

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)

ANNOUNCEMENT

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

Reference is made to the announcement made by the Company on 8 January 2010 (“**2010 Announcement**”). Unless otherwise specified in this announcement, terms used in this announcement shall have the same meanings as those defined in the 2010 Announcement.

On 18 January 2011, the Board approved Machine Tools to construct a large precise CNC machine tool production base (the “**Base**”) and the environmental-friendly relocation on the Land (the “**Project**”).

PROJECT OVERVIEW

1. To address the development needs of Machine Tools and in accordance with Chongqing's overall urban planning and environmental protection requirements, the Base will be constructed in phases by way of combination of relocation and technological renovation. The Project will be completed in two phases. The Phase I, namely the construction of large precise CNC machine tools production base of Machine Tools, is expected to be completed in the second half of 2011 and put into full production in 2012. The Phase II, for which additional land is to be acquired, is for the relocation and integration of production bases for Tool Factory, Shenjian Company, Shengong Company and Forging & Founding Company and full completion of construction of the Base.
2. Total investment for Phase I will be approximately RMB942 million, including an investment of approximately RMB750 million in the construction of the Project (including a sum of RMB150 million out of the proceeds from the Global offering of the Company).
3. Construction of the Phase I Project:
 - (i) Production program: Annual production capacity of 3,200 units of gear machine tools and 8,000 sets of PCL screws, including newly added capacity of 1,250 units of gear machine tools and 8,000 sets of PCL screws.
 - (ii) Construction of 73,562 sq.m. of additional gross floor area for Phase I Project.
 - (iii) Construction of buildings such as technological development centre, power centre, sewage treatment station and auxiliary facilities for operation and living.
 - (iv) New equipments: High-precision processing equipments and heat treatment equipments such as CNC rail grinder, portal pentahedral machining centre and other large processing equipments for basic parts, assembling equipment for large gear machine tools, paint coating production line, precise screw manufacturing equipment for PTG project, screw gear grinding machine, and spiral bevel gear grinding machine. Approximately 84 units/sets of main production equipments will be newly added.

4. Construction plan and feasibility study report for Phase II Project will be prepared separately, and the implementation of which is subject to approval by the Board.

REASONS FOR THE PROJECT

Upon completion of the project, Machine Tools will relocate R&D and production of large precise CNC machine tools to the Base. The Board (including independent non-executive Directors) is of the view that such relocation is to uplift the manufacturing capacity and standard of Machine Tools. By full implementation of the concepts of “green manufacturing, lean production and clean production”. Machine Tools aims to boost its manufacturing technique to a leading position in China and advanced level in the world. Meanwhile, this move will create favourable conditions for the achievement of its strategic target, namely taking a place in the top manufacturers of international gear equipment manufacturing industry. Further, it would allow Machine Tools to undergo expansions to accommodate for the increasing demands for CNC machine tools in the market and improve the under-capacity status quo of large precise CNC machine tools. The Board (including independent non-executive Directors) is of the view that the Project is on normal commercial terms, fair and reasonable, and in the interest of the Company and Shareholders as a whole.

DEFINITIONS

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

“Board”	means the board of Directors of Chongqing Machinery & Electric Co., Ltd.* (重慶機電股份有限公司董事會) ;
“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;
“Director(s)”	means the director(s) of the Company;
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC;

“Land”	means a land situate at Site B of Chongqing Nanan District Chayuan New City, Chongqing, the PRC (重慶市南岸區茶園新區B區), with a total area of approximately 285,081 sq.m. (approximately 427.62 mu);
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange;
“Machine Tools”	Chongqing Machine Tools (Group) Co., Ltd. (重慶機床(集團)有限責任公司), a wholly-owned subsidiary of the Company;
“Tool Factory”	Chongqing Tool Factory Co., Ltd. (重慶工具廠有限責任公司), a wholly-owned subsidiary of Machine Tools;
“Shenjian Company”	Chongqing Shenjian Automotive Drive Part Co., Ltd., a wholly-owned subsidiary of Machine Tools;
“Shengong Company”	Chongqing Shengong Machinery Manufacture Co., Ltd. (重慶神工機械製造有限責任公司), a wholly-owned subsidiary of Machine Tools;
“Forging & Founding Company”	Chongqing Yinhe Forging & Founding Co., Ltd. (重慶銀河鑄鍛有限責任公司), a wholly-owned subsidiary of Machine Tools;
“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;
“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;

“sq.m.” means square meter; and

“%” means per cent.

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

Chongqing, the PRC
18 January 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.

* *For identification purposes only*