

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

**REVISION OF THE ANNUAL CAPS UNDER
THE MASTER SUPPLIES AGREEMENT AND
MASTER SALES AGREEMENT**

**REVISION OF THE ANNUAL CAPS UNDER THE MASTER SUPPLIES
AGREEMENT AND MASTER SALES AGREEMENT**

Reference is made to the circular of the Company dated 28 April 2010 in relation to the Master Agreements which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Company believes that the economic growths 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. As such, the Group considers that it is necessary to enter into the Supplemental Agreements to revise upwards the annual caps stated in the Master Supplies Agreement and Master Sales Agreement initially.

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the revised annual caps for the Master Supplies Agreement will be more than 5%, accordingly the revision to the annual caps for the Master Supplies Agreement will be subject to reporting and announcement requirements in accordance to Rule 14A.35(3) of the Listing Rules, and Independent Shareholders' approval requirement under Rule 14A.35(4) of the Listing Rules.

REVISION OF THE ANNUAL CAPS UNDER THE MASTER AGREEMENTS

Reference is made to the circular of the Company dated 28 April 2010 in relation to the Master Agreements which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Company believes that the economic growths in the PRC will stimulate the demands for commercial vehicle parts and components, power equipment, general machinery and CNC machine tools, and the sale performance of the Group will increase steadily in the coming years. As such, the Group considers that it is necessary to enter into the Supplemental Agreements to revise upwards the annual caps stated in the Master Supplies Agreement and Master Sales Agreement initially.

DETAILS OF THE SUPPLEMENTAL MASTER SUPPLIES AGREEMENT

The Company and Parent Company entered into the Supplemental Master Supplies Agreement on 13 April 2011 to revise upwards the annual caps stated in the Master Supplies Agreement initially. All existing terms and conditions of the Master Supplies Agreement will remain unchanged with revision made only to annual caps of the Master Supplies Agreement as listed below:

	Annual caps for the financial year ending 31 December 2011		Annual caps for the financial year ending 31 December 2012		Annual caps for the financial year ending 31 December 2013	
	<i>(RMB millions)</i> Existing	<i>(RMB millions)</i> Revised	<i>(RMB millions)</i> Existing	<i>(RMB millions)</i> Revised	<i>(RMB millions)</i> Existing	<i>(RMB millions)</i> Revised
Master Supplies Agreement	300	410	360	480	450	550

PRICING BASIS FOR THE SUPPLEMENTAL MASTER SUPPLIES AGREEMENT

The Supplemental Master Supplies Agreement was entered into in the ordinary and usual course of business of the Company. The terms of the Supplemental Master Supplies Agreement were negotiated on an arm's length basis and on normal commercial terms. The pricing or consideration of the Supplemental Master Supplies Agreement 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 transactions); or
- (ii) if no such price is set by the PRC Government, not higher than the guide prices set by the PRC Government for such transactions; or
- (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 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 Directors (excluding the independent non-executive Directors who will give their view after being advised by the independent financial advise), after reviewing the basis, are of the view that the terms of the Supplemental Master Supplies Agreement are on normal commercial terms, and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

DETAILS OF THE SUPPLEMENTAL MASTER SALES AGREEMENT

The Company and Parent Company entered into the Supplemental Master Sales Agreement on 13 April 2011 to revise upwards the annual caps stated in the Master Sales Agreement initially. All existing terms and conditions of the Master Sales Agreement will remain unchanged with revision made only to the annual caps of the Master Sales Agreement as listed below:

	Annual caps for the financial year ending 31 December 2011		Annual caps for the financial year ending 31 December 2012		Annual caps for the financial year ending 31 December 2013	
	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>
	Existing	Revised	Existing	Revised	Existing	Revised
Master Sales Agreement	140	155	160	185	190	210

PRICING BASIS FOR THE SUPPLEMENTAL MASTER SALES AGREEMENT

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

- (i) according to the price prescribed by the PRC Government (including the municipal government and other regulatory bodies which govern such transactions); or
- (ii) if no such price is prescribed by the PRC Government, not lower than the guide prices set by the PRC Government for such transactions; or
- (iii) if there is no prescribed price and no guide prices set by the PRC Government, not lower than such open market price between independent parties on normal commercial terms in comparable locality, or if there are no comparable localities, not lower than such open market price between independent parties on normal commercial terms in the PRC generally; or
- (iv) if there is no prescribed 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 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 Directors (excluding the independent non-executive Directors who will give their view after being advised by the independent financial advise), after reviewing the basis, are of the view that the terms of the Supplemental Master Sales Agreement are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF THE SUPPLEMENTAL MASTER SUPPLIES AGREEMENT AND SUPPLEMENTAL MASTER SALES AGREEMENT

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.

In addition, from the perspective of the Group, the sales of the products to the Parent Company and its associates would provide a reliable and steady customer base, a stable income and timely payment for the products sold.

The Group has been purchasing the 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. 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.

In view of the anticipated growth in sales of the Group and the broaden scope of the connected parties, the Board would also to propose a revision to the annual caps stated in the Master Supplies Agreement and Master Sales Agreement. If the proposed Revised Annual Caps are not approved, the Group will have to incur extra time to source the supplies and the sales volume between the Parent Group and the Group will be severely affected, which in turn will affect the profits of the Group. The historical transaction amounts under the Master Supplies Agreement and the Master Sales Agreement for the period from 1 January 2011 to 31 March 2011 are approximately RMB95 million and RMB35 million respectively.

