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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)

MAJOR TRANSACTION

LAND RESUMPTION BY GOVERNMENT

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

30 April 2014

* *For identification purposes only*

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DEFINITIONS

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

“Aggregate Consideration”	The total consideration payable by Chongqing Land Group under the First Land Disposal Agreement and the Second Land Disposal Agreement
“Board”	the board of directors of the Company
“Company”	Chongqing Machinery & Electric Co., Ltd.* (重慶機電股份有限公司), a joint stock limited company incorporated in the People’s Republic of China with limited liability, the securities of which are listed on the main board of the Stock Exchange (Stock Code: 02272)
“Chongqing Land Group”	a unit directly established under Chongqing government for the purpose of land resumption arrangement
“Chongqing MT”	Chongqing Machine Tool (Group) Co. Ltd. (重慶機床(集團)有限責任公司), a wholly owned subsidiary of the Company
“Chongqing WTW”	Chongqing Water Turbine Works Co., Ltd. (重慶水輪機廠有限責任公司), a wholly owned subsidiary of the Company
“Directors”	the directors of the Company
“First Land Disposal Agreement”	The land disposal agreement dated 20 February 2014 entered into between Chongqing WTW and Chongqing Land Group in relation to the acquisition of the Disposal Land No.1 and certain assets thereon
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Independent Third Party”	Person or company and their respective ultimate beneficial owner which, to the best of the Director’s knowledge, information and belief, having made all reasonable enquiries, are third parties independent of and not connected with the Company and its connected persons
“Land”	Disposal Land No. 1 and Disposal Land No. 2
“Land Disposal”	The acquisition of the Land pursuant to the First Land Disposal Agreement and the Second Land Disposal Agreement
“Latest Practicable Date”	25 April 2014, being the latest practicable date for ascertaining certain information referred to in this circular prior to printing of this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Memorandum of Handover”	a memorandum to be signed by the respective parties upon transfer of the Land
“Mu”	One Mu equals to approximately 666.67 square meters
“Disposal Land No. 1”	lands situated at (i) No.10 Li Jia Tuo Ma Wang Ping Zheng Street, Ba Nan District, Chongqing (重慶巴南區李家沱馬王坪正街10號), (ii) No.133 Li Jia Tuo Xin Ping Village, Ba Nan District, Chongqing (重慶巴南區李家沱新平村133號), and (iii) Qun Le Si She, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮群樂四社)
“Disposal Land No. 2”	lands situated at (i) Dao Jiao Lian Hua Village, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮道角蓮花村), (ii) Block 3, No. 7, Dao Jiao Second Village, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮道角二村7號3幢), (iii) No. 1-69, Dao Jiao Lian Hua Village, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮道角蓮花村自編1-69號), and (iv) No. 2 -1, Dao Jiao Lian Hua Village, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮道角蓮花村自編2-1號)

DEFINITIONS

“Properties”	the Land together with the buildings, structures and attachments erected thereon and thereunder
“Second Land Disposal Agreement”	The land disposal agreement dated 20 February 2014 entered into between Chongqing MT, and Chongqing Land Group in relation to the acquisition of the Disposal Land No.2 and certain assets thereon
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
“Shareholder(s)”	Shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Valuation Report No. 1”	the valuation report (Chong Tian Hong Ping Bao Zi (2014) No.008) prepared by Chongqing Tianhong Assets Appraisal & Land and Property Valuation Company Limited in respect of the Disposal Land No. 1 together with the buildings, structures and attachments erected thereon and thereunder which are disposed for under the First Land Disposal Agreement
“Valuation Report No. 2”	the valuation report (Chong Tian Hong Ping Bao Zi (2014) No.009) prepared by Chongqing Tianhong Assets Appraisal & Land and Property Valuation Company Limited in respect of the Disposal Land No. 2 together with the buildings, structures and attachments erected thereon and thereunder which are disposed for under the Second Land Disposal Agreement

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. Wang Yuxiang (*Chairman*)

Mr. Yu Gang

Mr. Ren Yong

Mr. Chen Xianzheng

*Registered Office and Principal Place of
Business in the PRC:*

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

Non-executive Directors:

Mr. Huang Yong

Mr. Wang Jiyu

Mr. Yang Jingpu

Mr. Deng Yong

Principal Place of Business in Hong Kong:

Suite 3701-10, 37th Floor, Jardine House,
No.1 Connaught Place, Central,
Hong Kong

Independent non-executive Directors

Mr. Lo Wah Wai

Mr. Ren Xiaochang

Mr. Jin Jingyu

Mr. Yang Zhimin

30 April 2014

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION LAND RESUMPTION BY GOVERNMENT

INTRODUCTION

Reference is made to the announcement of the Company dated 20 February 2014 in respect of, among other things, the Land Resumption by Government.

* For identification purposes only

LETTER FROM THE BOARD

On 11 August 2011, the Chongqing Municipal People's Government has issued the "Notice on Accelerating the Implementation of Environmental Relocation of the Sixth Batch of Key Enterprises with Environmental Pollution Problems in Central Downtown" (Yu Ban Fa [2011] No. 255) for the relocation of designated enterprises. Chongqing WTW and Chongqing MT are two of the enterprises to which the policy applies. Chongqing Land Group, on behalf of the Chongqing Government, shall take over the Disposal Land No. 1 and Disposal Land No. 2 by way of land acquisition. Chongqing WTW and Chongqing MT subsequently commenced negotiation in respect of the terms of the aforesaid disposal plan, and entered into the First Land Disposal Agreement and the Second Land Disposal Agreement. The Directors believe that the terms of the Land Disposal are fair and reasonable and are in the interests of the Company and Shareholders as a whole.

The purpose of this circular is to provide you with, among other things, the details of the Land Resumption by Government and other information required by the Listing Rules.

THE ESSENTIAL TERMS OF THE AGREEMENTS

(1) The First Land Disposal Agreement

Date

20 February 2014

Parties

- (i) Vendor: Chongqing Water Turbine Works Co., Ltd.
- (ii) Purchaser: Chongqing Land Group

Subject land and buildings thereon

The Disposal Land No. 1, measuring approximately a total of 272.23 Mu (approximately 181,485 square meters), is situated at (i) No.10 Li Jia Tuo Ma Wang Ping Zheng Street, Ba Nan District, Chongqing (重慶巴南區李家沱馬王坪正街10號), (ii) No.133 Li Jia Tuo Xin Ping Village, Ba Nan District, Chongqing (重慶巴南區李家沱新平村133號), and (iii) Qun Le Si She, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮群樂四社), together with the buildings, structures and attachments erected thereon and thereunder.

LETTER FROM THE BOARD

The buildings erected on the Disposal Land No. 1 comprise of 88 factory buildings, office buildings, warehouses and utilities and other facilities buildings. The aforementioned buildings are currently used by Chongqing WTW in the following manner: the factory buildings are used for manufacturing of power generators, the office building is used as office for manufacturing team and supporting team of the factory, the warehouses are used for storage of certain components and products of the production line and the utilities buildings are used for electricity, transformer and other utilities purpose.

Under the First Land Disposal Agreement, only the production facilities will be relocated, but not the buildings, before the transfer of the land. The transfer of the Disposal Land No. 1 is expected to take place within 24 months after the date of the First Land Disposal Agreement, which is considered to be sufficient for the relocation of the production facilities, the aforesaid disposal is not expected to result in any significant interruption to the operation of Chongqing WTW.

Relocation Plan

It is estimated that the construction works for the new location of the production facilities will be completed towards the end of 2014 and the relocation of production facilities will be completed towards the end of 2015. The acquisition, construction and preparation costs for Chongqing WTW is estimated to be approximately RMB 930,000,000. Manufacturing will not be suspended during the relocation process. The relocation will take place by way of rolling moving. The Group will start building up reserve from manufacturing prior to the relocation and processing of some components will be outsourced during relocation so that the operation of Chongqing WTW will not be materially affected by the relocation. There will only be minimal additional operation costs incurred as a result thereof which will not materially affect the Group's profitability for the year.

It is expected that the annual production capacity of Chongqing WTW at the new site will increase by approximately 200%.

There is no notifiable transactions implication under Chapter 14 of the Listing Rules in relation to the relocation of Chongqing WTW. Should there be such implications under the Listing Rules, the Company will comply with all requirements under the Listing Rules.

LETTER FROM THE BOARD

Transfer of the land

(i) *Timing of the transfer*

Chongqing WTW shall transfer the Disposal Land No. 1 to the Chongqing Land Group within 24 months after the First Land Disposal Agreement is entered into.

(ii) *Conditions of the transfer*

In respect of the transfer, Chongqing WTW shall:

- (a) prove good title in respect of the Disposal Land No. 1 upon transfer, to the extent that the said land be free from any lease, charge, contractual arrangement or judicial procedure or any other third party's claim which might affect good title to the said land;
- (b) be responsible for relocating any enterprise unit, residents, occupants and users of the Disposal Land No. 1; and be responsible for ensuring the Disposal Land No.1 be free from construction waste.

Consideration

Chongqing Land Group shall pay to Chongqing WTW a consideration of RMB544,460,000, representing an average land price of approximately RMB2,000,000 per Mu (approximately RMB2,999.98 per square meter), which was agreed by the parties on an arm's length basis by reference to the market value of properties of similar nature and the Valuation Report No.1. The Company has also taken into consideration the following factors: (1) the Valuation Report No.1 was prepared on the basis and assumption that the existing use of Disposal Land No. 1 is industrial use (details of evaluation methods and evaluation assumptions are set out in Part VII and Part IX of the Evaluation Report No.1); (2) the use of Disposal Land No. 1 will likely to be changed to commercial and residential use after the completion of the Land Resumption; and (3) the Land Resumption was initiated by the Chongqing local government due to environmental issues and so, part of the consideration (approximately RMB120,000,000) is considered to be a way to compensate Chongqing WTW for potential costs and losses arising from the relocation.

LETTER FROM THE BOARD

The consideration shall be satisfied by Chongqing Land Group in the following manner:

Date of payment	Amount paid/payable
One month from the date of signing of the Agreement	RMB163,338,000 (representing 30% of the aforesaid consideration), being the initial payment.
On or before 19 August 2014	RMB108,892,000 (representing 20% of the aforesaid consideration), being the second payment.
On or before 19 February 2015	RMB54,446,000 (representing 10% of the aforesaid consideration), being the third payment.
On or before 19 August 2015	RMB108,892,000 (representing 20% of the aforesaid consideration), being the fourth payment.
15 working days from the date of signing of the Memorandum of Handover	RMB108,892,000 (representing 20% of the aforesaid consideration), being the balance of the aforesaid consideration.

Conditions precedent

The First Land Disposal Agreement is conditional upon:

- (i) Chongqing WTW selling the Disposal Land No. 1 free from all encumbrances upon transfer of the said land; and
- (ii) the approval of the Shareholders on the Land Disposal in accordance with the Listing Rules being obtained.

(2) The Second Land Disposal Agreement

Date

20 February 2014

Parties

- (i) Vendor: Chongqing Machine Tool (Group) Co., Ltd.
- (ii) Purchaser: Chongqing Land Group

LETTER FROM THE BOARD

Subject land

The Disposal Land No. 2, measuring approximately a total of 417.86 Mu (approximately 278,572.7 square meters), is situated at (i) Dao Jiao Lian Hua Village, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮道角蓮花村), (ii) Block 3, No. 7, Dao Jiao Second Village, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮道角二村7號3幢), (iii) Nos. 1-69, Dao Jiao Lian Hua Village, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮道角蓮花村自編1-69號), and (iv) No. 2-1, Dao Jiao Lian Hua Village, Hua Xi Town, Ba Nan District, Chongqing (重慶巴南區花溪鎮道角蓮花村自編2-1號), together with the buildings, structures and attachments erected thereon and thereunder.

The buildings erected on the Disposal Land No. 2 comprise of 224 factory buildings, office buildings, warehouses and utilities and other facilities buildings. The aforementioned buildings are currently used by Chongqing MT in the following manner: the factory buildings are used for manufacturing of machinery tools, the office building is used as office for manufacturing team and supporting team of the factory, the warehouses are used for storage of certain components and products of the production line and the utilities are used for electricity, transformer and other utilities purpose.

Under the Second Land Disposal Agreement, only the production facilities will be relocated, but not the buildings, before the transfer of the land. The transfer of the Disposal Land No. 2 is expected to take place within 24 months after the date of the Second Land Disposal Agreement, which is considered to be sufficient for the relocation of the production facilities, the aforesaid disposal is not expected to result in any significant interruption to the operation of Chongqing MT.

Relocation Plan

It is estimated that the relocation of Chongqing MT will be completed towards the end of 2015. The acquisition, construction and preparation costs for Chongqing MT is estimated to be approximately RMB1,265,000,000. Manufacturing will not be suspended during the relocation process. The relocation will take place by way of rolling moving. The Group will start building up reserve from manufacturing prior to the relocation and processing of some components will be outsourced during relocation so that the operation of Chongqing MT will not be materially affected by the relocation. There will only be minimal additional operation costs incurred as a result thereof which will not materially affect the Group's profitability for the year.

It is expected that the annual production capacity of Chongqing MT at the new site will increase by approximately 100%.

LETTER FROM THE BOARD

There is no notifiable transactions implication under Chapter 14 of the Listing Rules in relation to the relocation of Chongqing MT. Should there be such implications under the Listing Rules, the Company will comply with all requirements under the Listing Rules.

Transfer of the land

(i) Timing of the transfer

Chongqing MT shall transfer the Disposal Land No. 2 to the Chongqing Land Group within 24 months after the Second Land Disposal Agreement is entered into.

(ii) Conditions of the transfer

In respect of the transfer, Chongqing MT shall:

- (a) prove good title in respect of the Disposal Land No. 2 upon transfer, to the extent that the said land be free from any lease, charge, contractual arrangement or judicial procedure or any other third party's claim which might affect good title to the said land;
- (b) be responsible for relocating any enterprise unit, residents, occupants and users of the Disposal Land No. 2; and be responsible for ensuring the Disposal Land No. 2 be free from construction waste.

Consideration

Chongqing Land Group shall pay to Chongqing MT a consideration of RMB752,148,000, representing an average land price of approximately RMB1,800,000 per Mu (approximately RMB2,700 per square meter), which was agreed by the parties on an arm's length basis by reference to the market value of properties of similar nature and the Valuation Report No.2. The Company has also taken into consideration the following factors: (1) the Valuation Report No.2 was prepared on the basis and assumption that the existing use of Disposal Land No. 2 is industrial use (details of evaluation methods and evaluation assumptions are set out in Part VII and Part IX of the Evaluation Report No.2); (2) the use of Disposal Land No. 2 will likely to be changed to commercial and residential use after the completion of the Land Resumption; and (3) the Land Resumption was initiated by the Chongqing local government due to environmental issues and so, part of the consideration (being approximately RMB160,000,000) is considered to be a way to compensate Chongqing MT for potential costs and losses arising from the relocation.

LETTER FROM THE BOARD

The consideration shall be satisfied by Chongqing Land Group in the following manner

Date of payment	Amount paid/payable
One month from the date of signing of the Agreement	RMB225,644,400 (representing 30% of the aforesaid consideration), being the initial payment.
On or before 19 August 2014	RMB150,429,600 (representing 20% of the aforesaid consideration), being the second payment.
On or before 19 February 2015	RMB75,214,800 (representing 10% of the aforesaid consideration), being the third payment.
On or before 19 August 2015	RMB150,429,600 (representing 20% of the aforesaid consideration), being the fourth payment.
15 working days from the date of signing of the Memorandum of Handover	RMB150,429,600 (representing 20% of the aforesaid consideration), being the balance of the aforesaid consideration.

Conditions precedent

The Second Land Disposal Agreement is conditional upon:

- (i) Chongqing MT sells the said land without any encumbrances when transfer the lands mentioned above; and
- (ii) the approval of the Shareholders on the Land Disposal in accordance with the Listing Rules being obtained.

INFORMATION ON CHONGQING MACHINE TOOL (GROUP) CO., LTD, CHONGQING WATER TURBINE WORKS CO., LTD. AND THE GROUP

Chongqing MT is principally engaged in the manufacturing of machinery tools.

Chongqing WTW is principally engaged in the manufacturing of hydroelectric generation equipment.

The Group is principally engaged in designing, manufacturing and sales of automobile parts and components, power equipment, general machinery, CNC machine tools and trade and financial business.

LETTER FROM THE BOARD

INFORMATION ON CHONGQING LAND GROUP

The Chongqing Land Group is a unit directly established under Chongqing government for the purpose of land resumption arrangement.

The Directors confirm that, to the best of their knowledge, information and belief having made all reasonable enquiries, Chongqing Land Group and its ultimate beneficial owners are Independent Third Parties.

REASONS FOR THE LAND DISPOSAL

On 11 August 2011, the Chongqing Municipal People's Government has issued the "Notice on Accelerating the Implementation of Environmental Relocation of the Sixth Batch of Key Enterprises with Environmental Pollution Problems in Central Downtown" (Yu Ban Fa [2011] No. 255) for the relocation of designated enterprises. Chongqing WTW and Chongqing MT are two of the enterprises to which the policy applies. Chongqing Land Group, on behalf of the Chongqing Government, shall take over the Disposal Land No. 1 and Disposal Land No. 2 by way of land acquisition. Chongqing WTW and Chongqing MT subsequently commenced negotiation in respect of the terms of the aforesaid disposal plan, and entered into the First Land Disposal Agreement and the Second Land Disposal Agreement. The Directors believe that the terms of the Land Disposal are fair and reasonable and are in the interests of the Company and Shareholders as a whole.

POSSIBLE FINANCIAL EFFECTS OF THE LAND DISPOSAL

Based on the carrying value of the Disposal Land No. 1 and Disposal Land No. 2 together with the buildings, structures and attachments erected thereon and thereunder of approximately RMB51,070,000 and RMB95,058,000 respectively as at 31 December 2013, it is estimated that after the completion of the Land Resumption, the total asset of the Group would be increased by approximately RMB1,150,156,000 (unaudited) and an accumulative gain of approximately RMB1,150,156,000 (unaudited) will be recorded, being the difference between the consideration for the Land Disposal and the carrying value of the Land as at 31 December 2013 (before the other relevant assets cancelled due to the Land Resumption, depreciation expenses for the Land and the relevant assets before the completion of the Land Resumption, reallocation costs for the Land Resumption, transaction costs and relevant taxes. The accumulative gain includes such parts of the Aggregate Consideration to compensate the potential costs and losses arising from the relocation.

The accumulative gain (after costs), will be mainly used for the relocation investment. Therefore, the Company is of the view that such gain will be amortized and it is expected that there will be no significant impact on the financial statements of 2014 and 2015 of the Group, subject to the audit of financial statements of the relevant financial years.

LETTER FROM THE BOARD

USE OF PROCEEDS

It is intended that the net proceeds from the Land Disposal will be used by the Group for the general working capital of the Group, relocation of production facilities, construction of new factories and removal of construction waste in the Land.

FINANCIAL INFORMATION OF THE LAND AND THE SUBJECT ASSETS

The audited total assets of Chongqing WTW as at 31 December 2013, and the unaudited net asset value of the Disposal Land No. 1 together with the assets thereon under the First Land Disposal Agreement as at 31 December 2013 were RMB1,124,869,449 and RMB51,070,000 respectively.

The audited total assets of Chongqing MT as at 31 December 2013, and the unaudited net asset value of the Disposal Land No. 2 together with the assets thereon under the Second Land Disposal Agreement as at 31 December 2013 were RMB2,668,319,082.29 and RMB95,058,000 respectively.

	For the financial year ended 31 December 2013			For the financial year ended 31 December 2012		
	Chongqing Water Turbine Group	Chongqing Machine Tool (Group) Co., Ltd.		Chongqing Water Turbine Group	Chongqing Machine Tool (Group) Co., Ltd.	
Audited net profit/(loss) before taxation	585,223,000	40,839,017	22,759,183	488,874,000	30,385,865	25,119,071
Audited net profit/(loss) after taxation	<u>540,438,000</u>	<u>35,702,802</u>	<u>16,459,493</u>	<u>458,349,000</u>	<u>25,074,099</u>	<u>17,200,869</u>

LISTING RULES IMPLICATIONS

On the basis that the applicable percentage ratios in respect of the Land Disposal are greater than 25% while all such ratios are less than 100% for the purposes of Rule 14.07 of the Listing Rules, the Land Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the requirements of announcement, reporting and approval of the Shareholders. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholders have a material interest in the Land Disposal and no Shareholder would be required to abstain from voting if the Company has convened a general meeting for the approval of the Land Disposal.

LETTER FROM THE BOARD

In lieu of holding a general meeting to approve the Land Disposal, written approval on the Land Disposal has been obtained from Chongqing Machinery & Electronic Holding (Group) Co., Ltd., holding 1,924,225,189 Shares of the Company representing approximately 52.22% shareholding interest in the Company, pursuant to Rule 14.44 of the Listing Rules. The Company will not hold a general meeting to approve the Land Disposal.

Since the carrying amount of each property interest held by the Company in respect of the Land and buildings, structures and attachments erected thereon and thereunder was below 1% of the Company's total assets as at 31 January 2014, and the total carrying amount of the Land and buildings, structures and attachments erected thereon and thereunder did not exceed 10% of the Company's total assets as at 31 January 2014, therefore the valuation reports on the Land and the buildings, structures and attachments erected thereon and thereunder are not required to be included in this circular pursuant to Rule 5.02A(5) of the Listing Rules. For the Shareholders' information, the body of the Valuation Report No.1 and the Valuation Report No. 2 are included in this circular.

This circular is made by the order of the Board of the Company. The Board collectively and individually accepts responsibility for the accuracy of this circular.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Land Disposal are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board would recommend the Shareholders to vote in favour of the resolutions for approving the Land Disposal if a general meeting of the Company is required to be convened to consider and approve the foregoing transactions.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By order of the Board
Chongqing Machinery & Electric Co., Ltd.
Wang Yuxiang
Executive Director and Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2011, 2012 and 2013 are disclosed in the annual reports of the Company for the years ended 31 December 2011, 2012 and 2013 respectively. These annual reports are published on the website of the Stock Exchange and the website of the Company (<http://www.chinacqme.com>).

2. STATEMENT OF INDEBTEDNESS**Borrowings**

As at the close of business on 25 April 2014, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings as follows:–

The Group had outstanding borrowings of approximately RMB2,143,313,000, comprising (i) bank loans of RMB1,147,316,000; and (ii) corporate bonds of RMB995,997,000 (the aforesaid figures are unaudited).

3. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that after taking into account the present internal resources, available bank facilities, the existing corporate bond of the Group and the financial effect of the Land Disposal, the Group has sufficient working capital for its present requirements, that is for at least the next twelve months from the date of this circular, in the absence of any unforeseeable circumstances.

4. FINANCIAL AND TRADING PROSPECTS

Looking forward, the comprehensive and in-depth reform will greatly stimulate market dynamics in 2014. A new round of higher level of opening to the outside world including the establishment of Shanghai Free Trade Zone will inject new motive force of development. The state will continue to insist on the overall work keynote of making progress while maintaining stability and continue to implement the proactive fiscal policy and prudent monetary policy. The economy of our country will maintain the stable growth at a medium to high speed of about 7.5%. In respect of the equipment manufacturing industry, the overall industry will make progress steadily in 2014 stimulated by many factors such as the gradual development of comprehensive and in-depth reform, the increasingly accelerated new-type urbanization and industrial modernization process.

In view of the current market situation, the Group's work priorities in 2014 are set out as follows:

- (1) Promote management and step up quality of economic operation. The focus will be placed on regulation and control of economic operation, precision management, integration of sales resources, in-depth promotion of procurement, improve products' quality and promote comprehensive budget management.
- (2) Deepen reform and add vitality for corporate development. The Group will divide enterprises into two types, strategic development and reform adjustment following the thought of "to move forward or backward depending on the situation; to do something and not to do everything", implement sort management and the principle of "one policy for one enterprise", make advance and retreat in due manner, accelerate the reform of mixed ownership and boost acquisition/merger and reorganization, striving to complete the aforementioned tasks in about three years and achieve the activation of system and mechanism.

- (3) Continue to make innovation to drive the sustainable development of the Company. The major works include establishing a research and development platform, investing more in research and development, boosting information construction and the adjustment concerning the industry, products and business mode, and achieving “three transformations”, i.e. transformation from single manufacturing to the combination of product manufacturing and industrial technical services, transformation from single manufacturing to integration of product manufacturing and industry, and transformation of business operation model from olive type to dumbbell type.
- (4) Care for people and deal with concrete matters in relation to the foundation of human resources. The major works include promoting talent team construction, carrying out evaluation and employment of chief staff, strengthening cooperation between universities and enterprises and carrying out incentive schemes for invention and patents, etc.
- (5) Standardize management and control and strictly control operation risks of the Company. The major works include continuous promotion of internal control system construction, performing evaluation of the effectiveness of internal control, implementing supervision and review of effectiveness, etc.

The text below is a translation of the Chinese version of property valuation report. The Chinese version of the valuation report was prepared by Chongqing Tianhong Assets Appraisal & Land and Property Valuation Company Limited (重慶天鴻資產評估土地房地產估價有限公司) for evaluation of land contemplated under the First Land Disposal Agreement and the Second Land Disposal Agreement and certain assets thereon, for the purpose of containing in circular. In case of any discrepancy, the Chinese version shall prevail.

VALUATION REPORT NO. 1**Valuation Report on Disposal of Assets of
Chongqing Water Turbine Works Co., Ltd.****Main Body**

Chong Tian Hong Ping Bao Zi (2014) No.008

Chongqing Water Turbine Works Co., Ltd.,

Chongqing Tianhong Assets Appraisal & Land and Property Valuation Company Limited accepted the engagement by the Company to evaluate buildings, structures and land use rights involved in the disposal of assets of the Company, in accordance with provisions in relation to asset evaluation of the State and the principles of independent, objective, fair and scientific, and based on the generally accepted evaluation methods and operation standards. Our evaluators have conducted evaluation work such as on-site survey, market research and so forth on the evaluated subject in accordance with required evacuation procedures and fairly reflected market value of the evaluated subject on the appraisal base date, being 31 January 2014. Details and results of the appraisal and valuation of the assets are reported as below:

I. The principal, owner of property rights and users of the valuation report

1. Principal: Chongqing Water Turbine Works Co., Ltd.

Address: No.10 Li Jia Tuo Ma Wang Ping Zheng Street, Ba Nan District, Chongqing (重慶巴南區李家沱馬王坪正街10號)

Legal representative: Zhao Zichen

Registered capital: RMB147,097,062

Type of company: company with limited liability (solely owned by legal person)

Scope of business: licensed operating items: nil.

General operating items: Design, development and manufacturing of turbine, governor and auxiliary equipment, generators, excitation and control equipment, motors, hydraulic machinery, pumps, gates, casting, power station equipment, high-voltage electrical equipment, low-voltage electrical appliances and components, electronic products (excluding car pot and engines) for rail transportation, port machinery parts, oil refining, metal welding equipment, chemical equipment, power station equipment installation, goods and technology import and export business (except the items prohibited by laws and regulations, operate the items limited by laws and regulations after obtained the license to operate); general cargo (limited to operation by branches), lodging, processing and sales of staple food and hot dishes (limited to operation by branches).

2. Property holder: Chongqing Water Turbine Works Co., Ltd.
3. Use of the valuation report: the property holder of appraised subject and its control person, person concerned of the economic behaviour contemplated under the valuation engagement, other users entitled to use the valuation report according to laws and regulations.

II. Appraisal objectives

Provide reference for disposal of assets of the principal.

III. Appraisal scope and subject

The appraisal scope and subjects include buildings, constructions and land use right. The breakdowns provided by the principal are set out below:

- 3.1 The number of buildings for industrial use is 68, including production workshops, office buildings, materials warehouses and other houses for auxiliary use, with a total area of 100,413.34 m². As most of the above buildings were constructed in 1960s and 1970s with simple repair and maintenance, certain buildings with breakage that have minor effect on their usage were still in service.

There are 20 constructions in use.

The original book value of the buildings and constructions is RMB80,081,400. For the breakdown, please refer to the breakdown of the appraisal.

3.2 Three domiciles with land use right are for industrial use. They have achieved “seven connecting and one levelling” (七通一平). The number of the property right certificate, location of the land lot, land class and area are as follows:

No.	No. of the property right certificate	Location	Land class	Area (square metre)
1	202 Fang Di Zheng 2006 Zi No.14059	Ma Wang Ping Zheng Street, Li Jia Tuo Avenue	Class III land for industrial use	147,555.00
2	202D Fang Di Zheng 2006 Zi No. 00654	Gong Lian San Village, Li Jia Tuo Avenue	Class V land for industrial use	22,161.00
3	202 Fang Di Zheng 2007 Zi 14072	Zhang Jia Bao, Li Jia Tuo Avenue	Class VI land for industrial use	11,769.00
Total				<u>181,485.00</u>

The term for the land totalling 272.23 mu expires on 8 November 2055, and the remaining years for use is 41.5 years as at the appraisal time. Based on on-site observation, the road is covered with 15-20cm of concrete with walls of 2.5-4 meters high surrounding the factory. On part of the land there are Land within the area is rather flat in an irregular shape without unfavourable geological formations.

The book value of the land use right amounts to RMB32,607,600.

IV. Value types and their definitions

This evaluation adopts open market value standard.

Open market value standard refers to the value of assets should be implemented in the open market, namely reasonable buying and selling parties of equal status, with open information, whose transaction cost, time cost is low enough, ultimately achieve consensus on market price.

This evaluation selects value of this type because both parties are in the same position and the value of assets entrusted to be evaluated is not other investment or liquidation value due to purpose of appraisals, in addition that open market value is not improper to transaction.

V. Appraisal base date

- 5.1 The appraisal base date of this project is January 31, 2014, all price standard in this assessment is effective price standard at appraisal base date.
- 5.2 The appraisal base date is the datum point to determine the asset appraisal value.
- 5.3 The appraisal base date selected for this project is the end point during a particular accounting period, capable to fully reflect overall situation of all assets and liabilities of evaluation object. At the same time, the appraisal base date approaches to the date to achieve evaluation purpose and plan. So the choice of appraisal base date is reasonable.

VI. Evaluation basis**6.1 Basis for economic behavior**

1. Assets appraisal engagement letter

6.2 Basis from on laws and regulations

1. Decree No. 91 of “Administration of State Asset Valuation” by the State Council in 1991;
2. “The Interim Provisions on Basic Content and Format of the Assets Evaluation Report” formulated by the Ministry of Finance;
3. “The Urban Real Estate Administration Law of the People’s Republic of China”;
4. “PRC Law on Land Management”;
5. “Company Law of the People’s Republic of China”
6. “Administration of State Asset Valuation”(State Council order No. 91);
7. Other state rules and documents relating to assets assessment.

6.3 *Standard basis*

1. “Assets Appraisal Standards — Basic Principles” by China’s Asset Evaluation Association;
2. “The Code of Professional Ethics of Assets Evaluation — Basic Principles”.
3. “Assets Assessment Criteria — Evaluation Report”;
4. “Assets Assessment Criteria — Evaluation Procedure”;
5. “Assets Assessment Criteria — Machinery and Equipment”;
6. “Assets Assessment Criteria — Real Estate”;
7. “Assets Assessment Criteria — Intangible Assets”;
8. Guidelines for State-owned Assets Assessment;
9. PRC national standard GB/T50291-1999 “Standard of Real Estate Appraisal” (State Technical Supervision Bureau, the State Ministry of Construction, construction standard [1999] No. 48);
10. PRC national standard GB/T18508-2001 “Urban Land Appraisal Regulations”;
11. “Supplementary Notice by the Chongqing Municipal People’s Government on Standard for Benchmark Land Price and Transfer Fee at Land Level of Use Rights of State-owned Construction Land in Main Urban Area” (Chongqing house [2009] No. 203).

6.4 *Property rights basis*

1. The property right certificate;
2. Schedule of buildings, constructions and land use rights;
3. Other additional information.

6.5 Pricing basis

1. “Chongqing Municipal Engineering Cost Information”;
2. Notice by Chongqing Municipal Administration of State Real Estate on Technical Regulations (trial) to Determine Supply Price of Chongqing Municipal State-owned Construction Land Use Rights (issued by Chongqing Municipal Administration of State Real Estate [2009] No. 255);
3. Notice by Chongqing Municipal People’s Government on Matters in Relation to further Adjusting Standards for Land Requisition Compensation and Resettlement (issued by Chongqing Municipal People’s Government [2013] No. 58).
4. Notice by Chongqing Municipal People’s Government on Further Specification for the Management of Land Transfer (issued by Chongqing Municipal People’s Government [2010] No. 113);
5. “Management Method by Chongqing Municipal People’s Government on Collecting and Using Fees of Land Open-up, Land Idle Cost, Land Reclamation Fee”(Order No. 54 by Chongqing Municipal People’s Government);
6. “Methods of Compensation for Land Acquisition and Resettlement by Chongqing Municipal People’s Government”(Chongqing Municipal People’s Government’s Order No. 55).
7. Other auxiliary data provided by the client and on-site survey data by our evaluators.
8. Other inquiry data we collected, parameter data and statistical data and technical standard issued by relevant state departments.

VII. Evaluation methods

(I) *Basic evaluation methods*

The basic methods of assets evaluation include market method, income method and cost method.

1. *Market method*

Market method refers to the evaluation method that takes advantage of the same or similar asset transaction price in the market to evaluate the assets value through direct comparison or analogy analysis. The basic premises for application of the market method include:

- (1) An active public market is existent; and
- (2) Comparable assets and its transaction activities are existent in the public market.

2. *Income method*

The income method refers to the evaluation method that estimates the assets value through evaluation of the present value of the future expected earnings of the evaluation object. The basic premises for application of the income method include:

- (1) The future expected earnings of the evaluation object can be predicted and measured through tendency;
- (2) The risks borne by the assets owner for obtaining the expected earnings can be predicted and measured by using the tendency; and
- (3) The expected profit earning years of the evaluation object can be predicted.

3. *Cost method*

The cost method refers to the evaluation method through evaluating the current reacquisition cost (replacement cost) of the evaluation object and then evaluating various depreciation factors existed in the evaluation object and at last, deduct such above amount from the tight encirclement cost and obtain the evaluation object value. The premise conditions for application of income cost include:

- (1) the evaluation object is used continuously or be set the continuous usage status;
- (2) the current way and corresponding social average cost materials of the evaluation object can be obtained through investigation.

(II) *Selection of evaluation methods*

The evaluation objects are mainly buildings, constructions and land use right. As such, the evaluation methods are selected as follows according to the requirements of the Code for Real Estate Appraisal and the Regulations for Valuation on Urban Land:

1. The buildings and constructions are evaluated by application of the cost method.

Confirmation of replacement value: test all the expenses paid for construction of brand new same buildings, constructions and other responsible facilities according to the current design, construction standards and the material market price depending on the actual situation of the assets for evaluation. Such expenses shall include: construction and installation project fee, preliminary survey and design fee, management cost, sales tax, investment interest and development profits, etc. and then take such expenses as the replacement value of the assets for evaluation. The way of calculation is as follows:

Replacement price = construction and installation project fee + preliminary survey and design fee + management cost+ sales tax + investment interest + development profit

2. The land use right adopts standard floor-price coefficient correction and the cost approach for evaluation.

(1) *Standard floor-price coefficient correction method*

Chongqing completed the land grading appraisal work in 1992 and published *the Notice on Issuance of the Standard Land Price and Public Land Price of Chongqing State-owned Land Usage Right by Chongqing People's Government* on August 20th, 2008 with the number of Yu Fu Fa[2000] No.76. On December 31st, 2009, Chongqing issued the *Supplementary Notice on Issuance of the Standard Land Price and the Transfer Standard of the Usage Right of the State-owned Land in Urban Area by Chongqing People's Government* (Yu Fu[2009]203) and such new grading adjusted shall be implemented on January 1st, 2010.

Such standard land price is the average price calculated in different regions and different purposes of the land in the town of Chongqing and is the average price of the urban cultivated land for 50 years of all kinds of land under various purposes with the plot ratio of 1 [degree of cultivation: three supplies and one leveling within the parcel (water, electricity and road supply as well as land leveling)]. The meaning of the standard land price of Chongqing is introduced as follows:

- ① The standard land price refers to the average land price in areas of different level and is composed of land acquisition and relevant expenses, land development cost, infrastructure supporting fee, public facility construction supporting fee, interest, profit and differential land price, etc. That is to say, such land price is composed of land acquisition fee, transfer fee and development fee, etc.
- ② Base date for evaluation of standard land price: January 1st, 2010
- ③ Term of land use: 50 years
- ④ Land development degree: the standard land price of Chongqing refers to the land price for the land with the infrastructure development degree of three supplies and one leveling within the parcel (water, electricity and road supply as well as land leveling).

Basic formula:

According to the Regulations for Valuation on Urban Land and the Notice on Printing the Enforcement Regulation of Standard Land Price and Public Land Price of Chongqing State-owned Land Use Right by Chongqing Bureau of Land and House Administration (Yu Guo tu Fang Guan Fa (2000) No.315). The calculation formula for evaluation of the parcel land price by standard floor-price coefficient correction method is as follows:

Unit land price = standard land price × [1+maturity correction coefficient + regional and individual factor correction coefficient + correction coefficient of the type of land use right] × plot ratio correction coefficient × correction coefficient of number of years × correction coefficient of date.

(2) *Cost approach*

Cost approach refers to the evaluation method for confirmation of the land price by using the sum of various expenses consumed for development of land plus a certain amount of profit, interest, tax and land ownership earnings. The basic principle for cost approach is to obtain the land price by using all the investments of land, including the two parts of land acquisition cost and infrastructure development cost as “basic costs”, and the reasonable profit and interest accrued on from the “basic cost” as the basic part of the land price through application of the principle of obtaining equivalent profit by equivalent capital and then as well as the rewards from land ownership (the nature of which is derived from the land value increment) according to the needs for realization of land ownership in economics in the country.

Applicable formula: land evaluation unit price (p) = [(land acquisition fee (Ea) + land development fee (T) + tax + interest (r) + profit (g) + land value-added revenue(h)) × land use term correction coefficient (k) × [1 + parcel conditions correction coefficient (η)]

VIII. Implementation Process and Situation of the Evaluation Procedures

According to the provisions of assets evaluation and the general principles of financial accounting by relevant departments of the country; and the provisions of relevant laws and the requirements of standardization on related relationships and transactions by relevant departments of the country; and the verification and audit conducted by our company to the legal documents and original documents as well as relevant materials provided by the entrusting party and the recognized property rights defining principles, we conduct necessary ownership verification to the assets list provided by the assets possession party and conduct on-the-spot investigation and check to the assets; and obtained relevant property right certificate; and conducted necessary market investigation and comparison of the transaction price as well as other asset evaluation procedures we held necessary. The detailed process of assets evaluation is as follows:

8.1 Specify the basic items of the evaluation issues

Before acceptance of the entrustment of the asset evaluation firm, the asset evaluation institution and personnel shall take such ways as discussing with such relevant parties as the entrusting witness, etc., inquiry of basic materials and conduction of necessary preliminary investigation, etc. to jointly specify such basic items as the basic information, asset evaluation purpose, the asset evaluation base date, definition of value type, basic status of the evaluation object and the limitation of the assets evaluation and important assumptions, etc. of the entrusting party and related parties with such relevant persons as the entrusting witness, etc.

8.2 Acceptance of entrustment of asset evaluation issue

8.3 Preparation of the asset evaluation plan

The asset evaluation institution and persons shall prepare reasonable asset evaluation plan according to the specific asset evaluation project undertaken and shall timely revise and supplement the asset evaluation plan according to the specific circumstance during implementation of the asset evaluation issues.

8.4 *Field investigation*

According to the asset evaluation breakdown list, completely and objectively understand the evaluation object and check the reliability of the materials provided by the entrusting party and the company under evaluation. Through the problems and clues found during the asset survey process, be targeted to carry out the material collection and analysis work. According to the specific information of the evaluation project, confirm the way of reasonable asset survey or field investigation and shall also communicate with the company under evaluation to ensure successful completion of asset survey or field investigation work.

8.5 *Collection of asset evaluation materials*

The asset evaluation institution and personnel shall collect relevant materials to the asset evaluation according to the specific information of the asset evaluation project. Through such ways as communication with the entrusting witness and the company under investigation and guidance of investigation to the evaluation object, the asset evaluation institution and personnel shall understand the evaluation object or the company under evaluation and at the same time, actively collect evaluation object materials and other asset evaluation materials related to the asset evaluation issues.

8.6 *Evaluation and estimate*

8.6.1 The personnel from the asset evaluation institution shall conduct full analysis to the collected asset evaluation material to confirm its reliability, relativity and comparability; abandon the non-reliable and irrelevant information; conduct necessary analysis and investigation to the incomparable information and select the asset evaluation method on such basis properly.

8.6.2 After selecting the proper asset evaluation method, the asset evaluation personnel shall properly select the evaluation method to conduct evaluation to form the preliminary evaluation conclusion according to the basic principles of evaluation and the standard requirements; and

8.6.3 On the basis of the preliminary asset evaluation conclusion, the asset evaluation personnel shall conduct comprehensive analysis to the information materials, the quantity and quality of the parameters and the reasonability of the selection, etc to form the asset evaluation conclusion.

8.7 Preparation and submission of the asset evaluation report

After implementing necessary asset evaluation procedures and forming the evaluation conclusion, the asset evaluation institution and the certified public valuer shall prepare the asset evaluation report according to the standards of relevant asset evaluation report. The Company shall organize relevant persons to conduct verification and examination to the evaluation report with the company leaders. After changing the opinions on the draft of the evaluation report verified by the company leaders, the asset evaluation institution and the certified public valuer shall conduct correction to the omissions.

8.8 File of the assets evaluation work records

After providing the asset evaluation report to the entrusting witness, the assets evaluation institution and the certified public valuer shall file the assets evaluation work records.

IX. Evaluation assumptions

The analysis and conclusion of the evaluation report shall be established in the following assumption conditions set:

(I) General assumptions

1. The information materials provided by the entrusting party and based on which the evaluation conclusion of the report is made shall be credible and accurate.
2. The right of the property right holder of the evaluation objects for legally possess, use and dispose its earnings shall not be infringed.

(II) Evaluation environment assumption

1. The laws, regulations and the policy environment in the area where the evaluation object locates have no major change comparing to those on the evaluation base date;
2. The social economic environment, international politics and economic environment in the place where the evaluation object locates have no major change comparing to those on the evaluation base date;
3. The interest rate, exchange rate and the price level related to the evaluation object have no major change comparing to those on the evaluation base date; and
4. The asset efficiency is effectively improved and displayed and the enterprise operates continuously.

(III) Public transaction conditions assumption

During the fair dealing reached after the normal marketing between the willing buyer and willing seller on the evaluation base date, both parties shall rationally and act in caution to the estimated amount of the value of some assets and shall not be controlled by any force.

The valuer held that the above evaluation assumptions are reasonable and necessary on the evaluation base date and shall be taken as the basis for formation of the evaluation conclusion. If the above assumption conditions change materially after the evaluation base date, the evaluation results may not be realized.

X. Conclusion of the Appraisal

After the application of the abovementioned asset appraisal procedures and methods, the market value of the buildings, constructions and land use rights for the purpose of the appraisal of Water Turbine Works as at 31 January 2014 amounted to:

Total: RMB314,203,900.

In particular:

the appraisal value of buildings amounted to RMB90,374,400;

the appraisal value of constructions amounted to RMB3,293,500;

the appraisal value of land use right amounted to RMB220,536,000.

(For details, please refer to the breakdown of the appraisal)

XI. Special instructions

11.1 Reminder for users of this report

11.1.1. The evaluation result reflects the current market price of evaluation objects which is determined according to the principle of open market under the purpose of the valuation, without considering the effects on the appraisal value of the mortgage and guarantee assumed and the fact that particular counterparties may increase the price, nor considering the influence on real estate prices from national macroeconomic policy changes and in case of natural force and other force majeure.

- 11.1.2. The valuation result does not consider the influence of transactions tax on real estate prices.
- 11.1.3. Valuation report users should use valuation price reasonably.
- 11.2 Notes for this report
- 11.2.1. This report is limited to provide the client with a reference basis to determine market value of the valuation object, invalid for other use;
- 11.2.2 The client should provide relevant title documents and other information for this report and be responsible for its authenticity and legitimacy;
- 11.2.3 Copy of this report is invalid.
- 11.3 This report and its evidencing conclusion only correspond to the purpose of this assessment, and invalid for other use, the validity of assessment results depends on assumptions and evaluate economic principles as a prerequisite in this assessment.
- 11.4 Assets owner should provide basic information and data as well as legal documents for this assessment, and be responsible for authenticity, integrity and legality of materials it provided. Assessment results should be adjusted in accordance with the above evaluation method in case of discrepancy.

XII. The legal effect of the evaluation report

- 12.1 The evaluation result is the current fair value specified according to open market principle under the precondition of continuous use, regardless of considering influence by particular counterparties or changes in national macroeconomic policy as well as natural force and other force majeure on asset value.
- 12.2 This report is specially used by the client and prepared for assessment purposes listed in this report, and without the consent of the company, it should not be provided with units and individuals except the client and examination department of the valuation report. Except necessary disclosure according to law, all or part of report content should not be published in any public media.
- 12.3 According to regulations of state relevant departments, evaluation conclusion is valid for one year, i.e. from 31 January 2014 to 30 January 2015, and has to be re-assessed over one year later.

12.4 “evaluation value” as mentioned in the present report is the current fair value determined according to the principle of open market, on the premise of unchanged purposes of assets evaluated, continuing operations and performance under specific economic environment on the appraisal base date, and it is objective and fair reflection of assets evaluated on January 31, 2014, the base day; Chongqing Tianhong Assets Appraisal & Land and Property Valuation Company Limited shall not bear the liability for comment on major changes in assets happened after the base date.

XIII. Date of the Appraisal Report

The date of the report is 12 February 2014.

Report is hereby given.

Legal representative or authorized person:

PRC certified public valuer:

PRC certified public valuer:

Chongqing Tianhong Assets Appraisal & Land and Property Valuation Company Limited

12 February 2014

Documents for inspection:

1. Photo of certain condition of the appraisal subject;
2. Diagram of the location of the appraisal subject;
3. Certain property right certificates;
4. Copy of the business license of the appraised enterprise;
5. Letter of commitment by the asset appraisers;
6. Copy of the business license and qualification certificate of the appraisal agency;
7. Copy of the qualification certificate of the appraisers;
8. Copies of other important materials relevant to the appraisal.

VALUATION REPORT NO. 2

Chongqing Machine Tools (Group) Co., Ltd. and Chongqing Tool Factory Co., Ltd.**Valuation Report on Disposal of Assets****Main Body**

Chong Tian Hong Ping Bao Zi (2014) No.009

Chongqing Machine Tools (Group) Co., Ltd.:

Chongqing Tianhong Assets Appraisal & Land and Property Valuation Company Limited accepted the engagement by the Company to evaluate buildings, structures and land use right involved in the disposal of assets of the Company and Chongqing Tool Factory Co., Ltd., its subsidiary, in accordance with provisions in relation to asset evaluation of the State, based on independent, objective, fair and scientific principles, together with adopting the recognized evaluation methods and operation standards. The evaluators of our Company conducted evaluation work such as on-site survey, market research and so forth on evaluated subject and fairly reflected market value of the evaluated subject on the valuation base date, being 31 January 2014. The information relating to assets evaluation and evaluation results report are set out below:

I. The principal, property holder and users of the valuation report

1. Principal: Chongqing Machine Tools (Group) Co., Ltd.

Address: Dao Jiao Lian Hua Village, Hua Xi Town, Ba Nan District, Chongqing and Dao Jiao Village No. 2 (重慶市巴南區花溪鎮道角蓮花村和道角二村)

Legal representative: Zhang Mingzhi

Registered capital: RMB394,241,331

Type of company: Company with limited liability (solely owned by legal person)

Scope of business: licensed operating items: General freight (valid until 18 July 2014), automobile repair and maintenance category 3 (repair of car body and electrical system) (valid until 10 June 2012). (The above scope of business is conducted pursuant to the validated operation period)

General operating items: Gear-producing machines, lathes, machine centres, vehicle parts and components, dedicated device, cutting tools, dividing rotary platform, traction machines for elevators, metal foundry, the development, manufacturing, sales and repair of general electronic products, sales of machine tool components, automobiles (exclusive of sedan cars), import and export of cargo and technology (the items in the above scope of business should not be operated if prohibited by the laws and regulations, and the items restricted by laws and regulations can only assume operation upon obtaining permission or approval).

2. Property holder: Chongqing Machine Tools (Group) Co., Ltd. and Chongqing Tool Factory Co., Ltd.

In particular: Chongqing Tool Factory Co., Ltd.

Address: No. 7, Dao Jiao Village No. 2, Hua Xi Town, Ba Nan District

Legal representative: Li Zhiyong

Registered capital: RMB60,000,000

Type of company: limited liability company (solely state-owned)

Scope of business: licensed operating items: Cutting tools, import of the raw and auxiliary materials needed for production and research by the Company, mechanical equipments, instruments and meters, parts and components (exclusive of the 14 kinds of commodities for the operations of the Company subject to national approvals)

General operating items: Metal cutting tools, manufacturing and processing of mechanical equipments and technical consultancy services, export of the products produced by the Company and import of the raw and auxiliary materials, mechanical equipment and meters, parts and components needed for the production of the Company, sales of rolled steel.

3. Users of the valuation report: the property holder of appraised subject and its controller, person concerned of the economic behaviour contemplated under the valuation engagement, other users entitled to use the valuation report according to laws and regulations.

II. Appraisal objectives

Provide reference for disposal of assets of the principal and its subsidiaries.

III. Appraisal Scope and Subject

The appraisal subjects are the buildings, constructions and land use rights belonging to Chongqing Machine Tools (Group) Co., Ltd. and Chongqing Tool Factory Co., Ltd. respectively.

3.1 Notes to the status of buildings, constructions and land of Machine Tools Plant

Pursuant to the breakdown of the buildings and relevant materials of their property right certificate provided by the Machine Tools Plant, there are altogether 121 buildings in the scope of appraisal, including production workshops, office buildings, material warehouses and other auxiliary rooms with a total area of 112,243.97 square meters. The above mentioned buildings were mostly built in the 1960s and 1970s and were modestly maintained with partial damage. Yet the damage didn't affect the use of the buildings, and the buildings are in use.

There are 10 constructions in use.

The original book value of the buildings and constructions is RMB76,782,600. For the breakdown, please refer to the breakdown of the appraisal.

Six lands with land use right are all located in Dao Jiao Lian Hua Village, Hua Xi Town, Ba Nan District. They are granted as industrial land and has achieved "seven connecting and one levelling" (七通一平) with land grade at industrial grade 6. The areas and the license number of the property rights certificates are as follows:

Lot	License numbers of the property rights certificates	Area <i>(square meters)</i>
1	202 Fang Di Zheng 2007 Zi No. 04001	1,281.00
2	202 Fang Di Zheng 2007 Zi No. 04027	34,800.00
3	202 Fang Di Zheng 2007 Zi No. 00127	5,881.00
4	202 Fang Di Zheng 2007 Zi No. 16132	160,076.00
5	202 Fang Di Zheng 2007 Zi No. 16276	7,488.00
6	202 Fang Di Zheng 2007 Zi No. 03991	6,653.00
	Total	216,179.00

The term for the land totaling 324.27 mu expires on 14 November 2055, and the remaining years for use is 41.5 years as at the appraisal time. Based on on-site observation, the road is covered with 15-20cm of concrete with walls of 2.5-4 meters high surrounding the factory. On part of the land there are reinforced retaining wall. Land within the area is rather flat in an irregular shape without unfavorable geological formations.

The original book value of the land use rights amounts to RMB38,259,800.

3.2 Notes to the status of buildings, constructions and land of Tool Factory

Pursuant to the breakdown of the buildings and relevant materials of their property right certificate provided by the Tool Factory, there are altogether 81 buildings in the scope of appraisal, including production workshops, office buildings, material warehouses and other auxiliary rooms with a total area of 42,439.63 square meters. The above mentioned buildings were mostly built in the 1960s and 1970s and were modestly maintained with partial damage. Yet the damage didn't affect the use of the buildings, and the buildings are in use.

There are 12 constructions in use.

The original book value of the buildings and constructions is RMB13,994,700. For the breakdown, please refer to the breakdown of the appraisal.

One land with land use right is Building 3, No. 7, Dao Jiao Village No. 2, Hua Xi Town, Ba Nan District. It is granted as industrial land and has achieved "seven connecting and one levelling" (七通一平) with land grade at industrial grade 6 with the area of the land of 62,393.70 square meters (93.59 mu), and the license number of the real estate title certificate is 202 Fang Di Zheng 2008 Zi No. 00336. Pursuant to what was set out in the real estate certificate, the term for the land expires on 14 November 2055, and the remaining years for use is 41.5 years as at the appraisal time. Based on on-site observation, the road is covered with 15-20cm of concrete with walls of 2.5-4 meters high surrounding the factory. Facilities for the convenience of residents such as children's playground and friendship square, etc. were built. Land within the area is rather flat in an irregular shape without unfavourable geological formations.

IV. Value types and their definitions

This evaluation adopts open market value standard.

Open market value standard, refers to the value of assets should be implemented in the open market, namely reasonable buying and selling parties in equal status, with open information, whose transaction cost, time cost is low enough, ultimately achieve final consensus on market price.

This evaluation selects value of this type, i.e., open market value standard, because both parties are in the same position and the value of assets entrusted to be evaluated is not other investment or liquidation value due to purpose of appraisals, in addition that open market value is not improper to transaction.

V. The appraisal base date

5.1 The appraisal base date of this project is 31 January 2014, all price standards in this assessment are effective price standard at appraisal base date.

5.2 The appraisal base date is the datum point to determine the asset appraisal value.

5.3 The appraisal base date selected for this project is the end point during a particular accounting period, capable to fully reflect overall situation of all assets and liabilities of evaluation object. At the same time, the appraisal base date approaches to the date to achieve evaluation purpose and plan. So the choice of appraisal base date is reasonable.

VI. Evaluation basis

6.1 Basis for economic behavior

1. Assets appraisal engagement letter

6.2 Based on laws and regulations

1. Decree No. 91 of “Administration of State Asset Valuation” by the state council in 1991;
2. “The interim provisions on basic content and format of the assets evaluation report” formulated by the ministry of finance;

3. “The urban real estate administration law of the People’s Republic of China”;
4. “PRC Law on Land Management”;
5. “Company Law of the People’s Republic of China”;
6. “Administration of State Asset Valuation”(state council order No. 91);
7. Other state rules and documents relating to assets assessment.

6.3 Standard basis

1. “Assets appraisal standards - basic principles” by China’s Asset Evaluation Association;
2. “The code of professional ethics of assets evaluation - basic principles “.
3. “Assets assessment criteria — evaluation report”;
4. “Assets assessment criteria — evaluation procedure”;
5. “Assets assessment criteria — machinery and equipment”;
6. “Assets assessment criteria — real estate”;
7. “Assets assessment criteria — intangible assets”;
8. Guidelines for state-owned assets assessment;
9. PRC national standard GB/T50291-1999 “standard of real estate appraisal” (State Technical Supervision Bureau, the state ministry of construction, construction standard [1999] no. 48);
10. PRC national standard GB/T18508-2001 “urban land appraisal regulations”;
11. Supplementary notice by the Chongqing Municipal people’s government on standard for benchmark land price and transfer fee at land level of use rights of state-owned construction land in main urban area (Chongqing Municipal People’s Government [2009] No. 203).

6.4 Property rights basis

1. The property right certificate;
2. Breakdown of buildings, constructions and land use rights;
3. Other additional information.

6.5 Price basis

1. “Chongqing Municipal engineering cost information”;
2. Notice by Chongqing Municipal Administration of State Real Estate on technical regulations (trial) to determine supply price of Chongqing Municipal state-owned construction land use rights (issued by Chongqing Municipal Administration of State Real Estate [2009] No. 255);
3. Notice by Chongqing Municipal people’s government on matters relating to further adjust standards for land requisition compensation and resettlement (issued by Chongqing Municipal people’s government [2013] No. 58).
4. Notice by Chongqing Municipal people’s government on further specification for the management of land transfer (issued by Chongqing Municipal people’s government [2010] No. 113);
5. “Management method by Chongqing Municipal people’s government on collecting and using fees of land open-up, land idle cost, land reclamation fee” (Order No.54 by Chongqing Municipal people’s government);
6. “Methods of compensation for land acquisition and resettlement by Chongqing Municipal people’s government”(Chongqing Municipal people’s government’s Order No. 55).
7. Other auxiliary data provided by the client and on-site survey data by our evaluators.
8. Other inquiry data we collected, parameter data and statistical data and technical standard issued by relevant state departments

VII. Evaluation Methods

(II) *Basic evaluation methods*

The basic methods of assets evaluation include market method, income method and cost method.

1. *Market method*

Market method refers to the evaluation method that takes advantage of the same or similar asset transaction price in market to evaluate the assets value through direct comparison or analogy analysis. The basic premises for using include:

- (1) An active public market is existed; and
- (2) Comparable assets and its transaction activities existed in the public market.

2. *Income method*

The income method refers to the evaluation method that estimates the assets value through evaluation of the present value of the future expected earnings of the evaluation object. The basic premises for application of the income method include:

- (1) The future expected earnings of the evaluation object can be predicted and measured through tendency;
- (2) The risks borne by the assets owner for obtaining the expected earnings can be predicted and measured by using the tendency; and
- (3) The expected profit earning years of the evaluation object can be predicted.

3. *Cost method*

The cost method refers to the evaluation method through evaluating the current reacquisition cost (replacement cost) of the evaluation object and then evaluating various depreciation factors existed in the evaluation object and at last, deduct such above amount from the tight encirclement cost and obtain the evaluation object value. The premise conditions for application of cost method include:

- (1) the evaluation object is used continuously or be set the continuous usage status; and
- (2) the current way and corresponding social average cost materials of the evaluation object can be obtained through investigation.

(II) *Selection of evaluation methods*

The evaluation objects are mainly buildings, constructions and land use right. As such, the evaluation methods are selected as follows according to the requirements of the Code for Real Estate Appraisal and the Regulations for Valuation on Urban Land:

1. The buildings and constructions are evaluated by application of the cost method.

Confirmation of replacement value: test all the expenses paid for construction of brand new same buildings, constructions and other responsible facilities according to the current design, construction standards and the material market price depending on the actual situation of the assets for evaluation. Such expenses shall include: construction and installation project fee, preliminary survey and design fee, management cost, sales tax, investment interest and development profits, etc. and then take such expenses as the replacement value of the assets for evaluation. The way of calculation is as follows:

Replacement price = construction and installation project fee + preliminary survey and design fee + management cost + sales tax + investment interest + development profit

2. The land use right adopts standard floor-price coefficient correction and the cost approach for evaluation.

(1) *Standard floor-price coefficient correction method*

Chongqing completed the land grading appraisal work in 1992 and published *the Notice on Issuance of the Standard Land Price and Public Land Price of Chongqing State-owned Land Usage Right by Chongqing People's Government* on 20 August 2000 with the number of YFF[2000] No.76. On 31 December 2009, Chongqing issued the *Supplementary Notice on Issuance of the Standard Land Price and the Transfer Standard of the Usage Right of the State-owned Land in Urban Area by Chongqing People's Government* (YF[2009]203) and such new grading adjusted shall be implemented on 1 January 2010.

Such standard land price is the average price calculated in different regions and different purposes of the land in the city and town of Chongqing and is the average price of the urban cultivated land for 50 years of all kinds of land under various purposes with the plot ratio of 1 [degree of cultivation: three supplies and one leveling within the parcel (water, electricity and road supply as well as land leveling)]. The meaning of the standard land price of Chongqing is introduced as follows:

- ① The standard land price refers to the average land price in areas of different level and is composed of land acquisition and relevant expenses, land development cost, infrastructure supporting fee, public facility construction supporting fee, interest, profit and differential land price, etc. That is to say, such land price is composed of land acquisition fee, transfer fee and development fee, etc.
- ② Base date for evaluation of standard land price: 1 January 2010
- ③ Years of land use: 50 years
- ④ Land development degree: the standard land price of Chongqing refers to the land price for the land with the infrastructure development degree of three supplies and one leveling within the parcel (water, electricity and road supply as well as land leveling).

Basic formula:

According to the Regulations for Valuation on Urban Land and the Notice on Printing the Enforcement Regulation of Standard Land Price and Public Land Price of Chongqing State-owned Land Use Right by Chongqing Bureau of Land and House Administration (YGTFGF(2000) No.315). The calculation formula for evaluation of the parcel land price by standard floor-price coefficient correction method is as follows:

Unit land price = standard land price × [1+maturity correction coefficient + regional and individual factor correction coefficient + correction coefficient of the type of land use right] × plot ratio correction coefficient × correction coefficient of number of years × correction coefficient of date.

(2) *Cost approach*

Cost approach refers to the evaluation method for confirmation of the land price by using the sum of various expenses consumed for development of land plus a certain amount of profit, interest, tax and land ownership earnings. The basic principle for cost approach is to obtain the land price by using all the investments of land, including the two parts of land acquisition cost and infrastructure development cost as “basic costs”, and the reasonable profit and interest accrued on from the “basic cost” as the basic part of the land price through application of the principle of obtaining equivalent profit by equivalent capital and then as well as the rewards from land ownership (the nature of which is derived from the land value increment) according to the needs for realization of land ownership in economics in the country.

Applicable formula: land evaluation unit price (p) = [(land acquisition fee (Ea) + land development fee (t) + tax + interest (r) + profit (g) + land value-added revenue(h)) × land use term correction coefficient (k) × [1 + ground conditions correction coefficient (η)]

VIII. Implementation process and situation of the evaluation procedures

According to the provisions of assets evaluation and the general principles of financial accounting by relevant departments of the country; and the provisions of relevant laws and the requirements of standardization on related relationships and transactions by relevant departments of the country; and the verification and audit conducted by our company to the legal documents and original documents as well as relevant materials provided by the entrusting party and the recognized property rights defining principles, we conduct necessary ownership verification to the assets list provided by the assets possession party and conduct on-the-spot investigation and check to the assets; and obtained relevant property right certificate; and conducted necessary market investigation and comparison of the transaction price as well as other asset evaluation procedures we held necessary. The detailed process of assets evaluation is as follows:

8.1 Specify the basic items of the evaluation issues

Before acceptance of the entrustment of the asset evaluation firm, the asset evaluation institution and personnel shall take such ways as discussing with such relevant parties as the entrusting witness, etc., inquiry of basic materials and conduction of necessary preliminary investigation, etc. to jointly specify such basic items as the basic information, asset evaluation purpose, the asset evaluation base date, definition of value type, basic status of the evaluation object and the limitation of the assets evaluation and important assumptions, etc. of the entrusting party and related parties with such relevant persons as the entrusting witness, etc.

8.2 Acceptance of entrustment of asset evaluation issue

8.3 Preparation of the asset evaluation plan

The asset evaluation institution and persons shall prepare reasonable asset evaluation plan according to the specific asset evaluation project undertaken and shall timely revise and supplement the asset evaluation plan according to the specific circumstance during implementation of the asset evaluation issues.

8.4 *Field investigation*

According to the asset evaluation breakdown list, completely and objectively understand the evaluation object and check the reliability of the materials provided by the entrusting party and the company under evaluation. Through the problems and clues found during the asset survey process, be targeted to carry out the material collection and analysis work. According to the specific information of the evaluation project, confirm the way of reasonable asset survey or field investigation and shall also communicate with the company under evaluation to ensure successful completion of asset survey or field investigation work.

8.5 *Collection of asset evaluation materials*

The asset evaluation institution and personnel shall collect relevant materials to the asset evaluation according to the specific information of the asset evaluation project. Through such ways as communication with the entrusting witness and the company under investigation and guidance of investigation to the evaluation object, the asset evaluation institution and personnel shall understand the evaluation object or the company under evaluation and at the same time, actively collect evaluation object materials and other asset evaluation materials related to the asset evaluation issues.

8.6 *Evaluation and estimate*

8.6.1 The personnel from the asset evaluation institution shall conduct full analysis to the collected asset evaluation material to confirm its reliability, relativity and comparability; abandon the non-reliable and irrelevant information; conduct necessary analysis and investigation to the incomparable information and select the asset evaluation method on such basis properly.

8.6.2 After selecting the proper asset evaluation method, the asset evaluation personnel shall properly select the evaluation method to conduct evaluation to form the preliminary evaluation conclusion according to the basic principles of evaluation and the standard requirements; and

8.6.3 On the basis of the preliminary asset evaluation conclusion, the asset evaluation personnel shall conduct comprehensive analysis to the information materials, the quantity and quality of the parameters and the reasonability of the selection, etc to form the asset evaluation conclusion.

8.7 Preparation and submission of the asset evaluation report

After implementing necessary asset evaluation procedures and forming the evaluation conclusion, the asset evaluation institution and the certified public valuer shall prepare the asset evaluation report according to the standards of relevant asset evaluation report. The Company shall organize relevant persons to conduct verification and examination to the evaluation report with the company leaders. After changing the opinions on the draft of the evaluation report verified by the company leaders, the asset evaluation institution and the certified public valuer shall conduct correction to the omissions.

8.8 File of the assets evaluation work records

After providing the asset evaluation report to the entrusting witness, the assets evaluation institution and the certified public valuer shall file the assets evaluation work records.

IX. Evaluation assumptions

The analysis and conclusion of the evaluation report shall be established in the following assumption conditions set:

(I) General assumptions

1. The information materials provided by the entrusting party and based on which the evaluation conclusion of the report is made shall be credible and accurate.
2. The right of the property right holder of the evaluation objects for legally possess, use and dispose its earnings shall not be infringed.

(II) Evaluation environment assumption

1. The laws, regulations and the policy environment in the area where the evaluation object locates have no major change comparing to those on the evaluation base date;
2. The social economic environment, international politics and economic environment in the place where the evaluation object locates have no major change comparing to those on the evaluation base date;

3. The interest rate, exchange rate and the price level related to the evaluation object have no major change comparing to those on the evaluation base date; and
4. The asset efficiency is effectively improved and displayed and the enterprise operates continuously.

(III) Public transaction conditions assumption

During the fair dealing reached after the normal marketing between the willing buyer and willing seller on the evaluation base date, both parties shall rationally and act in caution to the estimated amount of the value of some assets and shall not be controlled by any force.

The valuer held that the above evaluation assumptions are reasonable and necessary on the evaluation base date and shall be taken as the basis for formation of the evaluation conclusion. If the above assumption conditions change materially after the evaluation base date, the evaluation results may not be realized.

X. Conclusion of the Appraisal

After the application of the abovementioned asset appraisal procedures and methods, the market value of the buildings, constructions and land use rights for the purpose of the appraisal of Machine Tools Plant and the Tool Factory as at 31 January 2014 amounted to:

Total: RMB443,486,100

In particular:

Holder of property rights	Buildings	Constructions	Land use rights
Machine Tools Plant	RMB72,587,800	RMB124,600	RMB275,628,200
Tool Factory	<u>RMB22,223,700</u>	<u>RMB545,100</u>	<u>RMB72,376,700</u>
Total	<u><u>RMB94,811,500</u></u>	<u><u>RMB669,700</u></u>	<u><u>RMB348,004,900</u></u>

(For details, please refer to the breakdown of the appraisal)

XI. Special instructions

11.1 Reminder for users of this report

11.1.1 The evaluation result reflects the current market price of evaluation objects which is determined according to the principle of open market under the purpose of the valuation, without considering the effects on the appraisal value of the mortgage and guarantee assumed and the fact that particular counterparties may increase the price, nor considering the influence on real estate prices from national macroeconomic policy changes and in case of natural force and other force majeure.

11.1.2 The valuation result does not consider the influence of transactions tax on real estate prices.

11.1.3 Valuation report users should use valuation price reasonably.

11.2 Notes for this report

11.2.1 This report is limited to provide the client with a reference basis to determine market value of the valuation object, invalid for other use;

11.2.2 The client should provide relevant title documents and other information for this report and be responsible for its authenticity and legitimacy;

11.2.3 Copy of this report is invalid.

11.3 This report and its evidencing conclusion only correspond to the purpose of this assessment, and invalid for other use, the validity of assessment results depends on assumptions and evaluate economic principles as a prerequisite in this assessment.

11.4 Assets owner should provide basic information and data as well as legal documents for this assessment, and be responsible for authenticity, integrity and legality of materials it provided. Assessment results should be adjusted in accordance with the above evaluation method in case of discrepancy.

XII. The legal effect of the evaluation report

- 12.1 The evaluation result is the current fair value specified according to open market principle under the precondition of continuous use, regardless of considering influence by particular counterparties or changes in national macroeconomic policy as well as natural force and other force majeure on asset value.
- 12.2 This report is specially used by the client and prepared for assessment purposes listed in this report, and without the consent of the company, it should not be provided with units and individuals except the client and examination department of the valuation report. Except necessary disclosure according to law, all or part of report content should not be published in any public media.
- 12.3 According to regulations of state relevant departments, evaluate conclusion is valid for one year, i.e. from 31 January 2014 to 30 January 2015, and has to be re-assessed over one year later.
- 12.4 “evaluation value” as mentioned in the present report is the current fair value determined according to the principle of open market, on the premise of unchanged purposes of assets evaluated, continuing operations and performance under specific economic environment on the appraisal base date, and it is objective and fair reflection of assets evaluated on 31 January 2014, the base day; Chongqing Tianhong Assets Appraisal & Land and Property Valuation Company Limited shall not bear the liability for comment on major changes in assets happened after the base date.

XIII. Date of the Appraisal Report

The date of the report is 12 February 2014.

Report is hereby given.

Legal representative or authorized person:

PRC certified public valuer:

PRC certified public valuer:

Chongqing Tianhong Assets Appraisal & Land and Property Valuation Company Limited

12 February 2014

Documents for inspection:

1. Copy of the letter of entrustment for appraisal;
2. Copy of the business license of the entrusting party
3. Copy of the commitment letter of the occupier of assets;
4. Copy of the business license of the appraised enterprise;
5. Letter of commitment by the asset appraisers;
6. Copy of the business license and qualification certificate of the appraisal agency;
7. Copy of the qualification certificate of the appraisers;
8. Copies of other important materials relevant to the appraisal.

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 Group. 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 DIRECTOR'S INTERESTS

As at the Latest Practicable Date, none of the Directors, supervisors and chief executives of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), which was required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 to the Listing Rules.

3. DISCLOSURE OF INTEREST OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors of the Company, the following persons (other than a Director of the Company) had, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstance at general meetings of any other member of the Company (if any) or had any options in respect of such capital:

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

Name of shareholders	Number of shares	Capacity	Note	Percentage of total issued domestic shares (%)	Percentage of total issued shares (%)
Chongqing Machinery and Electronics 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	(2)	8.98 (L)	6.30
China Huarong Asset Management Co., Ltd.	195,962,467	Beneficial owner	(3)	7.58 (L)	5.32
State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government	2,388,490,217	Interest of controlled corporation	(1)	92.42 (L)	64.82
Ministry of Finance of the People's Republic of China	195,962,467	Interest of controlled corporation	(3)	7.58 (L)	5.32

(L): Long Position

H shares of RMB1.00 each of the Company

Name of shareholders	Number of shares	Capacity	Note	Percentage of	Percentage of
				total issued H shares	total issued shares
				(%)	(%)
The Bank of New York Mellon (formerly known as “The Bank of New York”)	87,276,000 (L) 0 (P)	Custodian		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 of corporation controlled by substantial shareholder	(4)	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	55,606,000 (L)	Investment manager		5.05 (L)	1.51 (L)

(L) Long Position

(S) Short Position

(P) Lending Pool

Note:

- As Chongqing Machinery and Electronics Holding (Group) Co., Ltd. and Chongqing Yufu Assets Management Co., Ltd. were wholly owned by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government, State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government is deemed to be interested in 1,924,225,189 domestic shares and 232,132,514 domestic shares of the Company held by the two companies.
- 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 held as to 98.06% directly by the Ministry of Finance of the People’s Republic of China and as to 1.94% indirectly by the Ministry of Finance of the People’s Republic of China through China Life Insurance (Group) Company, a wholly-owned subsidiary of the Ministry. Therefore, the Ministry of Finance of the People’s Republic of China is deemed to be interested in 195,962,467 domestic shares of the Company held by China Huarong Asset Management Co., Ltd.
- The Bank of New York Mellon Corporation holds 100% interest in The Bank of New York Mellon (formerly known as “The Bank of New York”), which holds 87,276,000 of H shares of the Company. The interest in 87,276,000 H shares relates to the same block of shares in the Company and includes a lending pool of 87,276,000 of H shares of the Company.

4. INTERESTS IN GROUP'S ASSETS, CONTRACT OR ARRANGEMENT SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any direct or indirect interests in any assets which have since 31 December 2013 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement subsisting which was significant in relation to the business of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, a service contract with any member of the Group which does not expire or is not determinable by such member of the Group within one year without payment of compensation, other than the statutory compensation.

6. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or his associates (within the meaning of the Listing Rules) was interested in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) had been entered into by the Company within the two years preceding the Latest Practicable Date and are or may be material:

- (i) the Contract on Technology License of High-powered Diesel Engines entered into between Chongqing Cummins Engine Co., Ltd. and Cummins Inc. on 28 August 2013 (for details please refer to the announcement dated 18 August 2013 published on the website of the Stock Exchange and the Company);
- (ii) the First Land Disposal Agreement; and
- (iii) the Second Land Disposal Agreement.

8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claims of material importance and there was no litigation, arbitration or claims of material importance known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

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
Chongqing Tianhong Assets Appraisal & Land and Property Valuation Company Limited (重慶天鴻資產評估土地房地產評估有限公司)	Authorized by Chongqing Qualification Assessment Committee for Asset Appraisal and Valuation Institutions (重慶市資產評估機構資格評審委員會) to conduct asset appraisal and valuation other than appraisal and valuation of stocks

Chongqing Tianhong Assets Appraisal & Land and Property Valuation Company Limited 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 Last Practical Date, (i) Chongqing Tianhong Assets Appraisal & Land and Property Valuation Company Limited did not have any interest, either direct or indirect, in any assets which had been, since 31 December 2013, 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) Chongqing Tianhong Assets Appraisal & Land and Property Valuation Company Limited 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 ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, the date to which the latest audited financial statements of the Group were made up.

11. MISCELLANEOUS

- (i) The registered office and the principal place of business in the PRC of the Company are No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC;
- (ii) The principal place of business of the Company in the 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 otherwise stated, in the event of inconsistency, the English text of this circular shall prevail over the Chinese 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 3701-10, 37/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 the date which is 14 days from the date of this circular:

- (i) the memorandum and articles of association of the Company;
- (ii) the material contracts referred to in the paragraph headed “ Material Contracts” in this appendix;
- (iii) the annual reports of the Company for the three years ended 31 December 2011, 2012 and 2013;
- (iv) Valuation Report No. 1;
- (v) Valuation Report No. 2;
- (vi) the circulars issued by the Company pursuant to the requirements set out in Chapters 14 and 14A of the Listing Rules since 31 December 2013, being the date of the latest published audited accounts of the Company; and
- (vii) this circular.