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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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. \* (the "Company"), you should at once hand this circular to the purchaser or the transferees or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(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 GRANTING OF A GENERAL MANDATE  
TO ISSUE NEW SHARES OF THE COMPANY;**
- (2) RENEWAL OF GUARANTEE BY THE COMPANY FOR LOANS  
OF RMB37 MILLION OF CHONGQING PIGEON;**
- (3) RENEWAL OF GUARANTEE BY THE COMPANY FOR LOANS  
OF RMB80.44 MILLION OF CHONGQING CAFF;**
- (4) RENEWAL OF GUARANTEE BY THE COMPANY FOR LOANS  
OF RMB115 MILLION OF HUAHAO SMELTING;**
- (5) RENEWAL OF GUARANTEE BY THE COMPANY FOR A LOAN  
OF GBP5.3 MILLION OF HOLROYD;**
- (6) PROPOSED AMENDMENTS TO THE ARTICLES;**
- (7) APPOINTMENT OF AN INDEPENDENT NON-EXECUTIVE DIRECTOR;  
AND**
- (8) NOTICE OF THE ANNUAL GENERAL MEETING OF THE COMPANY**

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The letter from the Board of the Company is set out on pages 1 to 11 of this circular.

A notice convening an Annual General Meeting of Chongqing Machinery & Electric Co., Ltd \* and any adjournment thereof to be held at the Report Hall, 2/F, Jidian Building, No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC on Monday, 18 June 2012 at 10:00 a.m. is set out on pages 18 to 22 of this circular.

A form of proxy for use at the Annual General Meeting is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.chinacqme.com](http://www.chinacqme.com)). Whether or not you intend to attend the Annual General Meeting, you are requested to complete and return (i) the enclosed reply slip in accordance with the instructions printed thereon not later than Tuesday, 29 May 2012 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 Annual General Meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the Annual General Meeting and voting in person if you so wish.

30 March 2012

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## DEFINITIONS

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

“Annual General Meeting” or “AGM”	means an annual general meeting of the Company and any adjournment thereof to be held at the Report Hall, 2/F, Jidian Building, No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC on Monday, 18 June 2012 at 10:00 a.m., to consider and, if appropriate, to approve the resolutions contained in the notice of the annual general meeting which is set out on pages 18 to 22 of this circular, or any adjournment thereof
“Articles”	means the articles of association of the Company currently in force
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	means the board of Directors of the Company
“Chongqing CAFF”	means Chongqing CAFF Automotive Braking & Steering System Co., Ltd.(重慶卡福汽車制動轉向系統有限公司), a wholly-owned subsidiary of the Company, which was established in the PRC on 27 June 2003
“Chongqing Pigeon”	means Chongqing Pigeon Electric Wires & Cables Co., Ltd.(重慶鴿牌電線電纜有限公司), a 74%-owned subsidiary of the Company, which was established in the PRC on 20 January 2001
“Company”	means Chongqing Machinery & Electric Co., Ltd *(重慶機電股份有限公司), a joint stock limited company incorporated in the PRC with limited liability
“Director(s)”	means the director(s) of the Company
“Domestic Share(s)”	means ordinary share(s) of nominal value of RMB1.00 each in the share capital of the Company which are subscribed for or credited as paid up in RMB

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## DEFINITIONS

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“GBP”	means British pound sterling, the lawful currency of the United Kingdom of Great Britain
“General Mandate”	the proposed general mandate to allot, issue and otherwise deal with additional Shares representing up to the limit of 20% of the Shares in issue on the date of the passing of the related resolution
“Group”	means the Company and its associates
“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
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“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
“Huahao Smelting”	means Chongqing Huahao Smelting Co., Ltd. (重慶華浩冶煉有限公司), a wholly-owned subsidiary of the Company, which was established in the PRC on 16 April 2002
“ICBC Yuzhong Sub-Branch”	Chongqing Yuzhong Sub-Branch of Industrial and Commercial Bank of China Limited
“Latest Practicable Date”	means 27 March 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular

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## DEFINITIONS

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“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“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 Hong Kong Special Administrative Region, the Macau Special Administrative Region and the Taiwan region
“Promoter”	has the meaning ascribed to it under the Listing Rules
“PTG Company”	means Precision Technologies Group Limited, a wholly-owned subsidiary of the Company
“Relevant Period”	means the period from the date of passing the resolution until the earlier of: (a) the conclusion of the next annual general meeting of the Company following the passing of this resolution, unless, by special resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or (b) the expiry of the period within which the next annual general meeting is required by the Articles or any applicable law to be held; or (c) the passing of a special resolution of the Company in a general meeting revoking or varying the authority set out in the resolution in approving the General Mandate

