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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: 2722)

**DISCLOSEABLE TRANSACTION**

**ACQUISITION OF SHARES IN  
QIJIANG GEAR AND QIJIANG FORGING**

The Board announces that the Company acquired on the open market at Chongqing United Assets And Equity Exchange 102,000,000 shares (equivalent to 51% equity interest) in Qijiang Gear and 5,140,800 shares (equivalent to 24.48% equity interest) in Qijiang Forging on 5 February 2009 at a total consideration of RMB256,960,000. On the same date, i.e. 5 February 2009, the Company entered into the Agreement with the Vendor.

The applicable percentage ratios as defined in the Listing Rules exceed 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

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To the best of the knowledge of the Board, information, and belief and after having made all reasonable enquiry by the Directors, the Vendor is a third party independent of the Company and is not a connected person of the Company.

On 5 February 2009, the Company entered into the Agreement with the Vendor. The principle terms of the Agreement are as follows:

Date	:	5 February 2009
Vendor	:	Shanghai Electric (Group) Corporation (上海電氣(集團)總公司)
Purchaser	:	The Company
Shares acquired	:	102,000,000 shares (equivalent to 51% equity interest) in Qijiang Gear and 5,140,800 shares (equivalent to 24.48% equity interest) in Qijiang Forging
Consideration	:	RMB256,960,000
Payment Term	:	The Company made a one-off payment in the sum of RMB256,960,000 to Chongqing United Assets And Equity Exchange as a guarantee. Chongqing United Assets And Equity Exchange will pay the said sum of RMB256,960,000 to the Vendor within 10 working days upon the presentation by Chongqing United Assets And Equity Exchange of the documentary evidence showing the Completion
Post valuation	:	The Vendor bears 85% of all loss and benefit (e.g. dividends), while the Company bears the remaining 15% during the period from the valuation date, i.e. 30 September 2008 to the date of the Completion

Before the Acquisition, the Company directly holds 49% equity interest in Qijiang Gear and 23.52% equity interest in Qijiang Forging. Qijiang Gear holds the remaining 52% equity interest in Qijiang Forging directly. After the Completion, the Company holds 100% equity interest in Qijiang Gear and holds 48% equity interest in Qijiang Forging directly. Qijiang Gear will become a wholly-owned subsidiary of the Company upon the Completion. The Company through Qijiang Gear holds the remaining 52% equity interest in Qijiang Forging, and Qijiang Forging will be a wholly-owned subsidiary of the Company.

The net book value of Qijiang Gear and Qijiang Forging as at 30 June 2008 is RMB462.05 million and RMB27.54 million respectively. The interim net profit of Qijiang Gear and Qijiang Forging as at 30 June 2008 is RMB53.45 million and RMB1.84 million respectively. According to the valuation conducted by China Enterprise Appraisals on 30 September 2008 based on the fair market value of net asset and on the assumption that Qijiang Gear and Qijiang Forging will carry on business after the valuation date, i.e. 30 September 2008, the valuation of 102,000,000 shares of Qijiang Gear (equivalent to 51% equity interest) is RMB249,544,479 and the valuation of 5,140,800 shares of Qijiang Forging (equivalent to 24.48% equity interest) is RMB7,407,966.24. The consideration payable by the Company for the Acquisition is determined based on the valuation by China Enterprise Appraisals, and the Directors believe that it is fair and reasonable.

## **INFORMATION ON QIJIANG GEAR**

Qijiang Gear is principally engaged in manufacturing base of automotive heavy-duty transmissions and exporting base of automotive gears in the PRC.

## **INFORMATION ON QIJIANG FORGING**

Qijiang Forging is principally engaged in producing and selling the components for mechanical products and processing and selling mechanical products in the PRC.

## **INFORMATION ON THE VENDOR**

The Vendor is principally engaged in managing of state owned assets and investment activities.

## **SOURCE OF FUNDS**

The total consideration for the Acquisition of RMB256,960,000 will be fully funded by utilizing a portion of the Net Proceeds that has been allocated for the purpose of the Acquisition.

## **REASONS AND BENEFITS OF THE ACQUISITION**

The Board (including independent non-executive Directors) is of the view that the Acquisition is a good opportunity to the Company to strengthen its business of producing commercial vehicle parts and components. Considering the Acquisition was conducted on the open market at Chongqing United Assets and Equity Exchange, 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.

## **BUSINESS OF THE GROUP**

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

## **LISTING RULES IMPLICATION**

As the applicable percentage ratios as defined in the Listing Rules exceed 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

## **DEFINITION**

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

“Acquisition” means the purchase of an aggregate of 102,000,000 shares (equivalent to 51% equity interest) in Qijiang Gear and 5,140,800 shares (equivalent to 24.48% equity interest) in Qijiang Forging on 5 February 2009 at a total consideration of RMB256,960,000 on the open market at Chongqing United Assets And Equity Exchange, the Acquisition is in tie-up nature, i.e. one must acquire 102,000,000 shares (equivalent to 51% equity interest) in Qijiang Gear and 5,140,800 shares (equivalent to 24.48% equity interest) in Qijiang Forging at the same time

“Agreement”	means the sale and purchase agreement between the Vendor and the Company regarding the Acquisition
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	means the board of Directors 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
“Completion”	means completion of the Acquisition
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	means the director(s) of the Company
“Group”	means the Company and its subsidiaries
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	means The Rules Governing the Listing of Securities on the Stock Exchange
“Net Proceeds”	means the net proceeds from the global offering of the Company
“PRC”	means the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Qijiang Forging”	means Qijiang Qi-Chi Forging Co. Ltd* (綦江綦齒鍛造有限公司) which was established in the PRC on 7 November 2003, the Company directly holds 23.52% equity interest of Qijiang Forging
“Qijiang Gear”	means Qijiang Gear Transmission Co., Ltd* (綦江齒輪傳動有限公司), an associate which was owned as to 49% directly by the Company and was established in the PRC on 28 December 2002

“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
“Vendor”	means Shanghai Electric (Group) Corporation* (上海電氣(集團)總公司), the holder of 102,000,000 shares (equivalent to 51% equity interest) in Qijiang Gear and 5,140,800 shares (equivalent to 24.48% equity interest) in Qijiang Forging
“%”	per cent

By Order of the Board  
**Chongqing Machinery & Electric Co., Ltd.\***  
**Sun Nengyi**  
*Executive Director, Chairman*

5 February 2009, Chongqing, the PRC

*As at the date of this announcement, the executive Directors are Mr. Sun Nengyi, Mr. He Yong, Mr. Liao Shaohua and Mr. Chen Xianzheng; the non-executive Directors are Mr. Huang Yong, Mr. Yu Gang, Mr. Yang Jingpu and Mr. Wu Jian; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang.*

\* *For identification purposes only*