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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)

**Contract on Technological License of
High-powered Diesel Engines with Cummins**

This announcement is made by the Company pursuant to the Inside Information Provisions under Part XIVA of the SFO and Rule 13.09(2) of the Listing Rules.

Reference is made to the announcement dated 15 November 2012 of the Company (the “Announcement”) in respect of, inter alia, CCEC’s intention to introduce QSK50, QSK60 and QSK78, the most advanced all-electric high-powered diesel engines in the world, from Cummins. Thereafter, subsequent to further discussion on feasibility, it was decided that CCEC will introduce QSK72 product from Cummins in lieu of QSK78 as previously agreed.

The Board is pleased to announce that on 28 August 2013, CCEC and Cummins signed (i) QSK50 and QSK60 License Contract, (ii) QSK72 License Contract and (iii) Component Supply Agreement.

In addition, on 28 August 2013, CCEC and Cummins China signed CCEC Market and Channel Operating Agreement and CCEC Agency and Distribution Agreement.

Summary of the above five contracts are as follows:

(i) QSK50 AND QSK60 LICENSE CONTRACT

Pursuant to QSK50 and QSK60 License Contract, CCEC will, by way of a technological license, introduce two high-powered diesel engines from Cummins (i.e. QSK50 and QSK60), while Cummins will grant a non-exclusive right for the use of Cummins' patents and technological information to CCEC, such that CCEC can manufacture, outsource, utilize, sell and serve licensed products in the PRC in accordance with the conditions of the contract. QSK50 and QSK60 License Contract was executed on 28 August 2013, and has become effective for a term of 10 years thereafter. Within 1 year before expiration of QSK50 and QSK60 License Contract, CCEC and Cummins shall negotiate on renewal of QSK50 and QSK60 License Contract and shall extend the agreement for a further term of 5 years if both parties do not raise any objection. Any subsequent extension shall be subject to the same mechanism.

(ii) QSK72 LICENSE CONTRACT

Pursuant to QSK72 License Contract, CCEC will, by way of a technological license, introduce the QSK72 product high-powered diesel engines from Cummins but product QSK72 is still in the process of research and development by Cummins and is expected to pass the production workflow test around 2021. At present, it is premature to execute a license contract that is immediately effective. The Effective Date of the QSK72 License Contract shall be the 30th day after QSK72 passing the production workflow test or 31 December 2012, whichever is the earlier. The term of the QSK72 License Contract shall be 10 years from the first day of the month following the Effective Date of the QSK72 License Contract. Within 1 year before expiration of the license contract, CCEC and Cummins shall negotiate on renewal of the agreement and shall extend the agreement for a further term of 5 years if both parties do not raise any objection. Any subsequent extension shall be subject to the same mechanism.

(iii) COMPONENT SUPPLY AGREEMENT

Pursuant to the Component Supply Agreement, Cummins will assure that it will comply with the terms prescribed under the agreement by securing the supply of components of the new products for CCEC prior to the completion of localisation since CCEC introduces the new products.

(iv) CCEC MARKET AND CHANNEL OPERATING AGREEMENT

Pursuant to CCEC Market and Channel Operating Agreement, CCEC and Cummins China reached an agreement over relevant information relating to the market and channel of the product of CCEC, including but not limited to the market leadership of engines and parts thereof, the segregation of duties of the marketing teams of both parties, as well as the sales channels and the pricing of the engines and parts thereof.

(v) CCEC AGENCY AND DISTRIBUTION AGREEMENT

Pursuant to CCEC Agency and Distribution Agreement, CCEC authorizes Cummins China with the rights to distribute specific products exclusively, including (1) agency business, in which Cummins China acts as an agent of CCEC in transactions with relevant customers; (2) distribution business, in which Cummins China purchases products from CCEC and sells independently in its own name and on its own account.

Over recent years, there has been a drastic increase in the number of competitors in the market of high-powered diesel engines in China. The market competition has intensified and the emission standard of engines has been raised. CCEC faces severe competitions and tremendous challenges. QSK50, QSK60 and QSK72, being high-powered diesel engines among the most advanced high-powered diesel engines in today's world, is characterized by their reliability, economy as well as the dynamic and environmental-friendly features. The power of the products ranges from 1,400 to 3,250 horsepower and are widely used in shale gas exploration, oil field, vessels, power generation and engineering machinery. The market prospect for such high-powered diesel engines is promising.

CCEC successfully introduced the platforms of QSK50, QSK60 and QSK72 all-electric high-powered diesel engines, the world's most advanced of their kind, from Cummins, newly established the new products production base of CCEC high-powered diesel engines, and the high-powered engine research and development center. It also independently developed gas engines within a certain spectrum as agreed, which would expand and refine the existing product portfolio of CCEC. The successful introduction also enabled CCEC to stay competitive in domestic and global high-powered engine markets.

According to the planned target of “developing CCEC into a world-class high-powered engine manufacturing base”, by 2017, the sales revenue of CCEC can reach US\$1 billion and by 2022, such sales revenue can reach US\$2 billion. CCEC may or may not be able to reach such targets of sales revenue. Investors and shareholders of the Company shall exercise caution in dealing with the securities of the Company.

DEFINITIONS

Unless the context otherwise requires, the terms used in this announcement shall have the same meanings as defined in the Announcement.

- “Board” means the board of Directors of Chongqing Machinery & Electric Co., Ltd.* (重慶機電股份有限公司);
- “Announcement” means the announcement issued by the Company dated 15 November 2012;
- “CCEC” means Chongqing Cummins Engine Co., Ltd. is a company with limited liability established in Chongqing under the laws of the PRC which is also a sino-foreign joint venture company which is owned as to 50% by Cummins China and the Company respectively;
- “CCEC Agency and Distribution Agreement” means the agreement entered into between CCEC and Cummins China on 28 August 2013 in respect of the authorization of Cummins China with the exclusive rights to distribute specific products by CCEC;
- “CCEC Market Channel Operating Agreement” means the agreement entered into between CCEC and Cummins China on 28 August 2013 in respect of an agreement over relevant information relating to the product market and channel;
- “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);
- “Cummins” means Cummins Inc. (康明斯有限公司), a company established with limited liability as at 3 February 1919 under the laws of United States which holds 100% of equity interests in Cummins China;

“Cummins China”	means Cummins (China) Investment Co., Ltd.*(康明斯(中國)投資有限公司), a wholly foreign-owned enterprise established under the laws of the PRC which holds 50% equity interests in CCEC;
“Director(s)”	means the director(s) of the Company;
“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;
“SFO”	means Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;
“PRC”	means the People’s Republic of China, which for purpose of this announcement, does not include Hong Kong, the Macau Special Administrative Region and Taiwan region;
“United States”	means the United States of America, its territories and possessions and all areas subject to its jurisdiction;
“QSK50 and QSK60 License Contract”	means the license contract entered into between CCEC and Cummins on the technology concerning QSK50 and QSK60 high-powered engines on 28 August 2013;
“QSK72 License Contract”	means the license contract entered into between CCEC and Cummins on the technology concerning QSK72 high-powered engines on 28 August 2013;
“Effective Date of the QSK72 License Contract”	means the effective date of the QSK72 License Contract;

“Component Supply Agreement” means the agreement entered into by CCEC and Cummins concerning the supply of products by Cummins to CCEC; and

“Stock Exchange” means The Stock Exchange of Hong Kong Limited.

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

Chongqing, the PRC

28 August 2013

As at the date of this 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*