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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 is a voluntary announcement made by the Company.

The Board is pleased to announce that on 19 January 2011 (after trading hours), the JV Agreement will be entered into between CAFF and Knorr-Bremse to establish the JV Company in Chongqing, the PRC.

The JV Company will be engaged principally in the assembly (including end-of-line testing), parts manufacturing (casting, machining of key parts using relevant technology), sale, application engineering (including but not limited to life time tests, environmental and climate tests and application design) and after-sale service of valve products (brakes, chassis, transmission and air treatment valves), air dryers and clutch actuation products for commercial vehicles.

The JV Company will be owned beneficially as to 34% by CAFF and 66% by Knorr-Bremse. Pursuant to the terms of the JV Agreement, the registered capital of the JV Company will be EURO 14,609,000. CAFF will contribute non-cash assets of the braking business sector (i.e. machinery, equipment and inventory, including forge tools related to CAFF's braking business, together with intangible assets including but not limited to technical data and related know-how adopted by CAFF in all its products), as the capital contribution and transfer them to the JV Company. Knorr-Bremse will contribute its share of the registered capital of the JV Company by cash.

THE JV AGREEMENT

The Board is pleased to announce that on 19 January 2011 (after the trading hours), the JV Agreement will be entered into between CAFF and Knorr-Bremse to establish the JV Company in Chongqing, the PRC.

- Date : 19 January 2011
- Parties : CAFF (a wholly owned subsidiary of the Group)
Knorr-Bremse, an Independent Third Party
- Registered capital : EURO 14,609,000
- Contribution by the parties : 34% by CAFF and 66% by Knorr-Bremse. CAFF will contribute non-cash assets of the braking business sector (i.e. machinery, equipment and inventory, including forge tools related to CAFF's braking business, together with intangible assets including but not limited to technical data and related know-how adopted by CAFF in all its products), as the capital contribution and transfer them to the JV Company. Knorr-Bremse will contribute its share of the registered capital of the JV Company by cash.
- Conditions Precedent : The proposal in relation to the establishment of the JV Company, the JV Agreement, Articles of the JV Company and the appraised value of the assets be approved by Chongqing Municipal Government and competent authorities of the PRC government, and to the satisfaction of the parties.
- Scope of business : The JV Company will be engaged principally in the assembly (including end-of-line testing), parts manufacturing (casting, machining of key parts using relevant technology), sale, application engineering (including but not limited to life time tests, environmental and climate tests and application design) and after-sale service of valve products (brakes, chassis, transmission and air treatment valves), air dryers and clutch actuation products for the Commercial Vehicles.

- Operation period : 20 years
- Board of directors : The board of directors of the JV Company comprises six directors, of which two are appointed by CAFF and four (including the chairman) are appointed by Knorr-Bremse. The chairman of the JV Company is nominated by Knorr-Bremse, whereas the vice-chairman is nominated by CAFF.

Reasons for establishing the joint venture

Currently, CAFF's commercial vehicle braking business contributes 44% of CAFF's principal operating revenue. It mainly provides auxiliary systems for the Commercial Vehicles such as trucks and passenger cars in the PRC, for which CAFF still applies the technical standards which was developed in the mid and late 1980s. In order to cope with market development and upgrade technology level, it is necessary for CAFF to cooperate with industry leaders to build complementary strengths in technology, market and management. Thereby, CAFF aims to further improve its technology, increase product quality and expand market share, thus facilitating the upgrade and rapid growth of conventional businesses. CAFF has commenced negotiations with Knorr-Bremse since August 2010 in respect of the establishment of the JV Company and reached the JV Agreement on 19 January 2011.

Information about the Venture Partners

Knorr-Bremse, headquartered in Munich, Germany, is a multinational corporation group specializing in development, design, manufacture and processing of braking and air conditioning systems for rail and the Commercial Vehicles. Knorr-Bremse has extensive experience regarding the braking system for rail and the Commercial Vehicles. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Knorr-Bremse is an Independent Third Party.

General

The Directors (including the independent non-executive Directors) consider that the terms of the JV Agreement are entered into upon normal commercial terms following arm's length negotiations among the parties and the terms of the JV Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:-

“Board”	the board of Directors 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 with limited liability; the shares of which are listed on the Main Board of the Stock Exchange;
“CAFF”	Chongqing CAFF Automotive Braking & Steering Systems Co. Ltd., a wholly owned subsidiary of the Company;
“Braking Business”	business related to braking components for the Commercial Vehicles in the PRC;
“Commercial Vehicles”	trucks, truck tractors, buses, trailers and off-highway vehicles that may be legally operated on public roads;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;
“JV Agreement”	the joint venture agreement entered into by CAFF and Knorr-Bremse on 19 January 2011 in relation to the establishment of a joint venture company;
“JV Company”	a sino-foreign equity joint venture company to be established in Chongqing, the PRC in accordance with the terms of the JV Agreement;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors knowledge, information and belief having made all reasonable enquiries, are third parties independent of and not connected with the Company and any director, chief executive, management shareholders or substantial shareholders or any of their respective associates (as defined in the Listing Rules) and are not connected persons of the Company;

“Knorr-Bremse”	Knorr-Bremse Asia Pacific (Holding) Ltd, a limited company incorporated in Hong Kong and the company responsible for the administration of the Asia Pacific region of Knorr-Bremse Commercial Vehicle Systems Ltd. (克諾爾商用車系統有限公司), a subsidiary of Knorr-Bremse Group Company (克諾爾控股集團公司) based in Germany;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China, which, for the purposes of this announcement, excludes Hong Kong, Macau and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shares”	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;
“Shareholder(s)”	holder(s) of the Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.

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*