The Group will continue to try to locate prospective purchasers and source the supplies from other suppliers. However, considering the effective costs of such sourcing, the additional time required and the inconvenience arisen, it would not be commercially viable, which would inevitably erode the profit margin of the Group.

Save and except for the Revised Annual Caps, all the terms and conditions of the Master Supplies Agreement and the Master Sales Agreement shall remain unchanged and effective. In light of the aforesaid, the executive Directors considered that the Revised Annual Caps and the terms and conditions of the Supplemental Agreements are fair and reasonable and on normal commercial terms, and that it is in the interests of the Group and its Shareholders as a whole to continue with the Master Supplies Agreement and the Master Sales Agreement and to enter into the Supplemental Agreements with the Parent Group.

IMPLICATIONS UNDER THE LISTING RULES

The Parent Company is one of the Promoters of the Company. The Parent Company along with its associates holds 52.22% interest in the Company, and is therefore a connected person of the Company. As the applicable percentage ratios (as defined in the Listing Rules) in respect of the revised annual caps for the Master Supplies Agreement will be more than 5%, accordingly it is subject to reporting and announcement requirements in accordance to Rule 14A.35(3) of the Listing Rules, and Independent Shareholders' approval requirement under Rule 14A.35(4) of the Listing Rules.

Although the applicable ratios (as defined in the Listing Rules) for the revision to the annual caps for the Master Sales Agreement, are more than 1% but less than 5%, this revision is subject to the reporting and announcement requirement but exempt from the Independent Shareholders' approval under Chapter 14A of the Listing Rules. The Company considers that it is prudent to seek the Independent Shareholders' approval to the entering of the Supplemental Master Sales Agreement for the adjustment to the annual caps under the Master Sales Agreement, because the revision involves amendment to the existing terms of the Master Sales Agreement.

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 Supplemental Agreements and the Revised Annual Caps.

The Company has appointed an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreements and the Revised Annual Caps.

A circular containing, among other things, further details of the Supplemental Agreements and the Revised Annual Caps, the recommendation from the Independent Board Committee in relation to the Supplemental Agreements and the Revised Annual Caps, the opinion from the independent financial adviser and a notice of the AGM will be despatched to the Shareholders on or before 3 May 2011.

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 GROUP

The Parent Group 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:

“Annual Caps”	means the proposed annual caps for the year 2011, 2012, 2013 for the Master Sales Agreement and the proposed annual caps for the year 2011, 2012 and 2013 the Master Supplies Agreement
“Annual General Meeting” or “AGM”	means an annual general meeting of the Company to be held at Grand Metropark Hotel Chongqing, No. 1598 Jinkai Road, North New Zone, Yubei District, Chongqing, the PRC on Monday, 6 June 2011 at 10:00 a.m., to consider and, if appropriate, to approve the resolutions contained in the notice of the annual general meeting or any adjournment thereof
“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
“Director(s)”	means the director(s) of the Company

“Domestic Share(s)”	means ordinary share(s) of nominal value of RMB1.00 each in the share capital of the Company which are subscribed for or credited as paid up in RMB
“Master Agreements”	means the Master Sales Agreement and the Master Supplies Agreement
“Master Sales Agreement”	means the agreement entered into between the Company and the Parent Company on 16 June 2010, 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 the agreement entered into between the Company and the Parent Company on 16 June 2010, pursuant to which the Parent Group agreed to supply to the Group with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper
“Group”	means the Company and its associates
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“H Shares”	means overseas-listed foreign shares of the Company with a nominal value of RMB1.00 each, which are listed on the Stock Exchange
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	means an independent committee of the Board composed of all independent non-executive Directors, namely Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang to advice on the Supplemental Agreements and the Revised Annual Caps

“Independent Financial Adviser”	means the independent financial Adviser to the Independent board Committee and the Independent Shareholders in relation to the Supplemental Agreements and the Revised Annual Cap
“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 Company and its associates
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	means the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“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
“Promoter”	has the meaning ascribed to it under the Listing Rules
“RMB”	means Renminbi, the lawful currency of the PRC
“Revised Annual Caps”	means the revised annual caps pursuant to the Supplemental Master Supplies Agreement and the Supplemental Master Sales Agreement and subject to the approval of the Independent Shareholders at the AGM as more particularly set out in the circular
“Shares”	means the Domestic Shares and/or the H Shares

“Shareholders”	means holder(s) of the Shares
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Supplemental Master Supplies Agreement”	means a supplemental agreement of 13 April 2011 entered into between the Company and the Parent Company in relation to the Master Supplies Agreement
“Supplemental Master Sales Agreement”	means a supplemental agreement of 13 April 2011 entered into between the Company and the Parent Company in relation to the Master Sales Agreement
“Supplemental Agreements”	means the Supplemental Master Supplies Agreement and the Supplemental Master Sales Agreement

By Order of the Board
Chongqing Machinery & Electric Co., Ltd.*
Xie Hua Jun
Executive Director, Chairman

Chongqing, the PRC
14 April 2011

As at the date of this announcement, the executive Directors are Mr. Xie Hua Jun, Mr. Yu Gang, Mr. Liao Shaohua and Mr. Chen Xianzheng; the non-executive Directors are Mr. Huang Yong, Mr. Wang Jiyu, Mr. Yang Jingpu and Mr. Liu Liangcai; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang.