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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)

(1) CONTINUING CONNECTED TRANSACTION

AND

**(2) REVISION OF THE EXISTING ANNUAL CAPS UNDER
THE MASTER AGREEMENTS**

(1) CONTINUING CONNECTED TRANSACTION

Reference is made to the disclosure in the Prospectus relating to a non-exempt continuing connected transaction entered into between the Company and Parent Company whereby the Parent Group agreed to supply to the Group with the Supplies from time to time.

It has come to the Company's attention that the cap for 2008 in respect of the Transaction has exceeded the annual caps by RMB24,900,872 from RMB32,000,000 to RMB56,900,872.

Since the Exceeded Transaction exceeds 2.5% of the highest applicable percentage ratios as set out under Chapter 14A of the Listing Rules, the Exceeded Transaction constitutes a non-exempted continuing connected transaction of the Company under Rule 14A.16 of the Listing Rules and is subject to the reporting, announcement and the Independent Shareholders' approval requirement under the Listing Rules. The Parent Group and its associates will abstain from voting at the EGM.

(2) THE REVISION OF THE EXISTING ANNUAL CAPS UNDER THE MASTER AGREEMENTS

At the time of listing of the Shares on the Stock Exchange, the Company obtained from the Stock Exchange a waiver from strict compliance with the requirements under the Listing Rules in respect of the Master Agreements and an annual cap stated in the Master Agreements for each of the three financial years ended 31 December 2008, 2009 and 2010. For details please refer to the Prospectus under the section "Connected Transaction".

The Company believes that the economic growth in the PRC will stimulate the demands for commercial vehicle parts and components, power equipment, general machinery and CNC machine tools, the sale performance of the Group will increase steadily in the coming years. Also, with the completion of the acquisition of shares in Qijiang Gear and Qijiang Forging, the transactions between Qijiang Gear and Qijiang Forging, and the Parent Group will become a connected transactions of the Company. As such, the Company considers that it is necessary to enter into the Supplemental Agreements to revise upwards the annual caps stated in the Master Agreements.

Since the proposed revision to the existing annual caps under the Master Agreements exceeds 2.5% of the highest applicable percentage ratios (except for Master Leasing Agreement which falls between 0.1% and 2.5%) as set out under Chapter 14A of the Listing Rules, the Master Agreements constitute a non-exempted continuing connected transaction of the Company under Rule 14A.16 of the Listing Rules and are subject to the reporting, announcement and the Independent Shareholders' approval requirement (except for Master Leasing Agreement, which is exempted from Independent Shareholders' approval requirement) under the Listing Rules. The Parent Group and its associates will abstain from voting at the EGM.

CONTINUING CONNECTED TRANSACTION

Reference is made to the disclosure in the Prospectus relating to a non-exempt continuing connected transaction entered into between the Company and the Parent Company whereby the Parent Group has agreed to supply the Company with the Supplies from time to time. The Parent Group has been providing the Supplies to the Group throughout the track record period as described in the Prospectus and has decided to continue to such provision after listing of the Shares.

The Parent Company is one of the Promoters of the Company, therefore the Parent Group is a connected person holding 52.22% interest of the Company and the transactions between the Parent Group and the Company would accordingly constitute a connected transaction for the Company.

At the time of the Company's listing of its Shares in June 2008, the Stock Exchange granted a waiver from strict compliance with the relevant requirements under Chapter 14A of the Listing Rules relating to the Transaction, subject to a maximum aggregate annual cap. It is also a condition of the waiver that if any terms of the Transaction are altered, the Company will have to comply with the provisions of Chapter 14A of the Listing Rules unless it applies for and obtains a separate waiver from the Stock Exchange.

It has come to the Company's attention that the cap for the financial year ended 31 December 2008 in respect of the Transaction has been exceeded by RMB24,900,872 from RMB32,000,000 to RMB56,900,872. At all material times, the Group has been paying the Parent Group in accordance with the terms of each of the invoices issued by the Parent Group from time to time.

The Company has been monitoring all of its continuing connected transaction as required by the Listing Rules. The annual cap for the financial year ended 2008 in the sum of RMB32,000,000 was based on the projected demands for the parts and raw materials of 2007.

Since the Exceeded Transaction exceeds 2.5% of the highest applicable percentage ratios as set out under Chapter 14A of the Listing Rules, the Exceeded Transaction constitutes a non-exempted continuing connected transaction of the Company under Rule 14A.16 of the Listing Rules and are subject to the reporting, announcement and the Independent Shareholders' approval requirement under the Listing Rules. The Parent Group and its associates will abstain from voting at the EGM.

REASONS AND BENEFITS FOR THE TRANSACTION

The Group has been purchasing from the Parent Group parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper from time to time. As a result of the Group's long-term business relationship with the Parent Group, the Parent Group is familiar with the Group's product specifications and has been able to respond quickly and in a cost efficient manner to any new requirements that the Group may request.

PRICING BASIS FOR THE MASTER SUPPLIES AGREEMENT

The Master Supplies Agreement was entered into in the ordinary and usual course of business of the Company. The terms of the Master Supplies Agreement were negotiated on an arm's length basis and on normal commercial terms. The pricing or consideration of the Transaction has been, and will be, determined with reference:

- (i) according to the price set by the PRC Government (including the municipal government and other regulatory bodies which govern such Supplies); or
- (ii) if no such price is set by the PRC Government, not higher than the maximum of the guide prices set by the PRC Government for such supplies;
- (iii) if there is no set price and no guide prices set by the PRC Government, not higher than such open market price between independent parties on normal commercial terms in comparable locality, or if there are no comparable localities, not higher than such open market price between independent parties on normal commercial terms in the PRC generally; or
- (iv) if the Supplies have no set price and no guide prices set by the PRC Government and there is no open market for such Supplies, the parties are to negotiate on normal commercial terms for the supply of such Supplies based on the actual or reasonable costs of supplying such Supplies (whichever is lower) together with a reasonable profit. A "reasonable profit" is a profit that is agreed between the parties as being no more than 10% of the actual costs or reasonable cost incurred for the provision of the Supplies.

The Directors (including the independent non-executive Directors), after reviewing the basis, are of the view that the terms of the Transaction are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REMEDIAL ACTIONS

To avoid repeating the same omission, the Directors will closely monitor volume of the continuing connected transactions with the Parent Group on a quarterly basis. In preparing for the quarterly financial report of the Company, the Directors, will particularly review the amounts of the continuing connected transactions with the Parent Group and take prompt actions to make necessary disclosure and obtain Independent Shareholders' approval, if necessary, as required under the Listing Rules if the amount of any such the continuing connected transactions exceeds or is likely to exceed the relevant caps.

THE REVISION OF THE EXISTING ANNUAL CAPS UNDER THE MASTER AGREEMENTS

At the time of listing of the Shares on the Stock Exchange, the Company obtained from the Stock Exchange a waiver from strict compliance with the requirements under the Listing Rules in respect of the Master Agreements and an annual cap stated in the Master Agreements for each of the three financial years ended 31 December 2008, 2009 and 2010. For details please refer to the Prospectus under the section "Connected Transaction".

The Company believes that the economic growth in the PRC will stimulate the demands for commercial vehicle parts and components, power equipment, general machinery and CNC machine tools, the sale performance of the Group will increase steadily in the coming years. Also, with the completion of the acquisition of shares in Qijiang Gear and Qijiang Forging, the transactions between Qijiang Gear and Qijiang Forging, and the Parent Group will become connected transactions of the Company. As such, the Company considered that it is necessary to enter into the Supplemental Agreements to revise upwards the annual caps stated in the Master Agreements.

The historical transaction records with of Qijiang Gear, Qijiang Forging and the Group with the Parent Group under the Master Supplies Agreement are:

	Year ending 31 December		
	2006	2007	2008
	<i>(RMB millions)</i>		
Qijiang Gear	18.1	22.5	30.0
Qijiang Forging	0	0	0
The Group	31.9	25.3	56.9
Total	50.0	47.8	86.9

The historical transaction records with of Qijiang Gear, Qijiang Forging and the Group with the Parent Group under the Master Sales Agreement are:

	Year ending 31 December		
	2006	2007	2008
	<i>(RMB millions)</i>		
Qijiang Gear	41.4	98.6	63.0
Qijiang Forging	0	0	0
The Group	35.5	50.6	60.9
Total	76.9	149.2	123.9

DETAILS OF THE SUPPLEMENTAL AGREEMENTS

The Supplemental Agreements was entered into on 22 April 2009 between the Company and Parent Company, to revise upwards the annual caps stated in the Master Agreements initially. All existing terms and conditions of the Master Agreements will remain unchanged with revision made only to annual caps of the Master Agreements as listed below:

	Annual Caps for financial year ended 31 December 2009 (RMB'000)		Annual Caps for financial year ended 31 December 2010 (RMB'000)	
	Current	Revised	Current	Revised
1. Master Sales Agreement	68,000	130,000	75,000	160,000
2. Master Supplies Agreement	35,000	120,000	35,000	140,000
3. Master Leasing Agreement	11,000	17,000	15,000	22,000

As per the terms and conditions of the Master Agreements, the Group will pay the Parent Group in accordance with the terms of each of the invoices issued by the Parent Group from time to time.

Since the proposed revision to the existing annual caps under the Master Agreements exceeds 2.5% of the highest applicable percentage ratios (except for Master Leasing Agreement which falls between 0.1% and 2.5%) as set out under Chapter 14A of the Listing Rules, the Master Agreements constitute a non-exempted continuing connected transaction of the Company under Rule 14A.16 of the Listing Rules and are subject to the reporting, announcement and the Independent Shareholders' approval (except for Master Leasing Agreement, which is exempted from Independent Shareholders' approval requirement) requirement under the Listing Rules. The Parent Group and its associates will abstain from voting at the EGM.

The Directors (including the independent non-executive Directors) consider that the terms of the Supplemental Agreements were entered into in the ordinary and usual course of business of the Group and the terms thereof are on normal commercial terms which are fair and reasonable insofar as the interests of the Company and its shareholders as a whole are concerned. The Supplemental Agreements (except for the Supplemental Master Leasing Agreement) are conditional upon, among others, the Independent Shareholders' approval in respect thereof.

REASONS AND BENEFITS FOR THE SUPPLEMENTAL AGREEMENTS

The Group has been purchasing Supplies from the Parent Group and selling control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables to the Parent Group. The Group also leases from the Parent Group offices, production facilities, workshops and staff quarters. As a result of the Group's long-term business relationship with the Parent Group, the Parent Group is familiar with the Group's product specifications and has been able to respond quickly and in a cost efficient manner to any new requirements that the Group may request. It is also more practical and cost efficient to continue leasing the existing facilities from the Parent Group.

PRICING BASIS FOR THE SUPPLEMENTAL AGREEMENTS

The Supplemental Agreements were entered into in the ordinary and usual course of business of the Company. The terms of the Supplemental Agreements were negotiated on an arm's length basis and on normal commercial terms. The pricing or consideration of the Supplemental Master Sales Agreement and Supplemental Master Supplies Agreement have been, and will be, determined with reference:

- (i) according to the price set by the PRC Government (including the municipal government and other regulatory bodies which govern such transactions); or
- (ii) if no such price is set by the PRC Government, not higher than the maximum of the guide prices set by the PRC Government for such transactions;
- (iii) if there is no set price and no guide prices set by the PRC Government, not higher than such open market price between independent parties on normal commercial terms in comparable locality, or if there are no comparable localities, not higher than such open market price between independent parties on normal commercial terms in the PRC generally; or
- (iv) if there is no set price and no guide prices set by the PRC Government and there is no open market for such transactions, the parties are to negotiate on normal commercial terms for the supply of such transactions based on the actual or reasonable costs of such transactions (whichever is lower) together with a reasonable profit. A "reasonable profit" is a profit that is agreed between the parties as being no more than 10% of the actual costs or reasonable cost incurred.

The pricing or consideration of the Supplemental Master Leasing Agreement has been, and will be determined with reference to the amount of rent to be paid under lease that have been entered into for the properties.

IMPLICATIONS UNDER THE LISTING RULES

The Parent Company, which is one of the Promoters of the Company holding 52.22% interest in the Company, is a connected person of the Company. Since both the Exceeded Transaction and the revision of the existing annual caps under the Master Agreements exceed 2.5% of the highest applicable percentage ratios (except for Master Leasing Agreement which fall between 0.1% to 2.5%) as set out under Chapter 14A of the Listing Rules, the Exceeded Transaction and the revision of the existing annual caps under the Master Agreements constitute a non-exempted continuing connected transaction of the Company under Rule 14A.16 of the Listing Rules and are subject to the reporting, announcement and the Independent Shareholders' approval (except for Master Leasing Agreement, which is exempted from Independent Shareholders' approval requirement) requirements under the Listing Rules.

The Independent Board Committee (comprising all the independent non-executive Directors of the Company) will be established to advise Independent Shareholders with respect to the Exceeded Transaction and the revision of the existing annual caps under the Master Agreements. The Company will appoint an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Master Sales Agreement and the Supplemental Master Supplies Agreement and the revision of the respective existing annual caps contemplated thereunder.

A circular containing, among other things, further details of the Exceeded Transaction and the revision of the existing annual caps under the Master Agreements (except for Master Leasing Agreement, which is only subjected to announcement requirement), the recommendation from the Independent Board Committee in relation to the Exceeded Transaction and the revision of the existing annual caps under the Master Agreement, the opinion from the independent financial adviser and a notice of the EGM will be despatched to the Shareholders as soon as practicable in accordance with the requirements of the Listing Rules.

GENERAL INFORMATION RELATING TO 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.

GENERAL INFORMATION RELATING TO THE PARENT COMPANY

The Parent Company is principally engaged in automobiles and ancillary automobile business (including special purpose vehicles, compartments and transmission axle), electronic information business and other business.

DEFINITIONS

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

“associate(s)”	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 with limited liability;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	means director(s) of the Company;
“EGM”	means extraordinary general meeting to be held by the Company to approve, among other things, the Continuing Connected Transaction and the revision of the existing annual caps under the Master Agreements;
“Exceeded Transaction”	the Transaction whereby the annual caps of RMB32,000,000 was exceeded by RMB24,900,872 to RMB56,900,872;
“Group”	means the Company and its subsidiaries;

“H Shares”	means overseas-listed foreign shares of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange;
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	means an independent board committee comprising all the independent non-executive directors of the Company namely, Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang to be established to advise the Independent Shareholder regarding the Exceeded Transaction and the revision of the existing annual caps under the Master Agreements;
“Independent Shareholder(s)”	has the meaning ascribed to it under Rule 14A.10(5) of the Listing Rules, and in relation to the Company means the Shareholders other than Parent Group;
“Listing Rules”	means Rules Governing the Listing of Securities on the Stock Exchange;
“Main Board”	means the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange;
“Master Agreements”	means the Master Sales Agreement, the Master Supplies Agreement and the Master Leasing Agreement;
“Master Leasing Agreement”	means an agreement made between the Company and the Parent Company on 16 May 2008, pursuant to which the Group leases from the Parent Group offices, production facilities, workshops and staff quarters;

“Master Sales Agreement”	means an agreement made between the Company and the Parent Company on 16 May 2008, pursuant to which the Group has agreed to sell certain products such as the control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables to the Parent Group;
“Master Supplies Agreement”	means an agreement made between the Company and the Parent Company on 16 May 2008, pursuant to which the Parent Group agreed to supply to the Group with the Supplies;
“Parent Company”	means Chongqing Machinery and Electronic Holding (Group) Co., Ltd. (重慶機電控股(集團)公司), a limited liability company established in the PRC on 25 August, 2000 and owned by the Chongqing State-owned Assets Supervision and Administration Commission, being one of the Promoters of the Company;
“Parent Group”	means Parent Company and its associates, excluding the Group;
“PRC”	means the People’s Republic of China, which, unless otherwise stated, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this announcement;
“Promoter”	has the meaning ascribed to it under the Listing Rules;
“Prospectus”	means the prospectus of the Company dated 30 May 2008;
“RMB”	means Renminbi, the lawful currency of the PRC;

“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, through Qijiang Gear, the Company holds 100% equitable interest in Qijiang Forging;
“Qijiang Gear”	means Qijiang Gear Transmission Co., Ltd* (綦江齒輪傳動有限公司) which was established in the PRC on 28 December 2002; a wholly-owned subsidiary of the Company;
“Shareholders”	means holder(s) of the Shares;
“Shares”	means the ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, comprising the domestic shares and the H shares;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules;
“Supplemental Agreements”	means the Supplemental Master Sales Agreement, the Supplemental Master Supplies Agreement and the Supplemental Master Leasing Agreement;
“Supplemental Master Leasing Agreement”	means a supplemental agreement dated 22 April 2009 made between the Company and the Parent Company in relation to the Master Leasing Agreement for a term from 16 May 2008 to 31 December 2010;
“Supplemental Master Sales Agreement”	means a supplemental agreement dated 22 April 2009 made between the Company and the Parent Company in relation to the Master Sales Agreement for a term from 16 May 2008 to 31 December 2010;

- “Supplemental Master Supplies Agreement” means a supplemental agreement dated 22 April 2009 made between the Company and the Parent Company in relation to the Master Supplies Agreement for a term from 16 May 2008 to 31 December 2010;
- “Supplies” means the supply to the Group by the Parent Group with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper;
- “Transaction” means the continuing connected transaction between the Group and the Parent Group whereby the Parent Group agreed to supply to the Group with the Supplies.

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

Chongqing, the PRC
22 April 2009

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*