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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) MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS
(3) CHANGE OF TWO DIRECTORS;
(4) CHANGE OF THREE SUPERVISORS;
AND
(5) SUPPLEMENTAL NOTICE OF THE EGM.

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



TC Capital
天財資本

A supplemental notice convening the first EGM of Chongqing Machinery & Electric Co., Ltd.* for 2013 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 Wednesday, 10 April 2013 at 10:00 a.m. is set out on pages 70 to 74 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 reply slip published by the Company on 19 February 2013 in accordance with the instructions printed thereon not later than Wednesday, 20 March 2013 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.

15 March 2013

* For identification purposes only

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DEFINITIONS

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

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| “Articles” | the articles of association of the Company |
| “Announcement” | the announcement dated 17 February 2013 published by the Company in relation to, among other things, the Group Financial Services Framework Agreement and the Parent Group Financial Services Framework Agreement |
| “Supplemental Agreement Announcement” | the announcement dated 13 March 2013 published by the Company in relation to, among other things, the Group Financial Services Framework Supplemental Agreement and the Parent Group Financial Services Framework Supplemental Agreement |
| “associates” | has the meaning ascribed to it under the Listing Rules |
| “Board” | the board of Directors of the Company |
| “CBRC” | China Banking Regulatory Commission (中國銀行業監督管理委員會) |
| “Company” | Chongqing Machinery & Electric Co., Ltd.* (重慶機電股份有限公司) |
| “controlling shareholder” | has the meaning ascribed to it under the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “Domestic Share(s)” | 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” | the first extraordinary general meeting of 2013 to be held by the Company to consider and, if thought fit, to approve, among other things: (1) proposed amendments to the Articles; (2) major transaction and continuing connected transactions; (3) change of two Directors; and (4) change of three Supervisors |

DEFINITIONS

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|---|---|
| “Finance Company” | Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd.* (重慶機電控股集團財務有限公司), a limited liability company established in the PRC on 16 January 2013 by the Company, the Parent Company and China Industrial International Trust Limited* (興業國際信託有限公司), which is owned as to 51%, 30% and 19% by the Company, the Parent Company and China Industrial International Trust Limited respectively |
| “Group” | the Company and its associates |
| “Group Financial Services Framework Agreement” | the financial services framework agreement entered into between the Company and the Finance Company on 17 February 2013 |
| “Group Financial Services Framework Supplemental Agreement” | the financial services framework supplemental agreement entered into between the Company and the Finance Company on 13 March 2013 to amend certain terms under the Group Financial Services Framework Agreement, including but not limited to the pricing basis of deposit services and the effective date thereof |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “H Shares” | overseas-listed foreign shares of the Company with a nominal value of RMB1.00 each, which are listed on the Stock Exchange |
| “Independent Board Committee” | an independent committee of the Board composed of independent non-executive Directors of the Company, namely Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Kong Weiliang and Mr. Jin Jingyu |

DEFINITIONS

| | |
|--|--|
| “Independent Financial Adviser” or “TC Capital” | TC Capital Asia Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the deposit services and loan services under the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement) and the loan services and guarantee services under the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement) |
| “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 |
| “Latest Practicable Date” | 12 March 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Parent Company” | 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” | Parent Company and its associates, excluding the Group |

DEFINITIONS

| | |
|--|---|
| “Parent Group Financial Services Framework Agreement” | the financial services framework agreement entered into between the Parent Company and the Finance Company on 17 February 2013 |
| “Parent Group Financial Services Framework Supplemental Agreement” | the financial services framework supplemental agreement entered into between the Parent Company and the Finance Company on 13 March 2013 to amend certain terms under the Parent Group Financial Services Framework Agreement, including but not limited to the pricing basis of deposit services, guarantee services and other financial services and the effective date thereof |
| “PBOC” | the People’s Bank of China, the central bank of the PRC |
| “PRC” | 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 |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time |
| “Shares” | the Domestic Shares and/or the H Shares |
| “Shareholders” | holder(s) of the Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Supervisor(s)” | 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. Yu Gang *(as Acting Chairman)*

Mr. Liao Shaohua

Mr. Chen Xianzheng

Mr. Xie Huajun

Registered office and Principal place of

Business in the PRC:

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

Principal place of business in Hong Kong:

Suite 2008, 20/F, Jardine House

1 Connaught Place, Central

Hong Kong

Non-executive Directors:

Mr. Huang Yong

Mr. Wang Jiyu

Mr. Liu Liangcai

Mr. Yang Jingpu

Independent non-executive Directors:

Mr. Lo Wah Wai

Mr. Ren Xiaochang

Mr. Kong Weiliang

Mr. Jin Jingyu

15 March 2013

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED AMENDMENTS TO THE ARTICLES;
(2) MAJOR TRANSACTION AND CONTINUING CONNECTED
TRANSACTIONS
(3) CHANGE OF TWO DIRECTORS;
(4) CHANGE OF THREE SUPERVISORS;
AND
(5) SUPPLEMENTAL NOTICE OF THE EGM.**

1. INTRODUCTION

Reference is made to the Announcement and the Supplemental Agreement Announcement. 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) major transaction and continuing connected transactions; (iii) change of two Directors; and (iv) change of three Supervisors.

LETTER FROM THE BOARD

2. PROPOSED AMENDMENTS TO THE ARTICLES

On 28 December 2012, the Board received a notice from China Huarong Asset Management Co., Ltd.* (中國華融資產管理公司), a shareholder of the Company, advising the Company that it had changed its name to China Huarong Asset Management Co., Ltd.* (中國華融資產管理股份有限公司).

Therefore, the proposed amendment to the Articles is to change China Huarong Asset Management Co., Ltd.* (中國華融資產管理公司) to China Huarong Asset Management Co., Ltd.* (中國華融資產管理股份有限公司), the details of which are set out in part I of Appendix II hereto.

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

3. MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

Group Financial Services Framework Agreement and Group Financial Services Framework Supplemental Agreement

On 17 February 2013, the Company and the Finance Company entered into a financial services framework agreement, pursuant to which, the Finance Company will provide financial services, including guarantee services and other financial services to the Group; subject to approval of the Independent Shareholders, the Finance Company will also provide to the Group deposit services and loan services. On 13 March 2013, the Company and the Finance Company entered into a financial services framework supplemental agreement to amend certain terms under the Group Financial Services Framework Agreement, including but not limited to the pricing basis of deposit services and the effective date thereof. The Group is not under any obligation to obtain any or all of the financial services provided by the Finance Company and may obtain such financial services based on its business needs.

LETTER FROM THE BOARD

Parent Group Financial Services Framework Agreement and Parent Group Financial Services Framework Supplemental Agreement

In addition, on 17 February 2013, the Parent Company and the Finance Company entered into a financial services framework agreement, pursuant to which, the Finance Company will provide financial services, including deposit services and other financial services to the Parent Group; subject to approval of Independent Shareholders, the Finance Company will also provide to the Parent Group loan services and guarantee services. On 13 March 2013, the Parent Company and the Finance Company entered into the Financial Services Framework Supplemental Agreement to amend certain terms under the Parent Group Financial Services Framework Agreement, including but not limited to the pricing basis of deposit services, guarantee services and other financial services and the effective date thereof. The Finance Company is not under any obligation to provide any or all of the financial services to the Parent Group and may offer such financial services based on its business needs.

Group Financial Services Framework Agreement (As Amended by the Group Financial Services Framework Supplemental Agreement)

On 17 February 2013, the Company and the Finance Company entered into a financial services framework agreement; on 13 March 2013, the Company and the Finance Company entered into a financial services framework supplemental agreement to amend certain terms under the Group Financial Services Framework Agreement, including but not limited to the pricing basis of deposit services and the effective date thereof, the major terms of which are set out as follows:

- Date: 17 February 2013 (the date of the Group Financial Services Framework Supplemental Agreement is 13 March 2013)
- Parties: (i) the Company; and
(ii) the Finance Company
- Term: The terms of the deposit services and loan services under the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement) shall become effective from the date of approval by Independent Shareholders and expire on 31 December 2013. The terms of the guarantee services and other financial services under the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement) shall become effective from the date thereof and expire on 31 December 2013.

LETTER FROM THE BOARD

Services: Pursuant to the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement), the Finance Company agreed to provide financial services to the Group including deposit services, loan services, guarantee services and other financial services.

The Finance Company undertakes under the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement) that the terms of any financial services to be provided by the Finance Company to the Group will be no less favourable than those of similar financial services provided by independent third parties to the Group (subject to no violation of relevant laws and regulations).

The Group is not under any obligation to obtain any or all of the financial services provided by the Finance Company and may obtain such financial services based on its business needs.

Payment terms: The payment terms will be specified on each separate contract to be agreed by the parties.

Pricing standards: The pricing standards of financial services set by the Finance Company are as follows:

Deposit Services

The interest rates of deposits provided by the Finance Company to the Group will not be lower than interest rates for deposits of similar nature and under similar terms provided to the Group by other independent commercial banks in the PRC.

The Company will obtain the interest rates for deposits of similar nature and under similar terms from at least two banks among the national commercial banks in China and local commercial banks in Chongqing that have business relations with the Company, and compare with the interest rates provided by the Finance Company to the Group for deposits of similar nature and under similar terms to ensure that the interests the Group will receive on its deposits are in compliance with the above pricing standards for deposit services.

LETTER FROM THE BOARD

Loan Services

The interests of loans provided by the Finance Company to the Group will not be higher than the range of interest rates set by the PBOC for loans of similar nature and under similar terms, and not higher than interest rates for loans of similar nature and under similar terms charged to Group by other independent commercial banks in the PRC.

The lower end of the interest rates floating range stipulated by the PBOC for loans extended by financial institutions is 80% of the benchmark interest rates.

The interests of loan provided by the Finance Company to the Group will be determined in accordance with the following principles: (a) the loans shall be provided at a price based on the benchmark interest rates stipulated by the PBOC or at the prime interest rate (the floating downward) within the floating range allowed by such stipulation; and (b) the price determined should not be higher than the lowest quotation obtained by making inquiries of various banks.

The Company will make inquiries to at least two banks among the national commercial banks in China and local commercial banks in Chongqing that have business relations with the Company in respect of loan services of similar nature and under similar terms and submit the results to the Finance Company. The Finance Company then will make final assessment and determine the final rates for services provided to the Group by reference to Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indicators and others factors, so as to ensure that the interests of loan provided by the Finance Company to the Group are in compliance with the above pricing standards for loan services.

LETTER FROM THE BOARD

Guarantee Services

The fees charged by the Finance Company for the provision of guarantee services will not be higher than the fees charged by any independent third party on the Group for the same type of services, or the fees charged by the Finance Company on any third party of same credit rating for the same type of services.

The Company will make inquiries to at least two banks or guarantee institutions among the national commercial banks in China and local commercial banks in Chongqing and guarantee institutions that have business relations with the Company in respect of guarantee services of similar nature and under similar terms and submit the results to the Finance Company which, then, will make final assessment and determine the final rates for guarantee services provided to the Group by reference to the Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indicators and others factors, so as to ensure that the fees charged by the Finance Company are in compliance with the above pricing standards.

Other Financial Services (including bill discounting services, consultancy services and agency services)

The fees charged by the Finance Company for the provision of such other financial services will not be higher than the fees charged by any independent third party on the Group for the same types of services.

The Company will make inquiries to at least two banks among the national commercial banks in China and local commercial banks in Chongqing that have business relations with the Company in respect of other financial services of similar nature and submit the results to the Finance Company which, then, will make final assessment and determine the final rates for other financial services provided to the Group by reference to the Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indicators and others factors, so as to ensure that the fees charged by the Finance Company for other financial services are in compliance with the above pricing standards for other financial services.

LETTER FROM THE BOARD

Proposed Annual Caps Amounts and the Basis for the Financial Services under the Group Financial Services Framework Agreement (As Amended by the Group Financial Services Framework Supplemental Agreement)

Deposit Services

The Directors proposed the annual cap of RMB1,250,000,000 (including the corresponding accrued interests) for the deposit services under the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement).

As at 31 December 2010, 31 December 2011 and 30 June 2012, the Group had cash and cash equivalent of RMB2,118,810,000, RMB2,789,570,000 and RMB2,826,350,000, respectively. As at 31 December 2012, the Group had cash and cash equivalents amounting to approximately RMB2,700,000,000 (unaudited), the balance is approximately RMB1,200,000,000 after deducting the following capital which is restricted for use or used for special purposes: (1) approximately RMB400,000,000 of margin deposits for notes, performance, etc., (2) approximately RMB1,000,000,000 of corporate bonds and (3) approximately RMB80,000,000 of special fund for project construction. Having taken into account of (a) the above figures, (b) the Group's expectation of capital needs for the period from now up to 31 December 2013, and (c) the Finance Company's financial ability, the Group estimates that the maximum daily amount of the Group's deposits with the Finance Company for 2013 is RMB1,250,000,000 (including the corresponding accrued interests).

Loan Services

The Directors proposed the annual cap of RMB960,000,000 (including the corresponding accrued interests) for the loan services under the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement).

LETTER FROM THE BOARD

As at 31 December 2010, 31 December 2011 and 30 June 2012, the borrowings and loans of the Group amounted to RMB1,542,950,000, RMB2,669,690,000 and RMB2,532,050,000 (the Company issued corporate bonds of RMB1,000,000,000 in August 2011), respectively. As at 31 December 2012, the balance of the Company's short-term bank loans for working capital amounted to approximately RMB1,200,000,000 (unaudited), the cash pool loans (資金池貸款) of the Company amounted to approximately RMB200,000,000 and the long-term bank loans of the Company amounted to approximately RMB400,000,000 (given the long duration, the long-term loans will not be replaced with the loans from the Finance Company in 2013). In respect of capital needs, the Company does not expect any significant growth in the total loans for working capital in 2013. Therefore, the cap for loans to be provided by the Finance Company to the Company in 2013 will be around RMB1,400,000,000, which, plus the cap for loans to be provided by the Finance Company to the Parent Group in 2013 of approximately RMB1,565,000,000, totals approximately RMB2,965,000,000. Thus, the loans provided to the Group are expected to account for approximately 45% of the total loans of the Finance Company.

However, given the capital strength and loan-to-deposit ratio requirement of the Finance Company and the estimated total amount of deposits of approximately RMB2,700,000,000 to be taken by the Finance Company in 2013, the maximum amount that the Finance Company could lend out would be around RMB2,000,000,000 based on the highest loan-to-deposit ratio of 75% for banks. Calculated based on the assumption that 45% of the loan amount would be available to the Group in 2013, the cap for loans to be provided to the Group is estimated to be RMB900,000,000, which, plus interest of RMB60,000,000 (estimated), means that the cap for the loans of the Group from the Finance Company in 2013 would be RMB960,000,000. Having taken into account of (a) the above figures, (b) the Group's expectation of capital needs for the period from now up to 31 December 2013, and (c) the Finance Company's financial ability, the Group estimates that the maximum daily amount of the Group's loans from the Finance Company for 2013 is RMB960,000,000 (including the corresponding accrued interests).

Guarantee Services

As the guarantee services are for the benefit of the Group and no security over the assets of the Group is granted in respect thereof, such services are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. Accordingly the Directors have determined not to set a cap for the guarantee services.

LETTER FROM THE BOARD

Other Financial Services (including the bill discounting services, consultancy services and agency services)

If calculated with an operating revenue of the Group not lower than approximately RMB10,500,000,000, being that of the Group recorded for the year ended 31 December 2011, the sales amount (tax inclusive) will be approximately RMB12,200,000,000. As approximately 40% of the Group's sales are conducted by bill settlement, the amount of banker's acceptance bill to be received by the Group in 2013 will be approximately RMB4,800,000,000. Among them, it is expected that bills of RMB1,000,000,000 will be used for bill discounting (the remaining bills will be used for endorsed transfer or held to maturity), for which the Group expected to pay bill discounting fee of approximately RMB50,000,000, as calculated at 2012 annual average discount rate of 5%. By reference to (a) the data set out above; (b) Based on the business growth status of the Group in the previous years and the future development plan of the Group and the Finance Company, and the demand for Other Financial Services (including the bill discounting services, consultancy services and agency services), the Directors anticipate that the fees payable by the Group to the Finance Company for other financial services for 2013 will not be more than RMB52,000,000.

Parent Group Financial Services Framework Agreement (As Amended by the Parent Group Financial Services Framework Supplemental Agreement)

On 17 February 2013, the Parent Company and the Finance Company entered into a financial services framework agreement. On 13 March 2013, the Parent Company and the Finance Company entered into a financial services framework supplemental agreement, the major terms of which are set out as follows, to amend certain terms under the Parent Group Financial Services Framework Agreement, including but not limited to the pricing basis of deposit services, guarantee services and other financial services and the effective date thereof:

Date: 17 February 2013 (the date of the Parent Group Financial Services Framework Supplemental Agreement is 13 March 2013)

LETTER FROM THE BOARD

- Parties:
- (i) the Parent Company; and
 - (ii) the Finance Company
- Term:
- The terms of the loan services and guarantee services under the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement) shall become effective from the date of approval by Independent Shareholders and expire on 31 December 2013. The terms of the deposit services and other financial services under the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement) shall become effective from the date thereof and expire on 31 December 2013.
- Services:
- Pursuant to the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement), the Finance Company agreed to provide the financial services to the Parent Group including deposit services, loan services, guarantee services and other financial services.
- The Finance Company is not under any obligation to provide any or all of the financial services to the Parent Group and may provide such financial services based on its business needs.
- Payment terms:
- The payment terms will be specified on each separate contract to be agreed by the parties.

LETTER FROM THE BOARD

Pricing standards: The pricing standards of the financial services set by the Finance Company are as follows:

Deposit Services

The interest rates of deposits provided by the Finance Company to the Parent Group will not be higher than interest rates for deposits of similar nature and under similar terms provided to Parent Group by other independent commercial banks in the PRC.

The Company will make inquiries to at least two banks among the national commercial banks in China and local commercial banks in Chongqing that have business relations with the Company in respect of interest rates of deposits of similar nature and under similar terms and compare such rates with the interest rate the Finance Company provided to the Parent Group for deposits of similar nature and similar terms, so as to ensure that the interests the Parent Group will receive on its deposits are in compliance with the above pricing standards for deposit services.

Loan Services

The interests of rates of loans provided by the Finance Company to the Parent Group will not be lower than the range of interest rates set by the PBOC for loans of a similar nature and under similar terms, and not lower than interest rates for loans of a similar nature and under similar terms charging the Parent Group by other independent commercial banks in the PRC.

The lower end of the interest rates floating range stipulated by the PBOC for loans extended by financial institutions is 80% of the benchmark interest rates.

LETTER FROM THE BOARD

The Company will make inquiries to at least two banks among the national commercial banks in China and local commercial banks in Chongqing that have business relations with the Company in respect of loan services of similar nature and under similar terms and submit the results to the Finance Company. The Finance Company then will make final assessment and determine the final rates for services provided to the Parent Group by reference to the Parent Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indicators and others factors, so as to ensure that the interests of loan provided by the Finance Company to the Parent Group are in compliance with the above pricing standards for loan services.

Guarantee Services

The fees charged by the Finance Company for provision of guarantee services to the Parent Group will not be lower than the fees charged by any independent third party on the Parent Group for the same type of services or the fees charged by the Finance Company on any third party of same credit rating for the same type of services.

The Finance Company make inquiries to at least two banks or guarantee institutions among the national commercial banks in China, as well as the local commercial banks and guarantee institutions in Chongqing, which have business relations with the Company in respect of guarantee services of similar nature and under similar terms and submit the results to the Finance Company. The Finance Company will then make final assessment and determine the final rates for guarantee services provided to the Parent Group by reference to the Parent Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indicators and others factors, so as to ensure that the fees charged by the Finance Company are in compliance with the above pricing standards for guarantee services.

LETTER FROM THE BOARD

Other Financial Services (including bill discounting services, consultancy services and agency services)

The fees charged by the Finance Company for provision of such other financial services will not be lower than the fees charged by any independent third party on the Parent Group for the same types of services.

The Finance Company will make inquiries to at least two banks among the national commercial banks in China and local commercial banks in Chongqing that have business relations with the Company in respect of other financial services of similar nature and submit the results to the Finance Company which, then, will make final assessment and determine the final rates for other financial services provided to Parent Group by reference to the Parent Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indicators and others factors, so as to ensure that the fees charged by the Finance Company are in compliance with the above pricing standards for other financial services.

Proposed Annual Caps Amounts and the Basis for the Financial Services under the Parent Group Financial Services Framework Agreement (As Amended by the Parent Group Financial Services Framework Supplemental Agreement)

Deposit Services

As the deposit services are for the benefit of the Group and no security over the assets of the Group is granted in respect thereof, such services are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. Accordingly, the Directors have determined not to set a cap for the deposit services.

LETTER FROM THE BOARD

Loan Services

The Directors proposed the annual cap of RMB1,170,000,000 (including the corresponding accrued interests) for the loan services under the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement).

As at 31 December 2010, 31 December 2011 and 30 June 2012, the borrowings and loans of the Parent Group amounted to RMB3,517,240,000, RMB3,494,030,000 and RMB5,220,240,000, respectively. As at 31 December 2012, the short-term borrowing of the Parent Group amounted to approximately RMB2,500,000,000 (unaudited). The Parent Group expects that its total loan for working capital for 2013 will not increase significantly. Of the Parent Group's short-term borrowings amounting to RMB2,500,000,000, RMB735,000,000 will be due in December 2013 and thereafter, and RMB200,000,000 will be due in November 2013. Therefore, the maximum cap for loans provided by the Finance Company to the Parent Company in 2013 will be approximately RMB1,565,000,000, which, plus the maximum cap for loans provided by the Finance Company to the Group in 2013 of approximately RMB1,400,000,000, totals approximately RMB2,965,000,000. Thus, the loans provided to the Parent Group are expected to account for approximately 55% of the total loans of the Finance Company.

However, given the capital strength and loan-to-deposit ratio requirement of the Finance Company and the estimated total amount of deposits of approximately RMB2,700,000,000 to be taken by the Finance Company in 2013, the maximum amount that the Finance Company could lend out would be around RMB2,000,000,000 based on the highest loan-to-deposit ratio requirement of 75% for banks. Calculated based on the assumption that 55% of the loan amount would be available to the Parent Group, the cap for loans to be provided to the Parent Group is estimated to be RMB1,100,000,000, which, plus interest of RMB70,000,000 (estimated), means that the cap for the loans of the Parent Group from the Finance Company in 2013 would be RMB1,170,000,000. Having taken into account of (a) the above figures, (b) the Parent Group's expectation of capital needs for the period from now up to 31 December 2013, and (c) the Finance Company's financial ability, the maximum daily amount of the Parent Group's loans from the Finance Company for 2013 has been estimated at RMB1,170,000,000 (including the corresponding accrued interests).

LETTER FROM THE BOARD

Guarantee Services

The Directors proposed the annual cap of RMB618,000,000 (including the corresponding handling fees) for the guarantee services under the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement) for the year ended 31 December 2013.

As at 31 December 2010, 31 December 2011 and 30 June 2012, the amount of guarantees provided by the Parent Company to its subsidiaries amounted to RMB1,204,000,000, RMB2,254,000,000 and RMB2,610,000,000, respectively. According to the requirements of the Provisional Measures for Risk Regulation Indicators Assessment of Finance Companies of Enterprise Groups (《企業集團財務公司風險監管指標考核暫行辦法》) issued by the CBRC, the ratio of guarantee exposures against the total assets of the Finance Company shall be not higher than 100%. Given the registered capital of the Finance Company of RMB600,000,000, and having taken into account of the above historical amounts and requirements, the maximum amount of guarantees to be provided by the Finance Company for 2013 has been estimated at RMB600,000,000.

Other Financial Services (including the bill discounting services, consultancy services and agency services)

If calculated with an operating revenue of the Parent Group (excluding the Group) not lower than approximately RMB6,000,000,000 (unaudited), being that of the Parent Group recorded for the year ended 31 December 2012, the sales amount (tax inclusive) will be approximately RMB7,000,000,000. As approximately 40% of the Parent Group's sales are conducted by bill settlement, the amount of banker's acceptance bill to be received by the Parent Group in 2013 will be approximately RMB2,800,000,000. Among them, it is expected that 30% of the bills, being approximately RMB840,000,000, will be used for bill discounting (the remaining bills will be used for endorsed transfer or held to maturity), for which the Parent Group expected to pay bill discounting fee of approximately RMB42,000,000, as calculated at 2012 annual average discount rate of 5%. By reference to (a) the data set out above; (b) based on the business growth status of the Parent Group in the previous years and the future development plan of the Parent Group and the Finance Company, and demand for other financial services (including the bill discounting services, consultancy services and agency services), the Directors anticipate that the fees payable by the Parent Group to the Finance Company for other financial services for 2013 will not be more than RMB46,000,000.

Internal Controls and Risk Management

In order to safeguard the interests of the Shareholders, the Group and the Finance Company provide for the following risk management measures:

(a) Capital requirement of the Finance Company

Pursuant to the relevant regulations set by CBRC, financial institutions in the PRC have to comply with certain requirements, which include, among other things, the minimum total capital requirement of a capital adequacy ratio of not less than 10% as set out by CBRC. Based on the registered capital of RMB600,000,000 of the Finance Company and that the Finance Company shall provide the financial services not exceeding the proposed annual caps, the Finance Company sets its capital adequacy ratio at not less than 10% in 2013, which is in compliance with relevant provisions of the CBRC. The minimum registered capital of the Finance Company is RMB300,000,000.

(b) Internal control of the Finance Company

The establishment of the Finance Company as a non-bank financial institution was authorized by CBRC, which carries out on-going stringent supervision over the businesses of the Finance Company. The Finance Company is required to provide regulatory report to CBRC on a monthly basis.

The Finance Company has established its own credit policies and credit approval procedures for the loan applications, bills discounting services and bills acceptance services, which are designed in accordance with the relevant PBOC and CBRC regulations. Such measures are able to ensure that the total outstanding balance of various financial services provided by the Finance Company shall not exceed the proposed annual caps approved.

The Group has adopted the internal control procedures and corporate governance procedures to monitor the status of the financial conditions of the Finance Company (in the case of depositary services, loan services, guarantee services and other financial services). The audit committee of the Company will review the finance, operation, risk management system and regulatory compliance of the Company, particularly the implementation of connected transactions, on a regularly basis.

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(c) Qualifications of the Finance Company

The management of the Finance Company has extensive experience in the financial industry where the Group operates and/or financial management. The Finance Company has certain key committees and departments in maintaining the internal control environment and the risk management functions, including, the risk management committee/department, the loan approval committee and the supervisory committee. The risk management committee of the Finance Company will establish the risk management and control strategies and policies, and monitor the implementation of the relevant policies of the Finance Company while the supervisory committee will ensure the Finance Company's compliance with the relevant rules and regulations, and to monitor its operational activities.

Reasons for, and benefits of, the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement) between the Company and the Finance Company

Set out below are reasons for, and benefits of, the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement) between the Company and the Finance Company:

- (a) The Finance Company will become the capital settlement center, capital management center, financing support center, capital operation center and information service center of the Group in the future, which would be able to enhance the financial management and control practices, reduce operational risk and consolidate internal resources of the Group;
- (b) The Finance Company is regulated by the PBOC and the CBRC and provides its services in accordance with the rules and operational requirements of these regulatory authorities. In addition, capital risk could be reduced through the risk management measures;
- (c) The interest rates for the capital deposited by the Group with the Finance Company will not be lower than interest rates for deposits of similar nature and under similar terms provided to Group by other independent commercial banks in the PRC. Such arrangement will enable the Group to increase its interest income more effectively;

LETTER FROM THE BOARD

- (d) The Group is able to obtain loans from the Finance Company at an interest rate not higher than the range of interest rates set by the PBOC for loan of a similar nature and under similar terms and not higher than the interest rates for loan of a similar nature and under similar terms charging the Group by other independent commercial banks in the PRC, which could effectively lower its costs of funding; and
- (e) The Company through its direct 51% equity interest in the Finance Company will be able to share the profits of the Finance Company.

Based on the reasons set out above, the Directors (including members of the Independent Board Committee) are of the view that the terms of the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Reasons for, and benefits of, the Parent Group Financial Services Framework Agreement (As Amended by the Parent Group Financial Services Framework Supplemental Agreement) between the Parent Company and the Finance Company

Set out below are reasons for, and benefits of, the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement) between the Parent Company and the Finance Company:

- (a) It will expand the business scale of the Finance Company, thus benefiting the development of the Finance Company;
- (b) It will consolidate cash resources, enhance the capital utilization efficiency and lower the finance cost;
- (c) It will enlarge the operation scale of the Group, thus enhancing the profitability of the Group; and
- (d) The Company through its direct 51% equity interest in the Finance Company will be able to share the profits of the Finance Company.

Based on the reasons set out above, the Directors (including members of the Independent Board Committee) are of the view that the terms of the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

GENERAL INFORMATION ON THE COMPANY

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

GENERAL INFORMATION ON THE PARENT COMPANY

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.

INFORMATION ON THE FINANCE COMPANY

The Finance Company is a non-bank financial institution established in January 2013 according to PRC laws and with the approval of CBRC. It is subject to the regulation of the PBOC and CBRC. Its principal business is provision of financial services (including but not limited to deposit services, loan services, guarantee services and other financial services) to the Group and the Parent Group.

LISTING RULES IMPLICATIONS

Group Financial Services Framework Agreement (As Amended by the Group Financial Services Framework Supplemental Agreement)

As disclosed in the Announcement, as the Parent Company is the Controlling Shareholder 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 Finance Company, which is owned as to 30% by the Parent Company, is an associate of the Parent Company. Therefore, the transactions under the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement) constitute continuing connected transactions of the Company.

As the interest rate for deposit services to be provided by the Finance Company to the Group will not be lower than interest rates for deposits of similar nature and under similar terms provided to the Group by other independent commercial banks in the PRC, and one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the deposit services exceed 5% and the annual cap exceeds HK\$10,000,000, the deposit services under the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement) are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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As the interest rate for loan services to be provided by the Finance Company to the Group will not be higher than the range of interest rates set by the PBOC for loan of a similar nature and under similar terms or the interest rates for loan of a similar nature and under similar terms charging the Group by other independent commercial banks in the PRC, and one or more of the applicable percentage ratios calculated in respect of the maximum daily loan amount exceed 5% and the annual cap exceeds HK\$10,000,000, the loan services under the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement) are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the fees charged by the Finance Company for the provision of guarantee services to the Group will not be higher than the fees charged by any independent third party on the Group for the same type of services or the fees charged by the Finance Company on any third party of same credit rating for the same type of services and such guarantee services are for the benefit of the Group, and no security over the assets of the Group is granted, the guarantee services under the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement) are exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the fees charged by the Finance Company for the provision of other financial services to the Group will not be higher than the fees charged by any independent third party on the Group for the same type of services, and all the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the service charges for other financial services will exceed 0.1% but less than 5%, such transactions are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules but exempt from Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. Should such transactions exceed the exemption threshold in the future, the Company will comply with the applicable connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

Parent Group Financial Services Framework Agreement (As Amended by the Parent Group Financial Services Framework Supplemental Agreement)

As disclosed in the Announcement, as the Parent Company is the Controlling Shareholder 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 Finance Company, which is owned as to 51% by the Company, is a subsidiary of the Company. Pursuant to the Listing Rules, the Parent Group is a connected person of the Company. Therefore, the transactions under the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement) constitute continuing connected transactions of the Company.

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As the interest rate for deposit services to be provided by the Finance Company to the Parent Group will not be higher than interest rates for deposits of similar nature and under similar terms provided to the Parent Group by other independent commercial banks in the PRC and such deposit services to be provided are for the benefit of the Group, and no security over the assets of the Group is granted, the deposit services under the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement) are exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the interest rate for loan services to be provided by the Finance Company to the Parent Group will not be lower than the range of interest rates set by the PBOC for loan of a similar nature and under similar terms, or the interest rates for loan of a similar nature and under similar terms charging the Parent Group by other independent commercial banks in the PRC, and one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the loan services exceed 5% and the annual cap exceeds HK\$10,000,000, the loan services under the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement) are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Meanwhile, as one or more of the applicable percentage ratios calculated in respect of the maximum daily loan amount exceed 25% but less than 100%, such transactions also constitute major transaction of the Company under Rule 14.06(3) of the Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements for major transaction under Chapter 14 of the Listing Rules.

As the fees charged by the Finance Company for the provision of guarantee services to the Parent Group will not be lower than the fees charged by any independent third party on the Parent Group for the same type of services or the fees charged by the Finance Company on any third party of same credit rating for the same type of services, and one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the guarantee services exceed 5% and the annual cap exceeds HK\$10,000,000, the guarantee services under the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement) are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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As the fees charged by the Finance Company for the provision of other financial services to the Parent Group will not be lower than the fees charged by any independent third party on the Parent Group for the same type of services, and all the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the service charges for other financial services will exceed 0.1% but less than 5%, such transactions are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules but exempt from Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. Should such transactions exceed the exemption threshold in future, the Company will comply with the applicable connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

GENERAL INFORMATION

The Independent Board Committee comprising all independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of deposit services and loan services under the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement), and the terms of loan services and guarantee services under the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement). The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The EGM will be convened by the Company at which resolutions will be proposed to seek approval from the Independent Shareholders for the deposit services and loan services under the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement), and the loan services and guarantee services under the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement). The Parent Company and its associates will abstain from voting on the relevant resolutions to be proposed at the EGM.

Mr. Huang Yong (vice president of the Parent Company), Mr. Wang Jiyu (vice president of the Parent Company), Mr. Yu Gang (director of the Parent Company), Mr. Liao Shaohua (vice president of the Parent Company), and Mr. Xie Huajun (director and chairman of the Parent Company in the past 12 months) hold or held management positions in the Parent Company. Therefore, they are deemed to have material interests in the transactions contemplated under the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement) and the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement) and have abstained from voting on the relevant Board resolutions to approve the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement) and the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement).

4. CHANGE OF TWO DIRECTORS

As disclosed in the Announcement, executive Director Mr. Liao Shaohua will resign as executive Director as he has been transferred to the Parent Company as the vice president and ceased to serve in the Company, with effect from the appointment of Mr. Ren Yong as a new executive Director; Mr. Liu Liangcai will resign as a non-executive Director due to job relocation, with effect from the appointment of Mr. Deng Yong as a new non-executive Director. Mr. Liao Shaohua and Mr. Liu Liangcai have confirmed that they have no disputes with the Company and that there are no matters relating to their 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 Mr. Liao Shaohua and Mr. Liu Liangcai to the Company during their terms of office.

In replacement of Mr. Liao Shaohua and Mr. Liu Liangcai after their resignation, the Company proposes to appoint Mr. Ren Yong as an executive Director and Mr. Deng Yong as a non-executive Director. The appointment of Mr. Ren Yong and Mr. Deng Yong shall be subject to the approval of the Shareholders at the EGM. The biographical details of Mr. Ren Yong and Mr. Deng Yong are as follows:

Mr. Ren Yong, aged 55, is a Vice General Manager of the Company. He joined the Parent Group in February 1982 and the Group in March 2005. He has been a director of the Parent Company since November 2004. He has been the chairman and party committee secretary of Chongqing Heavy Vehicle Group Co., Ltd. since July 2005, and served as the chairman of Chongqing CAFF Automotive Braking & Steering System Co., Ltd. from March 2005 to December 2011. Mr. Ren has been a director and vice chairman of SAIC-IVECO HONGYAN Commercial Vehicle Co., Ltd. (上汽依維柯紅岩商用車有限公司) since June 2006, a director of Chongqing Machinery and Electric Holding (Group) Forging Co., Ltd. (重慶機電控股集團鑄造有限公司) (a wholly-owned subsidiary of the Parent Company) since November 2010, and concurrently served as a director of Chongqing Cummins Engine Co., Ltd. (a 50% owned joint venture of the Company) since January 2011, a director of Chongqing Power Transformer Co., Ltd. (重慶變壓器有限責任公司) (a 65.69% owned associated company of the Company, and the Company has minority voting rights in its board of directors) since October 2011, a director of Chongqing Pigeon Electric Wire & Cable Co., Ltd. (a 74% owned subsidiary of the Company) since December 2011, a director of Chongqing ABB Transformers Co. Ltd. since March 2012 as well as the chairman of Chongqing Power Transformer Co., Ltd. (重慶變壓器有限責任公司) (a 65.69% owned associated company of the Company, and the Company has minority voting rights in its board of directors) since August 2012. Mr. Ren Yong has over 20 years of management experience in the automobile industry. From March 2003 to July 2005, he was the general manager, deputy secretary of party committee, director of Chongqing Heavy the Vehicle Group Co., Ltd. From January 2003 to July 2005, he was the party committee secretary

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and director of Chongqing Hongyan Motor Co., Ltd. He was the chairman of Chongqing Heavy Vehicle Group Special Purpose Vehicle Co., Ltd. in June 2004. From December 2000 to March 2003, he served as deputy general manager and deputy secretary of party committee of Chongqing Heavy Vehicle Group Co., Ltd. From February 1982 to November 1998, he was the deputy manager, head of the assembly division, director of manager office of a branch company of Sichuan Truck Plant. From November 1998 to December 2000, he was the deputy manager of such plant in charge of human resources, salary, education and security, etc. Mr. Ren Yong is a senior engineer who graduated from the Taiyuan Heavy Machinery Institute with a bachelor's degree in equipment and process in February 1982. From September 2002 to July 2008, he studied in the Chongqing University for a master's degree in Business and Administration.

Mr. Deng Yong, aged 52, is the chief financial officer of Chongqing Yufu Assets Management Co., Ltd.. Mr. Deng Yong has over 20 years of experience in the financial industry. He served as an assistant president and general manager of the planning and financial department of the Southwest Securities Co., Ltd. (600369.SH) from August 2008 to April 2012, assistant general manager and manager of the financial department of Chongqing Yufu Assets Management Co., Ltd. from March 2004 to August 2008, deputy general manager of the Linjiang Road and Jiulongpo Divisions of China Galaxy Securities Co., Ltd. from September 2000 to March 2004, deputy general manager of the Chongqing Securities Division of China Cinda Trust & Investment Company (中國信達信託投資公司重慶證券營業部) from June 1997 to September 2000 (he was seconded to work for the work group of red chips of Chongqing Municipal Government (重慶市政府紅籌股工作小組) from September 1997 to June 1998), the manager of the securities investment department of Chongqing Trust & Investment Company (重慶市信託投資公司) from September 1992 to June 1997 and an employee at the Chongqing branch of the China Construction Bank from July 1988 to September 1992. Mr. Deng Yong is an engineer graduated from Chongqing University with a bachelor's degree in Applied Mathematics. He studied and obtained a master degree majoring in econometrics from the Chongqing University from September 1986 to July 1988.

Save as disclosed above, Mr. Ren Yong and Mr. Deng Yong did not hold any directorship in any other listed companies in the last three years, or any other position in the Company or other members of the Group. Mr. Ren Yong and Mr. Deng Yong 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 SFO. If Mr. Ren Yong and Mr. Deng Yong are appointed as Directors at the EGM, the Company will enter into service contracts with them in connection with their appointment respectively, for a term commencing from the date of the EGM until the expiration of the current session of the Board.

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Mr. Ren Yong and Mr. Deng Yong are entitled to a Director's emolument and their remuneration will be determined by the Board with reference to remuneration standards for Directors as approved at the 2009 annual general meeting, which is subject to the approval at the EGM of the appointment of Mr. Ren Yong and Mr. Deng Yong.

Save as disclosed above, the Board is not aware of any matters relating to the proposed appointment of Mr. Ren Yong and Mr. Deng Yong 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.

5. CHANGE OF THREE SUPERVISORS

As disclosed in the Announcement, Mr. Duan Rongsheng will resign as a Supervisor as he has reached the mandatory retirement age, with effect from the appointment of Mr. Yang Mingquan as a new Supervisor; Mr. Zhang Xinzhi will resign as a Supervisor due to job changes, with effect from the appointment of Mr. Wang Pengcheng as a new Supervisor; Mr. Wang Xuqi will resign as a Supervisor as he has reached the mandatory retirement age, with effect from the appointment of Mr. Zhao Zicheng as a new Supervisor. Mr. Duan Rongsheng, Mr. Zhang Xinzhi and Mr. Wang Xuqi have confirmed that they have no disputes with the Company and that there are no matters relating to their 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 Mr. Duan Rongsheng, Mr. Zhang Xinzhi and Mr. Wang Xuqi to the Company during their tenure of office.

In replacement of Mr. Duan Rongsheng and Mr. Zhang Xinzhi after their resignation, the Company proposes to appoint Mr. Yang Mingquan and Mr. Wang Pengcheng as Supervisors. According to Article 125 of the Articles: "appointment and removal of supervisors as staff representatives shall be subject to democratic election at the staff representative meetings, staff meetings or by other way", the Company convened a staff meeting on 12 October 2012, at which Mr. Zhao Zicheng was elected as a Supervisor as staff representative to replace Mr. Wang Xuqi. The appointment of Mr. Zhao Zicheng is not subject to approval by the Shareholders at the EGM. The appointment of Mr. Yang Mingquan and Mr. Wang Pengcheng is subject to approval by the Shareholders at the EGM. The biographical details of Mr. Yang Mingquan, Mr. Wang Pengcheng and Mr. Zhao Zicheng are as follows:

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Mr. Yang Mingquan, aged 58, is the chairman of the supervisory committee of the Parent Company. Mr. Yang Mingquan was the director of Chongqing Changke Urban Rail Transit Vehicle Co., Ltd. (重慶長客城市軌道交通車輛有限責任公司) from February 2009 to October 2012 (during this period, he was the chairman of board of directors of Chongqing Changke Urban Rail Transit Vehicle Co., Ltd. from May 2010 to October 2012). He was the director and chairman of board of directors of Chongqing Machinery and Electric Holding (Group) Engineering Technology Co., Ltd. (重慶機電控股集團機電工程技術有限公司) (a wholly-owned subsidiary of the Parent Company and a connected person of the Group under the Listing Rules) from February 2010 to October 2012, and the director and chairman of board of directors of Chongqing Machinery and Electric Holding (Group) Forging Co., Ltd. (重慶機電控股集團鑄造有限公司) (a wholly-owned subsidiary of the Parent Company and a connected person of the Group under the Listing Rules) from November 2010 to October 2012. Mr. Yang Mingquan is a professor-level senior engineer with over 30 years experience in corporate management. He served as the vice president of the Parent Company from October 2001 to September 2012, the assistant president and the head of the planning and development department of the Parent Company from August 2000 to October 2001, the chief of the technology department of the Chongqing Machinery and Industrial Management Bureau (the predecessor of the Parent Company) from May 1991 to August 2000 and the assistant engineer at the Chongqing Machinery and Industrial Management Bureau from July 1983 to May 1991. Mr. Yang Mingquan graduated from the Chongqing Machinery School in September 1976 majoring in machine manufacturing and from Yuzhou University in September 1983 with a bachelor's degree in machine manufacturing.

Mr. Wang Pengcheng, aged 45. Mr. Wang Pengcheng is a member of the party committee and deputy general manager of the Chongqing office of China Huarong Asset Management Co., Ltd. He has been a director of Chongqing Construction Engineering Group Co., Ltd. since August 2009 and the vice chairman of Southwest Aluminum (Group) Co. Ltd. (西南鋁業集團公司) since May 2012. Mr. Wang Pengcheng is an economist with over 20 years experience in finance. He acted as the senior deputy manager, senior manager and assistant general manager of the Chongqing office of China Huarong Asset Management Co., Ltd. from January 2000 to August 2012, an accountant, head of the office of personnel, deputy chief of the personnel department, deputy chief of the organization department of the Chongqing branch of Industrial and Commercial Bank of China from July 1992 to December 1999. Mr. Wang Pengcheng graduated from Lanzhou University with a bachelor degree in executive management in 1990 and is currently pursuing MBA degree at Chongqing University.

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Mr. Zhao Zicheng, aged 42, is the chairman and secretary of the party committee of Chongqing Water Turbine Works Co., Ltd., the Company's wholly-owned subsidiary. Mr. Zhao Zicheng is a professor-level senior engineer with over 20 years experience in engineering technology. He served as the general manager of Chongqing Pump Industry Co., Ltd. and a director and deputy general manager of Chongqing General Industry (Group) Co., Ltd. (both being the Company's wholly-owned subsidiaries) from October 2007 to January 2010, executive deputy general manager and member of the party committee of Chongqing Pump Industry Co., Ltd. from May 2003 to September 2007, deputy general manager of Chongqing Pump Industry Co., Ltd. from July 1998 to May 2003, technician at the tool workshop and second workshop and deputy chief and chief of the technique division of Chongqing Pump Plant from August 1991 to June 1998. Mr. Zhao Zicheng graduated from the environmental and chemical engineering institute of Chongqing University with a master's degree in environmental engineering in July 2005 and from Southwest Jiaotong University in July 1991 with an associate degree in machine manufacturing process and equipment. He has been taking EMBA courses in Xiamen University since September 2011.

Save as disclosed above, Mr. Yang Mingquan, Mr. Wang Pengcheng and Mr. Zhao Zicheng did not serve as Director in any other listed companies in the last three years, nor do they hold any other position in the Company or other members of the Group or have any relationship with any 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 SFO. If Mr. Yang Mingquan and Mr. Wang Pengcheng are appointed as Supervisors at the EGM, the Company will enter into service contracts with Mr. Yang Mingquan, Mr. Wang Pengcheng and Mr. Zhao Zicheng in connection with their appointment, for a term commencing from the date of the EGM until the expiration of the current session of the Supervisory Committee.

Mr. Yang Mingquan, Mr. Wang Pengcheng and Mr. Zhao Zicheng are entitled to a Supervisor's emolument and their remuneration will be determined by the Board with reference to remuneration standards for Supervisors as approved at the 2009 annual general meeting, which is subject to the approval at the EGM of the appointment of Mr. Yang Mingquan and Mr. Wang Pengcheng.

Save as disclosed above, the Board is not aware of any matters relating to the proposed appointment of Mr. Yang Mingquan, Mr. Wang Pengcheng and Mr. Zhao Zicheng 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 supplemental notice of the EGM is set out on pages 70 to 74 of this circular. At the EGM, resolutions will be proposed to approve, inter alia, (i) the proposed amendment to the Articles; (ii) major transaction and continuing connected transactions; (iii) change of two Directors and (iv) change of three Supervisors.

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.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 reply slip published by the Company on 19 February 2013 in accordance with the instructions printed thereon not later than Wednesday, 20 March 2013 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 are required to abstain from voting for resolutions No. 1, 2, 3, 4 and 5 as shown in the supplemental 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 resolutions 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 amendment to the Articles; (ii) major transaction and continuing connected transactions; (iii) change of two Directors and (iv) change of three Supervisors 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 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.*
Yu Gang
Executive Director (As Acting 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)*

15 March 2013

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular issued by the Company to the Shareholders dated 15 March 2013 (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, 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 transaction contemplated under the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement) and the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement). TC 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 on pages 34 to 60 of the Circular and the additional information is set out in the appendix thereto.

Having considered the transactions under the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement) and the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement), and taking into account the independent advice of TC Capital, in particular the principal factors, reasons and recommendations set out in its letter from pages 34 to 60 of the Circular, we consider that the plan for the Group Financial Services Framework Agreement (as amended by the Parent Financial Services Framework Supplemental Agreement) and the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement) is fair and reasonable as far as the Independent Shareholders are concerned, and 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 2013 to approve the annual cap amounts of such transactions for the year ending 31 December 2013.

Yours faithfully,

For and on behalf of

the Independent Board Committee

Lo Wah Wai, Ren Xiaochang, Kong Weiliang and Jin Jingyu

1. TO AMEND ARTICLE 1 OF THE ARTICLES AS FOLLOWS:

Chongqing Machinery & Electric Co., Ltd. (the “Company”) is a joint stock limited company incorporated in accordance with the Company Law of the People’s Republic of China (the “Company Law”), the Securities Law of the People’s Republic of China (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) (the “Special Provisions”), and other relevant laws and administrative regulations of the People’s Republic of China (the “PRC”, and for the purpose of this Articles of Association, excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and the Taiwan Region)

The Company was established by way of promotion on 27 July 2007. It was registered with the Administration for Industry and Commerce of Chongqing Municipality on the same day and was granted the business license for corporate entities with its registration number being 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 Corp., Ltd. and China Huarong Asset Management Co., Ltd.(中國華融資產管理股份有限公司).

2. TO AMEND THE ARTICLE 17 OF THE ARTICLES AS FOLLOWS:

The Company issued 1,100,187,470 overseas listed foreign-invested shares under the initial public offering upon its inception, among which 1,004,900,000 are new shares and 95,287,470 are state-owned shares. The shareholding structure of the Company after the above mentioned issuance is as follows:

| Name of shareholders | After the initial public offering | |
|--|-----------------------------------|-----------------------------------|
| | Number of shares held (shares) | Percentage of total share capital |
| Shareholders as promoters | | |
| 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 Co., Ltd. (中國華融資產管理股份有限公司) | 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% |



TC Capital Asia Limited
天財資本亞洲有限公司

15 March 2013

The Independent Board Committee and the Independent Shareholders
Chongqing Machinery & Electric Company Limited (the “Company”)

Dear Sir/Madam,

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the depository services and loan services contemplated under the Group Financial Services Framework Agreement (as supplemented by the Group Financial Services Framework Supplemental Agreement), as well as the loan services and guarantee services contemplated under the Parent Group Financial Services Framework Agreement (as supplemented by the Parent Group Financial Services Framework Supplemental Agreement) (the “**Non-exempted transactions**”), which constitute major and continuing connected transactions for the Company. Details of the provision of the financial services contemplated under the Group Financial Services Framework Agreement (as supplemented by the Group Financial Services Framework Supplemental Agreement) and the Parent Group Financial Services Framework Agreement (as supplemented by the Parent Group Financial Services Framework Supplemental Agreement) (the “**Framework and Supplemental Agreements**”) are set out in the “Letter from the Board” (the “**Board Letter**”) contained in the circular of the Company dated 15 March 2013 issued to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular, unless otherwise specified.

Background and terms of the Framework and Supplemental Agreements are set out in the Board Letter in the Circular. Our role as Independent Financial Adviser is to give our opinion as to whether the Non-exempted transactions and their respective annual cap amounts for the years ending 31 December 2013 contemplated under the Framework and Supplemental Agreements are in the interests of the Company, on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

The Parent Company holds approximately 52.22% equity interest in the Company and is therefore a controlling shareholding of the Company as defined under the Listing Rules. As such, the Parent Company is a connected person of the Company within the meaning of the Listing Rules. The Finance Company, which is owned as to 30% by the Parent Company and 51% by the Company, is an associate of the Parent Company and a subsidiary of the Company, respectively. Therefore, the Non-exempted transactions contemplated under the Framework and Supplemental Agreements thus constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

In formulating our opinion and recommendation, we have considered, among other things, (i) the Framework and Supplemental Agreements; (ii) the Company's 2011 annual report and 2012 interim report; and (iii) other information as set out in the Circular. We have also relied on all relevant information, opinions and facts supplied and represented by the Company, the Directors and the management of the Company. We have assumed that all such information, opinions, facts and representations contained or referred to in the Circular, for which the Company is fully responsible, were true and accurate in all respects as at the date hereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, and the Company has confirmed that no material facts have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement therein misleading.

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 recommendation. We have not, however, carried out independent verification of the information, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position or future prospects of each of the Parent Group, the Group, the Finance Company and any of their respective subsidiaries and associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED IN RELATION TO THE CONTINUING CONNECTED TRANSACTIONS

In arriving at our opinion and recommendation in relation to the Framework and Supplemental Agreements, we have taken into consideration the following principal factors and reasons:

I. Background of the Group, the Parent Group and the Finance Company

(a) The Group

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

(b) The Parent Group

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.

(c) The Finance Company

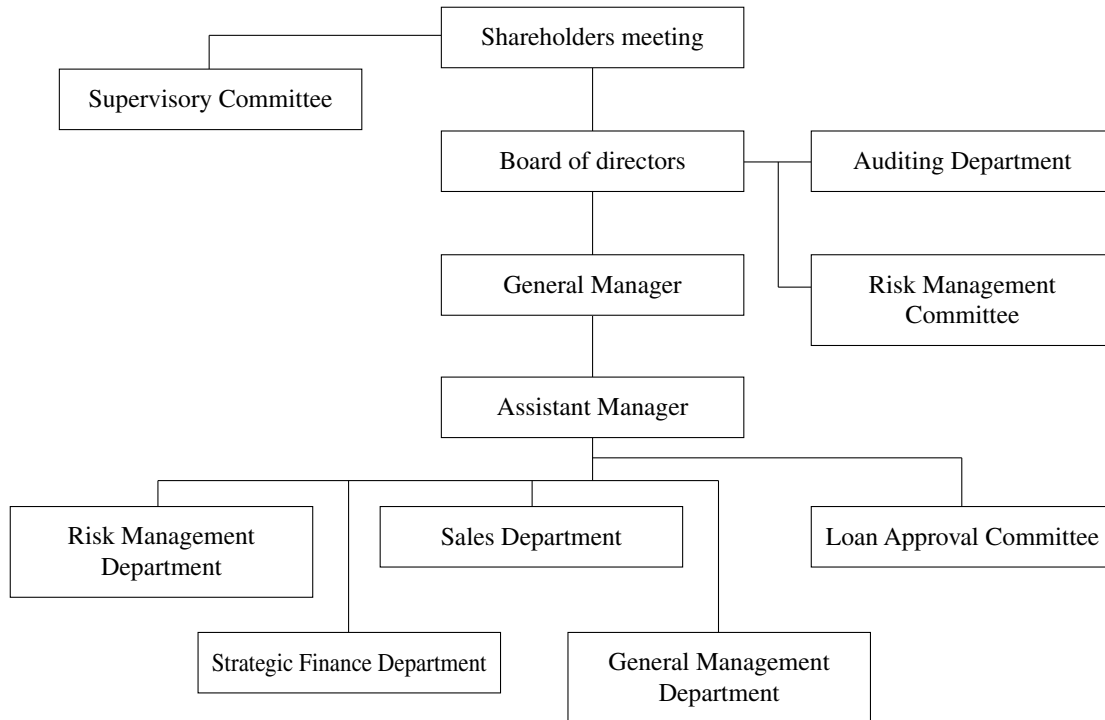
Reference is made to the announcement of the Company dated 16 January 2013. The Finance Company has been granted the approval for the commencement of its business which was issued by the CBRC, as well as the obtaining of the business license from the Chongqing Administration Bureau of Industry and Commerce in January 2013. The Finance Company is a joint venture to be established by Parent Company, the Company and the China Industrial International Trust Limited as a non-bank financial institution according to the PRC laws and with the approval of CBRC. Its principal business is the provision of financial services (including but not limited to depository services, loan services, guarantee services and other financial services) to the Group and the Parent Group. The Parent Company and the Company hold 30% and 51% equity interests in the Finance Company, respectively. The registered capital of the Finance Company is RMB600 million. The business license was obtained from the Chongqing Administration Bureau of Industry and Commerce on 16 January 2013.

The Finance Company is required under 企業集團財務公司管理辦法 (Measures for the Administration of the Finance Companies of Enterprise Groups) promulgated by the CBRC on 27 July 2004 (as amended on 28 December 2006) to satisfy the following major operation conditions in respect of various assets and liabilities ratios:

- (i) the capital adequacy ratio is not less than 10%;
- (ii) the balance of borrowings shall not exceed the total capital;
- (iii) the total amount of outstanding guarantees provided shall not exceed the total capital;
- (iv) the short-term securities investment to total capital ratio is not more than 40%;
- (v) the long-term investment to total capital ratio is not more than 30%; and
- (vi) the self-owned fixed assets to total capital ratio is not more than 20%.

Furthermore, as a licensed non-bank financial institution in the PRC, the Finance Company is under supervision of PBOC and CBRC.

The following is a simplified corporate structure of the Finance Company



II. Backgrounds of entering into the Framework and Supplemental Agreements

On 17 February 2013 and on 13 March 2013, the Company entered into the Group Financial Services Framework Agreement and the Group Financial Services Framework Supplemental Agreement with the Finance Company, respectively, pursuant to which the Finance Company will provide a range of financial services to the Group, including (a) depository services, (b) loan services, (c) guarantee services; and (d) other financial services as approved by CBRC. On the even dates, the Parent Group entered into the Parent Group Financial Services Framework Agreement and the Parent Group Financial Services Framework Supplemental Agreement, pursuant to which the Finance Company will provide a range of financial services to the Parent Group, including (a) depository services, (b) loan services, (c) guarantee services; and (d) other financial services as approved by CBRC.

III. Group Financial Services Framework Agreement and the Group Financial Services Framework Supplemental Agreement**(a) Reasons for and benefits of entering into the Group Financial Services Framework Agreement (as supplemented by the Group Financial Services Framework Supplemental Agreement)**

As stated in the Board Letter, the Company expects that the provision of financial services, in particular, the depository services and loan services, by Finance Company will benefit the Group from the following reasons:

- (i) The Finance Company will become the capital settlement, capital management, financing support, capital operation and information service center of the Group in the future according to the development plan of the Finance Company, which would be able to enhance the financial management and control practices, reduce operational risk and consolidate internal resources of the Group;
- (ii) The Finance Company is regulated by the PBOC and the CBRC and provides its services in accordance with the rules and operational requirements of these regulatory authorities. In addition, capital risk could be reduced through the risk management measures possessed by the Finance Company;
- (iii) The capital deposited by the Group with the Finance Company will receive interest at interest rates not lower than the interest rates for deposits of similar nature and under similar terms provided to the Group by other independent commercial banks in the PRC. Such arrangement will enable the Group to increase its interest income more effectively;
- (iv) The Group is able to obtain loans from the Finance Company at an interest rate not higher than the range of interest rates set by the PBOC for loan of a similar nature and under similar terms and not higher than the interest rates for loan of a similar nature and under similar terms charging the Group by other independent commercial banks in the PRC, which could effectively lower its costs of funding; and
- (v) The Company through its direct 51% equity interest in the Finance Company will be able to share the profits of the Finance Company.

According to our discussion with the management of the Company, we were advised that pursuant to the laws and regulations in the PRC, companies incorporated in the PRC, other than those regulated financial institutions, are prohibited to advance loans freely and directly, even to intra-group companies. In case any loans are to be advanced, such loans should be channeled through a PRC regulated financial institution or agent. Accordingly, the Company expects the Finance Company could act as such financial agency via which funds of the Company and/or other members of the Group may be used to lend to other members of the Group which require additional working capital. As the Company currently does not have any alternative plan for its cash on hand, under such arrangement, it enables the Group to be able to pool the deposits of its subsidiaries into the centralized Group account in the Finance Company, which will allow more efficient allocation of the Group's funds within the ambit of the PRC regulations and can reduce or avoid the external funding needs and the related interest expenses.

Taking into account, among others, (i) the expected benefits of the depository and loan services as mentioned in the Board Letter; (ii) the Company could benefit from the terms of deposits and loans services, in particular the Finance Company will offer deposit rates to the Group, which is not lower than the interest rates for deposits of similar nature and under similar terms offered by other independent commercial banks to the Group in the PRC; (iii) the Company as a shareholder of the Finance Company can in turn benefit from any profits that may be generated by the Finance Company; and (iv) the Group is able to timely monitor and control the cash flow and fund deposit status of the Group account in the Finance Company through its internal control and risk management measures, and thus reduce the legal, operational management and capital risks of the Group, we are of the view that the entering into the Group Financial Services Framework Agreement (as supplemented by the Group Financial Services Framework Supplemental Agreement), in particular the depository services and loan services, are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

We have also discussed with the Company the potential risks associated with depository services, in particular, a substantial amount of cash will be placed with the Finance Company. The associated risks are listed as follows:

(i) *Risks associated with the Group placing most of its cash with the Finance Company*

If the depository services are approved by the Independent Shareholders' in the EGM, the Group will place its temporarily surplus cash into the Finance Company to earn the interests at the interest rates not lower than the rates for deposits of similar nature and under similar terms offered by other independent commercial banks offered to the Group in the PRC. Whilst comparing to normal market rates offered by other commercial banks, the Group may tend to deposit most of its cash with the Finance Company in order to generate more interest income. It may result in a heavily lopsided deposit to the Finance Company. As advised by the Company, the depository services only provide an additional financial option but not obligation to deposit the Company's funds. In addition, we are of the view that this kind of risk is manageable in the sense that there are many internal control procedures and risk management measures proposed by the Finance Company to safeguard the funds of the Company.

(ii) *Risks associated with the Finance Company concentrated within the Parent Group*

The customer base of the Finance Company will be restricted to members of the Group and the Parent Group. The Company is of the view that the Finance Company is exposed to a lower level of potential business risk than other PRC commercial banks dealing with customers of various credit ratings. Besides, taking into account the close working relationship among the Parent Group, the Group and the Finance Company and the understanding of each other's operation and practices, we are of view that the Finance Company is subject to a lower counterparty risk than other independent PRC commercial banks.

Consequently, we are of the view that the benefits as mentioned above outweigh the associated risks and concur with the Directors' view that the reasons for entering into the Group Financial Services Framework Agreement (as supplemented by the Group Financial Services Framework Supplemental Agreement), in particular the depository services and loan services, is part of ordinary and usual course of business of the Group and the Finance Company, fair and reasonable so far as the Company and its Independent Shareholders are concerned.

(b) Principal terms of the Group Financial Services Framework Agreement and the Group Financial Services Framework Supplemental Agreement

Principal terms of the Group Financial Services Framework Agreement and the Group Financial Services Framework Supplemental Agreement:

- Date : 17 February 2013 (supplemented by the Group Financial Services Framework Supplemental Agreement dated 13 March 2013)
- Parties (i) the Company, as recipient of services; and
(ii) the Finance Company, as provider of services.
- Term : The terms of the financial services, in particular the depository services and loan services, contemplated under the Group Financial Services Framework Agreement (as supplemented by the Group Financial Services Framework Supplemental Agreement) shall become effective from the date of the approval by the Independent Shareholders up to and including 31 December 2013.
- Nature of services provided : The Finance Company will provide the Group with a range of financial services including the depository services, loan services, guarantee services and other financial services.
- Payment terms : The payment term will be specified on each separate contract to be agreed by the parties.
- Non-exclusivity : The Group is not restricted to approach, and in fact may choose, any bank or financial institution to satisfy its business and financial service needs. Therefore, the Group may, but is not obliged to, use the Finance Company's services.

As mentioned in the Board Letter, the guarantee services provided by the Finance Company to the Group are on normal commercial terms and for the benefit of the Group, and are exempt from the reporting, announcement requirements and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules since no security over the assets of the Group would be granted in respect of the guarantee. The other financial services provided by the Finance Company are on normal commercial terms, and all the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the service charges for other financial services will exceed 0.1% but less than 5%, such transactions are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules but exempt from Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Details of major terms of the Group Financial Services Framework Agreement as well as the Group Financial Services Framework Supplemental Agreement are outlined in the Board Letter

(c) **Pricing principles of the depository services and loan services contemplated under the Group Financial Services Framework Agreement and the Group Financial Services Framework Supplemental Agreement**

The Finance Company shall provide the depository services and loan services to the Group in accordance with the following pricing principles pursuant to the Group Financial Services Framework Agreement (as supplemented by the Group Financial Services Framework Supplemental Agreement):

Services provided

Pricing principles

Depository services : The interest rates of deposits provided by the Finance Company to the Group will not be lower than interest rates for deposits of similar nature and under similar terms charged to Group by other independent commercial banks in the PRC.

The Company will obtain the benchmark interest rates stipulated by the PBOC for the deposits of similar nature and under similar terms from at least two banks among the national commercial banks in the PRC as well as the local commercial banks in Chongqing which have business relations with the Company, and then compare with the interest rates provided by the Finance Company to the Group for deposits of similar nature and under similar terms to ensure that the interests the Group will receive on its deposits are in compliance with the above pricing standards for deposit services

Loan services : The interest rates of loans provided by the Finance Company to the Group will not be higher than the range of interest rates set by the PBOC for loans of similar nature and under similar terms, and not higher than interest rates for loans of similar nature and under similar terms charged to the Group by other independent commercial banks in the PRC.

The lower end of the interest rates floating range stipulated by the PBOC for loans extended by financial institutions is 80% of the benchmark interest rates.

The interests rates of loan provided by the Finance Company to the Group will be determined in accordance with the following principles:

- (a) the loans shall be provided at a price based on the benchmark interest rates stipulated by the PBOC or at the prime interest rate (the floating downward) within the floating range allowed by such stipulation; and
- (b) the price determined should not be higher than the lowest quotation obtained by making inquiries of various banks.

The Company will make inquiries to at least two banks among the national commercial banks in the PRC and the local commercial banks in Chongqing, which have business relations with the Company in respect of loan services of similar nature and under similar terms. The Company will then submit the results to the Finance Company. The Finance Company will make the final assessments and determine the final interest rates provided to the Group by reference to the Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indicators and others factors, so as to ensure that the interests of loan provided by the Finance Company to the Group are in compliance with the above pricing standards for loan services.

In regard of the depository services, we note that the pricing principles adopted will make reference to the prevailing interest rates prescribed by the PBOC and at the interest rates not lower than the rates for deposits of similar nature and under similar terms offered by other independent commercial banks to the Group in the PRC. The Company will further obtain the market interest rates offered to the Group by at least two independent commercial banks to compare with the interest rates offered by the Finance Company in order to ensure that the Group will be able to receive an interest rate not lower than the market interest rate according to the pricing principles. The Finance Company has also undertaken that the terms of the financial services provided by the Finance Company to the Group will be no less favorable than those offered by other independent financial institutions in the PRC for providing services of similar natures and under similar terms (subject to no violation of relevant laws and regulations). Therefore, we are of the view that there are sufficient procedures under the depository services to ensure that the Company will obtain an interest rate not lower than the market interest rate.

In regard of the loan services, we notice that the benchmark borrowing rates are set by the PBOC for financial institutions. With reference to the PBOC benchmark rates, the financial institutions are allowed to charge the interest rates on loans within a prescribed range of the then prevailing benchmark rates set by the PBOC up to a minimum of 80% of the prescribed rate. The Company will further obtain loan rates offered to the Group by at least two independent commercial banks to compare with the interest rates offered by the Finance Company in order to ensure that the Group will be able to receive an interest rate not higher than the market loan rate. The Company confirmed that the interest rates offered by the Finance Company to the Group shall be equal to or lower than those offered by other independent financial institutions or credit unions in the PRC, and could be as low as 80% of the PBOC benchmark rate. Therefore, we are of the view that there are sufficient procedures under the loan services to ensure that the Company will obtain an interest rate not higher than the market loan rate.

Having considered the aforesaid, we are of the view that the pricing principles in relation to the depository services and loan services contemplated under the Group Financial Services Framework Agreement (as supplemented by the Group Financial Services Framework Supplemental Agreement) are on normal commercial terms, and are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

(d) Proposed annual caps of the depository services and loan services under the Group Financial Services Framework Agreement and the Group Financial Services Framework Supplemental Agreement

The table below sets out the proposed annual caps of the depository services and loan services under the Group Financial Services Framework Agreement (as supplemented by the Group Financial Services Framework Supplemental Agreement) for the financial year ending 31 December 2013.

| | Proposed annual cap for the year ending 31 December 2013 <i>RMB million</i> |
|--|---|
| Maximum daily outstanding balance of deposits (including the accrued interests) to be placed by the Group with the Finance Company | 1,250 |
| Maximum daily outstanding balance of loans (including the corresponding accrued interests) to be granted by the Finance Company to the Group | 960 |

As stated in the Board Letter, the proposed annual cap amounts of the depository services and loan services above have been determined based on (a) the Group's historical cash and cash equivalent figures, and the borrowings and loans figures respectively; (b) the expectation of the capital needs for the period ending 31 December 2013; and (c) the financial ability of the Finance Company. Such proposed annual cap amounts are closely related to the size of the business operations of the Group, the assets and its treasury requirements over the next year. Therefore, in assessing the fairness and reasonableness of the proposed annual caps of the depository services and loan services, we have discussed with the management of the Company on the basis and assumptions. We have also considered the following factors:

(i) *The assets and borrowings of the Group*

According to the Company's 2011 annual report and 2012 interim report, we have calculated that the proposed annual cap amount of the depository services represents approximately 59.0%, 44.8% and 44.2% of the Group's cash and cash equivalent as at 31 December 2010, 31 December 2011 and 30 June 2012, respectively. We have also noticed that such annual cap amount represents approximately 19.4% of the Group's cash and cash equivalent together with all accounts receivables as at 30 June 2012. As the annual cap does not exceed the historical amount of deposits of the Group and the level of deposit is expected to remain steady to maintain the current business operations, we are of the view that this annual cap within its historical amount is fair and reasonable.

As discussed in the Board Letter, the proposed annual cap amount of the depository services represents approximately 104.2% of the cash and cash equivalents after deducting the capital restricted for the use or used for special purposes as at 31 December 2012. We are of the view that the annual cap for this depository services is fair and reasonable as it accounts for the available cash for deposit of the Group with a small buffer of approximately 4%.

For the proposed annual cap amount of the loan services, we have calculated that it represents approximately 62.2%, 36.0% and 37.9% of the Group's total borrowings as at 31 December 2010, 31 December 2011 and 30 June 2012, respectively. We notice that the short-term bank borrowings, the long-term bank borrowings and the corporate bond represent 50.3%, 9.7% and 39.3% of the total borrowings as at 30 June 2012. In addition, as disclosed in the announcement of the Company dated 22 July 2011, the issuance of corporate bond with an aggregate nominal value of up to RMB1 billion for the Company was approved by the China Securities Regulatory Commission, and such A-Share corporate bonds were issued by the Company and have been listed in the Shanghai Stock Exchange since August 2011. As the annual cap does not exceed the historical amount of short term loans of the Group and the level of short term loan is expected to remain steady to maintain the current business operations, we are of the view that this annual cap within its historical amount is fair and reasonable.

As discussed in the Board Letter, the proposed annual cap amount of the loan services represent approximately 53.3% of the total bank borrowings as at 31 December 2012, and we notice that the short-term bank borrowings and the long-term bank borrowings represent 66.7% and 22.2% of the total bank borrowings as at 31 December 2012. As loan rates offered by the Finance Company will be lower or equal to the market rates, the Company should place maximum amount of loans with the Finance Company to save its interest costs. Based on the current annual cap, the annual cap amount of loan services is exceeded by the outstanding balance of short term loans. Therefore, we are of the view that the annual cap for this loan services is fair and reasonable.

Having taken the aforesaid factors into account, we are of the view that the proposed annual cap amounts of the depository services and loan services contemplated under the Group Financial Services Framework Agreement (as supplemented by the Group Financial Services Framework Supplemental Agreement) is fair and reasonable as it is within the amount of deposits and borrowings that the Group has historically maintained.

(ii) *The business development of the Group*

Under the PRC “Twelfth Five-Year Plan”, the PRC government is encouraging the development of infrastructure and transportation in the western region of the PRC. The Company is poised perfectly in this sector on ride on the potential growth opportunities as the products of the Group are automotive parts and components, power equipment, general machinery and CNC machine tools. It is expected that the Group will benefit greatly and grow over during the period of the “Twelfth Five-Year Plan”, which in turn would require additional financial related services such as deposits and loans that are ancillary to the smooth running of their existing businesses.

(iii) *The business plan of the Finance Company*

We have reviewed the strategy and development plans of the Finance Company and pursuant to the plans; the Finance Company will actively develop different financial services in the next several years according to the rules and regulations of CBRC, PBOC and other relevant governmental departments. The Finance Company will continue to enhance and improve its own management, internal control and risk management measurements.

Having taken into account of the above factors, we are of the view that the proposed annual caps of the depository services and loan services contemplated under the Group Financial Services Framework Agreement (as supplemented by the Group Financial Services Framework Supplemental Agreement) for the year ended 31 December 2013 are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

IV. Parent Group Financial Services Framework Agreement and the Parent Group Financial Services Framework Supplemental Agreement

(a) Reasons for and benefits of entering into the Parent Group Financial Services Framework Agreement (as supplemented by the Parent Group Financial Services Framework Supplemental Agreement)

As stated in the Board Letter, the Company expects that the provision of financial services, in particular, the loan services and guarantee services, by Finance Company will benefit the Group from the following reasons:

- (i) It will expand the business scale of the Finance Company, thus benefiting the development of the Finance Company;
- (ii) It will consolidate cash resources, enhance the capital utilization efficiency and lower the finance costs;
- (iii) It will enlarge the operation scale of the Group, thus enhancing the profitability of the Group; and
- (iv) The Company through its direct 51% equity interest in the Finance Company will be able to share the profits of the Finance Company.

The fees and charges generated from the provision of the financial services to the Parent Group will be credited to the Finance Company instead of other independent commercial banks in the PRC, which allows the Group to have direct financial benefits. The Parent Group is one of the top 500 companies and one of top 500 manufacturing enterprises in the PRC in 2012 according to the China Enterprise Confederation (CEC). Accordingly, we concur with the Director's view that, through the Parent Group Financial Services Framework Agreement (as supplemented by the Parent Group Financial Services Framework Supplemental Agreement), the Finance Company will benefit from the Parent Group's economies of scale and its own flexibility to consolidate the cash resources of the Parent Group, which is therefore able to expand the business scale and financial performance of the Finance Company. This in turns enlarges the operation scale of the Group as the Company as a shareholder of the Finance Company, and thus benefits the Company and the Shareholders as a whole.

As advised by the Company, many companies of the Parent Group are well established and well managed with good performance and will continue to benefit from various governmental policies. The Directors believe that the provision of financial services, in particular the loan services and guarantee services, to these quality companies within the Parent Group would allow the Finance Company to utilize its financial resources more efficiently at relatively lower credit risk.

Having considered the aforesaid, we are of the view that the entering into of the Parent Group Financial Services Framework Agreement (as supplemented by the Parent Group Financial Services Framework Supplemental Agreement), in particular the loan services and guarantee services, is in the ordinary and usual course of business of the Group, fair and reasonable so far as the Company and the Independent Shareholders are concerned.

(b) Principal terms of the Parent Group Financial Services Framework Agreement and the Parent Group Financial Services Framework Supplemental Agreement

The principal terms of the Parent Group Financial Services Framework Agreement and the Parent Group Financial Services Framework Supplemental Agreement are as following:

Date : 17 February 2013 (supplemented by the Parent Group Financial Services Framework Supplemental Agreement dated 13 March 2013)

Parties the Parent Company, as recipient of services; and the Finance Company, as provider of services.

- Term : The terms of the financial services, in particular the loan services and guarantee services, contemplated under the Parent Group Financial Services Framework Agreement (as supplemented by the Parent Group Financial Services Framework Supplemental Agreement) shall become effective from the date of the approval by the Independent Shareholders up to and including 31 December 2013.
- Nature of services provided : The Finance Company will provide the Parent Group with a range of financial services including the depository services, loan services, guarantee services and other financial services.
- Payment terms : The payment term will be specified on each separate contract to be agreed by the parties.
- Non-exclusivity : The Finance Company is not under any obligation to provide any or all of the financial services to the Parent Group and may provide such financial services based on its business needs.

As mentioned in the Board Letter, the depository services provided by the Finance Company to the Parent Group are on normal commercial terms, and are exempt from the reporting, announcement requirements and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules since no security over the assets of the Group would be granted in respect of the deposits. The other financial services provided by the Finance Company to the Parent Group are on normal commercial terms, and all the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the service charges for other financial services will exceed 0.1% but less than 5%, such transactions are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules but exempt from Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Details of major terms of the Parent Group Financial Services Framework Agreement as well as the Parent Group Financial Services Framework Supplemental Agreement are outlined in the Board Letter

(c) **The pricing principles of loan services and guarantee services contemplated under the Parent Group Financial Services Framework Agreement and the Parent Group Financial Services Framework Supplemental Agreement**

The Finance Company shall provide the loan services and guarantee services to the Parent Group under requests in accordance with the following pricing principals pursuant to the Parent Group Financial Services Framework Agreement (as supplemented by the Parent Group Financial Services Framework Supplemental Agreement):

Services provided

Pricing principles

Loan services : The interests of loans provided by the Finance Company will not be lower than the range of interest rates set by the PBOC for loans of a similar nature and under similar terms, and not lower than interest rates for loans of a similar nature and under similar terms charging the Parent Group by other independent commercial banks in the PRC.

The lower end of the interest rates floating range stipulated by the PBOC for loans extended by financial institutions is 80% of the benchmark interest rates.

The Company will make inquiries to at least two banks among the national commercial banks in the PRC and local commercial banks in Chongqing, which have business relations with the Company in respect of loan services of similar nature and under similar terms. The Company will then submit the quotation results to the Finance Company. The Finance Company then will make final assessments and determine the final interest rates provided to the Parent Group by reference to the Parent Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indicators and others factors, so as to ensure that the interests of loan provided by the Finance Company to the Parent Group are in compliance with the above pricing standards for loan services.

Guarantee services : The fees charged by the Finance Company for provision of guarantee services to the Parent Group will not be lower than the fees charged by any independent third party on the Parent Group for the same type of services or the fees charged by the Finance Company on any third party of same credit rating for the same type of services.

The Finance Company will obtain the quotations by making inquiries from at least two banks or guarantee institutions among the national commercial banks in the PRC, as well as the local commercial banks and guarantee institutions in Chongqing, which have business relations with the Company in respect of guarantee services of similar nature and under similar terms and submit the results to the Finance Company. The Finance Company will then make the final assessments and determine the final rates for guarantee services provided to the Parent Group by reference to the Parent Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indicators and others factors, so as to ensure that the fees charged by the Finance Company are in compliance with the above pricing standards for guarantee services.

In respect of the loan services provided by the Finance Company to the Parent Group, we note that the pricing principles adopted by making reference to the prevailing interest rates prescribed by the PBOC. The benchmark borrowing rates are set by the PBOC for financial institutions. With reference to the PBOC benchmark rates, the financial institutions are allowed to charge the interest rates on loans within a prescribed range of the then prevailing benchmark rates set by the PBOC. The Company will further obtain loan rates offered to the Parent Group by at least two independent commercial banks to compare with the interest rates offered by the Finance Company in order to ensure that the Parent Group to be able to receive a loan interest rate according to the pricing principles that is not more favorable than the market rate. The Company confirms that the interest rates offered by the Finance Company to the Parent Group shall be based on the benchmark interest rates or the floating upward stipulated by the PBOC, and not be lower than the quotation by making inquiries to independent commercial banks regarding the interest rates of similar tenures in the PRC. Therefore, we are of the view that there are sufficient procedures in place to ensure that the Finance Company will offer a loan rate that is not better than market loan rate.

In respect of the guarantee services provided by the Finance Company to the Parent Group, the Finance Company shall refer to the prevailing market rates which will be obtained by making inquiries to various guarantee institutions to ensure the price is not lower than those offered by other guarantee institutions. The Company will further obtain guarantee rates offered to the Parent Group by at least two independent guarantee institution to compare with the guarantee rates offered by the Finance Company in order to ensure that the Parent Group to be able to receive a guarantee rate according to the pricing principles that is not more favorable than the market rate. The Company confirms that the guarantee fees offered by the Finance Company to the Parent Group shall not be lower than to those offered by other guarantee institutions in the PRC. Therefore, we are of the view that there are sufficient procedures in place to ensure that the Finance Company will charge guarantee fees that is not better than market rate.

Having considered the aforesaid, we are of the view that the pricing principles in relation to the loan services and guarantee services contemplated under the Parent Group Financial Services Framework Agreement (as supplemented by the Parent Group Financial Services Framework Supplemental Agreement) are on normal commercial terms, are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

(d) Proposed annual caps of the loan services and guarantee services under the Parent Group Financial Services Framework Agreement and Parent Group Financial Services Framework Supplemental Agreement

The table below sets out the proposed annual caps of the loan services and guarantee services under the Parent Group Financial Services Framework Agreement (as supplemented by the Parent Group Financial Services Framework Supplemental Agreement) for the financial year ending 31 December 2013.

| | Proposed annual cap for the year ending 31 December 2013 |
|---|---|
| | <i>RMB million</i> |
| Maximum daily outstanding balance of loans (including the accrued interests) to be granted by the Finance Company to the Parent Group | 1,170 |
| Guarantee services to be provided by the Finance Company to the Parent Group | 618 |

As stated in the Board Letter, the proposed annual cap amounts of the loan services and guarantee services above have been determined based on (a) the Parent Group's historical borrowings and loans figures; (b) the Parent Group's expectation of the capital needs for the period ending 31 December 2013; (c) the financial ability of the Finance Company and (d) the historical amounts of guarantees provided by the Parent Company to its subsidiaries. Therefore, in assessing the fairness and reasonableness of the proposed annual caps of the loan services and guarantee services, we have discussed with the management of the Company on the basis and assumptions. We have also considered the following factors:

(i) *The borrowings and loans of the Parent Group*

For the proposed annual cap amount of the loan services, we have calculated that it represents approximately 33.3%, 33.5% and 22.4% of the Parent Group's total borrowings and loans as at 31 December 2010, 31 December 2011 and 30 June 2012, respectively. Furthermore, as mentioned in the Board Letter, the proposed annual cap amount of the loan services represents approximately 46.8% of the Parent Group's unaudited short-term borrowings and loans as at 31 December 2012. As the annual cap does not exceed the historical amount of short-term borrowings of the Parent Group and the level of borrowing is expected to remain steady to maintain the current business operations, we are of the view that this annual cap is fair and reasonable.

As advised by the Company, the amount of short-term borrowing and loans for the year of 2013 required by the Parent Group will maintain steadily as the year of 2012. Among this amount of short-term borrowing and loans, RMB935 million will be due in the late 2013. Therefore, the Parent Group would require an annual cap exceeding this amount if they decide to refinance these short-term borrowings with loan facilities provided by the Finance Company. Thus the Parent Group has requested an additional RMB235 million as buffer over the amount of short-term loan due. Having taken the aforesaid factor into account, in particular that the proposed annual cap is within the amount of total short-term loans taken by the Parent Group, we are of the view that the proposed annual cap amount of the loan services contemplated under the Parent Group Financial Services Framework Agreement (as supplemented by the Parent Group Financial Services Framework Supplemental Agreement) is fair and reasonable and the loans to Parent Group will not be overly dependent on the Finance Company.

(ii) *The historical amounts of guarantees provided by the Parent Company*

For the proposed annual cap amount of the guarantee services, we have calculated and it represents approximately 51.3%, 27.4% and 23.7% of the total guarantees provided by the Parent Group to its subsidiaries as at 31 December 2010, 31 December 2011 and 30 June 2012, respectively. As stated in the Board Letter, according to the requirements of the Provisional Measures for Risk Regulation Indicators Assessment of Finance Companies of Enterprise Groups (《企業集團財務公司風險監管指標考核暫行辦法》) issued by the CBRC, the ratio of guarantee exposures against the total assets of the Finance Company shall be not higher than 100%. Given the registered capital of the Finance Company of RMB600,000,000, the maximum amount of guarantees (including the accrued handling fees) to be provided by the Finance Company has therefore been set at RMB618,000,000. We understand from the Company that the additional RMB18,000,000 over RMB600,000,000 is the handling fees to be charged by the Finance Company. We have enquired with the Finance Company and noted that as the RMB18,000,000 will be classified as fees and not guarantee, it will not conflict with the CBRC rules. In view of the annual cap of the guarantee is within the amount of guarantee provided by the Parent Group and within the limit set by the law, we are of the view that the annual cap for this guarantee services is fair and reasonable.

(iii) *The business development of the Parent Group*

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 the growth of these industries is in-line with the “Twelfth Five-Year Plan”, the Parent Group expects their demand for loan and guarantee services will increase to supplement its working capital for business development.

(iv) *The business plan of the Finance Company*

Please refer to the section headed “Proposed annual caps of the depository services and loan services under the Group Financial Services Framework Agreement and the Group Financial Services Framework Supplemental Agreement” above.

Having taken into account of the above factors, we are of the view that the proposed annual caps of the loan services and guarantee services contemplated under the Parent Group Financial Services Framework Agreement (as supplemented by the Parent Group Financial Services Framework Supplemental Agreement) are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

INTERNAL CONTROLS AND RISK MANAGEMENT MEASURES

In view of approval obtained from CBRC in 2012 to set-up a non-bank financial institution by the Parent Company and the Company, the internal control and risk management measurements and procedures, as well as the credit policy of the Finance Company in accordance with the relevant PBOC and CBRC regulations have been set up, in order to ensure that its proper operations thereby ensuring the safety of the financial services provided by the Finance Company. In determining the fairness and reasonableness of the aforesaid measurements, procedures and policy set up by the Finance Company, we have obtained and reviewed the internal control and risk management guidelines and procedures set up by the Finance Company and discussed with the management of the Company and the Finance Company. We have been provided with a detail operations manual detailing every facet of the Finance Company operation plans, including but not limited to, procedures, management qualification, subsidiaries qualified for the services and their facilities limits, and template agreements for all their services. The following is the summary:

(a) Credit policy of the Finance Company

Pursuant to the relevant regulations set by CBRC, non-bank financial institutions in the PRC have to comply with certain requirements, which include, among other things, the capital adequacy of not less than 10% of the minimum total capital requirement as set out by CBRC. Based on the registered capital of RMB600 million of the Finance Company and that the Finance Company shall provide the financial services not exceeding the proposed annual caps, the Finance Company sets its capital adequacy ratio at not less than 10% in 2013, which is in compliance with the relevant provisions set by CBRC.

(b) Internal control of the Finance Company

The establishment of the Finance Company as a non-bank financial institution has been granted the approval by the CBRC in January 2013 as discussed above. The CBRC will carry out on-going stringent supervision over the businesses of the Finance Company after its commencement of businesses. The Finance Company is required to provide regulatory report to CBRC on a monthly basis.

We have been given to understand that the Finance Company has established stringent internal control measures to ensure efficient risk management and compliance with the relevant laws and regulations. As advised by the Company, the Finance Company has established its own credit policies and credit approval procedures for the loan applications, bills discounting services and bills acceptance services, which are designed in accordance with the relevant PBOC and CBRC regulations. Such measures are able to ensure that the total outstanding balance of various financial services provided by the Finance Company shall not exceed the proposed annual caps approved. The Finance Company will also keep the track records of the accumulated amounts of the approved financial services provided in order to ensure the fulfillment of the relevant laws and regulations, as well as the within the proposed annual cap amounts under the Framework and Supplemental Agreements.

We have also reviewed the internal control procedures of the Group. According to the internal control policies, we noted that the Group has adopted the internal control procedures and corporate governance procedures to monitor the status of the financial conditions of the Finance Company (in the case of depository services, loan services, bills discounting services, bills acceptance services and guarantee services). As advised by the Company, we also noted that the audit committee of the Company will review the finance, operation, risk management system and regulatory compliance of the Company, particularly the implementation of connected transactions, on a regularly basis. As such, we are of the view that the interests of the Shareholders can be safeguarded and protected.

(c) Expertise of the Finance Company

As advised by the Company, all management of the Finance Company has extensive experience in the financial industry where the Group operates and/or financial management. The Finance Company has certain key committees and departments in maintaining the internal control environment and the risk management functions, including, the risk management committee/department, the loan approval committee and the supervisory committee. As noted from the Company, the risk management committee of the Finance Company will establish the risk management and control strategies and policies, and monitor the implementation of the relevant policies of the Finance Company while the supervisory committee will ensure the Finance Company's compliance with the relevant rules and regulations, and to monitor its operational activities.

Having considered that, in particular, (i) the Finance Company has its own set of stringent internal control measures to monitor the risk exposure in relation to the provision of financial services; (ii) the Finance Company has certain key committees and departments in maintaining the internal control and the risk management functions; and (iii) the approval procedures are applicable to the loan applications/bills discounting applications/bills acceptance applications received from both the Group and the Parent Group, we are of the view that the internal control procedures are effective and the risk management measures are able to mitigate the risks, and those procedures and measures are on commercial terms, and fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

ANNUAL REVIEWS OF THE FINANCIAL SERVICES PROVIDED UNDER THE FRAMEWORK AND SUPPLEMENTAL AGREEMENTS

Pursuant to Chapter 14A of the Listing Rules, the continuing connected transactions of the Company contemplated under the Framework and Supplemental Agreements shall be subject to annual review and the details are set out as follows:

- (a) each year the independent non-executive directors will review the continuing connected transactions and confirm in the annual report and accounts that the continuing connected transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
 - (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole;
- (b) each year the auditors of the Company will review the continuing connected transactions and issue a letter to the Board confirming that the continuing connected transactions:
 - (i) have received the approval of the Board;
 - (ii) are in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group;

- (iii) have been entered into in accordance with the relevant agreements governing the continuing connected transactions; and
- (iv) have not exceeded the relevant proposed annual caps.

The Board must state in the annual report whether the auditors have made such confirmations in relation to the continuing connected transactions.

- (c) the Company shall allow, and shall procure the relevant counterparties to the continuing connected transactions to allow, the auditors of the Company sufficient access to their records for the purpose of reporting on the continuing connected transactions as set out in paragraph (b) above; and
- (d) the Company will promptly notify the Stock Exchange and publish an announcement if it believes that the independent non-executive directors and/or the auditors will not be able to issue the aforesaid confirmations.

The financial services under the Framework and Supplemental Agreements will be restricted by way of the proposed annual caps and the conduct of those transactions will be reviewed by the independent non-executive Directors and auditors of the Company as discussed above.

As advised by the Company, the Finance Company will keep the track records of the accumulated amounts of the approved financial services, in particular the depository and loan services providing to the Group as well as the loan and guarantee services providing to the Parent Group, under the Framework and Supplemental Agreements, in order to ensure the actual annual cap amounts not exceed the relevant proposed annual cap amounts.

Furthermore, in determining the pricing of services provided by the Finance Company to the Group and Parent Group, the Finance Company has adopted an internal control procedure whereby the Company will obtain pricing from independent third parties for each type of transaction, prior to offering the services to the Group or the Parent Group, as a benchmark for pricing of various products. The Finance Company has undertaken that its services offered to the Group will be priced equal to or on better terms than prices obtained from independent third parties, while its services offered to the Parent Group shall not be offered on terms better than those obtained from independent third parties.

Having reviewed the pricing standards of the Framework and Supplemental Agreements and the annual review adopted by the Finance Company by the independent non-executive Directors and the auditors of the Company, we are of the view that there are sufficient measures and steps in place to ensure that the Framework and Supplemental Agreements will be complied with. Accordingly, we are of the view that the aforesaid internal control measures are capable of governing the future execution of the Framework and Supplemental Agreements and to safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, we are of the opinion that,

- (i) the Framework and Supplemental Agreements are entered into in the ordinary and usual course of business of the Company;
- (ii) the terms of the Framework and Supplemental Agreements are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole;
- (iii) the Finance Company is regulated by the PBOC and the CBRC; and
- (iv) the proposed annual caps of the depository services and loan services under the Group Financial Services Framework Agreement (as supplemented by the Group Financial Services Framework Supplemental Agreement); and the proposed annual caps of the loan services and guarantee services under the Parent Group Financial Services Framework Agreement (as supplemented by the Parent Group Financial Services Framework Supplemental Agreement) are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders, and the Independent Board Committee advise the Independent Shareholders to vote in favour of the ordinary resolutions to approve the proposed annual caps of the depository services and loan services under the Group Financial Services Framework Agreement (as supplemented by the Group Financial Services Framework Supplemental Agreement), the proposed annual caps of the loan services and guarantee services under the Parent Group Financial Services Framework Agreement (as supplemented by the Parent Group Financial Services Framework Supplemental Agreement), and the transactions contemplated under the Framework and Supplemental Agreements.

Yours faithfully,
For and on behalf of
TC Capital Asia Limited
Edward Wu
Managing Director

1. FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years with respect to the Group's profits and losses, financial record and position (set out as a comparative table), and the latest published audited balance sheet together with the notes to the annual accounts for the corresponding financial year.

The audited consolidated financial statements of the Group together with the relevant notes for each of the three years ended 31 December 2009, 2010 and 2011 and the unaudited consolidated financial statements of the Group for the six months ended 30 June 2012 have been set out in the annual reports of the Company for the years of 2009, 2010 and 2011 and the interim report of the Company for the six months ended 30 June 2012 dated 10 April 2010 (pages 94-240), 31 March 2011 (pages 94-248), 20 March 2012 (pages 92-256) and 24 August 2012 (pages 19-56), respectively, which are published on the websites of the Company (<http://www.chinacqme.com>) and the Stock Exchange (<http://www.hkex.com.hk>).

2. STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 31 January 2013, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately RMB2,730,580,000, comprising (i) bank loans of RMB1,735,900,000; and (ii) corporate bonds of RMB994,680,000 (the aforesaid figures are unaudited).

Disclaimer

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, as at the close of business on 31 January 2013, the Group did not have any outstanding issued or agreed-to-be-issued loan capital, bank overdrafts, loans, or other similar indebtedness, liabilities or liabilities under acceptance credit, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

Having taken into account the financial resources available to the Group, including internally generated funds and the available banking facilities, the Directors of the Company are of the opinion that the Group has sufficient working capital for its requirement for at least 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS

Due to the deterioration in European debt crisis, the global economy experienced a continued downturn with a noticeable slowdown in growth in 2012. Domestically, Chinese government took proactive measures to regulate and control the property markets and eliminate the risks in relation to investment and financing platforms, which posed much pressure on its economic growth. In the first three quarters, domestic economy growth experienced a continued slowdown with an out-of-expected delay in stabilization and recovery, which indicates changes are happening in the inherent mechanism underlying domestic economic operation. Viewing from the whole year of 2012, as currently some positive factors are accumulating and a slight recovery occurred in the fourth quarter, the full-year GDP growth reached 7.8%. Looking forward into 2013, the global economy will be in the stage of post-crisis correction with much complexity and uncertainty. China will adopt proactive fiscal and prudent monetary policy and its economy will see a process of rebalancing.

To cope with the current market situation, the Group will focus on the following tasks in 2013:

- (a) Step up efforts in project management innovation and propel structural adjustment;
- (b) Intensify investment in technological innovation to promote product upgrading;
- (c) Enhance economic operation regulation to improve management and control;
- (d) Improve capital operation to enhance financing ability;
- (e) Tighten corporate governance to standardize internal control system;
- (f) Reinforce implementation of talent strategy and scientifically operate the talents mechanism; and
- (g) Enhance the performance of social responsibilities and promote corporate culture.

5. EFFECT OF THE GROUP FINANCIAL SERVICES FRAMEWORK AGREEMENT (AS AMENDED BY THE GROUP FINANCIAL SERVICES FRAMEWORK SUPPLEMENTAL AGREEMENT) — ON THE EARNINGS, ASSETS AND LIABILITIES OF THE GROUP

In respect of the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement), (1) the capital deposited by the Group with the Finance Company will receive interest at interest rates not lower than the interest rates for deposits of similar nature and under similar terms provided to the Group by other independent commercial bank in the PRC. Such arrangement will enable the Group to increase its interest income more effectively; (2) the Group is able to obtain loans from the Finance Company at an interest rate not higher than the range of interest rates set by the PBOC for loan of a similar nature and under similar terms and not higher than the interest rates for loan of a similar nature and under similar terms charging the Group by other independent commercial banks in the PRC, which could effectively lower its costs of funding; and (3) the Company through its direct 51% equity interest in the Finance Company will be able to share the profits of the Finance Company.

In respect of the Group Financial Services Framework Agreement (as amended by the Group Financial Services Framework Supplemental Agreement), there has been no, and the Group does not expect there will be any, significant effect on the earnings, assets and liabilities of the Group.

6. EFFECT OF THE PARENT GROUP FINANCIAL SERVICES FRAMEWORK AGREEMENT (AS AMENDED BY THE PARENT GROUP FINANCIAL SERVICES FRAMEWORK SUPPLEMENTAL AGREEMENT) — ON THE EARNINGS, ASSETS AND LIABILITIES OF THE GROUP

In respect of the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement), (1) the interest rate for loans provided by the Finance Company to the Parent Group will not be lower than the range of interest rates set by the PBOC for loan of a similar nature and under similar terms, or the interest rates for loan of a similar nature and under similar terms charging the Parent Group by other independent commercial banks in the PRC. Such arrangement will enable the Group to increase its interest income more effectively; (2) It will help expand the business scale of the Finance Company, thus benefiting the development of the Finance Company, which in turn will facilitate the expansion of the Group's business scale; and (3) the Company through its direct 51% equity interest in the Finance Company will be able to share the profits of the Finance Company.

In respect of the Parent Group Financial Services Framework Agreement (as amended by the Parent Group Financial Services Framework Supplemental Agreement), there has been no, and the Group does not expect there will be any, significant effect on the earnings, assets and liabilities of the Group.

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 PERSONS' 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 (Group) 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 Co., Ltd. *(中國華融資產管理股份有限公司) | 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 RMB1.00 each of the Company

| Name of shareholders | Number of shares | Capacity | Notes | Percentage of total issued H shares (%) | Percentage of total issued shares (%) |
|--|--------------------------------|-------------------------------------|-------|---|---------------------------------------|
| 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) |
| GE Asset Management Incorporated | 75,973,334(L) | Investment manager | | 6.91 (L) | 2.06 (L) |
| Templeton Asset Management Limited | 71,682,000(L) | Investment manager | | 6.52 (L) | 1.95 (L) |

(L): Long Position

(P): Lending Pool

Notes:

1. As Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Yufu Assets Management (Group) Co. Ltd. are 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 Co., Ltd. *(中國華融資產管理股份有限公司), 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 Co., Ltd. *(中國華融資產管理股份有限公司) is directly held as to 98.06% by the Ministry of Finance of the People's Republic of China and indirectly held as to 1.94% by it through its wholly-owned China Life Insurance (Group) Company, therefore 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.

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 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 and 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 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. 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 |
|-------------------------|--|
| TC Capital Asia Limited | Independent Financial Adviser and a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report and/or opinions and/or the references to its name in the form and context in which it respectively appears.

As at the Latest Practicable Date, (i) the Independent Financial Adviser did not have any interest, either direct or indirect, in any assets which had been, since 31 December 2011, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) the Independent Financial Adviser did not have any shareholding interests in any member of the Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any members of the Group.

10. MATERIAL CONTRACTS

As at the Latest Practicable Date, no contract (not being a contract entered into in the ordinary course of business) was entered into by members of the Group within the two years immediately preceding the Latest Practicable Date and is, or may be, material.

11. MISCELLANEOUS

- (i) The registered office and the principal place of business in the PRC of the Company are at No. 60, Middle Section of Huangshan Avenue, New North Zone, 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; and
- (v) Unless stated otherwise, in the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Jun He Law Offices at Suite 2008, 20/F, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including Wednesday, 10 April 2013:

- (i) the Articles;
- (ii) Group Financial Services Framework Agreement;
- (iii) Group Financial Services Framework Supplemental Agreement;
- (iv) Parent Group Financial Services Framework Agreement;
- (v) Parent Group Financial Services Framework Supplemental Agreement;
- (vi) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in page 30 of this circular;
- (vii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in pages 34 to 60 of this circular;
- (viii) the written consent from the Independent Financial Advisor;
- (ix) the annual reports of the Company for the two financial years ended 31 December 2010 and 2011; and
- (x) a copy of this circular.

**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)

**SUPPLEMENTAL NOTICE OF
THE EXTRAORDINARY GENERAL MEETING**

Reference is made to the announcement of Chongqing Machinery & Electric Co., Ltd.* (the “**Company**”) dated 17 February 2013 and the Notice of the First Extraordinary General Meeting of 2013 (the “**EGM**”) dated 19 February 2013 (the “**EGM Notice**”), which contain the resolutions to be tabled at the EGM for the approval of the shareholders of the Company. Due to the reasons as set out in the supplemental announcement of the Company dated 13 March 2013 (the “**Supplemental Announcement**”), the board of directors of the Company (the “**Board**”) will not propose the resolutions originally numbered 1, 2, 3 and 4 in the EGM Notice at the EGM and will propose additional resolutions numbered 1, 2, 3 and 4 as set out below in this supplemental notice, details of which are set out in the Supplemental Announcement. All resolutions to be proposed at the EGM are set out in this supplemental notice of EGM as follows.

SUPPLEMENTAL NOTICE IS HEREBY GIVEN that the EGM of the Company for 2013 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 at 10:00 a.m. on Wednesday, 10 April 2013 for the purpose of considering and, if thought fit, passing, the following resolutions:

ORDINARY RESOLUTIONS:

1. To approve the transactions in respect of the deposit services under the financial services framework agreement entered into between the Company and Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd.* on 17 February 2013 (as amended by the financial services framework supplemental agreement entered into between the Company and Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd.* on 13 March 2013) (the “**Group Financial Services Framework Agreement**”) and the proposed annual caps for such transactions for the year ended 31 December 2013;

2. To approve the transactions in respect of the loan services under the financial services framework agreement entered into between the Company and Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd.* on 17 February 2013 (as amended by the financial services framework supplemental agreement entered into between the Company and Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd.* on 13 March 2013) (the “**Group Financial Services Framework Agreement**”) and the proposed annual caps for such transactions for the year ended 31 December 2013;
3. To approve the transactions in respect of the loan services under the financial services framework agreement entered into between Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd.* and Chongqing Machinery and Electronic Holding (Group) Co., Ltd.* on 17 February 2013 (as amended by the financial services framework supplemental agreement entered into between Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd.* and Chongqing Machinery and Electronic Holding (Group) Co., Ltd.* on 13 March 2013) (the “**Parent Group Financial Services Framework Agreement**”) and the proposed annual caps for such transactions for the year ended 31 December 2013;
4. To approve the transactions in respect of the guarantee services under the financial services framework agreement entered into between Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd.* and Chongqing Machinery and Electronic Holding (Group) Co., Ltd.* on 17 February 2013 (as amended by the financial services framework supplemental agreement entered into between Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd.* and Chongqing Machinery and Electronic Holding (Group) Co., Ltd.* on 13 March 2013) (the “**Parent Group Financial Services Framework Agreement**”) and the proposed annual caps for such transactions for the year ended 31 December 2013;
5. To authorize the directors of the Company to do all such further acts and things and execute all such further documents and take all such steps which, in their absolute discretion, to implement and/or give effect to the matters contemplated under the abovementioned resolutions;
6. To approve resignation of Mr. Liao Shaohua as an executive Director;
7. To approve the appointment of Mr. Ren Yong as an executive Director and his remuneration to be determined in accordance with the remuneration programs as approved at the 2009 annual general meeting;
8. To approve the resignation of Mr. Liu Liangcai as a non-executive Director;

9. To approve the appointment of Mr. Deng Yong as a non-executive Director and his remuneration to be determined in accordance with the remuneration programs as approved at the 2009 annual general meeting;
10. To approve the resignation of Mr. Duan Rongsheng as a Supervisor;
11. To approve the appointment of Mr. Yang Mingquan as a Supervisor and his remuneration to be determined in accordance with the remuneration programs as approved at the 2009 annual general meeting;
12. To approve the resignation of Mr. Zhang Xinzhi as a Supervisor;
13. To approve the appointment of Mr. Wang Pengcheng as a Supervisor and his remuneration to be determined in accordance with the remuneration programs as approved at the 2009 annual general meeting;

SPECIAL RESOLUTION:

14. 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 announcement of the Company dated 17 February 2013 to the shareholders of the Company, 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.*
Yu Gang
Executive Director (As Acting Chairman)

15 March 2013

* *For identification purposes only*

Notes:

1. Any shareholder entitled to attend and vote at the said meeting is entitled to appoint one or more than one proxy to attend and vote on his behalf according to the Articles of Association of the Company. A proxy need not be a member of the Company.
2. Since the form of proxy published by the Company on 19 February 2013 (the “First Form of Proxy”) does not contain the additionally proposed resolutions no.1, 2, 3 and 4 as set out in this supplemental notice, a new form of proxy (the “Second Form of Proxy”) has been prepared and will be despatched together with this supplemental notice. The Second Form of Proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.chinacqme.com).
3. A holder of H Shares who wishes to appoint a proxy to attend and vote at the EGM but has not yet lodged the First Form of Proxy with the Company’s H Share registrar or a holder of domestic shares should complete the enclosed Second Form of Proxy. Holders of H Shares should return the Second Form of Proxy 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, 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 less than 24 hours before the scheduled time for the EGM or any adjournment thereof (as the case may be), in order to be qualified).
4. A holder of H Shares who has already lodged the First Form of Proxy with the Company’s H Share registrar should note that:
 - (i) If no Second Form of Proxy is lodged with the H Share registrar of the Company in accordance with the instructions printed thereon, the First Form of Proxy will be treated as a valid form of proxy lodged by the shareholder if duly completed. Apart from the resolutions referred to in the EGM Notice and the First Form of Proxy, the proxy so appointed by the shareholder pursuant to the First Form of Proxy will be entitled to vote or to abstain from voting at his or her discretion on any resolution properly put to the EGM, including the additionally proposed resolutions no.1, 2, 3 and 4 as set out in this supplemental notice.
 - (ii) If the Second Form of Proxy is lodged with the H Share registrar of the Company at or before 10:00 a.m. on Tuesday, 9 April 2013 in accordance with the instructions printed thereon, the Second Form of Proxy, whether duly completed or not, will revoke and supersede the First Form of Proxy previously lodged by the shareholder. The Second Form of Proxy will be treated as a valid form of proxy if duly completed.
 - (iii) If the Second Form of Proxy is lodged with the H Share registrar of the Company after 10:00 a.m. on Tuesday, 9 April 2013, the Second Form of Proxy will be deemed invalid. It will not revoke the First Form of Proxy previously lodged by the shareholder. The First Form of Proxy will be treated as a valid form of proxy if duly completed. Apart from the resolutions referred to in the EGM Notice and the First Form of Proxy, the proxy so appointed by the shareholder pursuant to the First Form of Proxy will be entitled to vote or to abstain from voting at his or her discretion on any resolution properly put to the EGM, including the additionally proposed resolutions no.1, 2, 3 and 4 as set out in this supplemental notice.

5. A holder of domestic shares who has already lodged the First Form of Proxy with the Company's mailing address should note that:
 - (i) If no Second Form of Proxy is lodged with the mailing address of the Company in accordance with the instructions printed thereon, the First Form of Proxy will be treated as a valid form of proxy lodged by the shareholder if duly completed. Apart from the resolutions referred to in the EGM Notice and the First Form of Proxy, the proxy so appointed by the shareholder pursuant to the First Form of Proxy will be entitled to vote or to abstain from voting at his or her discretion on any resolution properly put to the EGM, including the additionally proposed resolutions no.1, 2, 3 and 4 as set out in this supplemental notice.
 - (ii) If the Second Form of Proxy is lodged with the mailing address of the Company at or before 10:00 a.m. on Tuesday, 9 April 2013 in accordance with the instructions printed thereon, the Second Form of Proxy, whether duly completed or not, will revoke and supersede the First Form of Proxy previously lodged by the shareholder. The Second Form of Proxy will be treated as a valid form of proxy if duly completed.
 - (iii) If the Second Form of Proxy is lodged with the H Share registrar of the Company after 10:00 a.m. on Tuesday, 9 April 2013, the Second Form of Proxy will be deemed invalid. It will not revoke the First Form of Proxy previously lodged by the shareholder. The First Form of Proxy will be treated as a valid form of proxy if duly completed. Apart from the resolutions referred to in the EGM Notice and the First Form of Proxy, the proxy so appointed by the shareholder pursuant to the First Form of Proxy will be entitled to vote or to abstain from voting at his or her discretion on any resolution properly put to the EGM, including the additionally proposed resolutions no.1, 2, 3 and 4 as set out in this supplemental notice.
6. Shareholders are reminded that completion and return of the First Form of Proxy and/or the Second Form of Proxy will not preclude them from attending and voting in person at the EGM or any adjournment thereof.
7. Shareholders or their proxies shall present proofs of identities when attending the meeting.
8. The register of Members will be closed from 11 March 2013 to 10 April 2013, 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 March 2013.
9. As at the date of this notice, the executive Directors are Mr. Yu Gang, Mr. Liao Shaohua, Mr. Chen Xianzheng and Mr. Xie Hua Jun; the non-executive Directors are Mr. Huang Yong, Mr. Wang Jiyu, Mr. Liu Liangcai and Mr. Yang Jingpu ; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Kong Weiliang and Mr. Jin Jingyu.