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## DEFINITIONS

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“Rights Issue”	means the allotment or issue of Shares in the Company or other securities which would or might require Shares to be allotted and issued pursuant to an offer made to all the Shareholders of the Company (excluding, as the Board may decide, for such purpose any shareholder who is resident in a place where such offer is not permitted under the law or regulation of that place) entitled to such offer, pro rata (apart from fractional entitlements) to their then existing holdings of Shares
“RMB”	means Renminbi, the lawful currency of the PRC
“SFO”	means Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shareholders”	means holder(s) of the Shares
“Shares”	means the Domestic Shares and/or the H Shares
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited

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## LETTER FROM THE BOARD

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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)

*Executive Directors:*

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

*Non-executive Directors:*

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

*Independent non-executive Directors:*

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

*To the Shareholders*

Dear Sir or Madam,

*Registered office and principal place of  
business in the PRC:*

No.60,  
Middle Section of Huangshan Avenue,  
New North Zone,  
Chongqing City  
the PRC

\* Application has been made by the Company  
for the change in the registered address

*Principal place of business in Hong Kong:*

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

- (1) **PROPOSED GRANTING OF A GENERAL MANDATE  
TO ISSUE NEW SHARES OF THE COMPANY;**
- (2) **RENEWAL OF GUARANTEE BY THE COMPANY FOR LOANS  
OF RMB37 MILLION OF CHONGQING PIGEON;**
- (3) **RENEWAL OF GUARANTEE BY THE COMPANY FOR LOANS  
OF RMB80.44 MILLION OF CHONGQING CAFF;**
- (4) **RENEWAL OF GUARANTEE BY THE COMPANY FOR LOANS  
OF RMB115 MILLION OF HUAHAO SMELTING;**
- (5) **RENEWAL OF GUARANTEE BY THE COMPANY FOR A LOAN  
OF GBP5.3 MILLION OF HOLROYD;**
- (6) **PROPOSED AMENDMENTS TO THE ARTICLES;**
- (7) **APPOINTMENT OF AN INDEPENDENT NON-EXECUTIVE DIRECTOR;  
AND**
- (8) **NOTICE OF THE ANNUAL GENERAL MEETING OF THE COMPANY**

#### 1. INTRODUCTION

The purpose of this circular is to give you notice of the Annual General Meeting and to provide you with information regarding certain resolutions to be proposed at the Annual General Meeting to enable you to make an informed decision on whether to vote for or against those resolutions at the Annual General Meeting.

\* For identification purposes only

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## LETTER FROM THE BOARD

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### 2. PROPOSED GRANTING OF THE GENERAL MANDATE

To increase the flexibility and efficiency in operation, and to give discretion to the Board in the event that it becomes desirable to issue any Shares, the Company proposes to obtain Shareholders' approval for the General Mandate to allot, issue and otherwise deal with additional Shares up to the limit of 20% of the Shares in issue on the date of the passing of the relevant resolution. The Board has no present plan to issue new Shares pursuant to the General Mandate.

Any exercise of the power by the Directors under the General Mandate shall comply with the relevant requirements of the Listing Rules, the Articles and the applicable laws and regulations of the PRC and the following conditions:

- (a) the General Mandate shall not extend beyond the Relevant Period save that the Board may during the Relevant Period make or grant offers, agreements and/or options which may require the exercise of such power after the end of the Relevant Period;
- (b) the aggregate nominal amount of the Domestic Shares and the H Shares allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board (otherwise than pursuant to any scrip dividend scheme (or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend), any share option scheme, a Rights Issue or any separate approval of the Shareholders of the Company) shall not exceed:
  - (i) 20 per cent of the aggregate nominal amount of the Domestic Shares in issue; and
  - (ii) 20 per cent of the aggregate nominal amount of the H Shares in issue, respectively, in each case as at the date of passing of the resolution for General Mandate by the Shareholders; and
- (c) the Board will only exercise its power under the General Mandate in accordance with the Company Law of the PRC and the Listing Rules (as each of them may be amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant government authorities in the PRC are obtained.



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## LETTER FROM THE BOARD

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In addition, contingent on the Board resolving to exercise the General Mandate, the Company proposes to obtain Shareholders' approval to authorise the Board to:-

- (a) approve, execute and do, or procure to be executed and done all such documents, deeds and matters which it may consider necessary in connection with the exercise of the General Mandate and/or the issue of Shares, including but not limited to the time, price, quantity and place for such issue, to make all necessary applications to the relevant authorities, and to enter into underwriting agreement(s) or any other agreement(s);
- (b) determine the use of proceeds and to make all necessary filings and registration with the relevant authorities in the PRC, Hong Kong and/or any other places and jurisdictions (as appropriate);
- (c) increase the registered capital of the Company and make all necessary amendments to the Articles to reflect such increase and to register the increased capital with the relevant authorities in the PRC, Hong Kong and/or any other places and jurisdictions (as appropriate) as so to reflect the new capital and/or share capital structure of the Company.

As at the Latest Practicable Date, the Company had in issue 3,684,640,154 Shares. Subject to the passing of the proposed resolution for the approval of the General Mandate and in accordance with the terms therein, the Company will be allowed to allot, issue and deal with up to a maximum of 736,928,030 Shares on the basis that no further Shares will be issued by the Company prior to the Annual General Meeting.

### **3. RENEWAL OF GUARANTEE BY THE COMPANY FOR LOANS OF RMB37 MILLION OF CHONGQING PIGEON**

Chongqing Pigeon requested the Company to continue to provide guarantee for its loans totaling RMB37 million ("Pigeon Loans"). The Company holds 74% equity interests in Chongqing Pigeon. Therefore, Chongqing Pigeon is regarded as a subsidiary of the Company.

The Company has provided the guarantee to the Pigeon Loans since 2007, and Chongqing Pigeon requested the Company to continue to provide the guarantee to the Pigeon Loans.

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## LETTER FROM THE BOARD

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### **Reasons for and Benefits of Provision of Guarantee for the Pigeon Loans**

Since 2007, the Company has provided the guarantee for the Pigeon Loans. In order to support the development of Chongqing Pigeon and ensure that it could maintain production in the coming year, the Board recommended the Company to renew the guarantee by the Company for the Pigeon Loans.

### **Terms of the Guarantee**

The guarantee for the Pigeon Loans is for a term of one year commencing from the date of approval by the Shareholders and completion of relevant formalities by Chongqing Pigeon. The Board is of the opinion that the terms of provision of guarantee for Pigeon Loans are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole and will not have a material adverse effect on the financial conditions of the Company.

Chongqing Pigeon is not a connected person of the Group and the provision of guarantee for Pigeon Loans does not exceed the relevant percentage ratios under the Listing Rules. Thus, the provision of guarantee is not subject to the requirements under Chapter 14A of the Listing Rules. However, since the gearing ratio of Chongqing Pigeon is 81.6%, the renewal of the guarantee for the Pigeon Loans is subject to consideration and approval of Shareholders at the general meeting under the Articles.

Pursuant to the Articles, the renewal of the guarantee by the Company for the Pigeon Loans requires the approval of the Shareholders at the general meeting.

#### **4. RENEWAL OF GUARANTEE BY THE COMPANY FOR LOANS OF RMB80.44 MILLION OF CHONGQING CAFF**

Chongqing CAFF requested the Company to continue to provide guarantee for its loans totaling RMB80.44 million, including its original loans of RMB50.44 million and additional loans of RMB30 million (“CAFF Loans”). Chongqing CAFF is a wholly-owned subsidiary of the Company.

### **Reasons for and Benefits of Provision of the Guarantee for the CAFF Loans**

Since 2008, the Company provided a guarantee of RMB50.44 million for a term of one year for loans of Chongqing CAFF, in order to support the development of Chongqing CAFF and to ensure that Chongqing CAFF would be in position to maintain its production in the coming year. The additional loan of RMB30 million to Chongqing CAFF was granted by another bank, which was initially guaranteed by credit guarantee. The Board recommended the Company to continue the guarantee by the Company for the CAFF Loans.

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## LETTER FROM THE BOARD

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### **Terms of the Guarantee**

The guarantee for the CAFF Loans is for a term of one year commencing from the date of approval by the Shareholders and completion of relevant formalities by Chongqing CAFF. The Board is of the opinion that the terms of provision of guarantee for the CAFF Loans are fair and reasonable and are in the best interests of the Company and its Shareholders as a whole and will not have a material adverse effect on the financial conditions of the Company.

Chongqing CAFF is not a connected person of the Group and the provision of guarantee for CAFF Loans does not exceed the relevant percentage ratios under the Listing Rules. Thus, the provision of guarantee is not subject to the requirements under Chapter 14A of the Listing Rules. However, since the gearing ratio of Chongqing CAFF is 94.9%, the provision of guarantee for the CAFF Loans is subject to consideration and approval of Shareholders at the general meeting under the Articles.

Pursuant to the Articles, the renewal of the guarantee by the Company to CAFF Loans requires the approval of the Shareholders at the general meeting.

### **5. RENEWAL OF GUARANTEE BY THE COMPANY FOR LOANS OF RMB115 MILLION OF HUAHAO SMELTING**

Huahao Smelting requested the Company to continue to provide guarantee for its loans totaling RMB115 million, including its original one-year loan of RMB75 million and two-year loan of RMB20 million and additional loan of RMB20 million (“Huahao Loans”). Huahao Smelting is a wholly-owned subsidiary of the Company.

#### **Reasons for and Benefits of Provision of the Guarantee for the Huahao Loans**

Since 2008, the Company provided guarantee for one-year loan of RMB75 million and two-year loan of RMB20 million of Huahao Smelting, in order to support the development of Huahao Smelting and to ensure that Huahao Smelting would be in position to maintain its production in the coming year. The additional loan of RMB20 million of Huahao Smelting was planned to use to satisfy the working capital needs arising from its increasing sales and the commencement of production of its new production lines. The Board recommended the Company to renew the guarantee by the Company for the Huahao Loans.

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## LETTER FROM THE BOARD

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### **Terms of the Guarantee**

The guarantee for the Huahao Loans is for a term of one year commencing from the date of approval by the Shareholders and completion of relevant formalities by Huahao Smelting. The Board is of the opinion that the terms of provision of guarantee for the Huahao Loans are fair and reasonable and are in the best interests of the Company and its Shareholders as a whole and will not have a material adverse effect on the financial conditions of the Company.

Huahao Smelting is not a connected person of the Group and the provision of guarantee for Huahao Loans does not exceed the relevant percentage ratios under the Listing Rules. Thus, the provision of guarantee is not subject to the requirements under Chapter 14A of the Listing Rules. However, since the gearing ratio of Huahao Smelting was increased to 70.6% as a result of the additional loan of RMB20 million, the provision of guarantee for the Huahao Loans is subject to consideration and approval of Shareholders at the general meeting under the Articles.

Pursuant to the Articles, the renewal of the guarantee by the Company to Huahao Loans requires the approval of the Shareholders at the general meeting.

### **6. RENEWAL OF GUARANTEE BY THE COMPANY FOR A LOAN OF GBP5.3 MILLION OF HOLROYD**

#### **Background**

Holroyd requested the Company to guarantee its GBP5.3 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 2011, PTG Company achieved an operating income of approximately RMB237.88 million and a profit of approximately RMB9.97 million, to which Holroyd contributed an operating income of approximately RMB98.24 million and a profit of approximately RMB6.13 million. The total assets and total liabilities of Holroyd amounted to approximately RMB171.21 million and RMB154.41 million respectively. The Company guaranteed its GBP5.3 million loan when acquiring PTG Company in 2010.

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## LETTER FROM THE BOARD

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### **Procedure involved in Domestic Guarantee for Overseas Loan:**

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 GBP5.3 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 GBP5.3 million and maturing no later than 1 month prior to the expiry of the L/C.

### **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 90.1%, 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 general meeting.

## **7. PROPOSED AMENDMENTS TO THE ARTICLES**

The address (head office) of the Company was changed to No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City since 19 March 2012 (details are set out in the announcement in relation to change of address of head office published by the Company on 16 March 2012 ). The change of address registered in the Administration for Industry & Commerce will be carried out in accordance with the applicable laws and regulations. Therefore, Article 3 of the Articles is proposed to be amended as follows:

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## LETTER FROM THE BOARD

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### Article 3

The Company's legal residence: No. 60, Middle Section of Huangshan Avenue,  
New North Zone, Chongqing City  
Telephone: 023-63075707  
Fax: 023-63076969  
Postcode: 401123

Further, pursuant to new requirements under Rules 3.10A and 3.11 of the Listing Rules to be effective from 1 April 2012, namely "An issuer must appoint independent non-executive directors representing at least one-third of the board"; "Issuers must comply with this rule by 31 December 2012" and "An issuer will have a three-month period to appoint a sufficient number of independent non-executive directors to comply with the one-third rule after failing to meet the requirement." ("Amendments to the Listing Rules").

Currently the Board comprises 11 members, including 4 executive Directors, 4 non-executive Directors and 3 independent non-executive Directors. The independent non-executive Directors represent only 27.27% of the Board, falling short of one third. In light of this, the Company proposes to add an additional independent non-executive Director so as to satisfy the requirements of the Listing Rules. Therefore, Article 101 of the Articles is proposed to be amended as follows:

### Article 101

The Company shall establish a Board which consists of 12 directors, comprising 1 chairman.

The Board is independent of the controlling entity (refer to a company, enterprise or public institution with legal person status and having controlling interests in the Company, the same below).

Half or more of the members of the Board shall be external Directors (refer to Directors who do not take up any posts in the Company, the same below), including more than two independent non-executive Directors (refer to Directors who are independent of shareholders of the Company and do not take up any posts in the Company, the same below).

Independent non-executive Directors shall form at least one-third of the Board.

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 Annual General Meeting.

**8. APPOINTMENT OF AN INDEPENDENT NON-EXECUTIVE DIRECTOR**

The Board now consists of 11 Directors including 4 executive Directors, 4 non-executive Directors and 3 independent non-executive Directors. Independent non-executive Directors represent only 27.27% of the Board, less than one third as required under the amended Listing Rules. As such, the Board has proposed to appoint Mr. Jin Jingyu as an additional independent non-executive Director to comply with the Amendments to the Listing Rules.

Mr. Jin Jingyu, aged 46, has been serving at Chongqing Technology and Business University as the Chairman of the Academic Council of the School of Finance, director of the Investment and Insurance Department and professor of finance and tutor of Doctor student & postgraduate since March 2009. Mr. Jin joined the university (known as Chongqing Business School before 2003) in May 1997 and served as the deputy director of the Finance and Investment Department from March 2000 to March 2001 and an associate professor and professor of finance from November 2000 to November 2005. He studied in the Mathematics Department of Henan University from September 1988 to July 1992 as an undergraduate student; studied in the University of Science and Technology of China majored in management science from September 1992 to July 1995 and received a master's degree in engineering; studied in the Southwest Jiaotong University majored in management science and engineering from March 2003 to January 2007 and received a doctor's degree in management. Mr. Jin held several concurrent posts as follows: from September 1997 to September 2002, a business director of the Financing Service Company (融資服務公司) and general manager of the 1st Business Department of Dapeng Securities Company Limited (大鵬證券有限責任公司); from July 2002 to June 2003, a director and secretary to the board of directors of Southwest Synthetic Pharmaceutical Co., Ltd. (西南合成制藥股份公司) (Stock code: 000788); from January 2006 to March 2010, a director and secretary to the board of directors of Chongqing Wanli Storage Batteries Co., Ltd. (重慶萬里電池股份有限公司) (Stock code: 600847); from June 2005 to February 2010, the chairman of Chongqing Tiandi Pharmaceutical Co., Ltd. (重慶天地藥業有限公司).

Mr. Jin Jingyu is now a director of the Enterprises Operations Branch of the Operations Research Society of China, adjunct researcher of the Research Center of the Economy of the Upper Reaches of Yangtze River (a major humanities and social sciences research center of the Ministry of Education), a member of the Evaluation Committee of Professional Titles, the Teaching Steering Committee and the School of Economics of Chongqing Technology and Business University.

Pursuant to the Articles, the appointment of Mr. Jin Jingyu is subject to the approval of Shareholders at the general meeting and his term of office shall commence from the date of approval by Shareholders to the expiration of the current Board. Mr. Jin Jingyu shall be entitled to Directors' fee and the Board shall determine his remuneration according to the standards for Directors remuneration passed at the 2009 annual general meeting.

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## LETTER FROM THE BOARD

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Save as disclosed above, Mr. Jin Jingyu did not hold any other position in the Company or any of its subsidiaries, nor did he hold any directorship in other listed public companies. Besides, Mr. Jin Jingyu does not have any relationship with any other Directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

As at the Latest Practicable Date, Mr. Jin Jingyu did not have any interest in the Shares of the Company within the meaning of Part XV of the the SFO. Save as disclosed above, there is no information about Mr. Jin Jingyu that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules, nor any matter which needs to be brought to the attention of the Shareholders.

### 9. ANNUAL GENERAL MEETING AND PROXY ARRANGEMENT

The notice of the Annual General Meeting is set out on pages 18 to 22 of this circular. At the Annual General Meeting, resolutions will be proposed to approve, inter alia, (i) the report of the Board for the year ended 31 December 2011; (ii) the report of Supervisory Committee for the year ended 31 December 2011; (iii) the audited financial statements of the Company and its subsidiaries and the Auditors Report for the year ended 31 December 2011; (iv) profit appropriation proposal; (v) re-appointment of Company's auditor; (vi) granting of a general mandate; (vii) renewal of guarantee by the Company for loans of RMB37 million of Chongqing Pigeon; (viii) renewal of guarantee by the Company for loans of RMB80.44 million of Chongqing CAFF (ix) renewal of guarantee by the Company for loans of RMB115 million of Huahao Smelting; (x) renewal of guarantee by the Company for a loan of GBP5.3 million of Holroyd; (xi) amendments to the Articles; and (xii) appointment of an independent non-executive Director.

A form of proxy for use at the Annual General Meeting is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange ([www.hkexnews.com.hk](http://www.hkexnews.com.hk)) and the Company ([www.chinacqme.com](http://www.chinacqme.com)). Whether or not you intend to attend the Annual General Meeting, you are requested to complete and return (i) the enclosed reply slip in accordance with the instructions printed thereon not later than Tuesday, 29 May 2012 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 Annual General Meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the Annual General Meeting 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, no Director or Shareholder has a material interest on the resolutions proposed at the Annual General Meeting, and no shareholder is required the abstain from voting on any of the resolution at the Annual General Meeting.



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## LETTER FROM THE BOARD

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### 10. PROCEDURES FOR VOTING IN THE ANNUAL GENERAL MEETING

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

### 11. RECOMMENDATION

The Directors consider that all resolutions proposed for consideration and approval by the Shareholders at the Annual General Meeting are in the best 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 to be proposed at the Annual General Meeting as set out in the notice of the Annual General Meeting.

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

30 March 2012

\* *For identification purposes only*

**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 INTERESTS**

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 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:

#### Long position in domestic shares of RMB1.00 each of the Company

Name of Shareholders	Number of shares	Capacity	Note	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 Group Co., Ltd.	232,132,514	Beneficial owner	(1)	8.98 (L)	6.30
Chongqing Construction Engineering Group Co., Ltd. (formerly known as Chongqing Jiangong Group Co., Ltd.)	232,132,514	Beneficial owner	(2)	8.98 (L)	6.30
China Huarong Asset Management Co., Ltd.	195,962,467	Beneficial owner	(3)	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 People's Republic of China	195,962,467	Interest in controlled corporation	(3)	7.58 (L)	5.32

(L): Long Position

**H shares of RMB\$1.00 each of the Company**

Name of Shareholders	Number of		Note	Percentage of	Percentage of
	shares	Capacity		total issued	total issued
				H shares	shares
				(%)	(%)
FIL Limited	98,612,000 (L)	Investment manager		8.96 (L)	2.68 (L)
National Council for Social Security Fund	88,061,470 (L)	Beneficial owner		8.00 (L)	2.39 (L)
The Bank of New York Mellon	87,276,000 (L)	Custodian		7.93 (L)	2.37 (L)
(formerly known as “The Bank of New York”)	0 (P)			0 (P)	0 (P)
The Bank of New York Mellon Corporation	87,276,000 (L) 87,276,000 (P)	Interest in corporation controlled by substantial Shareholder	(4)	7.93 (L) 7.93 (P)	2.37 (L) 2.37 (P)
Templeton Asset Management Limited	77,714,600 (L)	Investment manager		7.06 (L)	2.11 (L)
GE Asset Management Incorporated	75,973,334 (L)	Investment manager		6.91 (L)	2.06 (L)
BlackRock, Inc.	55,192,000 (L) 0 (S)	Interest in corporation controlled by substantial Shareholder	(5)	5.01 (L) 0 (S)	1.50 (L) 0 (S)

(L) Long Position

(S) Short Position

(P) Lending Pool

*Note:*

- As Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Yufu Asset Management Group Co., Ltd. were wholly owned by Chongqing State-Owned Assets Supervision and Administration Commission, which 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.
- Chongqing Construction Engineering Group Co., Ltd. is held as to 96.18% by Chongqing State-Owned Assets Supervision and Administration Commission 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, Chongqing State-Owned Assets Supervision and Administration Commission 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 Co., Ltd. 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.

4. 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 of 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 of H shares of the Company.
5. BlackRock Inc. was interested in 55,192,000 H shares of the Company by virtue of its control over the following corporations which held direct interests in the Company

Name of controlled corporation	Name of the controlling shareholder	Percentage of ownership in controlled corporation %	Direct interest (Y/N)	Number of shares
BlackRock Holdco 2 Inc.	Blackrock Inc.	100	N	55,192,000 (L)
BlackRock Financial Management, Inc.	BlackRock Holdco 2 Inc.	100	Y	55,192,000 (L)
BlackRock Holdco 4 LLC	BlackRock Financial Management, Inc.	100	N	54,956,000 (L)
BlackRock Holdco 6 LLC	BlackRock Holdco 4 LLC	100	N	54,956,000 (L)
BlackRock Delaware Holdings, Inc.	BlackRock Holdco 6 LLC	100	N	54,956,000 (L)
BlackRock Institutional Trust Company, N.A.	BlackRock Delaware Holdings, Inc.	100	Y	54,956,000 (L)
BlackRock Fund Advisors	BlackRock Institutional Trust Company, N.A.	100	Y	574,000 (L)
BlackRock Advisors Holdings Inc.	BlackRock Financial Management, Inc.	100	N	236,000 (L)
BlackRock International Holdings Inc.	BlackRock Advisors Holdings Inc.	100	N	236,000 (L) 236,000 (S)
BR Jersey International LP	BlackRock International Holdings Inc.	100	N	236,000 (L) 236,000 (S)
BlackRock Australia Holdco Pty Ltd	BR Jersey International LP	100	N	16,000 (L)
BlackRock Asset Management Australia Limited	BlackRock Australia Holdco Pty Ltd	100	Y	16,000 (L)
BlackRock Group Limited	BR Jersey International LP	100	N	220,000 (L)
Blackrock Advisors UK Ltd.	BlackRock Group Limited	100	Y	220,000 (L)

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 31 December 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 CONTRACTS**

None of the Directors has a service contract with the Company which is not terminable 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 apart from the business of the Group, 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 31 December 2011, the date to which the latest published audited consolidated accounts of the Group were made up.

**9. MISCELLANEOUS**

- (i) The principal place of business of the Company in the PRC is No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC. The Company is in the process of changing its registered address.
- (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 text of this circular shall prevail over the Chinese text.



**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 THE ANNUAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an Annual General Meeting (the “Meeting”) of Chongqing Machinery & Electric Co., Ltd.\* (the “Company”) will be held at the Report Hall, 2/F, Jidian Building, No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC on Monday, 18 June 2012 at 10:00 a.m. (or at any adjournment thereof) for the following purposes:

**ORDINARY RESOLUTIONS**

1. To consider and approve the report of the Board of the Company for the year ended 31 December 2011;
2. To consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2011;
3. To consider and approve the audited consolidated financial statements of the Company and its subsidiaries and the Auditors Report for the year ended 31 December 2011;
4. To consider and approve the profit appropriation proposal of the Company for the year ended 31 December 2011;
5. To consider and approve the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the PRC auditors and PricewaterhouseCoopers as the international auditors of the Company to hold office until the conclusion of the next annual general meeting and the review and audit fees of approximately RMB4.7 million for the Company’s 2012 interim financial statements and annual financial statements;



6. To consider and approve the renewal of guarantee by the Company for loans of RMB37 million of Chongqing Pigeon;
7. To consider and approve the renewal of guarantee by the Company for loans of RMB80.44 million of Chongqing CAFF;
8. To consider and approve the renewal of guarantee by the Company for loans of RMB115 million of Huahao Smelting;
9. To consider and approve the renewal of guarantee by the Company for a loan of GBP5.3 million of Holroyd;
10. To consider and approve the appointment of Mr. Jin Jingyu as an independent non-executive Director of the Company.

### SPECIAL RESOLUTIONS

11. The proposal by the Board to amend the Articles of the Company in the manner as set out in the circular of the Company dated 30 March 2012 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.
12. To give a general mandate to the Board to allot, issue and deal with additional Domestic Shares and/or the H Shares and to make or grant offers, agreements and/or options in respect thereof (the “General Mandate”), subject to the following conditions:

**“THAT**

- (A) (a) the General Mandate shall not extend beyond the Relevant Period save that the Board may during the Relevant Period make or grant offers, agreements and/or options which may require the exercise of such power after the end of the Relevant Period;
- (b) the aggregate nominal amount of the Domestic Shares and the H Shares allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board (otherwise than pursuant to any scrip dividend scheme (or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend), any share option scheme, a Rights Issue or any separate approval of the shareholders of the Company) shall not exceed:

- (i) 20 per cent of the aggregate nominal amount of the Domestic Shares in issue; and
  - (ii) 20 per cent of the aggregate nominal amount of the H Shares in issue, respectively, in each case as at the date of passing of this resolution; and
- (c) the Board will only exercise its power under the General Mandate in accordance with the Company Law of the PRC and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as each of them may be amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant government authorities in the PRC are obtained;

and, for the purposes of this resolution:

**“Domestic Share(s)”** mean ordinary domestic share(s) in the share capital of the Company which are subscribed and/or paid for in Renminbi;

**“H Share(s)”** mean overseas listed foreign invested shares (being ordinary shares) in the share capital of the Company which are subscribed and/or paid for in Hong Kong dollars or foreign currency other than Renminbi;

**“Relevant Period”** means the period from the date of passing this resolution until the earlier of: (a) the conclusion of the next annual general meeting of the Company following the passing of this resolution, unless, by special resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or (b) the expiry of the period within which the next annual general meeting is required by the articles of association of the Company or any applicable law to be held; or (c) the passing of a special resolution of the Company in a general meeting revoking or varying the authority set out in this resolution;

**“Rights Issue”** means the allotment or issue of shares in the Company or other securities which would or might require shares to be allotted and issued pursuant to an offer made to all the shareholders of the Company (excluding, as the Board may decide, for such purpose any shareholder who is resident in a place where such offer is not permitted under the law or regulation of that place) entitled to such offer, pro rata (apart from fractional entitlements) to their then existing holdings of shares; and

- (B) contingent on the Board resolving to exercise the General Mandate and/or issue shares pursuant to paragraph (a) of this resolution, the Board be and is hereby authorised:
- (a) to approve, execute and do, or procure to be executed and done all such documents, deeds and matters which it may consider necessary in connection with the exercise of the General Mandate and/or the issue of shares, including but not limited to the time, price, quantity and place for such issue, to make all necessary applications to the relevant authorities, and to enter into underwriting agreement(s) or any other agreement(s);
  - (b) to determine the use of proceeds and to make all necessary filings and registration with the relevant authorities in the PRC, Hong Kong and/or any other places and jurisdictions (as appropriate); and
  - (c) to increase the registered capital of the Company and make all necessary amendments to the Articles to reflect such increase and to register the increased capital with the relevant authorities in the PRC, Hong Kong and/or any other places and jurisdictions (as appropriate) as so to reflect the new capital and/or share capital structure of the Company.”

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

Chongqing, the PRC  
30 March 2012

*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 17M Floor, 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. 60, Middle Section of Huangshan Avenue, New North Zone, 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. For the identification of Members who are qualified to attend and vote at the Meeting, the register of Members in Hong Kong will be closed from 19 May 2012 to 18 June 2012, both days inclusive, during which period no transfer of H shares of the Company will be effected. 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 Rooms 1712-1716, 17<sup>th</sup> Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 18 May 2012. The record date of the Company will be Friday, 29 June 2012. In order to ascertain the entitlements of the shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Saturday, 23 June 2012 to Friday, 29 June 2012 (both days inclusive), during which period no transfer of shares will be effected. All transfer documents of the holders of H Shares of the Company must be lodged at our H Share Registrar at Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17<sup>th</sup> Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 22 June 2012.
4. Whether or not the holders of H shares of the Company who intend to attend the Meeting 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 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, or by fax on or before Tuesday, 29 May 2012.
5. Whether or not the holders of domestic shares of the Company who intend to attend to the Meeting 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. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC, or by fax on or before Tuesday, 29 May 2012.

*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*