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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)

ANNOUNCEMENT

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

**PROPOSED INCREASE IN REGISTERED CAPITAL OF CAFF
AUTOMOTIVE AND DEVELOPMENT OF THE TECHNICAL RENOVATION
AND CAPACITY EXPANSION PROJECT**

Reasons for the Proposed Increase in Registered Capital

As a backbone enterprise in the industry of automotive parts manufacturing in China, CAFF Automotive has high influence and popularity in the industry. It currently has three product categories, i.e. steering, hydraulic braking and frame and suspension products for passenger vehicles. In order to achieve strategic transformation, comprehensively alleviate its operating difficulties and ensure sustainable and stable development of CAFF Automotive, it is proposed to make capital injection into CAFF Automotive to improve its existing financial structure and facilitate its technical renovation and production capacity expansion.

Method of Capital Injection

Capital injection by way of debt-to-equity conversion: the Company intends to convert the loans of approximately RMB154,000,000 which was provided to CAFF Automotive in 2007 into investment in CAFF Automotive.

The Board hereby announces that, in order to accomplish its adjustment to product mix, improve its operating environment, and facilitate a sustainable and stable development, CAFF Automotive, a direct wholly-owned subsidiary of the Company, has established its development strategy, i.e. “to focus on commercial vehicle parts and components and develop passenger vehicle parts and components”, giving priorities to the two major business segments - steering products, passenger vehicle frames and suspension products. Accordingly, it proposes to implement the Project.

Reasons for the Proposed Development of the Project

The Board is of the opinion that the Project will enhance the technical innovation capacity and production capacity of CAFF Automotive, achieve the adjustment to product mix of automobile parts and components and an improvement of operating environment, thereby facilitating the sustainable and stable development of CAFF Automotive.

Information on Investment and Construction of the Project

The total investment required for the Project is approximately RMB180,000,000, of which approximately RMB120,000,000 will be used in construction (excluding interest to be incurred during the construction period) and approximately RMB60,000,000 will be used as working capital.

The investment in construction will mainly be used for (i) purchase of equipment and facilities for product R&D and testing; (ii) construction of production lines for welding, assembly and testing, etc; (iii) purchase of key heat treatment equipment for improving product quality; and (iv) improvement of technological innovation capacity, production capacity and level of craftsmanship of relevant products of CAFF Automotive.

Source of Funding

The Company plans to inject approximately RMB20,000,000 into CAFF Automotive to support its development of the Project by way of cash injection. Additional funding required by the Project will be financed by CAFF Automotive through bank loans or financial leasing.

GENERAL

The Project may or may not be materialized. Investors and the shareholders of the Company are advised to exercise caution in dealing in the securities of the Company.

DEFINITIONS

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

“Board”	the board of Directors of Chongqing Machinery & Electric Co., Ltd.*(重慶機電股份有限公司);
“CAFF Automotive”	Chongqing CAFF Automotive Braking & Steering Systems Co. Ltd.(重慶卡福汽車制動轉向系統有限公司), a limited liability company incorporated under the PRC laws and a direct wholly-owned subsidiary 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, the shares of which are listed on the Stock Exchange (stock code: 02722);
“Director(s)”	the director(s) of the Company;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

“PRC”	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;
“RMB”	Renminbi, the lawful currency of the PRC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“Project”	the technical renovation and capacity expansion project for the purpose of adjustment of product structure by CAFF Automotive.

By Order of the Board
Chongqing Machinery & Electric Co., Ltd.*
Chen Xianzheng
Executive Director and Secretary to the Board

Chongqing, the PRC
7 January 2013

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. Liu Liangcai and Mr. Yang Jingpu; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Kong Weiliang and Mr. Jin Jingyu.

* *For identification purposes only*