPOSAL AND USE OF PROCEEDS

As Chongqing plans to implement the “Expansion and Transformation Project of Zhongliangshan Tunnel at Chengdu-Chongqing Expressway”, parts of the land of Gas Compressor Company will be expropriated this time pursuant to the red line zone as planned and designed in Shapingba District. Taking into consideration that following the expropriation of land within the red line zone, the normal production and operation of Gas Compressor Company will be significantly affected, Gas Compressor Company plans to hand over the parcels beyond the red line zone for overall resumption in Shapingba District this time. The Directors considered the terms of the Land Disposal to be fair and reasonable and in the interests of the Company and the shareholders as a whole.

Based on the carrying value of the Disposal Land No. 1 and the Disposal Land No. 2 of approximately RMB46,121,250 as at 31 December 2015, it is estimated that the Group will realise a gain from the Land Disposal of approximately RMB283,878,750 (before tax and expenses) (subject to audit), being the difference between the aggregate consideration for the Land Disposal and the carrying values of Disposal Land No. 1 and Disposal Land No. 2 as at 31 December 2015.

The Group intends to use the net proceeds from the Land Disposal for later relocation of Gas Compressor Company (including purchase of new land, factory construction, facility purchase, relocation cost, etc.) The detailed relocation plan will be implemented after being approved by the Board.

LISTING RULES IMPLICATIONS

The aggregate consideration for the Land Disposal amounts to RMB330,000,000. As the applicable percentage ratios (as defined in the Listing Rules) in relation to the Land Disposal is more than 5% but less than 25%, the Land Disposal constitutes a discloseable transaction and is subject to notification and announcement requirements under Chapter 14 of the Listing Rules, but is exempted from Shareholders' approval requirement.

DEFINITIONS

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

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| “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 PRC with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 02722) |
| “connected person(s)” | has the same meaning ascribed thereto under the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “Disposal Land No. 1” | Buildings, fixtures and land use rights situated at Shangqiao Dongfengxinsan Village, Shapingba District (沙坪壩區上橋東風新三村) |
| “Disposal Land No. 2” | Land, buildings and their structures and fixtures situated at Shangqiao Dongfengxinsi Village, Shapingba District (沙坪壩區上橋東風新四村) |
| “Expropriation and Compensation Agreement” | the Expropriation and Compensation Agreement dated 28 June 2016 entered into between Gas Compressor Company and Shapingba Building Management Bureau in relation to Disposal Land No. 1 |

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| “Land Resumption Agreement” | the Land Resumption Agreement dated 28 June 2016 entered into between Gas Compressor Company and Shapingba Land Reserve Centre in relation to Disposal Land No. 2 |
| “Gas Compressor Company” | Chongqing Gas Compressor Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司), a company incorporated under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Company |
| “Land Disposal” | the expropriation of Disposal Land No. 1 and Disposal Land No. 2 pursuant to the Expropriation and Compensation Agreement and the Land Resumption Agreement |
| “Independent Third Party(ies)” | Person(s) or company(ies) 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 |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “PRC” | the People’s Republic of China |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Shapingba Building Management Bureau” | Chongqing Shapingba Building Management Bureau* (重慶市沙坪壩區房屋管理局), a PRC governmental body |
| “Shapingba Land Reserve Centre” | Chongqing Shapingba Land Renovation Reserve Centre* (重慶市沙坪壩區土地整治儲備中心), a PRC governmental body |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “%” | Percent |

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

Chongqing, the PRC

28 June 2016

As at the date of the announcement, the executive Directors are Mr. Wang Yuxiang, Ms. Chen Ping and Mr. Yang Quan; the non-executive Directors are Mr. Huang Yong, Mr Wei Fusheng, Mr. Deng Yong and Ms. He Xiaoyan; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei.