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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Chongqing Machinery & Electric Co., Ltd.*, you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s).

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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) PROPOSED AMENDMENTS TO THE ARTICLES;**
- (2) PROVISION OF GUARANTEE BY THE COMPANY FOR A LOAN OF GBP4.2 MILLION OF HOLROYD;**
- (3) CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION - ESTABLISHMENT OF THE FINANCE COMPANY;**
- (4) CHANGE OF A SUPERVISOR; AND**
- (5) NOTICE OF THE EGM.**

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**



The letter from the Board of the Company is set out on pages 1 to 11 of this circular and a letter from the Independent Board Committee is set out on page 12 of this circular. A letter from Quam Capital containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 22 of this circular.

A notice convening the first EGM of Chongqing Machinery & Electric Co., Ltd.* for 2011 to be held at Grand Metropark Hotel Chongqing, No. 1598 Jinkai Road, North New Zone, Chongqing, the PRC on Friday, 9 December 2011 at 10:00 a.m. is set out on pages 33 to 34 of this circular.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinacqme.com). Whether or not you intend to attend the EGM, you are requested to complete and return (i) the enclosed reply slip in accordance with the instructions printed thereon not later than Friday, 18 November 2011 and (ii) the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM and voting in person if you so wish.

21 October 2011

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DEFINITIONS

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

“Articles”	means the articles of association of the Company
“Associates”	has the meaning ascribed to it under the Listing Rules
“Board”	means the board of Directors of the Company
“CBRC”	means China Banking Regulatory Commission
“Company”	means Chongqing Machinery & Electric Co., Ltd *(重慶機電股份有限公司)
“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
“Extraordinary General Meeting” or “EGM”	means the first extraordinary general meeting of the Company for 2011 to be held at Grand Metropark Hotel Chongqing, No. 1598 Jinkai Road, North New Zone, Chongqing, the PRC on Friday, 9 December 2011 at 10 a.m.
“Finance Company”	means Chongqing Machinery & Electric Group Finance Co., Ltd.* (temporary name, subject to approval by CBRC and registration with the industry and commerce administration authorities of the PRC) to be established in Chongqing by the Company and the Parent Company and Industrial Trust
“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 of Hong Kong Limited

DEFINITIONS

“Holroyd”	means Holroyd Precision Limited, a wholly-owned subsidiary of PTG Company, which, in turn, is a wholly-owned subsidiary of the Company
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“ICBC Yuzhong Sub-branch”	means Chongqing Yuzhong Sub-branch of Industrial and Commercial Bank of China Limited
“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 advise on the establishment of the Finance Company
“Independent Financial Adviser” or “Quam Capital”	means Quam Capital Limited, a licensed corporation to carry out type 6 regulated activity (advising on corporate finance) under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the establishment of the Finance Company
“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
“Industrial Trust”	means China Industrial International Trust Limited (興業國際信託有限公司)
“Latest Practicable Date”	20 October 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Members”	has the meaning ascribed to the Administrative Measures on Group Finance Companies (企業集團財務公司管理辦法) (Order No. 8 [2006] of China Banking Regulatory Commission). Members include (1) the Parent Company and its subsidiaries of which it controls 51% or more (“Subsidiaries”); and (2) a company in which the Parent Company, the Company and the Subsidiary individually or jointly hold over 20% equity interest or a company of which the Parent Company, the Company or the Subsidiary is the largest shareholder despite holding less than 20% equity interest
“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, for the purpose of this circular, excludes the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and the Taiwan region
“PTG Company”	means Precision Technologies Group Limited, a wholly-owned subsidiary of the Company
“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
“Shares”	means the Domestic Shares and/or the H Shares
“Shareholders”	means holder(s) of the Shares
“Supervisor(s)”	means the supervisor(s) of the Company

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Xie Hua Jun
Mr. Yu Gang
Mr. Liao Shaohua
Mr. Chen Xianzheng

*Registered office and Principal place of
Business in the PRC:*

No.155, Zhongshan Third Road
Yuzhong District, Chongqing City
The PRC

Non-executive Directors:

Mr. Huang Yong
Mr. Wang Jiyu
Mr. Yang Jingpu
Mr. Liu Liangcai

Principal place of business in Hong Kong:

Suite 2008, 20/F, Jardine House
1 Connaught Place, Central
Hong Kong

Independent non-executive Directors:

Mr. Lo Wah Wai
Mr. Ren Xiaochang
Mr. Kong Weiliang

21 October 2011

To the Shareholders

Dear Sir or Madam,

- (1) PROPOSED AMENDMENTS TO THE ARTICLES;
(2) PROVISION OF GUARANTEE BY THE COMPANY FOR A LOAN OF GBP4.2
MILLION OF HOLROYD;
(3) CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION-
ESTABLISHMENT OF THE FINANCE COMPANY;
(4) CHANGE OF A SUPERVISOR; AND
(5) NOTICE OF THE EGM.**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 30 September 2011. The purpose of this circular is to provide you with information regarding following resolutions to be considered at the EGM: (i) proposed amendments to the Articles; (ii) provision of guarantee by the Company for a loan of GBP4.2 million of Holroyd; (iii) establishment of the Finance Company; and (iv) change of a Supervisor.

* For identification purposes only

LETTER FROM THE BOARD

2. PROPOSED AMENDMENTS TO THE ARTICLES

On 28 June 2011, the Board received a notice from Chongqing Yufu Assets Management Co. Ltd.* (重慶渝富資產經營管理有限公司), a shareholder of the Company, advising the Company that it had changed its name to “Chongqing Yufu Assets Management (Group) Co. Ltd.* (重慶渝富資產經營管理集團有限公司)”. Therefore, the amendment to the Articles is proposed to change “Chongqing Yufu Assets Management Co. Ltd.*” (重慶渝富資產經營管理有限公司) to “Chongqing Yufu Assets Management (Group) Co. Ltd.*” (重慶渝富資產經營管理集團有限公司). Details relating to the proposed amendment are set out in Part I of Appendix III of this circular.

In addition, according to the actual conditions of the Company, it is proposed to delete such descriptions in Article 105(4) of the Articles as: “The Chairman of the Board determines the monthly and quarterly financial budget scheme and final financial plan of the Company for the year.” Details relating to the proposed amendment are set out in Part II of Appendix III of this circular.

Pursuant to the Articles and relevant laws and regulations, the proposed amendments to the Articles are subject to the approval of the Shareholders by way of special resolution at the EGM.

3. PROVISION OF GUARANTEE BY THE COMPANY FOR A LOAN OF GBP4.2 MILLION OF HOLROYD

Background

Holroyd requested the Company to guarantee its GBP4.2 million loan by way of Domestic Guarantee for Overseas Loan for a term of 2 years and 1 month.

Basic information of PTG Company and Holroyd:

In 2010, PTG Company achieved an operating income of approximately RMB112.54 million and a profit of approximately RMB2.46 million, to which Holroyd contributed an operating income of approximately RMB51.71 million and a profit of approximately RMB7.61 million. The total assets and total liabilities of Holroyd amounted to approximately RMB124.94 million and RMB112.1 million respectively. The Company guaranteed its GBP5.3 million loan when acquiring PTG Company in 2010.

LETTER FROM THE BOARD

In 2011, PTG Company (together with Holroyd) is expected to record an operating income of approximately RMB215 million and a profit of approximately RMB12.5 million. As at 30 June 2011, its operating income amounted to approximately RMB119.81 million, to which Holroyd, leveraging on its rapidly increasing orders, contributed RMB49.96 million.

Procedure involved in Domestic Guarantee for Overseas Loan:

- (i) The Company applies to ICBC Yuzhong Sub-branch for the issuance of a Standby Letter of Credit and provides a counter guarantee, whereby, ICBC Yuzhong Sub-branch issues the GBP4.2 million Standby Letter of Credit (“L/C”) for a tenor of 2 years and 1 month in favour of ICBC (London) Limited. ICBC (London) Limited may provide Holroyd with a working capital loan not exceeding GBP4.2 million and maturing no later than 1 month prior to the expiry of the L/C.
- (ii) Before ICBC Yuzhong Sub-branch issues the L/C, the Company is required to pay a guarantee fee at the rate of 6.05% of the guarantee balance (per annum) and the guarantee fee is payable on a quarterly basis thereafter.
- (iii) The interest rate of the loan in foreign currency floats on a quarterly basis. The interest rate per annum for the first interest period is 250BP over 3-month LIBOR in the 2 working days prior to the first drawdown date.

Reasons for and benefits of providing Holroyd with a guarantee

The Company is optimistic about the business prospect of Holroyd, and Holroyd’s continuous and stable development is also helpful for the Company’s expansion into the overseas market.

Holroyd is not a connected person of the Group and the guarantee to be provided for Holroyd does not exceed the applicable percentage ratio specified in the Listing Rules. Therefore, such transaction is not subject to the requirements under Chapter 14 and 14A of the Listing Rules. However, as the gearing ratio of Holroyd is 89.7%, the Company’s provision of guarantee for Holroyd is subject to consideration and approval by the Shareholders at the general meeting according to requirements of the Articles.

Pursuant to the Articles, the Company’s provision of guarantee for Holroyd is subject to approval by the Shareholders at the EGM.

LETTER FROM THE BOARD

4. ESTABLISHMENT OF THE FINANCE COMPANY

Background

The Company intends to establish the Finance Company in Chongqing and execute a capital contribution agreement (the “**Capital Contribution Agreement**”) with the Parent Company and Industrial Trust.

Principal terms of the Capital Contribution Agreement:

Parties:

- (1) The Company
- (2) Parent Company
- (3) Industrial Trust

Business scope

- (1) financial and funding advisory services, credit worthiness verification and related consultancy and agency services to Members;
- (2) assisting Members in collection and payment;
- (3) approved insurance agency services;
- (4) guarantee services to Members;
- (5) entrusted loan and entrusted investment among Members;
- (6) providing bills acceptance and discount services to Members;
- (7) settlement and clearing services for inter-member transfer and design of settlement and clearing solutions;
- (8) accepting deposits from Members;
- (9) providing loans and financing leasing to Members;
- (10) inter-bank lending; and
- (11) other services approved by CBRC.

The business scope of the Finance Company is subject to approval by CBRC and the information registered with the authority for industry and commerce of the PRC.

The deposit interest rates the Finance Company offers to Members are determined based on the benchmark deposit interest rates over the same period announced by the People’s Bank of China; the loan interest rates applied to Members would not be higher than the benchmark loan interest rates over the same period announced by the People’s Bank of China; settlement services are rendered to Members free of charge.

LETTER FROM THE BOARD

The deposit and loan interest rates as well as other service charges the Finance Company provided to Members will be determined and adjusted through discussion by and among the Company, the Parent Company and Industrial Trust. The above interest rates and charges are in compliance with the requirements of the PRC laws and are more favourable to Members as compared with those offered by banks. Therefore, the deposit and loan interest rates as well as the level of other service charges the Finance Company offers to Members meet the development needs of the Company and its subsidiaries and are fair and reasonable.

Registered capital and capital contribution

Unit: RMB

Name of shareholder	Contribution amount <i>(RMB00'000,000)</i>	Form of contribution	Percentage of contribution
The Company	3.06	In cash	51%
Parent Company	1.8	In cash	30%
Industrial Trust	1.14	In cash	19%
Total	<u>6</u>	<u>—</u>	<u>100%</u>

The Company will finance the contribution with its internal resources.

Pursuant to relevant requirements of the Administrative Measures on Group Finance Companies, the minimum registered capital of the Finance Company shall be RMB100 million; if the Finance Company is engaged in consumer credit, buyer's credit and finance lease businesses, the registered capital is required to be no less than RMB500 million. In accordance with this requirement and considering the Company's business scale, the registered capital of the Finance Company is temporarily fixed at RMB600 million. After its establishment, the Finance Company may increase its capital and expand its shares upon approval by its shareholders if business of the Company and the Finance Company so requires. The Company has no plan to enlarge the capital of the Finance Company for now.

LETTER FROM THE BOARD

Corporate governance structure

Board of Directors: consists of 5 persons, among whom: two are nominated by the Company, one by each of the Parent Company and Industrial Trust and one represents the employees.

Supervisory Committee: consists of 3 persons, among whom: one is nominated by each of the Company and the Parent Company and one represents the employees.

Reasons for establishing the Finance Company

The Finance Company is established to create an efficient, safe and low-cost environment for capital flow and operation, so as to ensure the sustainable development of the business by providing extensive and flexible financing facilities. By establishing the Finance Company, the Company aims to build a scientific and efficient capital management platform so as to strengthen the centralized management of internal funds, optimize resources allocation, improve capital flow, control capital risks, reduce financial costs, enhance efficiency in fund usage and provide capital management services, which, in turn, will help improve the Group's overall competitiveness. Upon the incorporation of the Finance Company, the Finance Company will be a non-wholly owned subsidiary of the Company. And the results of the Finance Company will be consolidated to the results of the Group in accordance with the applicable accounting rules and principles.

Authorisation

In order for the work in connection with the establishment of the Finance Company to be carried out in an orderly and efficient manner, the Board proposes the Shareholders to authorise the Board at the EGM to delegate two Directors, namely Mr. Yu Gang and Mr. Chen Xianzheng to jointly deal with, at their full discretion, all matters relating to the establishment of the Finance Company within the framework and principle as approved at the general meeting, including but not limited to:

1. To approve and execute legal documents related to the establishment of the Finance Company, including but not limited to the Agreement for Capital Contribution to Chongqing Machinery & Electric Group Finance Co., Ltd., Articles of Association of Chongqing Machinery & Electric Group Finance Co., Ltd. (Draft), Articles of Association of Chongqing Machinery & Electric Group Finance Co., Ltd., Resolution of the First General Meeting of the Finance Company, etc., and make appropriate disclosure;
2. To provide all the documents necessary for and handle matters related to the establishment of the Finance Company in accordance with the provisions under relevant PRC laws and requirements of relevant regulatory authorities;

LETTER FROM THE BOARD

3. To execute written documents regarding capital increase by the Company based on the practical needs of the Finance Company in the event that it experiences any financial or liquidity difficulties (if required by the relevant PRC regulatory authorities);
4. To assist the Parent Company in dealing with the reporting issues in relation to the preparation and opening of the Finance Company, and to make appropriate adjustments to the specific plan for the establishment of the Finance Company in accordance with feedbacks (if any) from the relevant PRC regulatory authorities;
5. To take all necessary actions to determine or deal with all other matters relating to the establishment of the Finance Company, including exercising discretion to delay or temporarily suspend the establishment of the Finance Company in case of force majeure or other circumstances that could make the establishment of the Finance Company difficult or unavailing to the Company even if it could be implemented, and to make corresponding adjustments to related matters such as the specific plan for the establishment of the Finance Company in accordance with the opinion of the regulatory authorities;
6. The authorisation to handle the above matters concerning the establishment of the Finance Company will take effect from the date when the relevant resolution is passed at the EGM up to the date when all the matters concerning the establishment of the Finance Company for which the authorisation is granted are properly dealt with; and
7. Other matters in connection with the establishment of the Finance Company.

Listing Rules Implications

As the Parent Company is one of the Promoters of the Company, holding 52.22% equity interest in the Company, the Parent Group is a connected person of the Group under the Listing Rules. The transaction in relation to the establishment of the Finance Company by the Company and the Parent Company constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Rules 14A.45 to 14A.48 and the annual review requirements under Rules 14A.37 and 14A.38.

Since each of the applicable percentage ratios under Rule 14.07 of the Listing Rules is less than 25%, the transaction contemplated under the Capital Contribution Agreement is only subject to the reporting, announcement and independent shareholders' approval requirements under Rule 14A.45 and Rule 14A.47 of the Listing Rules.

LETTER FROM THE BOARD

In addition, since the transaction contemplated under the Capital Contribution Agreement constitutes a discloseable transaction for the purpose of Rule 14.04(f) of the Listing Rules, and each of the applicable percentage ratios is more than 5% but less than 25%, such transaction is only subject to the announcement requirement under Rule 14.33 of the Listing Rules.

The Group has not conducted such other transactions before with the Parent Company and its associates as are required to be aggregated with the Capital Contribution Agreement under Rule 14A.25 of the Listing Rules.

Given the Parent Company will hold 30% equity interest in the Finance Company, according to Rule 14A.11(5) of the Listing Rules, the Finance Company is considered as a connected person of the Company. Subsequent transactions to be entered between the Group, the Parent Group and the Finance Company may constitute a connected transaction and / or a notifiable transaction (as the case may be). And in such circumstances, the Company will make the necessary disclosures and seek the approval from the Shareholders in accordance with the Listing Rules.

The Directors (including independent non-executive Directors) of the Company consider that the Capital Contribution Agreement is entered into on normal commercial terms after arm's length negotiation between the parties and is in the interest of the Company and its shareholders as a whole. The Directors (including independent non-executive Directors) are also of the view that the terms of the transaction contemplated under the Capital Contribution Agreement are fair and reasonable. Other than Mr. Xie Hua Jun, Mr. Yu Gang, Mr. Huang Yong and Mr. Wang Jiyu, being Directors of the Company, who, due to holding positions in the Parent Company, are required to abstain from voting on resolutions in respect of such transactions at the Board meeting, no Director has any material interest in the transactions under the Capital Contribution Agreement, nor is any Director required to abstain from voting at the Board meeting to consider and approve such resolutions.

GENERAL INFORMATION OF THE COMPANY

The Group is principally engaged in manufacturing and sales of commercial vehicle parts and components, general machinery, power equipment and CNC machine tools.

GENERAL INFORMATION OF 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.

LETTER FROM THE BOARD

5. CHANGE OF A SUPERVISOR

The Board announces that Ms. Liao Rong (“Ms. Liao”) will resign as a Supervisor of the Company, with effect from the appointment of Mr. Zhang Xinzhi (“Mr. Zhang”) as a Supervisor. Due to senior executives’ duties adjustment at the Chongqing Office of China Huarong Asset Management Corporation, and according to the Reply to Dispatching Staff to Chongqing Machinery & Electric Co., Ltd.* (Huarongfu [2011] No.146) issued by a Shareholder, China Huarong Asset Management Corporation, Ms. Liao Rong will cease to serve as a Supervisor of the Supervisory Committee of Chongqing Machinery & Electric Co., Ltd.*. Ms. Liao has confirmed that she has no disagreement with the Company and that there are no matters relating to her resignation that need to be brought to the attention of the Shareholders. The Board would like to express its sincere gratitude for the contribution of Ms. Liao toward the Company during her tenure of office.

In place of Ms. Liao after her resignation, the Company proposes to appoint Mr. Zhang as a Supervisor. The appointment of Mr. Zhang shall be subject to the approval of the Shareholders at the EGM. The biographical details of Mr. Zhang are as follows:

Mr. Zhang, aged 40, is an economist and chartered financial analyst with about 20 years of experience in finance. Mr. Zhang served as a member of the Party Committee, secretary of the Disciplinary Inspection Committee and deputy general manager of the Chongqing Office of China Huarong Asset Management Corporation in April 2011. He graduated from Jiangxi Bank School in July 1993. From July 1993 to September 1997, he served as the director of the sub-office at the Jiujiang Branch of Agricultural Bank of China. From September 1997 to April 2000, he served as the director of the sub-branch credit department and deputy director of the accounting center of the Jiujiang Branch of Industrial and Commercial Bank of China. From April 2000 to April 2011, he served as manager, senior assistant to manager, senior deputy manager, senior manager, member of the Party Committee, and assistant to general manager at the Nanchang Office of China Huarong Asset Management Corporation, and graduated from the University of International Business and Economics as a finance major in September 2005.

Mr. Zhang did not hold any directorship in any other listed public companies in the last three years, or any other position in the Company or other members of the Group. Mr. Zhang does not have any relationship with any other Directors, senior management, substantial Shareholders or controlling Shareholders of the Company, or have any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. If Mr. Zhang is appointed as a Supervisor at the EGM, the Company will enter into a service contract with him in connection with his appointment, for a term commencing from the date of the EGM till the expiration of the current session of the Supervisory Committee.

LETTER FROM THE BOARD

Mr. Zhang is entitled to a Supervisor's emolument and his remuneration will be determined by the Board with reference to remuneration standards for Supervisors as approved at the 2009 annual general meeting, and subject to the approval at the EGM of Ms. Liao's resignation.

Save as disclosed above, the Board is not aware of any matters relating to the proposed appointment of Mr. Zhang that need to be brought to the attention of the Shareholders, nor is there any information required to be disclosed under Rule 13.51(2)(h) to (v) of the Listing Rules.

6. EGM AND PROXY ARRANGEMENT

The notice of the EGM is set out on pages 33 to 34 of this circular. At the EGM, resolutions will be proposed to approve, inter alia, (i) the proposed amendment to the Articles; (ii) provision of guarantee by the Company for a loan of GBP4.2 million of Holroyd; (iii) establishment of the Finance Company; and (iv) change of a Supervisor.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.com.hk) and the Company (www.chinacqme.com). Whether or not you intend to attend the EGM, you are requested to complete and return (i) the enclosed reply slip in accordance with the instructions printed thereon not later than Friday, 18 November 2011 and (ii) the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM and voting in person if you so wish.

To the best of the Director's knowledge, information and belief and having made all reasonable enquires, save and except the Parent Company and its associates who hold 52.22% equity interest in the Company are required to abstain from voting for resolution No. 2 as shown in the notice of the EGM, no Director or Shareholder has a material interest in the resolutions proposed at the EGM, and no Shareholder is required to abstain from voting on any of the resolution at the EGM.

7. PROCEDURES FOR VOTING IN THE EGM

According to the Rule 13.39(4) of the Listing Rules, any vote at an extraordinary general meeting must be taken by poll.

LETTER FROM THE BOARD

8. RECOMMENDATION

The Directors consider that the proposed resolutions in connection with (i) the proposed amendments to the Articles; (ii) provision of guarantee by the Company for a loan of GBP4.2 million of Holroyd; (iii) establishment of the Finance Company; and (iv) change of a Supervisor are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all the Shareholders should vote in favour of all the resolutions in relation to such issues to be proposed at the EGM.

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

* *For identification purposes only*

**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)

21 October 2011

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular issued by the Company to the Shareholders dated 21 October 2011 (the “Circular”) of which this letter forms part. Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise you on the connected transaction and discloseable transaction in connection with the establishment of Finance Company. Quam Capital has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving such advice, are set out from pages 13 to 22 of the Circular and the additional information is set out in the appendix thereto.

Having considered the establishment of Finance Company, and taking into account the independent advice of Quam Capital, in particular the principal factors, reasons and recommendations set out in its letter from pages 13 to 22 of the Circular, we consider that the plan for establishment of the Finance Company is on normal commercial terms and fair and reasonable as far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the ordinary resolutions to be proposed at the first EGM of 2011 to approve the establishment of Finance Company.

Yours faithfully,

For and on behalf of

*the Independent Board Committee***Lo Wah Wai, Ren Xiaochang and Kong Weiliang**

* For identification purposes only

The following is the full text of the letter of advice from Quam Capital to the Independent Board Committee and the Independent Shareholders, which has been prepared for inclusion in this circular.

**Quam Capital Limited**

A Member of The Quam Group

21 October 2011

To the Independent Board Committee and the Independent Shareholders
Chongqing Machinery & Electric Co., Ltd.*
No. 155 Zhongshan Third Road
Yuzhong District
Chongqing City, China

Dear Sirs,

**CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION -
ESTABLISHMENT OF FINANCE COMPANY**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the establishment of the Finance Company (the “Finance Company Establishment”). Details of the Finance Company Establishment are set out in the circular of the Company dated 21 October 2011 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise defined.

The Company, the Parent Company and Industrial Trust, an independent third party, entered into an investment agreement (the “Investment Agreement”) for the establishment of the Finance Company. Pursuant to the Investment Agreement, the Company, the Parent Company and Industrial Trust will be interested in 51%, 30% and 19% of the registered capital of the Finance Company of RMB600 million, which will be contributed by each of them on a pro-rata basis according to their respective shareholdings in the Finance Company. Since the Parent Company is the controlling Shareholder, the Parent Company is a connected person of the Company and the Finance Company Establishment will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules, thus the Finance Company Establishment is subject to the reporting, announcement and independent shareholders’ approval requirements under Chapters 14A of the Listing Rules.

* For identification purposes only

The Independent Board Committee comprising Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang, being the independent non-executive Directors, has been formed to advise the Independent Shareholders on whether the terms of the Finance Company Establishment are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. We, Quam Capital, have been appointed as the independent financial adviser to give an independent opinion to the Independent Board Committee and the Independent Shareholders on whether the Finance Company Establishment is entered into by the Company in the ordinary and usual course of business based on normal commercial terms, and their terms and conditions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts supplied by the Company and its advisers, and the opinions expressed by and the representations of the Directors and management of the Company, which we have assumed to be true, accurate and complete. We have assumed that all the information and representations contained or referred to in the Circular are true and accurate in all respects at the date thereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information/representations provided to us by the Company and/or its Directors and management are true, accurate, complete and not misleading in all aspects at the time they were made and continued to be so until the date of the EGM.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendations. We have not, however, carried out any independent verification of the information, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of any member of the Group, the Parent Group, Industrial Trust, or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation in respect of the terms and conditions of the Finance Company Establishment, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Finance Company Establishment

As stated in the “Letter from the Board” contained in the Circular (the “Letter from the Board”), the Group is principally engaged in manufacturing and sale of commercial vehicle parts and components, general machinery, power equipment and CNC machine tools. 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. As at the Latest Practicable Date, the Parent Group owned approximately 52.22% of the issued share capital of the Company and is the controlling Shareholder.

As stated in the annual report of the Company for the year ended 31 December 2010, the Group formulated several development strategies to ensure a favorable performance during the “Twelfth Five-Year Plan”, which involved, among others, broadening financing channels to achieve new breakthrough in financing, management and operation. The Group would further explore new financing modes, improve capital operation quality, strengthen the centralised capital management and centralised credit, improve the asset-liability structure of its subsidiaries and adopt new modes in financing, management and operation. The management of the Group considered that the Finance Company Establishment conforms to the aforesaid objective by centralising the capital management and credit function of the Group.

As advised by the management of the Group, the establishment of the Finance Company will enhance the Group’s centralised management of its internal funds and improve its efficiency in fund usage. The settlement centre of the Group is currently responsible for monitoring and managing the liquidity, financial resources and cash flow of the Group. However, under the PRC law, the settlement centre shall not carry on deposit taking, loan offering, bill discount and finance lease and therefore cannot centralise the borrowings and credits from commercial banks. As such, each of the members of the Group is required to obtain credits and borrowings separately and the overall financing cost of the Group remains relatively high.

As a non-banking financial institution approved by the CBRC, the Finance Company is permitted to carry on such business activities as deposit taking, loan offering and bill discount. Therefore, the Finance Company can pool the surplus fund of the Members together and re-allocate the surplus fund among the Members on an efficient manner based on their individual demand for funding. As a result, the Group will require a lower level of bank borrowings under the same scale of business and operational environment, and thereby reduce its finance costs. Furthermore, the Finance Company will take advantage of the economies of scale brought by centralising loan borrowing function of the Members to improve its bargaining power in transactions with commercial banks, which will help reduce the borrowing interest rates and lower the financing costs of the Group.

In addition, the introduction of Industrial Trust as a strategic investor to the Finance Company is also favourable to the operation and development of the Finance Company. As advised by the management of the Group, Industrial Trust, the third trust company controlled by commercial bank in the PRC approved by the State Council, is controlled by Industrial Bank Co., Ltd., a company listed on the Shanghai Stock Exchange principally engaged in the commercial banking sector. Some of the senior management of the Finance Company will be nominated by Industrial Trust and will be responsible for the day-to-day operation and management of the Finance Company. By leveraging the industry expertise of Industrial Trust, in particular, its experience in financial risk management, business expansion and optimisation of financial management systems in the non-banking financial industry, the Finance Company could enhance its internal control and risk management procedures and improve its competitiveness.

Considering that (i) upon approval of registration from the CBRC, the Finance Company will be established as a non-banking financial institution and will be properly licensed to carry out a number of permitted financial activities; (ii) the Finance Company will be permitted to carry out financial activities which cannot be performed by the Group's settlement centre such as deposit taking, loan offering and bill discount and the Group can utilise this platform to better manage its financial resources; and (iii) by leveraging the expertise of the Industrial Trust and advantage of economic of scale, the Finance Company would formulate strategies to provide diverse financing channels with an aim to optimise the fund management and finance costs, the Directors consider that the Group could expand its financing channels through the Finance Company's strategic value, platform value and license value.

The Directors are of the view that the Finance Company, being a non-wholly owned subsidiary of the Company, will better serve the financial needs of the Group. The Directors also believe that the Finance Company will be more efficient in terms of processing transactions for the Group than other financial institutions given that the main objective of the Finance Company is to serve, among others, the Members. Considering that (i) the Finance Company will be overseen by representatives of the Company and the Parent Company, which can facilitate the communication of needs of the Members to the Finance Company; and (ii) Industrial Trust will be a minority shareholder and participate in the board of directors of the Finance Company, which could provide guidance and advice on the operation of the Finance Company based on their expertise and experience in the finance industry in the PRC, the Finance Company will have a better understanding of the operational and development needs of the Members. Given the above, we concur with the views of the Directors that the Finance Company will be more efficient in terms of processing transactions for the Group than other financial institutions.

It is noted that the Finance Company will be established pursuant to 《企業集團財務公司管理辦法》(the Administrative Measures on Group Finance Companies*) as promulgated by the CBRC and will be operated under the relevant guidelines and requirements issued by the CBRC and other applicable laws of the PRC. As confirmed by the Group, the financial services to be provided by the Finance Company will be based on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered that (i) the Finance Company Establishment conforms with the Group's objectives and would facilitate the Group's business development and financial management; and (ii) as advised by the Group management, the operation of the Finance Company will be based on market and normal commercial terms, we consider it is in the interest of the Company and the Shareholders as a whole to establish the Finance Company to provide financing and treasury services to the Group.

2. Principal terms of the Investment Agreement

The Finance Company will be established as a non-banking financial institution in the PRC with registered capital of RMB600 million in the purpose of providing cost efficient finance and treasury services to all Members. As confirmed by the management of the Group, the Members shall include all the subsidiaries, jointly controlled entities and associates of the Parent Group and the Group, which shall comprise all the members of the Group. Types of financial services to be rendered by the Finance Company include (i) corporate finance advisory services, credit worthiness verification and related consultancy and agency services to the Members; (ii) assisting the Members in collection and payment; (iii) approved insurance agency services; (iv) guarantee services to the Members; (v) entrusted loan and entrusted investment among the Members; (vi) bills acceptance and discount; (vii) settlement and clearing services among the Members and the relevant consultancy services; (viii) accepting deposits from the Members; (ix) providing loans and financing leasing to the Members; (x) inter-bank lending; and (xi) other services approved by CBRC.

The terms of the Investment Agreement were arrived at after arm's length negotiations between the parties. The other principal terms of the Investment Agreement are set out as follows:

Registered capital

The registered capital of the Finance Company is RMB600 million, where the Company, the Parent Company and Industrial Trust will be interested in 51%, 30% and 19% of registered capital of the Finance Company. The percentage of interest of the Company in the Finance Company is determined by the amount of capital contribution of RMB306 million to be made by it.

As advised by the management of the Group, the registered capital of the Finance Company is determined with reference to (i) the relevant requirements of 《企業集團財務公司管理辦法》(the Administrative Measures on Group Finance Companies*), which sets out that the minimum registered capital of the Finance Company shall be RMB100 million; and (ii) in the event that the Finance Company considers to be engaged in consumer credit, buyers' credit and finance lease businesses, its registered capital is required to be no less than RMB500 million. Given the above, we concur with the view of the Directors that the registered capital of the Finance Company of RMB600 million would provide flexibility for the Finance Company to offer additional financial services consumer credit, buyers' credit and finance lease as and when appropriate and ensure a comfortable level of capital could be available to provide financial support to the businesses of the Group when in need. Shareholders should note that, notwithstanding the undertaking by the Parent Company as discussed above, if the Finance Company requires additional capital for its operation, the Finance Company may increase its capital by way of capital injection in proportion to the shareholding interests subject to the approval of its shareholders and requirements of applicable rules and regulations including the Listing Rules. As confirmed by the management of the Group, the Finance Company and the Company currently has no plan for further capital injection.

Pursuant to the articles of association of the Finance Company, the Company would have 51% voting right on the shareholders' meeting of the Finance Company. Each party is required to contribute capital in proportion to the respective shareholding in cash three months after receipt of approval of registration from the CBRC.

Given the above and that the shareholding of each party is determined based on the respective amount of capital contribution upon establishment of the Finance Company, we concur with the view of the Directors that the allocation basis among the Company, the Parent Company and Industrial Trust is fair and reasonable in this regard.

Composition of board of directors

The board of directors of the Finance Company will comprise five directors. The Company, the Parent Company and Industrial Trust are entitled to appoint two, one and one directors respectively, and the remaining director would be elected from the staff of the Finance Company.

Profit sharing mechanism

The distributable profit of the Finance Company (if available) will be distributed as dividend to each of the parties according to their respective contributions to the registered capital of the Finance Company.

Undertaking by the Parent Company

In the event that the Finance Company experiences any financial or liquidity difficulties, the Parent Company undertakes to inject sufficient capital to the Finance Company to satisfy the capital shortfall of the Finance Company.

Non-disposal undertaking by Industrial Trust

Industrial Trust undertakes to and covenants with the parties that it will not, within the period commencing on the date of establishment of the Finance Company and ending on the date falling 3 years after the establishment, transfer or otherwise disposal any of its interest in the Finance Company. We concur with the Directors that such undertaking can help to ensure the alignment of interest of Industrial Trust with that of the Company during the lock-up period.

Interest rates

As disclosed in the Letter from the Board, the deposit and borrowing interest rates and settlement service charges will be determined and adjusted at arm's length negotiation among the Company, the Parent Company and Industrial Trust based on commercial terms subject to compliance with the requirements of the PRC laws. The deposit and borrowing interest rates will be determined at a rate not higher than the benchmark deposit interest rates over the same period announced by the People's Bank of China. Considering that, as advised by the management of the Group, (i) the Finance Company will only provide services to the Members (including the Group); (ii) the interest rates are no less favourable than those offered by independent commercial banks to the Group; and (iii) the financing cost of the Finance Company will generally be lower than the borrowing interest rates offered to the Members (including the Group), we concur with the Directors that the terms and interest rates for the interest rates are fair and reasonable and in the interests of the Company and the Shareholders as a whole in this regard.

Given the Parent Company will hold 30% equity interest of the Finance Company, according to the rule 14A.11(5) of the Listing Rules, the Finance Company is considered as a connected person of the Company. As confirmed by the management of the Group, the Group will comply with the requirements under Chapter 14 and Chapter 14A of the Listing Rules as and when appropriate in respect of any future loans and other finance transactions to be entered into between the Group and the Finance Company and other connected persons of the Company that might constitute connected transactions and/or notifiable transactions (as the case may be).

Taking into account the above and, in particular, that (i) the capital contribution and the profit sharing mechanism was determined after arm's length negotiations between the Parties in proportion to the respective shareholding in the Finance Company; (ii) the Company, with majority shareholding, controls the shareholders' meeting. (iii) the undertaking by the Parent Company to reduce the risks of capital shortfall of the Finance Company; and (iv) the non-disposal undertaking by Industrial Trust can help to ensure the alignment of interest of Industrial Trust with that of the Company during the 3-years lock-up period, we concur with the Directors' view that the Investment Agreement was entered into based on normal commercial terms, the terms of which are considered to be fair and reasonable and in the interests of the Company and its Shareholders as a whole.

3. Financial effects to the Group

As advised by the management of the Group, after its establishment, the Finance Company will become a non-wholly owned subsidiary of the Company, accordingly, the financial results of the Finance Company will be consolidated into the Group's financial statements subsequent to its establishment. As the Finance Company is required to fulfill a number of conditions precedent including but not limited to the approvals from the CBRC and the relevant parties will then contribute the registered capital of the Finance Company within 3 months upon receipt of approvals from CBRC, the Directors consider that upon establishment, save for the registered capital, the Finance Company will not have other material assets and liabilities and thus there will not be any material adverse effect on the earnings and the net asset value of the Group.

After obtaining the appropriate internal approvals, the Company shall contribute RMB306 million, representing 51% of the registered capital of the Finance Company in cash within three months after receipt of approvals from the CBRC. Based on the interim report of the Company for the six months ended 30 June 2011, the Company had cash and cash equivalents balances of approximately RMB2.1 billion and net current asset balance of approximately RMB2.8 billion as at 30 June 2011. We are of the view that the initial contribution of RMB306 million would not result in a heavy financial burden on the Company.

Given the above, in particular the undertaking given by the Parent Company as discussed in section (2) above, we consider that the Group shall have sufficient working capital and the Finance Company Establishment will not have any material adverse effect on the Group's working capital position in this regard.

RECOMMENDATION

Having considered the principal factors and reasons discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):-

- the background of and reasons for the Finance Company Establishment;
- that the terms of the Finance Company Establishment are considered to be fair and reasonable; and
- there is no material adverse impact on the financial position of the Group immediately upon completion of the Finance Company Establishment,

We consider that the Finance Company Establishment has been entered into based on normal commercial terms and their respective terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Finance Company Establishment.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Gary Mui
Executive Director

PART I**(1) To amend Article 1 of the Articles as follows:**

Chongqing Machinery & Electric Co., Ltd.* (the “Company”) is a joint stock limited company established under the Company Law of the People’s Republic of China (hereinafter as the “Company Law”), the “Securities Law of the People’s Republic of China” (hereinafter as the “Securities Law”), the Special Provisions of the State Council concerning the Flotation and Listing Abroad of Shares by Joint Stock Companies with Limited Liability (國務院關於股份有限公司境外募集股份及上市的特別規定) (hereinafter as the “Special Provisions”) and other relevant laws and administrative regulations of the People’s Republic of China (hereinafter as the “PRC”, for the purpose of the Articles, the “PRC” excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan).

The Company was established on 27 July 2007 by way of promotion and obtained the Business License (企業法人營業執照) upon registration with the Chongqing Administration Bureau of Industry and Commerce on 27 July 2007. Its registration code is: 500000000000311.

The promoters of the Company are: Chongqing Machinery and Electronic Holding (Group) Co., Ltd., Chongqing Yufu Asset Management (Group) Co., Ltd., Chongqing Construction Engineering Group Co., Ltd. and China Huarong Asset Management Corporation.

(2) To amend the Article 17 of the Articles as follows:

After its establishment, the Company first issued 1,100,187,470 overseas listed foreign Shares, of which 1,004,900,000 Shares were new Shares and 95,287,470 Shares were existing State-owned Shares. After the abovementioned capital increase and issue, the shareholding structure of the Company is as follows:

Name of shareholders	After initial capital increase and issue	
	Number of shares held (shares)	Proportion in total share capital
Promoter shareholder		
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	1,924,225,189	52.22%
Chongqing Yufu Assets Management (Group) Co. Ltd.	232,132,514	6.30%
Chongqing Construction Engineering Group Co., Ltd.	232,132,514	6.30%
China Huarong Asset Management Corporation	195,962,467	5.32%
Sub-total	2,584,452,684	70.14%
H Shares	1,100,187,470	29.86%
Total	3,684,640,154	100%

PART II**To amend the Article 105 of the Articles as follows:**

The Chairman of the Board is authorized to exercise the following powers:

- (I) to preside over general meetings and to convene and preside over meetings of the Board;
- (II) to organize executive Directors to implement routine work of the Board during its adjournment;
- (III) to inspect the implementation of resolutions of Board;
- (IV) to sign the securities certificates issued by the Company;
- (V) to nominate candidates for general manager of the Company and secretary to the Board;
- (VI) to exercise special powers that are conferred in compliance with laws, administrative regulations and interests of the Company on matters of the Company in case of force majeure emergencies such as extraordinary serious natural disasters, and report to the Board and the general meeting after the events;
- (VII) to exercise the authorities of the legal representative;
- (VIII) to exercise other functions and powers conferred by the Board.

Where the Chairman of the Board is unable or fails to perform his/her duties, his/her duties will be performed by a director jointly elected by more than half members of the Board.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTEREST

As at the Latest Practicable Date, none of the Directors, chief executive or Supervisors of the Company had any interests or short positions in the shares, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) (the “SFO”) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules.

3. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at the Latest Practicable Date, so far as the Directors are aware, the following persons (not being a Director, chief executive or Supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Domestic shares of RMB1.00 each of the Company

Name of substantial shareholders	Number of shares	Nature of Interest	Notes	Percentage of total issued domestic shares (%)	Percentage of total issued shares (%)
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	1,924,225,189	Beneficial owner	(1)	74.46 (L)	52.22
Chongqing Yufu Assets Management Co., Ltd.	232,132,514	Beneficial owner	(1)	8.98 (L)	6.30
Chongqing Construction Engineering Group Co., Ltd.	232,132,514	Beneficial owner	(1)	8.98 (L)	6.30
China Huarong Asset Management Corporation	195,962,467	Beneficial owner	(2)	7.58 (L)	5.32
State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government	2,388,490,217	Interest in controlled corporation	(1)	92.42 (L)	64.82
Ministry of Finance of the PRC	195,962,467	Interest in controlled corporation	(2)	7.58 (L)	5.32

(L): Long Position

H shares of RMB\$1.00 each of the Company

Name of shareholders	Number of shares	Capacity	Notes	Percentage of total	Percentage of total
				issued H shares	issued shares
FIL Limited	99,780,000 (L)	Investment manager		9.07 (L)	2.71 (L)
National Council for Social Security Fund	88,061,470 (L)	Beneficial owner		8.00 (L)	2.39 (L)
GE Asset Management Incorporated	87,551,632 (L)	Investment manager		7.96 (L)	2.38 (L)
The Bank of New York Mellon (formerly known as “The Bank of New York”)	87,276,000 (L) 0 (P)	Interest in custodian’s company	(3)	7.93 (L) 0 (P)	2.37 (L) 0 (P)
The Bank of New York Mellon Corporation	87,276,000 (L) 87,276,000 (P)	Interest in controlled corporations	(3)	7.93 (L) 7.93 (P)	2.37 (L) 2.37 (P)
UBS AG	67,628,365 (L)	Beneficial owner, interest in controlled corporations, person having a security interest in shares	(4)	6.15 (L)	1.84 (L)
Templeton Asset Management Limited	66,626,600 (L)	Investment manager		6.06 (L)	1.81 (L)

(L): Long Position

(P): Lending Pool

Notes:

- (1). As Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Yufu Asset Management Co., Ltd. were wholly owned by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government, State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government is deemed to be interested in 1,924,225,189 domestic shares and 232,132,514 domestic shares of the Company held by the two companies.
- (2). Chongqing Construction Engineering Group Co., Ltd. is held as to 96.18% by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government through its three wholly-owned subsidiaries and as to 3.82% by the Ministry of Finance of the People's Republic of China through China Huarong Asset Management Company, a wholly-owned subsidiary of the Ministry. Therefore, State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government and the Ministry of Finance of the People's Republic of China are deemed to be interested in 232,132,514 domestic shares of the Company held by Chongqing Construction Engineering Group Co.,Ltd.

China Huarong Asset Management Corporation. is wholly owned by the Ministry of Finance of the People's Republic of China and its interest in 195,962,467 domestic shares of the Company was deemed to be the interests of the Ministry of Finance of the People's Republic of China.

- (3). The Bank of New York Mellon Corporation holds 100% interest in The Bank of New York Mellon (formerly known as "The Bank of New York"), which holds 87,276,000 H shares of the Company. The interest in 87,276,000 H shares relates to the same block of shares in the Company and includes a lending pool of 87,276,000 H shares of the Company.
- (4). UBS AG was interested in 67,628,365 H shares of the Company, among which 37,834,365 shares by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	Percentage of ownership in controlled corporation (%)	Number of shares
UBS Global Asset Management (Americas) Inc	100	32,086,409
UBS Global Asset Management (Australia) Ltd	100	407,956
UBS Global Asset Management Trust Company	100	414,000
UBS Global Asset Management (Japan) Ltd	100	4,718,000
UBS Global Asset Management (UK) Ltd	100	208,000

Save as disclosed above, the Directors are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at the Latest Practicable Date.

4. DIRECTORS' AND SUPERVISORS' INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors and the Supervisors of the Company had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to the Company or are proposed to be acquired or disposed of by or leased to the Company since 30 June 2011, being the date to which the latest published audited accounts of the Company were made up.

None of the Directors and the Supervisors of the Company was materially interested in any contract or arrangement entered into by the Company subsisting at the Latest Practicable Date and which is significant in relation to the business of the Company.

5. SERVICE CONTRACT

None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

6. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors nor his associates was interested in any business, which competes or is likely to compete, either directly or indirectly, with that of the Group.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any other members of the Group was engaged in any litigation or arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 30 June 2011, the date to which the latest published audited consolidated accounts of the Group were made up.

9. EXPERT'S QUALIFICATION AND CONSENT

The qualification of the expert who has provided its advice which is contained in this circular is set out as follows:

Name	Qualification
Quam Capital	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

Quam Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, Quam Capital was not beneficially interested in the share capital of any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Quam Capital did not have any direct or indirect interests in any assets which had been, acquired or disposed of by, or leased to any member of the Group or were proposed to be acquired or disposed of by, or leased to any member of the Group since 30 June 2011, being the date to which the latest published audited consolidated accounts of the Group were made up.

10. MISCELLANEOUS

- (i) The registered office and the principal place of business in the PRC of the Company is at No.155, Zhongshan Third Road, Yuzhong District, Chongqing City, the PRC.
- (ii) The principal place of business of the Company in Hong Kong is Suite 2008, 20/F, Jardine House, 1 Connaught Place, Central, Hong Kong.
- (iii) The Company's H Share Registrars and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (iv) The company secretary of the Company is Mr. Wang Xiao Jun, who is a practicing solicitor of the High Court of Hong Kong.
- (v) Unless stated otherwise, in the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company at Suite 2008, 20/F, Jardine House, 1 Connaught Place, Central, Hong Kong from 21 October 2011 up to and including the date of EGM:

- (i) the letter from the Independent Board Committee dated 21 October 2011 as set out in this circular;
- (ii) the letter of advice from Quam Capital dated 21 October 2011 as set out in this circular; and
- (iii) the written consent of Quam Capital referred to in the section headed "Expert's qualification and consent".



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the first Extraordinary General Meeting (the “**EGM**”) of Chongqing Machinery & Electric Co., Ltd.* (the “**Company**”) for 2011 will be held at Grand Metropark Hotel Chongqing, No. 1598 Jinkai Road, North New Zone, Chongqing, the PRC on Friday, 9 December 2011 at 10 a.m. for the purpose of considering and, if thought fit, passing, with or without modification or supplementation, the following resolutions:

ORDINARY RESOLUTIONS:

1. Provision of guarantee by the Company for a loan of GBP4.2 million of Holroyd;
2. Connected transaction and discloseable transaction - establishment of the Finance Company;
3. Change of a Supervisor;

SPECIAL RESOLUTION:

4. The proposal by the board of directors of the Company (the “**Board**”) to amend the Articles of the Company in the manner as set out in the circular of the Company dated 21 October 2011 to the Shareholders of the Company, of which this notice forms part, be and is hereby approved, and the Board be and is hereby authorised to do all such things as necessary in respect of the amendments to the Articles pursuant to the requirements (if any) under domestic or overseas laws and under the rules of any stock exchange on which securities of the Company are listed.

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

21 October 2011

* *For identification purposes only*

Notes:

1. A member of the Company (“Member”) entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a Member. A form of proxy for use at the Meeting is enclosed herewith. In the case of the joint holders of any Share, only the person whose name appears first in the register of members shall be entitled to receive this notice, to attend and exercise all the voting powers attached to such Share at the Meeting, and this notice shall be deemed to be given to all joint holders of such Share.
2. To be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company’s H share registrar Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17M, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, and in case of holders of domestic shares, to the Company’s mailing address at No. 155 Zhongshan Third Road, Yuzhong District, Chongqing City, the PRC, not later than 24 hours before the time appointed for holding the Meeting or the time appointed for passing the resolutions or any adjournment thereof. Delivery of the form of proxy shall not preclude a Member from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
3. The register of Members will be closed from 9 November 2011 to 8 December 2011, both days inclusive, during which period no transfer of H Shares of the Company will be effected. In order to determine the list of Members who are qualified to attend and vote at the meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s H share registrar Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 8 November 2011.
4. Whether or not the holders of H shares of the Company are able to attend the Meeting, they shall complete the enclosed reply slip for the Meeting and return it, by hand or by post, to the Company’s H share registrar Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, or by fax on or before Friday, 18 November 2011.
5. Whether or not the holders of domestic shares of the Company are able to attend to the Meeting, they shall complete the enclosed reply slip for the Meeting and return it, by hand or by post, to the Company’s mailing address at No.155 Zhongshan Third Road, Yuzhong District, Chongqing City, the PRC, or by fax on or before Friday, 18 November 2011.

As at the date of this notice, 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*